The Scottish Community Re: Investment Trust (SCRT) is a charity established in 2014 with the ambition to transform how Scotland’s third sector uses its financial resources. The third sector in Scotland is valued at £5bn per annum excluding the financial resources of its 138,000 staff and 127,500 trustees & volunteers. Yet SCRT research has shown that the sector lacks a financial framework suited to its ethics - with a lack of values based banking opportunities; unsuitable financial products and forced to use the existing and corrupt banking infrastructure that has impacted negatively on the most vulnerable in society, who are predominately the client groups and communities of concern to the third sector.

By coming together and using its money in a socially responsible manner, the third sector can significantly magnify the positive impact the sector has upon the whole social and economic life of Scotland and give opportunities for a new values based financial infrastructure.

SCRT, in conjunction with its partner Airdrie Savings Bank is working to influence, stimulate and grow a social banking infrastructure in Scotland, in addition to facilitating social investment/social finance opportunities for the third sector to reinvest its own financial resources back into the sector.

Development of the Social Investment Landscape
The culture of the third sector is traditionally risk adverse; in the case of our regeneration communities it is often governed by Trustees that have least educational attainment and least exposure to sophisticated financial products; and the sector is comfortable with accessing grants and has a well development grant application capacity. This culture has developed since the 1950’s and there is a need to recognise that it is unlikely to change overnight.

However, the shift within the finances and business models of social enterprises and the broader third sector over the last ten years has been rapid, particular the move from grant income to contracts, trading and social investment income. Growth in social investment and the speed at which social investment products are developing, coupled with the extent to which they are based on mainstream investment vehicles such as venture capital and bonds, reflects the increasing influence of the London financial sector. However, these approaches are leaving the third sector behind resulting in a failure to access social investment in a large scale manner.

There is a real lack of understanding, in the third sector, about this whole new area of social finance and there is little capability to engage with social investment in a meaningful way. The availability of Social Investment Tax Relief (SITR) and Community Development Tax Relief (CITR) might be a good incentive for increasing the supply new social investment finance, but it only adds to the perception of social
investment as complex high finance which intimidates rather than assists and enlightens the sector.

The situation could be alleviated by the development of a Social Investment training programme that not only is objective, but also provides useful understanding of the investment models but also the financial knowhow to take on social investment with confidence.

Suitability and availability of financial products
However it is not just the type of investment vehicles that is of concern, it is also the suitability and availability of the financial products. Our research has indicated that whilst there is sufficient money for secured investments (usually secured against a capital asset); there is very little small start-up monies (£10k-£50k) as evidenced by the UK government initiative - Start Up Loans Company; very little unsecured lending and in general the investment monies that is available is expensive (8%-10%, this is high given that the recent Social Enterprise Scotland report stated average social enterprise profitability is only 4%).

The risk profile and pricing issues identified above could be addressed by utilising underwriting facilities and guarantees available in the EU Structural funds.

As long as the supply of and demand for social investment is out of kilter either because the products are unsuitable or because the expectations of high investor returns makes them unaffordable, then social investment as an financial option will be much slower to take off.

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