

New Philanthropy Capital's response to the Office of the Third Sector's Social Investment Wholesale Bank consultation



6 October 2009

New Philanthropy Capital (NPC) supports the idea of the Social Investment Wholesale Bank proposed by the Office of the Third Sector. We accept the economic case set out in the consultation document. Although NPC's focus is on charities, we agree that the Bank should support the whole third sector and other opportunities for creating social impact.

However, **NPC believes that plans for the Bank must more clearly recognise its role in creating an evidence base for impact of social investment.** Without giving this attention, the Bank will fail to be an effective champion for social investment, it will struggle to raise capital and invest it efficiently, and, crucially, will not succeed in building the market.

Moreover, as a large and influential institution, the responsibility and opportunity the Bank has to create an evidence base and therefore improve the way the whole third sector functions should be recognised.

Creating an evidence base for impact

Information flow is crucial to markets. The Bank cannot champion social investment or hope to build the market without a clear understanding of the impact of investments. This is for three reasons:

- The Bank needs evidence of impact if it is to decide what investments to make. This is crucial for striking the right balance between risk and reward. In social investment, high financial risk may be rewarded with a relatively low financial return but a high social return. Without understanding both elements of the potential return, the Bank will miss opportunities.
- Private investors need convincing of the value of investing if they are being asked to accept sub-market financial returns. Up to now, no-one has been able to adequately describe the value of social investment, which is part of the reason it has remained small scale.
- The third sector needs better evidence of impact if it is to convince funders to support their work, and repay any loans made.

Overall, no market works without a supply of high-quality information. As a wholesaler of capital, the Bank should lead the way in designing and promoting a framework for quantifying social impact.

Building the market in social investment

NPC strongly agrees the Bank should be a vehicle for building the market in social investment.

From the outset, the Bank should seek to involve the private sector investment community, and seek to attract capital held in foundation, institutional and retail investment portfolios into social investment. It should not be seen by the third sector as simply another grant-maker or loan fund. This needs to be recognised in the governance structure.

The Bank should be ambitious in its aims to grow the market, and be judged partly on its ability to increase private sector investment. The metrics of success for the Bank should include the amount of additional capital flowing to social investments, in addition to the social impact created and rate of repayments on loans.