



Briefing on OTS's consultation on the proposed Social Investment Wholesale Bank

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1. Introduction

- 1.1 On 15 July 2009 the Office of the Third Sector (OTS) published a consultation document proposing that a Social Investment Wholesale Bank (SIWB) be established. The proposed SIWB would be the first financial institution of its kind in the world. The consultation document sets out the government's vision and economic case for the SIWB, as well as possible functions it might perform, how it might be designed, and a set of principles upon which it could be based. This paper provides a summary of the government's proposal.
- 1.2 NCVO has been calling for the creation of a robust, independent, and fully capitalised social investment bank to give VCOs and other civil society organisations access to a wider range of funding and financial options. This would increase access to investment for VCOs and other organisations that have a social or environmental purpose. Social investment can help to build the financial resilience of VCOs, providing new forms of finance to help meet their day to day needs and facilitate sustainable growth.
- 1.3 We will be responding to the consultation and **would very much like to hear your views to help us develop our response**. To contribute to our response, or for more information about our work in this area, please contact Toby Ganley at toby.ganley@ncvo-vol.org.uk or on 020 7520 2433.
- 1.4 We will also be **hosting a consultation event with a speaker from OTS to discuss the proposed SIWB here at the NCVO office at 10am on Friday 25 September**. If you wish to attend this session please RSVP to Toby Ganley by Monday 14 September.
- 1.5 The consultation document is available for download on the OTS website: www.cabinetoffice.gov.uk/third_sector.aspx or hard copies can be obtained from the Social Enterprise and Finance Team at OTS: Admiralty Arch South, The Mall, London SW1A 2WH, Telephone: 0207 276 6066/7. The government is seeking the views of all stakeholders, including voluntary and community organisations, the private sector, and investors, on its proposal. The consultation closes **7 October 2009**.

2. The Proposed SIWB

- 2.1 The consultation document defines social investment as: providing finance to achieve social and/or environmental returns, while recognising that financial returns might also be generated. Typically people invest money for a financial return, whereas social investment is about investing capital for a social outcome. This may also provide the investor with a financial return, but it is likely to be smaller than would be expected from a traditional commercial investment.

Vision and Mission

- 2.2 The proposed SIWB would report against a triple bottom line of social, environmental, and financial impact, and is designed to fill a gap that is not adequately addressed by existing methods of public or private investment.

2.3 As a wholesale bank, the SIWB would supply finance and support to retailers (like Charity Bank, Triodos, and Community Development Finance Institutions) to enable them to better meet the financial needs of VCOs and other civil society organisations. This is important because it means that the SIWB will not be competing with existing providers but facilitating the growth and development of the social investment market.

2.4 As well as supplying finance and support to retailers, the SIWB would also encourage and attract investment from investors and lenders, to increase the supply of finance for organisations that are driven by a social or environmental purpose. This would allow people to invest their private funds to support the VCS and facilitate social change.

Functions

2.5 The proposed SIWB could perform a range of functions. The consultation document seeks feedback on what functions the SIWB ought to perform, and suggests the following five possibilities:

- a champion for sustainable social investment – because many potential investors and VCOs are not yet sure about what opportunities and risks are involved in investing for social outcomes or accessing new forms of finance;
- raising capital – attracting investment would enable the SIWB to continue to provide finance in a sustainable way, this could include supporting the development of new financial products that people can invest in;
- investing and providing capital – supplying capital to retailers, who will, in turn, provide finance to front-line organisations;
- market-making – supporting the development of the social investment market, including improving the capacity of VCOs to receive and effectively use investment; and
- advisory services – increasing the understanding of both investors and VCOs about the opportunities and risks that social investment could provide.

How the SIWB could deliver those functions

2.6 The government wants the SIWB to be sustainable and able to continue to deliver social and environmental value. This means that the SIWB will need to ensure that its investments provide a sufficient financial return to enable it to continue to reinvest for future social and environmental benefit.

2.7 Therefore, it is proposed that:

- the SIWB will be independent of government and regulated by the Financial Services Authority;
- although VCOs and other civil society organisations are likely to benefit most from the activities of the SIWB, it will be able to support any organisation that delivers social or environmental outcomes;

- social investment is still a relatively new concept and an even newer practice. Both the supply of this type of finance and the demand from VCOs and others for social investment are still emerging and developing. Therefore, the SIWB needs to be flexible and able to adapt to changes in the market; and
- although it is intended to be a wholesale bank, it is suggested that the SIWB may have to undertake some activities directly, such as supplying advice and building capacity.

2.8 The Commission on Unclaimed Assets concluded that the best use of funds residing in dormant bank accounts would be to establish a social investment bank. However, the amount of money that will be available to establish the SIWB, and where that money will come from, is not made clear in the consultation document. Instead, the government notes that the amount of capital needed to establish the SIWB will depend on which functions are agreed upon and the level of demand that is evident.

2.9 The government is seeking feedback on each of these proposals.

3. Conclusion

3.1 Organisations that want to grow, develop, or change often need access to finance to allow them to allow them to do so. The SIWB should stimulate the development of a social investment market that could help to support the growth and development of VCOs.

3.2 Many VCOs also need access to finance to help them to deliver their missions when circumstances change (like unexpected staff absences, the current economic crisis, or the loss of a contract). The SIWB could lead to improved access to finance in situations like these, through a variety of mechanisms that are appropriate to a range of different organisations.

3.3 Some questions you might like to consider are:

- What do you think is most important for the proposed SIWB to be successful in practice?
- Does your organisation have need for greater access to financial capital (eg to expand its activities, or acquire a building or other asset)?
- Given your understanding of social investment, what information or support would your organisation need for it to consider accepting investment capital?

3.4 Please share your thoughts with us to help us to develop our position on the government's proposal.