

# **SOCIAL INVESTMENT WHOLESALE BANK RESPONSE TO CONSULTATION ON THE FUNCTIONS AND DESIGN**

**7 October 2009**

## **1. Introduction**

Ulster Community Investment Trust (UCIT) is the largest provider of social finance and business support to the social economy in Northern Ireland, investing in excess of £23m in support of 169 social enterprises since 2001.

Charity Bank is a bank and a charity. It uses its depositors' funds solely to provide financial support and advice to charities, voluntary organisations and social enterprises.

As members of the Community Development Finance Association (CDFA) operating in Northern Ireland, UCIT and the Charity Bank welcome the opportunity to make a joint response to the Office of the Third Sector's Consultation on the Functions and Design of a Social Investment Wholesale Bank.

## **2. Summary**

In making this response we view with interest the Government's intention to establish a Social Investment Wholesale Bank (SIWB) that raises private investment capital that can be wholesaled to retail intermediaries such as UCIT and the Charity Bank to help them meet the demand for debt finance and develop new quasi-equity products in support of the third sector in Northern Ireland.

There are two key concerns with this new initiative.

- Firstly, neither UCIT nor Charity Bank is yet convinced of the added value of allocating some of Northern Ireland's dormant bank and building society accounts' funds as founding capital for SIWB.
- Secondly, while we will watch the development of SIWB with interest, but we haven't yet seen any details as to how the SIWB will deliver real advantages to the third sector in Northern Ireland.

Until those advantages have been demonstrated, we consider it better for the social finance sector in Northern Ireland for funds to be invested directly into the sector, without the extra cost or administrative burden of a national intermediary organisation.

## **3. The Vision for a Social Investment Wholesale Bank**

We agree that the SIWB could potentially help address the supply side of social finance for retail intermediaries like UCIT and, to some extent, the Charity Bank. SIWB could become a focal point for banks and investment managers who choose to put a portion of their funds into a new asset class that provides a social, as well as financial return. We see the potential for SIWB to help develop a new class of investment products that attract investment from professional investors.

SIWB should not seek to provide retail finance. Instead of intervening at grassroots to address market failures in social investment, SIWB should support existing retail intermediaries to extend their services into new areas of the third sector.

In summary, SIWB should concentrate on bridging the gap between professional investors and Third Sector retail intermediaries. This will involve educating investment fund managers about a new asset class in social investment and highlighting the sector's commercial, as well as social credentials.

#### **4. The Economic Case for increasing the supply of Social Investment**

There is a case for a social investment bank that pulls money in from investors and increases the availability of investment capital for retail intermediaries who are undercapitalised and struggle to meet the demand for finance and investment from social enterprises that want to grow their business operations.

#### **5. In Conclusion**

*SIWB should focus on championing social investment among banks, investment managers and across the public sector.*

The bank should be independent from Government and prepared to work with the CDFA and its members to lobby for a more enabling environment for new investors (for example: public guarantees that can be combined to some degree with tax incentives such as CITR). SIWB should not begin by encouraging the growth of new retail intermediaries, or providing support and social investment directly to grassroots organisations.

UCIT and Charity Bank broadly agree with the principles underpinning SIWB. However, the Bank needs to keep it simple and initially focus on educating private investors about the benefits of the social investment route, securing equity from investors, increasing the supply of social finance to existing retail intermediaries, and sponsoring leading retail intermediaries to extend their operations into areas where there are gaps in the provision of social finance.

As the two main social finance providers in Northern Ireland, UCIT and Charity Bank have not been convinced of the benefits of the proposal to transfer dormant accounts funds from Northern Ireland to a UK-wide intermediary. Nor have we seen how the proposed new intermediary will support the development and growth of the third sector in Northern Ireland.