



Speech at the 'Good Deals' Social Investment Conference

A speech by Phil Hope MP, Minister for the Third Sector at the Good Deals Social Investment conference on 6 May 2008

CHECK AGAINST DELIVERY

- My thanks to you for coming today.
- I am delighted that the Office of the Third Sector is able to present this significant and groundbreaking social investment conference, which reflects the UK Government's position at the forefront of social investment and the UK's global lead.

Central theme

- I recently attended the Skoll conference on Social Entrepreneurship where I met social entrepreneurs from around the globe.
- I spoke that day about how the Beveridge report 60 years ago identified 5 Giants on the road to reconstruction – Want, Squalor, Ignorance, Disease and Idleness.
- Today we can recognise these giants in Inequality, Climate change, Lack of knowledge across communities, New epidemics and Untapped capacity for social action.
- And I am convinced that social enterprise can play a crucial role in overcoming these challenges, in conquering these giants. And that appropriate finance will be key to making that happen.
- So today I hope we can come together around a shared vision of social investment.
- Whether we talk about demand for finance among social enterprises or the supply of finance from social investors, there is an emerging and exciting space here.
- One on hand a social enterprise generation. A generation which enshrines not simply the idealism of the 60s nor the pure individualism of the 80s - but one which offers us an enlightened business model for the 21st century.

- Solutions which may be admirable and altruistic but are also sound and sustainable.
- We can see this in the growth of ethical business - now worth £30 billion a year. Consumers using their buying power to drive social change. And I have met graduates myself who demand to know that the values of their employers match their own.
- Our Social Enterprise Ambassadors embody this spirit. Today they are launching their first campaign to attract more money into the sector by demonstrating the added value that social enterprise delivers through high quality products and services as well as social and environmental impact. How investors, commissioners and consumers can get more for their money with social enterprise.
- My concern is to help these entrepreneurs and these organisations to thrive. I know that access to finance and funding - from grants and donations, to contracts and earned income, and from equity to loans - is absolutely vital to the sustainability of these organisations, helping them to deliver the kind of social and environmental changes which drive them.
- These social entrepreneurs who combine the pursuit of social and financial sustainability are being met on the other hand by a growing supply of a new breed of social investors.
- Philanthropists who have traditionally focused on social return are starting to explore more rigorous, engaged and sustainable approaches to investing.
- And traditional investors seeking financial return are looking to be more aware of the long term and social and environmental consequences of the investment decisions. Ethical investment is now worth many billions.
- So I reject the never-the-twain approach which says a charity must continue to scratch around on handouts living from hand to mouth. Not least because the financial health of an organisation is crucial to its ability to deliver its social mission.
- And I reject those who say that investment only knows one bottom line and you can ignore everything else. Not least because these other social and environmental considerations themselves are drivers of financial returns.
- A few years ago, and the first time a social entrepreneur appeared on TV's Dragons Den, the Dragons dismissed the pitch as a "dangerous mix of charity and business". They didn't get it.

- So I am delighted that Amanda and James from Red Button are here today, able to tell us how they recently convinced all 5 dragons that a business driven by a social mission could also be a great investment opportunity. They proved that this “dangerous mix” can be attractive!

The role of government.

- First of all, I want to make it clear that there is a market here for social investment. Good deals are being made out there – where demand for finance among social enterprise meets the supply of finance from social investors.
- But that doesn’t mean government should sit back, do nothing, wait for social enterprise to solve all our problems, and for investors to finance them.
- All markets require government to enable the institutions, rules and mechanisms which help them to function effectively.
- Perhaps most importantly, government needs to be a good customer. We cannot forget that Government retains the responsibility to fund services fairly and that third sector organisations retain the right to be paid properly for the valuable work which they do.
- But we also know that Government cannot and should not do everything.
- Our role in this social investment market is to step in where the market fails and where we can help guarantee fairness and social equity.
- So today I want to outline how I see government’s role in helping access to finance. A bit of government can go a long way.
- I believe we can help in 3 ways...
 - First, to strengthen supply;
 - Second, to build demand; and
 - Third, in helping make the market work more effectively.
- And we can use a mix of tools at our disposal - investment, fiscal measures, regulation and support. But in each area, both government and the market have some key questions which confront us.

Supporting supply

- I know that specialist lenders like Charity Bank, Unity Trust Bank and Big Issue Invest are looking to direct new money into the sector.

- And more mainstream investors, like RBS, John Laing and Barclays are also already investing, or looking to invest more in social enterprises.
- Opportunities are being taken to an even wider audience. Next week marks National Ethical Investment Week and the British Venture Capital Association and their members are undertaking work in this area.
- So I believe Government's role here is to meet gaps in the provision of capital, to go where the market will not, and in doing so, demonstrate what is possible.
- We can do this through investing capital ourselves and by leveraging new, independent capital into the market.
- For example, in 1999, the Department for International Development guaranteed a loan which led to the creation of Divine Chocolate. This enabled others to invest. Today, Divine are ready to crack America!
- We know that real change cannot be financed by small change.
- The £215m Futurebuilders Fund, our £10m Risk Capital investment fund, the Department of Health's £100m Social Enterprise Investment Fund, DCSF's £100m Youth Sector Development Fund and our plans to invest in community organisations - together this represents a significant level of investment in financing social innovation by third sector organisations.
- But the key question for me is how we can unlock mainstream capital and open the floodgates? This is the big prize.
- How might we be able to use fiscal measures, such as CITR, for example, or the money lying dormant in unclaimed assets?
- Not only to direct government funds towards the third sector, but crucially, to open the eyes of the guardians of mainstream capital and awaken them to the possibilities of social investment?
- That is what I need to know from you out there, the guardians of mainstream capital. How do we harness the potential of the millions in the mainstream markets and the pennies in people's pockets?

Building demand

- In this job I see social entrepreneurs bursting with ideas – there is no doubt that demand for finance is there. But sometimes ideas need work before they can become viable business propositions.

- This takes time, effort and support.
- I have seen myself from my days as a consultant to charities and co-operatives how people need help to understand how finance works.
- So I am always delighted to hear about the work of the likes of Impetus Trust, CAN Breakthrough and others who help our budding social entrepreneurs develop sustainable models and financial skills.
- Craig Dearden-Phillips from Speaking Up tells the story himself of how Impetus Trust helped him take his fragile and fledgling organisation to the point today where he is a Social Enterprise Ambassador with a turnover of many millions of pounds.
- So we working to help social enterprises develop financial awareness, with our Capacitybuilders programme, for example, and financial awareness training.
- And this week, no-nonsense guides to finance, which feature tailored advice for social enterprises are going out to every Business Link in the country.
- So here, the key question for me is the scale and nature of the demand for finance.
- When will trustees of charities consider loans? When might social enterprises think about equity? And how much support and investment readiness might they need?
- That is what I need to know from you, social entrepreneurs yourself who have ideas - but a need for support.

Making the market work more effectively

- But it is not enough to throw some money into them market and tell people to go and find it.
- We also have a job to do in building links in the market - between social investors and the third sector – and between social investors and the mainstream markets.
- And things in the market are moving fast.
- I know I am not the only one excited by the idea of a “social” stock exchange and its potential to connect individuals with the choices they make with their money, thereby capturing the engagement of citizens.
- So I am delighted that the Rockefeller Foundation is supporting work into exploring the feasibility of a social stock exchange. Of course I

share Antony from Rockefeller's opinion that "the government's active approach to the third sector is creating a better environment than in some other countries"

- But more importantly, I am excited by his vision of London as a global social finance capital, uniquely placed as one of the world's most innovative and flexible finance markets.
- This vision is given some reality by the Prime Minister's recent announcement that the UK government is leading the way with the Grameen Trust, the third sector and the private sector in Africa to help the microfinance industry and improve access to capital in the developing world.
- I look forward to publishing the findings of our social investment pilots in the summer.
- Thanks to this work, one of our projects – Equity Plus - is now beginning new life as an equity investment broker. It's the first social business angel network in the UK, matching business angels with social enterprises.
- And thanks to the other, Investing for Good and Charity Bank will be able to tell us later about their plans for attracting mainstream investors and individuals.
- I am also pleased that government we will, for the first time, undertake some serious development work on Social Return on Investment, by committing resources over the next 3 years to develop greater consensus and standardisation around the use of SROI.
- This will increase the evidence base of the impact of the third sector, enable social enterprises and other third sector organisations to prove the social value they create and support commissioners of public services and social investors to make more intelligent purchasing or investment decisions.
- This will build on the existing work on impact measurement and we will encourage other departments and social investors to work with us.
- So the key question here is where do we really concentrate our efforts?
- On a social stock exchange or on social metrics? On linking up investors? Or on new social investment products tailored specifically to the market?
- That is what I need to know from you, who have opinions and ideas yourself about the future for the social investment market.

Conclusions

- I want to sound a note of caution and one of optimism.
- In the current global economic climate it's easy to think of risk as a four letter word. And as well as uncertainty in the financial markets, environmental changes also make it hard to predict what the world will look like in future.
- People are anxious, and rightly so. Yet markets fundamentally depend on risk-taking and entrepreneurial behaviour. It's people like you taking risks who create the wealth, and the social and environmental solutions that we need.
- So what does this mean for our young, fragile and emerging social investment market?
- Will markets retreat and take flight from risky new areas? Or step up efforts to seek out the sustainable business models and the growth markets of the future?
- Will grant makers and philanthropists stick to what they think they can trust? Or look to supporting enterprises which offer innovative solutions to the new problems we face?
- I am optimistic. I think we can be bold. Because with the challenges brought to us by the stalking Giants of the 21st century, we can't afford not to be.
- I hope that uncertainty does not tempt fear, retreat, or narrow-mindedness. But that it provokes instead boldness, energy and creativity.
- The kinds of positive solutions which the likes of Faisel from Fair Finance brings to counter the cynicism of the loan sharks.
- I believe there is strong and building current out there – a current out there – for combining social purpose with financial nous
- So can we encourage a wave of investment and turn this into an irresistible tide?
- Perhaps we can start to dream of a social investment market which everyone recognises. Where investors might choose to put some of their capital or individuals might choose to put a certain percentage of their pensions.
- And so a thriving third sector which would play an even greater role in our social, environmental and economic lives.

- You are here for different reasons. Some with ideas for social transformation and some with money to invest.
- But I want to hear from all of you how my excitement for the ideas we will hear meet the reality which you experience. I want to hear what you really need.
- So thanks again for coming today and welcome to this social investment space. I hope you have a great day.

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