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SIWB Consultation
Social Enterprise and Finance Team
Office of the Third Sector
2nd Floor, Admiralty Arch
The Mall
London, SW1A 2WH

6th October 2009

Dear Sir/Madam,

Subject: Social investment wholesale bank: a consultation on the functions and design

I am writing to you on behalf of Voice4Change England (V4CE) as a strategic partner of the OTS to respond to the Social Investment Wholesale Bank (SIWB) consultation on functions and design.

V4CE is a national body dedicated to strengthening the Black and Minority Ethnic (BME) Third Sector as a positive force for change and which aims to provide a co-ordinated policy voice for BME groups and organisations. V4CE is a partnership of 13 national, regional and sub regional infrastructure organisations and initiatives. We have successfully acquired a place where our responses to government policies objectively represent the concerns of the BME Third Sector. We aim to continue developing this mutual understanding between the BME-led third sector and government to ensure policies are responsive to BME communities' needs and aspirations.

We welcome the proposal to create a financial institution which would work in the interests of society, reporting against a triple bottom line of social, environmental and financial impact. The consultation asks 'is it necessary to ensure that the Bank supports a diverse range of enterprises for example small, black and minority ethnic-led projects?' **Voice4Change England believes that access to finance is extremely necessary for the future development of BME third sector organisations.** Finance will help the sector to scale up successful activities and to support core running costs. The BME third sector has already demonstrated an appetite for finance, through the high numbers of applications to Futurebuilders. However the sector has had difficulty in accessing finance particularly through mainstream banking.



We would like to take the opportunity to outline how the SIWB can ensure it supports BME third sector organisations. We will not be focusing on the many technical questions the consultation asks, but **recommend that if the SIWB is rolled out, further consultation is undertaken with BME groups to ensure the proposals are understood and relevant to their needs.**

About the BME third sector

BME third sector organisations are led by and work for BME communities. The BME third sector has its roots in tackling discrimination and promoting equality. Despite improvements in outcomes for some ethnic minorities in areas such as housing, education and employment, BME communities still face high levels of deprivation and discrimination.

BME third sector organisations provide a range of roles and carry out a range of functions including: advocacy; health provision; cultural, social and economic support; and supplementary schools. However BME communities are not homogenous: race cuts across all identities. Different organisations respond in different ways to meet different needs.

BME third sector organisations have an average annual income of £150,000. But more than half have incomes below £10,000 and 13% above £501,000.¹ The BME third sector is historically under-funded compared to the mainstream third sector and continues to face funding challenges including: a reduction in government grant funding; marginalisation in the commissioning and procurement agenda; a move away from funding specialist services; and the impact of the recession.

BME third sector access to finance

BME third sector organisations are often excluded from mainstream banking institutions making it difficult to access finance. This is often due to a lack of understanding of BME third sector organisations and the communities they serve by financiers. The Social Enterprise Coalition² identified that this was a far greater problem than lack of awareness amongst BAME social enterprises of financial products and services available. A number of barriers are typically faced by BME third sector organisations including:

- **Racism and discrimination:** A review of evidence on Ethnic Minority Businesses by the Bank of England³ concluded that even after risk and information issues are taken into account there may be an element of ethnic discrimination amongst finance providers either through direct discrimination or statistical discrimination (i.e. assessing individuals against average assessment of their

¹ Taylor, M. and Hoyle, I., 2003, Finding the funds: the results of a survey investigating the experiences of black and minority ethnic (BME) voluntary and community organisations in their search for funds, Active Communities Unit.

² SEC, 2009, A strategy to engage and develop Black Asian and Minority Ethnic social enterprises: 1 April 2009 – 31 March 2010, unpublished draft.

³ Bank of England (1999) in Fraser, 2005, Finance for Small and Medium-Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses

ethnic group). Fraser (2005)⁴ also points out that 'whilst non-ethnic risk factors are able to explain most of the wide variations in financial outcomes amongst Ethnic Minority Businesses, these variations remain a cause for concern in their own right since, in some cases, they are very large and could lead to the perception of ethnic discrimination'.

A perception also exists that particular BME groups are better placed to access finance than others. For example, Fraser (2005)⁵ found that Bangladeshi and Black owned businesses report experiencing the greatest problems with finance (in terms of both access and cost) of all ethnic groups and have the lowest self-confidence in dealing with finances and that Black African owned businesses have a 37.4% likelihood of outright rejection compared to Indian (5.8%), Pakistani (13.2%) and White owned businesses (10.4%). He also found that Black Caribbean and Black African owned businesses are significantly more likely to feel discouraged from applying for finance than Indian (11.6%), Pakistani (22.9%) and White owned (7.1%) businesses.

- **Reliance on non-market sources of finance:** BME third sector organisations are more likely to rely on family and friends for financial support. Curran and Blackburn (1993)⁶ found that 'African-Caribbean start-ups were more likely than other ethnic groups to rely on non-market sources of finance: almost 70% relied on personal savings whereas the figure amongst Greek-Cypriots and Bangladeshi start-ups was between 50% and 60%'. More worryingly a Cooperatives UK report cites that as 'BME people more often than not are denied access to finance more than indigenous people. They are compelled to ask families and friends and when desperate often resort to immediate access but high cost finance from money shops, loan companies and predatory door to door credit providers or loan sharks'⁷
- **Risk:** BME third sector organisations typically exist in poorer areas, reflecting the higher rates of poverty for BME communities. This means that with an increase in postcode risk scoring across financial products there is a possibility that risk-scoring may indirectly discriminate against BME third sector organisations.⁸
- **Cultural and language barriers:** The Bank of England report⁹ found that cultural and language barriers provided further obstacles to the free flow of information and that two-way information deficiencies are likely to make Ethnic Minority Businesses appear riskier to lenders.

⁴ Fraser, 2005, Finance for Small and Medium-Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses.

⁵ Ibid.

⁶ Curran and Blackburn, 1993, in Fraser, 2005, Finance for Small and Medium-Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses.

⁷ Olantundun in Cooperatives UK, 2009, Engaging ethnic minority communities: lessons for the cooperative sector.

⁸ Runnymede Trust, 2008, Financial exclusion and ethnicity: an agenda for research and policy action.

⁹ Bank of England (1999) in Fraser, 2005, Finance for Small and Medium-Sized Enterprises: Comparisons of Ethnic Minority and White Owned Businesses.

Recommendations

1. The SIWB should ensure that the Bank and the retailers it invests in have a good understanding of the BME third sector and the communities it serves.

In particular it should ensure a good understanding of the barriers BME third sector organisations face in accessing finance and should work with BME third sector organisations and other specialist sector bodies to overcome these. The SIWB should require all organisations it invests in to have a commitment to equality and diversity with equality and diversity policies in place. Where necessary, training should be offered, particularly for staff delivering direct services such as advice.

2. The SIWB should work with BME infrastructure organisations to champion social investment and provide advisory services targeted at BME third sector organisations.

Whilst BME TSOs have demonstrated an appetite for finance others remain focused on traditional grant funding sources that are increasingly disappearing. Those who are aware of finance may fail in their applications due to lack of information. For example, Cooperatives UK identified a lack of awareness of regulatory frameworks and a lack of knowledge about what finance providers and lenders are looking for in applications'¹⁰ The Social Enterprise Coalition¹¹ found that 'the limited knowledge of BAME communities of where to obtain finance, and also different approaches to generating capital was also seen as a barrier due to the inaccessibility of information on sources of funding and other resources'. The existing poor relationship between financiers and BME third sector organisations means that the SIWB will need to work with BME infrastructure organisations to successfully access and meet the needs of BME third sector organisations.

3. The SIWB should invest in retailers to support BME third sector organisations beyond making them 'investment ready'.

The SIWB should work with retailers to provide development grants and with BME infrastructure organisations to provide advice to help BME third sector organisations become investment ready. However, it should also require long term relationships to be developed with BME third sector organisations. Although many BME third sector organisations applied for Futurebuilders, only a few received full investment. BME third sector organisations had a lower success rate than other organisations. Those who were successful tended to receive development grants to make them investment ready, but few went on to receive full investment (4.3%).¹² Lessons need to be learned from this experience and applied to the SIWB.

¹⁰ Cooperatives UK, 2009, Engaging ethnic minority communities: lessons for the cooperative sector.

¹¹ SEC, 2009, A strategy to engage and develop Black Asian and Minority Ethnic social enterprises: 1 April 2009 – 31 March 2010, unpublished draft.

¹² CRESR, 2008. Evaluation of Futurebuilders, interim report – summary, for Futurebuilders Evaluation Team.

4. Minima targets and ring fenced money should be set aside for BME third sector organisations.

This should be achieved carefully to ensure targets are not treated as a tick box quota but as a starting point, and that BME third sector organisations can access mainstream as well as ring fenced funding. Targets should also be meaningful. For instance, although Futurebuilders achieved its minima target of 10% investment in BME-led organisations, this tended to be small development grants and the actual % of finance awarded to BME third sector organisations was very small.

5. The SIWB should support market shaping to bring BME third sector organisations that reach the needs of diverse communities through the market.

BME third sector organisations often provide specialist services meeting the needs of communities that others do not reach. In the shift from grants to contracts there is a real risk that BME third sector organisations will not be able to successfully compete in the contracting process due to their size and scale and commissioners will instead work with one large provider. There is a risk in working with large providers that not all community needs will be met. Commissioners should be encouraged to work with small BME third sector organisations to make them 'market-ready' and able to bid. Finance needs to be available to allow them to do this.

6. The SIWB needs to include the third sector and specifically BME third sector organisations in its governance arrangements.

In setting up a financial institution there is a danger that only 'financial experts' will be involved in Governance arrangements and that even if 'community experts' are invited to sit on the Board they may feel daunted or excluded by financial jargon. It is important that the SIWB fully involves community experts in its Governance including on its Board and that the importance of the frontline experience of using and accessing finance is emphasised. In bringing together different fields of expertise the Board will need to ensure all members can fully engage, for instance, by limiting and explaining different subjects' jargon, and where necessary providing briefing papers on expert issues.

7. The SIWB should support a wide range of products to meet different needs and ensure it addresses the factors that have lead to market failure for BME third sector organisations.

The SIWB should work with retailers to offer a range of products to BME third sector organisations including: development grants; loan finance; and patient capital. BME third sector organisations often work with marginalised communities and the nature of this work means outcomes may be achieved slowly and the organisation may be considered to have higher risk by financiers. Repayment holidays and other patient capital should be considered to take this into account. BME third sector organisations should also not be penalised for the nature of the work they do. Interest rates should be set competitively and not at a higher rate than high street banks. The SIWB should aim to kick start BME third sector activity and make a return, but not a premium. At the same time the SIWB should encourage responsible lending. Retailers

need to make investment decisions on the ability of organisations to repay and not be driven by hitting targets. We must learn from previous programmes, where organisations are not funded to fail but to succeed.

8. The SIWB should draw on lessons from existing third sector finance initiatives such as Futurebuilders as well as the expertise of retailers already successfully operating in the third sector such as BME Credit Unions.

9. The SIWB should require application processes to be commensurate with the level of finance and size of organisation.

10. The level and source of initial resources for the SIWB should be identified.

The consultation document sets out the case for and considers the design and function of the SIWB. But does not identify the level of resources that will be made available for the bank or where they will come from. It is important that the likely level of investment is clarified and the source of funding, including whether it will be fully financed by unclaimed assets identified.

Finally we would also like to highlight that as a complex consultation document it would have been helpful for OTS to run regional consultation workshops to help better explain the proposals to the frontline third sector organisations the SIWB should ultimately benefit.

We would be happy to discuss our response further with the Office of the Third Sector.

Yours faithfully,



Vandna Gohil

Director

Voice4Change England