

SocialFirms UK

Social Firms UK's Response
to
the Government's Consultation
on
a Social Investment Wholesale Bank

Social Firms UK is a membership organisation and the national support agency for Social Firms. We are one of the Office of the Third Sector's strategic partners. Our full members comprise social enterprises or organisations striving to operate commercially and to generate profits that can be reinvested to create more jobs for people at greatest disadvantage in the labour market, and our mission is to support, strengthen and grow the Social Firms sector. The prospect of a Social Investment Wholesale Bank is therefore very welcome and we are grateful for the opportunity to contribute our views on how it might be developed.

Our response also draws on the experience and reflects the views of our sister organisations, Social Firms Scotland and Social Firms Wales.

Do you agree with the Government's vision for a Social Investment Wholesale Bank ?

Yes

Are the proposed functions the most appropriate function ones? If not, what should be and why?

The functions appear appropriate. The Bank would need to ensure that it added value in any advice services it provides rather than duplicating existing advice services. Further consideration should be given to how the wrap around support could be delivered through strategic alliances with existing social enterprise/TS support agencies

Should advisory services for frontline third sector organisations and social investment intermediaries accompany the provision of capital or be provided separately?

If the Bank is to be flexible and adaptable, there is no reason why it should not do both, as long as it fulfills a need not being met elsewhere. The key is to provide the services that are required in a way that is appropriate to the circumstances, taking all relevant parties' needs into account. For example, an organisation may need advice on how to become investment-ready before holding detailed discussions about capital injection.

SocialFirms UK

We consider it important that there is a move towards more 'engaged' funding and investment models, built on ideas of social investment and outcomes led approaches.

Given the trend towards investing in outcomes, the demand and supply side need to be understood and better aligned. Also, closer links should be forged between key strands of social enterprise policy in the future, namely business development support, quality and impact assessment and market development to ensure investment outcomes have a greater chance of success.

From experience in Scotland, we would recommend pre and post investment support, where more engaged approaches are working well. Good examples are the Scottish Investment Fund run by Social Investment Scotland (mix of grant, patient capital and traditional loan finance) and Inspiring Scotland (venture philanthropy type model) which also changing the culture of investing in the Third Sector. see <http://www.inspiringscotland.org.uk/>

Which combination of functions would be most effective and deliver best value for money?

The three key functions where a Bank could add most value are raising capital; investing and providing capital; and market making. Championing social investment should be an integral part of it's business, and should be pursued in partnership with third sector bodies and their investors, rather than being seen to be the sole responsibility of the Bank.

Do you agree that eligibility for support should be based on social or environmental impact rather than legal status or form? If so, would there need to be a safeguard to ensure that smaller organisations were not excluded (for example small, black and minority ethnic-led and rural projects)?

We agree in principle that the long term aim should be for all sectors to work in a way that increases social returns. We believe that if the public, private and third sectors work together through investment, trade and sharing expertise there would be much to be gained in terms of social outcomes.

However, it is vital that all small organisations have the opportunities to access the Bank's services and then there should be checks and balances in place to ensure inclusivity.

How do you think the mission of the Bank should be defined?

We broadly agree with the proposed mission, but would suggest it could read

SocialFirms UK

“to create social and environmental value by increasing investment, **particularly in the third sector**, for a social or environmental purpose”.

Without the emphasis on the third sector, the mission would be cast so wide that investment could be channelled away from the third sector and the Bank would not be addressing the market failure that it was set up to do.

Do you agree that the Bank would need to be flexible and adaptable to address evolving issues as the market develops? How could it be ensured that the Bank would respond appropriately to the evolving market?

Yes it should certainly be flexible and adaptable to meet changing needs. As part of its function as champion for social investment, the Bank will be analysing the market. It will be able to use these analyses to assess how to respond as the market evolves, and to report on this as required to the relevant authorities. It should also be subject to periodic external review.

How best could the Bank be structured and owned in order to deliver its functions and meet its mission?

We believe that the Government should act as an arms length, minority investor . However the main question for policy makers is around the extent to which public money should be used to capitalise new types of financial products and if they do so., what structural arrangements would work best for investment selection, appraisal and delivery.

Under what circumstances could the Bank carry out activities itself, rather than being limited to financing and offering support to others?

The should be **no** opportunity for the Bank’s activity to displace what already exists. It should concentrate on its key roles of championing and market analysis..

Do you agree that the Bank should seek to report transparently against a ‘triple bottom line’ of social, environmental and financial value? What ideas do you have for how this could be achieved?

Yes and SROI is one useful way of achieving this. This would also mean that the investees would need to be supported to use SROI or other impact measurement tools.

Do you agree with the proposal for the Bank’s design?

Yes. The Bank’s risk finance and social investments **should not** support **clearly bankable** ventures. They should support **near bankable** investment

SocialFirms UK

propositions that are deemed too risky for mainstream banks. This would get around the issue of distorting competition.

Social Firms UK
October 2009