Social finance and investment – opportunities and challenges in Northern Ireland

Building Change Trust is a £10 million, 10 year expendable endowment established by the Big Lottery Fund with a National Lottery grant of £10 million as an investment for community capacity building and promotion of the voluntary and community sector in Northern Ireland.

Trust Director of Operations, Nigel McKinney writes for us about the Trust’s work and thinking on the issue of social finance

Background

Building Change Trust was, at the date of its establishment, gifted with Social Finance as one of its strategic themes as the original business plan submitted to the Big Lottery Fund by the Trust’s 5 founding partners – Community Foundation for Northern Ireland, Business in the Community, Community Evaluation Northern Ireland, Rural Community Network and Volunteer Now – contained a proposed commitment to invest £2 million into the capital of Charity Bank to underpin their deposit taking, loan making and some initial investment readiness activity in Northern Ireland.

The amount and modalities of this exercised the Trust Board greatly and it eventually agreed to make a £1 million capital grant to Charity Bank and to commit the other £1 million for other social finance uses.

Having the theme of Social Finance, initially by default, the Trust felt a responsibility to understand the issues more fully in the context of opportunities and threats in respect of voluntary, community and social enterprise (VCSE) organisations in Northern Ireland.

What is Social Finance anyway?

Actually – let’s use the term Social Investment instead. Big Lottery Fund have a useful definition as follows

“Social investment is finance offered to voluntary and community organisations (and social enterprises) with the expectation of financial repayment. It involves weighing the social and financial returns of investments in different ways. This can mean accepting lower financial returns if the social impact is greater.”

Social investors therefore are generally considered different to mainstream providers of finance, typically the main banks, in that the investment is made on the basis of both financial and social returns with different investors investing in different ways

1 http://www.biglotteryfund.org.uk/research/social-investment
and also perhaps seeking a different balance between the financial and social elements. Different types of investment are suitable for different purposes as is set out in the diagram from CAF Venturesome below.

Across the UK and internationally in recent years there has been the nascent development of a social investment market with a plethora of new intermediaries and some new types of investment products developed with significant policy support and resourcing most notably through the establishment of Big Society Capital with money from the English dormant accounts and four of the mainstream banks.

There seem to be almost weekly developments in respect of new investment funds, especially on the supply side, but the actual demand for the products and investment available does not as yet seem to be keeping pace with supply.

What about Northern Ireland? Well I think it's fair to say that many VCSE organisations here have a history of some form of debt financing generally from their own banks and perhaps in the form of overdrafts to cover grant financing in arrears, mortgages and other types of loan for property and equipment purchase and refurbishment. More recently there has not been significant action taken to stimulate the market here and the status of and plans for the Northern Ireland dormant accounts are unclear.

The social investment market as such is underdeveloped in NI compared to other parts of the UK where simply perhaps as a result of population size and hence the scale and diversity of the VCSE sector there are a plethora of intermediaries and a greater diversity of products but we do have at least 2 social investment finance intermediaries working in NI in the form of
1. The home grown Ulster Community Investment Trust or UCIT

UCIT essentially operates a revolving loan fund where capital is loaned out and interest charged to cover running costs, losses and to facilitate capital repayment and generate surplus income. It is the premier provider of social investment in Northern Ireland and in 2013 approved 32 loans aggregating value of £2.67m.

2. Charity Bank

Until its recent deregistration as a charity, given the increased challenge of meeting both banking and charity regulations, (although its charitable objects remain enshrined) Charity Bank was the world’s only registered charity that was also a bank. Charity Bank raises deposits from organisations and individuals across any sector and lends this money out in the form of interest bearing loans to social sector organisations.

Charity Bank is a much newer entrant to the social investment market in Northern Ireland and whilst its key product – the secured simple loan - is similar to the type of loan financing provided by UCIT, the key difference is that Charity Bank is a regulated bank and thus can take deposits from both individual and institutional depositors – who might be termed ethical investors – on the basis that their deposits are then recycled as loans to achieve social impact whilst generating some surplus for the bank and the original depositor.

Whilst the development of their loans portfolio locally is slow, Charity Bank in taking deposits of approaching £7 million in Northern Ireland to date demonstrate a significant appetite amongst individuals and organisations for ethical investment by way of using their financial assets to support positive social impact.

The Trust’s work on social investment

Having set aside £1 million for social finance use, the Trust felt duty bound to research and learn from developments in the field with a view to informing future developments in Northern Ireland.

It’s important to be up front about what social investment is and isn’t. Essentially we are mostly talking about forms of debt finance and debt must be repaid and to repay debt, which includes the capital and interest at whatever level, there must be a regular and stable source of income. Social investment cannot be a replacement for the removal or withdrawal of grant finance to organisations where there is no business model operating that generates a regular and stable source of income, now or in the future regardless of the potential to achieve good social impact. Grant

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2 Ulster Community Investment Trust – Social Impact and Financial Highlights 2013
finance is a critical source of support to enable VCSE organisations make a positive difference to individuals and communities.

In 2010 the Trust provided grant aid to Charity Bank and UCIT to carry out research into the supply and demand of social finance in Northern Ireland.

That study *Social Finance in Northern Ireland: Innovative Thinking and Action*, which is available on the Trust website made the following recommendations:

- Build financial and commercial capability in the sector
- Focus on funding outcomes and impact
- Deliver a sustainable sector with strong financial and social balance sheets
- Support innovation and growth by sharing and learning

Consideration of that study and of developments in GB have shaped the Trust’s thinking around what actions could and should be taken in Northern Ireland.

Essentially, as maybe elsewhere in the UK and internationally this boils down to the following key considerations:

- Any organisation will (and should) take grant money over debt if it’s available
- Many current and future VCSE organisations could take on some debt finance if the right type of finance and support was available
- A market can be stimulated but doping that will require investment and nurturing
- Much social investment cannot be developed and delivered sustainably commercially and therefore subsidy will be required for the intermediaries to develop and deliver the products required
- Grants aren’t bad and will always be needed for activities that have no possibility of generating income but which can make a big difference to people and places

The Trust has concluded that the development of the social investment market in Northern Ireland requires the following key actions

1. **3-5 years of NI wide investment readiness activity**

Investment Readiness is defined as, and yes it’s a bit obtuse

> “an investee being perceived to possess the attributes, which makes them an investible proposition by an appropriate investor for the finance they are seeking”

So it’s about supporting organisational change and development in appropriate ways.

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3 Investment Readiness in the UK, July 2012 Clearly So and NPC, commissioned by Big Lottery Fund
Rather than a piecemeal and ad hoc process of support to VCSE organisations, the Trust believes that a holistic and integrated programme of support needs to be developed and resourced to enable a wide range of VCSE organisations across NI become investment ready, receive social investment and ultimately achieve greater social impact.

In 2012/13 we commissioned Charity Bank to do some work and thinking on possibilities for the development and delivery of investment readiness activity in Northern Ireland and their report *The Social Investment Hub – The model to incentivise change in social investment in Northern Ireland* is available on our website.

This draws on lessons from investment readiness activity in GB and internationally and makes recommendations as to how an integrated and holistic support model providing appropriate and bespoke support to VCSE organisations and working with the various intermediaries could be developed and delivered here. This would be a new approach for Northern Ireland, which in contrast to GB has not yet benefitted from the significant investment in social investment that is evident through the likes of the Big Lottery Fund, £10million Big Potential Programme or the £10million Investment and Contract Readiness Fund managed by the Social Investment Business to highlight just two.

One of the challenges in Northern Ireland will be in securing the necessary investment and commitment from government and others in currently austere times with pressure on departmental budgets and investment in the sector and social enterprise not seen as priorities.

2. **Appropriate products for NI, hybrid products initially followed by more complex offerings**

Both the current lenders in the Northern Ireland market provide essentially the same loan product that is loan finance in excess of £50,000 and secured against an organisation’s physical asset such as premises. UCIT have been very successful in this space and are meeting the real demand that exists for this type of lending.

However if we are to explore and stimulate the development of a market we need to experiment with new and different products. In the first instance our view is that we don’t need to develop complex financial instruments suitable only for a very small number of large and sophisticated organisations but to develop and test products that resonate with the type of organisations largely making up the sector here.

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5 [http://www.beinvestmenttready.org.uk/](http://www.beinvestmenttready.org.uk/)
In our view there is a need to test out smaller and unsecured loans and also experiment with initiatives such as a grant/loan hybrid for example of up to £20,000.

What we mean by this is that an organisation would receive finance in a flexible combination of a grant portion combined with a loan portion with the grant portion of between 20% and 50% of the £20,000 maximum. Investment readiness support would accompany the provision of such a product.

If we start the ball rolling with this type of product, we could also stimulate interest in and knowledge of other products, be that the issuing of bonds by VCSE organisations to raise finance, long term equity investment in organisations by investors and ultimately innovations such as social impact bonds.

3. A community shares pilot for Northern Ireland

To put our money where our mouth is in supporting innovation in financing and support of VCSE organisations locally, the Trust has commissioned the Community Shares Ready project to work over the 3 years 2013 – 2016 to support the development and financing by issuing share offers of 5 community benefit societies in Northern Ireland.

There are different legal forms that social enterprise can take and one form, largely unknown in the NI context is the community benefit industrial and provident society.

This type of cooperative, which can achieve charitable recognition, is organised on the basis of one member one vote and crucially has the objective of achieving community benefit more widely than its membership. The form is much more common in GB and has successfully been used for enterprises such as community shops, pubs, and renewable energy initiatives. A community benefit society can raise funds from its members by issuing shares in a form known as withdrawable shares.

Interestingly a recent report “Understanding Alternative Finance”6 by NESTA and the University of Cambridge concludes that over £30 million is likely to be raised through community share offers this year, ahead of other alternative finance platforms such as ‘rewards crowdfunding’, made popular by sites like Kickstarter.

Until recently there were no such community benefit societies in Northern Ireland but through the support of our project a number are now in development focusing on issues including renewable energy and woodland burial.

Further information is available on the Cooperative Alternatives website

www.coopalternatives.coop

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6 UNDERSTANDING ALTERNATIVE FINANCE The UK Alternative Finance Industry Report 2014
NESTA and The University of Cambridge, November 2014
Next steps

In GB the debate around social investment has been more sophisticated than here, and for a variety of reasons. Cuts to and outsourcing of public services have happened at huge scale and some have identified this as a key driver and opportunity for social enterprise development. There are tensions evident around the supply and demand of social finance with some arguing that the type of products that investors want to offer, based on their own commercial business model, aren’t in demand by the sector.

A new Alternative Commission on Social Investment⁷ has recently been established to investigate what’s wrong with the UK social investment market and to make practical suggestions for how the market can be made more accessible and relevant to a wider range of charities, social enterprises and citizens working to bring about positive social change.

We are pleased to be co-hosting an event with this Commission at Riddell Hall, Belfast commencing 1030 am on Friday 12 December and which aims to allow voices from NI to shape the debate and discussion happening at a UK wide level.

The event is free of charge and concludes with lunch and places can be reserved by contacting Orla O’ Sullivan at info@buildingchangetrust.org

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⁷ http://socinvalternativecommission.org.uk/home/