

# Finance for the Social Economy in Northern Ireland: Executive Summary

## 1. Introduction

This document is an Executive Summary of a Study of finance for the social economy in Northern Ireland. The Study was commissioned by the Department of Enterprise, Trade and Investment (DETI) acting on behalf of the Finance Joint Implementation Group of the Social Economy Forum, which prepared the terms of reference for the work. The Study was undertaken by a team led by Colin Stutt Consulting, in association with Dr. Brendan Murtagh of Queen's University Belfast, Mr. Belden Daniels of Economic Innovation International Inc., of Boston Massachusetts and Professor Peter Lloyd. The Study was completed in October 2004.

The terms of reference required the consultancy team to assess the effectiveness of existing external sources of finance for the social economy in Northern Ireland and their contribution to the development of the sector, its business strength and long term sustainability, to identify current areas of unmatched supply and demand, future financial needs and local, national and international best practice and to make recommendations and develop an action plan for delivery.

This Executive Summary focuses on the policy recommendations arising from the Report. Those interested in the detailed evidence base underlying the Report's policy recommendations should refer to the full report and to the associated working documents, which are available from the social economy section of the DETI website, [www.detini.gov.uk](http://www.detini.gov.uk).

## 2. The Policy Context

Northern Ireland has a distinctive policy and distinctive structures in relation to the social economy. As a result of a policy review commissioned in 2001 the Department of Enterprise, Trade and Investment (DETI) adopted a definition of the social economy as

*'organisations with a social, community or ethical purpose, operating using a commercial business model and having a legal structure appropriate to a not-for-personal-profit organisation'.*

The Department also put in place a number of structures for the social economy in Northern Ireland, including funding the Social Economy Agency to facilitate the establishment of a Social Economy Network, to represent the sector, the formation of an Inter-Departmental Steering Group (IDSG), to develop greater cross-Departmental co-operation, and the creation of the Social Economy Forum where representatives from the Network and officials from Government can work together in constructive partnership.

In September 2004 DETI published a strategy to further develop Northern Ireland's policies towards the social economy. Entitled *'Developing a Successful Social Economy - Northern Ireland Government's Three Year Strategic Plan 2004 - 2007'*, the strategy proposed 3 strategic objectives for the sector

- to increase awareness of the sector and establish its value to the local economy;
- to develop the sector and increase its business strength; and
- to create a supportive, enabling environment.

The Study was undertaken under the second objective of the Strategy .

## 3. Survey of Northern Ireland Social Economy Organisations

As part of the work programme the consultancy team undertook a survey, by telephone, of 176 Northern Ireland social economy organisations. The sample was drawn from a database provided by the Social Economy Agency and the questionnaire was designed in large part to replicate the survey undertaken by the Bank of England in 2003 of finance for social enterprises in England.

The Bank of England report provides a comparative framework for examining the financing of social economy organisations in Northern Ireland and is of interest in its own right as a guide to the major issues affecting the finances of organisations similar to Northern Ireland's social economy organisations in other regions of the UK.

Our telephone research among Northern Ireland social economy organisations provided a snapshot of some of the financial issues confronting social economy organisations in Northern Ireland: including

- There are a large number of small, new start enterprises that require various forms of financial and technical support. Many of these are newly formed with support under the Peace II Programme.
- Whilst this development is encouraging it requires management in the context of the run-out of the Structural Funds and the need to progress organisations toward more mature and self sustaining business forms.
- At the other end of the scale, there seems to be a small number of well developed, larger and financially sophisticated enterprises. These larger organisations have been borrowing on the markets for some time, have experience in putting together multi-sourced funding packages and rely selectively on grant aid for pump priming or as a 'soft' indication of commitment from public sector organisations when looking for private finance.
- Most organisations recognise that traded income will become more important over the next three years and there is an awareness that the sustainability of services and programmes will be more narrowly related to economic sustainability.

## 4. Sources of Supply of Finance to the Social Economy in Northern Ireland

Organisations working in the social economy are, like small firms in general, very diverse. Some are structured and strategic in their approach, others are opportunistic; some are committed to growth and development, others are content to drift along; some are extremely tightly managed, others have considerable organisational slack; some are democratic and participative in their management styles and others are autocratic and hierarchical.

Because of this diversity **within** the sector, the experience of social economy organisations in relation to gaining access to external finance is also very diverse. In carrying out this research we heard many stories from both suppliers and demanders of finance for the social economy of both the difficulty and the effectiveness of the current sources of finance for the social economy. To a significant degree, these experiences reflect the characteristics and behaviours of the organisations concerned, rather than systematic failures or successes of aspects of the supply system for social economy finance.

However, social economy organisations present particular and distinctive characteristics which may make it more difficult for them to achieve access to external finance than it would be for a comparably-sized and experienced private business. There is, then, a danger that the supply of business capital may be subject to a market failure in relation to social economy organisations which would mean that the total flow of funds to social economy organisation is sub-optimal in economic terms. Such a market failure would provide the rationale for a policy debate about the financing of social economy organisations and for interventions to create and resource special financial vehicles for the social economy.

### 4.1 Sources of Grant Finance

In reviewing sources of grant finance for the social economy, the Study finds that the only current grant programmes which are explicitly designed for the development of social economy organisations are those found in the EU Peace II Programme. Outside the remit of that Programme, there exists a range of grants available to social economy organisations from Departments, public bodies and other grant funding organisations. Those grants reflect sectoral priorities, for example in relation to the provision of social housing, enterprise development, rural development and neighbourhood renewal in urban areas, rather than a sectoral agenda for the social economy.

For many years Northern Ireland has received funding from the **European Union's Structural Funds**. Many sub-sectors of the social economy have benefited from grants made under EU Programmes administered by Departments and public bodies, intermediary funding bodies or, at local level, by District Councils, District Partnerships, Local Strategy Partnerships or Leader or URBAN groups. Successive Interreg Programmes have provided support for the development of the social economy in Northern Ireland and the Border Counties. However, none of these programmes was specifically targeted on the social economy - the beneficiaries just happened to be able to fit in with the selection criteria of Measures prepared with other policy agendas in mind.

However, an increasing, EU-wide interest in the social economy fed into the design of the Peace II Programme for Northern Ireland and the Border Counties of Ireland 2000 - 2004 in which, for the first time, the social economy was recognised as a sector in its own right, with its own development agenda.

The Department of Finance and Personnel provided an analysis from its database of successful projects of the main Measures and Sub-Measures under which the Peace II Programme supports the social economy in Northern Ireland, in total £48,241,000 has been allocated in 428 Letters of Offer. While not all of this funding may be finally drawn down, this is a substantial injection into the sector.

At the time of writing, the outcome of a consultation process in relation to the proposed extension of the Peace II Programme to 2006 is under consideration and the detail of how the extended Programme, if approved, will support the social economy is not yet clear. Equally, at present it is too early to make confident statements about the next Structural Funds period (2007 - 2013) as fundamental decisions have yet to be made. However, it would appear unlikely that EU Structural Funds will continue to make major financial transfers to Northern Ireland in the next period of Structural Funds support and, therefore, the expectation must be that EU support to the social economy in Northern Ireland will decline markedly.

In the 2001 Report '*The Social Economy in Northern Ireland - A Policy Review*', the **International Fund for Ireland** was identified as the organisation providing the largest single element of support to the social economy in Northern Ireland.

An examination of the IFI's 2000 Annual Report showed that in that year the IFI had approved 29 grants to social economy organisations in Northern Ireland with a total value of £5.6 million. The analysis was repeated using the data in the Fund's 2003 Annual Report. In that year the Fund approved 45 grants to social economy organisations in Northern Ireland with a total value of almost £13 million. Compared to the year 2000, the Fund's commitments to the social economy in Northern Ireland had increased by 130%.

The IFI Programme which has provided most funding to the social economy is the provision of workspace accommodation under the Fund's Business Enterprise Programme. This funding was almost exclusively provided to local enterprise agencies. However, 54% of the IFI funding was under its Disadvantaged Areas Initiatives, which focus on using social economy approaches for the regeneration of deprived urban and rural areas.

**Community Businesses** are a distinct form of social economy organisation based on applying the self-help ethos common to the social economy by starting up businesses to provide employment and income for disadvantaged communities or for disadvantaged groups in society. The scale of community businesses can vary considerably - some have grown to a significant size while others have remained small and local in their impact. Common to all community businesses is the provision of services or benefits to disadvantaged groups or communities.

InvestNI and LEDU, its predecessor, have provided special support structures for community businesses for over 10 years. The current Community Business Start Up Programme is funded under the Peace II Programme and InvestNI is considering mainstreaming the Programme as one of its core products which address Accelerating Entrepreneurship Strategy, new TSN, economic impacts and social capital impacts.

InvestNI is proposing to emphasise the wide remit of the new Programme and link it more fully to social economy policy and social capital theory by calling the new, mainstreamed 3 year InvestNI Programme the '**Social Entrepreneurship Programme**'.

## 4.2 Sources of Loan Finance

The **Northern Ireland banks** do not have any special category of lending or products for the social economy and, as a result, no statistics are available in relation to lending to the social economy by the banks. However, sub-sectors of the social economy are highly valued customers of the banks. The Housing Associations are a clear illustration of this, receiving highly competitive terms for their business.

More generally, most of those whom we interviewed were satisfied with the banking service and offering that they received. They perceived themselves to have considerable opportunity for shopping around between financial offerings while maintaining a core banking relationship with a major bank. This was seen to be largely a matter of personal relationships and was seen to be facilitated by the strong personal and business networks of established social economy organisations. This is also facilitated by the relatively small size of Northern Ireland banks and the continued availability of decision-makers at local level.

The factors unique to social economy organisations impinged more on smaller or more recently established social economy organisations. These organisations tended to lack a personal relationship with a decision-maker in a bank. There were more likely to state that their bank did not understand the business they were undertaking and to have had proposals for a loan turned down.

The only Northern Ireland based specialist loan fund for the social economy is **Ulster Community Investment Trust (UCIT)**. UCIT is a community development finance institution established to make loan and equity investment in community economic development organisations in Northern Ireland and the border counties.

UCIT had its origins in the recognition by leaders of urban and rural development organisations that the grant-driven approach to development that had been successful in allowing many community economic development organisations to come into being was not sustainable in the long term. After a long gestation period, by October 1998 a strategy, business plan and prospectus for UCIT had been prepared, a Board had been formed and the International Fund for Ireland (IFI) had offered support to employ a Chief Executive for a two year period. In 1999 a senior banker was seconded to UCIT and began to operationalise the plan. UCIT began the process of loan approvals in the financial year 2000/2001.

UCIT is the largest Community Development Finance Institution (CDFI) in the UK in terms of the size of its fund available for lending. By May 2004 UCIT had made 45 loans with a total value in excess of £6.6 million.

While the average size of loan provided by UCIT since its inception is of the order of £150,000, UCIT can lend in the range of £25,000 - £500,000 and usually offers term loans for up to 15 years although it has also provided bridging facilities. UCIT interest rates are set at or just above the market rate.

In addition, Northern Ireland has two social economy organisations which make loans to private businesses. **Aspire Micro Loans for Business Ltd.** is one of the leading European micro-finance organisations. It makes loans to micro-entrepreneurs who are excluded from formal financial services.

The **Enterprise Northern Ireland Loan Fund** was established in 2002 bringing together over 30 local loan funds which had previously been operated by individual enterprise agencies. A loan fund of over £4 million is managed centrally by Enterprise Northern Ireland, but access to the loans is available from each of the 32 local enterprise agencies which make up Enterprise Northern Ireland.

**Credit Unions** are a means by which individuals club together in a co-operative structure to meet each other's financial needs. The credit union movement in Ireland emerged in the 1950's, based mainly on models which had been developed in the USA and Canada but also influenced to some extent by the European traditions of financial self help. At the end of 2003 it was estimated that there were 187 credit unions in Northern Ireland - 104 affiliated to the ILCU, 70 to the UFCU and the balance being independent or affiliated to the Antigonish model of Nova Scotia. Credit Unions in Northern Ireland are regulated under the provisions of the Credit Unions (Northern Ireland) Order 1985. The provisions of this Order differ in detail from the legislation applying to credit unions in Great Britain and in the Republic of Ireland. In May 2004, the Department of Enterprise, Trade and Investment published a Consultation Paper on Proposals for Modernisation of Northern Ireland Policy on Credit Unions and Industrial and Provident Societies. These proposals would open up opportunities for credit unions to invest in and lend to social economy organisations, subject to limitations and safeguards.

## 5. Current Developments in Finance for the Social Economy

Section 5 of the Study reviews some of the main developments in finance for the social economy, nationally and internationally. Amongst the main points which it notes are:-

- the variety of local responses which the **Regional Development Agencies** in England had made to the DTI social enterprise strategy
- the emergence of an active **Community Development Finance Institution (CDFI) sector** in Great Britain, organised by the recently formed Community Development Finance Association (CDFA). The CDFA's 2004 Report '*Inside Out*' had provided the first overview of the very diverse and fast growing sector, however, the majority of CDFIs lend to persons and small businesses, rather than to the social economy.
- A DTI Report entitled '*Lending to the Social Enterprise Sector*' which studied the relationship between a sample of 16 social enterprises and their banks. The Report found that most commercial loans to social enterprises involve terms and security similar to those made to mainstream businesses, often based on a dependable cash-flow rather than the ability to provide physical security for loans. The Report also found that personal relationships were key both to recognising opportunities for commercial finance and in gaining loans
- The development in Great Britain of sources of so-called '*patient capital*' - essentially funding which seeks a return on investment only when the organisation concerned achieves its targets. In a typical small business the patient capital would be provided by the owner, possibly with contributions from friends and family members., The Adventure Capital Fund was established in 2002 to invest in community enterprises in disadvantaged areas. It is managed by a consortium of community sector partners and draws funding from a number of Departments. A similar initiative but targeted on the voluntary and community sector is *FutureBuilders* which invests in the ability of voluntary and community sector bodies to deliver public services in England. Common to both the Adventure Capital Fund and *FutureBuilders* is the concept of investing in the development of organisational capacity, rather than just the provision of grant assistance
- The experience of Sheffield and other English cities in raising local money to finance local social economy activity. The **Sheffield Employment Bond** raised almost £800,000 from people and organisations willing to forego the interest on their contributions and the funds were used to finance a package of social economy actions targeted on the needs of Sheffield

- The scope for using **diagnostic tools** to help articulate and understand both the business and the social impact of social economy organisations. As part of the study process, the consultancy team piloted the use of the BRIAN diagnostic tool, which has been developed for the Small Business Service of the DTI, in Northern Ireland for the first time and it was found to be effective in drawing out the characteristics of different social economy organisations.

In the United States **fiscal incentives** - tax credits - are an important instrument of public policy to encourage and direct flows of community development finance to areas which are regarded as socially and economically desirable. The Report considers the scope for special fiscal incentives for the Northern Ireland social economy, but concludes that these are unlikely to be introduced, however, the Report recommends that the use of the existing Community Investment Tax Relief (CITR) and the applicability of any new fiscal incentives should be kept under careful review.

The Study also notes that Northern Ireland has already benefited from North American experience in community finance, through direct interventions leading to Ulster Community Investment Trust's establishment (and, in the related field of micro-finance, to ASPIRE micro-loans for business).

However, UCIT was designed on the basis of **best US practice** of the mid 1990s and there has been rapid development of the US approaches in the intervening years. It is important to distinguish between

- **First Generation Funds**, which make investments in socially and environmentally desirable projects using low cost of capital provided by public grants and personal or corporate philanthropy funds, which sought no (financial) return on the funds provided or a below market rate of return. Those providing the funds to first generation funds were interested in the social return, not the financial return, and
- **Second Generation Funds**, which use commercial for profit funds seeking a full rate of return to drive a new generation of investor in inner cities and disadvantaged neighbourhoods, supporting industrial, commercial and mixed-use real estate development, growing businesses and affordable and mixed income housing. These are so-called '*double-bottom line funds*' as they make both social and a full market rate financial return to investors.

The distinguishing characteristic of second generation or double bottom line funds is that they work *with* the market, not against it and although their development is still relatively new they are able to raise much more significant amounts of money through commercial markets than first generation funds can raise from public funds and philanthropic contributions.

Not all of the conditions which favoured the development of second generation funds in the United States apply in Northern Ireland. However, Northern Ireland has already pioneered the UK delivery of two forms of US community development finance institutions and the key question which arises is whether Northern Ireland can be the first region in the UK or Europe to demonstrate the potential of a fully commercial and market driven approach to financing the social economy, which still respects (and indeed embeds) the distinctive ethos of the sector but steps beyond the constraints of public funding and goes to where the real money is kept - in the commercial markets.

## 6. Conclusions and Recommendations

The Report makes 8 recommendations, each derived from conclusions arising from the primary and secondary research undertaken during the Study process.

The impetus for the Study came from the formation of a Joint (social economy/Departmental) Working Group of the Social Economy Forum, working in partnership to develop an understanding of the financial needs of the social economy. It would seem to us appropriate that the implementation of the recommendations arising from our report should also be carried forward in partnership, through the formation of a **Joint Implementation Group of the Social Economy Forum**. The formation of such a Joint Implementation Group, and the provision of adequate resources to it, will put in place the capacity to oversee the implementation of the recommendations of this Report. The Joint Implementation Group will have an important leadership role, will need to test the development of the social economy finance systems from time to time and also keep the relevance of our recommendations, and of new developments in finance for the social economy, under review.

### Action Recommendation 1

We recommend the Social Economy Forum should establish a Joint Implementation Group to oversee, co-ordinate and monitor the implementation of the recommendations of this Report and provide the Forum with regular progress reports.

The Report finds that, in general, established social economy organisations with a banking track record receive banking and other commercial financial services on a basis which is possibly more favourable to that which comparable for profit businesses receive in Northern Ireland. However, there exists a set of characteristics of social economy organisations which may make it more difficult for such organisations to receive bank finance, particularly at the stage of formation and in early trading. Many of these factors are capable of being dealt with by informed social economy organisations and training, mentoring and networking would seem to be the appropriate response to these issues. As the DTI study suggested, there are also opportunities for banks and CDFIs to work together in partnership to tackle issues and two-way secondments between public funding organisations, banks and social economy organisations would also be useful in bridging cultural gaps and increasing mutual understanding of and by the social economy.

The Report finds that, other than in relationship to the formation and subsequent development of community businesses to which equality and new TSN policy considerations apply, there is no need at this time to use public funds to close market gaps in the financing of the social economy in Northern Ireland. However, there is scope **for support to training, networking and mentoring of social enterprises in their relationships with suppliers of commercial finance, the creation of bank/CDFI partnerships, and two way secondments between social economy organisations and those organisations in both the private and the public sector who provide them with finance.**

#### Action Recommendation 2

In the absence of a general market failure in relation to established social economy organisations and, except in relation to community businesses, the absence of a policy need to create new social economy organisations, we recommend that action to improve the access of social economy organisations to commercial financial products should focus on

- training, networking and mentoring of social enterprises in their relationships with suppliers of commercial finance
- the creation of bank/CDFI partnerships, and
- two way secondments between social economy organisations and those organisations in both the private and the public sector who provide them with finance.

Part of the existing social economy structure is to a significant degree funded by public grants. Some of the most successful social economy organisations have prospered because they have been skilled in operating under a grant economy. Grants will not disappear but it is likely that with the end of major EU support to the Northern Ireland economy, competition for grants will become much more intense

One important element of the transition consists of assisting existing managers in social economy organisations to get to grips with the change process. Alongside this focus on the financial management of social economy organisations is a need for a greater focus on the social returns which they achieve. Northern Ireland lacks a common language for expressing social returns and efforts to promote social auditing have been mainly piecemeal and ad hoc. There is a need for social economy organisations and those that provide them with finance to develop a common language to explain, explore and compare the social returns arising from different types of social economy activity. The pilot work in relation to the **BRIAN diagnostic tool** suggests that it would provide a strong basis for developing a Northern Ireland methodology for understanding social as well as financial returns.

#### Action Recommendation 3

We recommend that the Joint Implementation Group should commission a review of the range of indicators for the social economy, to better articulate both the business and social impact of social economy organisations, the review should include consideration of the diagnostic tool BRIAN and alternative approaches, identify how they could be adapted to the specific circumstances of Northern Ireland and how they could relate to other, existing indicators such as those relating to social capital.

In addition, there is scope for further self-help within the sector by giving consideration to mutual funding of social economy organisations by social economy organisations. There are already arrangements for such mutual funding between credit unions. There is a need to explore the scope for further mutual funding both within sub-sectors (an enterprise agency lending to another enterprise agency) and between sub-sectors (an enterprise agency lending to a community business, for example).

#### Action Recommendation 4

We recommend that the Joint Implementation Group should host a series of workshops at which the different sub-sectors of the Northern Ireland social economy explore their differences and similarities and the opportunity for mutual funding, both within and between sub-sectors and at local level.

Northern Ireland appears to be at least as well equipped as any other region of the UK to make the transition from grant dependence to the use of more sustainable funding mechanisms. In particular it has a number of strong social economy organisations and organisations devoted to the funding of the sector. However, despite their individual strengths, these organisations are not working together effectively. Both the social economy and the funding organisations remain largely dominated by Departmental dependencies and have, to date, not been able to break those dependencies. Action is needed to encourage InvestNI, UCIT, CFNI and (where appropriate) the ENI Loan Fund and Aspire to work together to implement systems of funding which are sustainable and which make best use of the different resources available to each organisation. There is scope, for example, for the organisations listed above to co-operate in a joint approach to the provision of patient funding for social economy organisations. This would be an appropriate action to start work towards **building a social economy finance system for Northern Ireland**, rather than continuation of the existing approach where organisations largely work in isolation of each other.

#### Action Recommendation 5

We recommend that Joint Implementation Group should oversee actions leading to the creation of an effective, integrated system of social economy finance in Northern Ireland. In the first instance this requires actions by the suppliers of finance to co-ordinate their actions and to break down traditional, Departmental dependencies. The Joint Implementation Group should review the outcomes of the sub-groups which have been established as a result of our Phase 2 work to examine the scope for

- a Northern Ireland form of patient capital for social economy organisations, comparable to the Adventure Capital Fund and Futurebuilders approaches being adopted in England
- developing a means of raising money locally for investment in the social economy, by replicating the Sheffield Employment Bond or by other means
- establishment of a social economy sector-led centre of expertise in finance for the social economy in Northern Ireland.

The sub-groups consist of representatives from Aspire, UCIT, Enterprise Northern Ireland, the Irish League of Credit Unions, First Trust Bank, the Community Foundation for Northern Ireland and Invest Northern Ireland. This represents a considerable opportunity for the social economy sector itself to lead developments in providing new solutions for the sector.

The Report's conclusion that there is no general market failure in the supply of finance to established social economy organisations in Northern Ireland and that there is no policy need to create new social economy organisations other than in relation to community businesses, does not mean that there is not a sound rationale for EU support to the social economy. However, it does mean that EU support needs to be carefully targeted and will in many cases derive from the impact which social economy organisations have on other public policy priorities (social inclusion, relief of poverty, peace-building, rural and urban development etc.), rather than on a sectoral rationale related to the social economy itself. This perspective suggests that the priority in the targeting of **continued EU support to the social economy** under the extended Peace II Programme, if the Programme is approved, should be

- on creating regional infrastructure to sustain social economy organisations on the basis of a largely market based finance system (e.g., further development of CDFI funds, further mentoring and support etc.), and

- on assisting social economy organisations to achieve critical scale, through organic growth of their services or by means of merger, acquisition or sharing of resources with other social economy organisations or organisations in the voluntary and community sector.

#### Action Recommendation 6

We recommend that the Department of Finance and Personnel in structuring future EU support to the social economy should give priority to

- creating regional infrastructure to sustain social economy organisations on a largely market based finance system,
- and assisting social economy organisations to achieve critical scale.

There would appear to be considerable scope for social economy organisations to share resources. **Sharing of resources** may be a business opportunity for a social economy organisation and merger and acquisition provides a means for the services of a social economy organisation to be continued even if financial resources are not available for its continued independent existence.

There is a lack of experience of models for sharing, merging or acquiring social economy organisations. There is an opportunity for a high profile demonstration of this practice by encouraging UCIT and Aspire to continue their discussions about co-locating and sharing resources in a single, accessible office in which one CDFI focused on the social economy and one CDFI focused on the for-profit sector could share space, equipment and - possibly even - staff. Implementation of this recommendation should ensure that social economy organisations make better use of the funds which are available to them, from both public and private sources.

#### Action Recommendation 7

We recommend that Invest Northern Ireland should take the lead in promoting greater organisational flexibility and sharing of resources in the social economy, including overseeing the demonstration project of co-operation between Aspire and UCIT.

Finally, the Report concludes that there is an opportunity for Northern Ireland to renew its leadership in finance for the social economy in the UK. In UCIT and Aspire, Northern Ireland has built institutions based explicitly on North American models in a way which has not been done by any other UK region. There is now an **opportunity for Northern Ireland to test out in a UK context how it could develop funds equivalent to the US second generation, double bottom line, full market rate of return social investment funds**. If it proved possible to develop and deploy such funds in Northern Ireland the social economy would be fully integrated into mainstream financial systems working with market mechanisms, not trying to work against the market.

Not all of the conditions which apply in the US apply in Northern Ireland but we have some asset rich and experienced social economy organisations and the opportunity to experiment with what might be called 'venture capital for the social economy'. The distinctive characteristic of venture capital in private markets is that it finances businesses which would not be capable of being financed by other means and it, thereby, encourages innovation and new product development by rewarding entrepreneurship on a scale which could not otherwise be envisaged. If it proved possible to build second generation, double bottom, market rate funding for the social economy in Northern Ireland, these benefits would be available for the social economy for the first time in the UK or Europe.

Implementation of this recommendation could lead to the creation of entirely new sources of private sector funding for the social economy, channelled through an appropriate CDFI.

**Action Recommendation 8**

We recommend that the Joint Implementation Group should commission a detailed study of the scope for applying second generation, double bottom line, market rate community investment funding in a Northern Ireland context.

All of the Report's recommendations will require commitment of time by both the social economy and the public sector partners in the Joint Implementation Group and the Joint Implementation Groups. While the cost of staff time will be met by existing budgets, there will be an opportunity cost arising from giving priority to these recommendations at the expense of undertaking other tasks. Clearly each decision to commit funds needs to be soundly justified by consideration of the likely impact of the initiative concerned.

The Report concludes that its recommendations can put in place a process which, over quite a short period of time, will begin to address some of the weaknesses in the present arrangements for financing the Northern Ireland social economy and will equip the social economy better for the transition which it will have to make in the coming years from a partly grant financed sector to one which is largely financed by market-based commercial products.



October 2004