TRUST & FOUNDATION NEWS
Association of Charitable Foundations
Issue 55 (December 2000-February 2001)

ENTERPRISING COMMUNITIES: WEALTH BEYOND WELFARE

The report of the Social Investment Task Force – and the response of the Charity Commission

The Charity Commission has announced a number of initiatives[1] to encourage charitable trusts and foundations to engage more actively in the revitalisation and development of the poorest rural and urban communities. It will issue new guidance during the next few months:

- on community capacity building as a charitable purpose; and:
- to emphasise the flexibility that many charities have to use their funds to provide equity finance and loans, as well as making grants to further their charitable objectives.

The Chief Charity Commissioner, John Stoker, also intends “to prepare guidance next year, in conjunction with charities, and other interested parties, on the important rôle that charities can play in Community Development Finance”.

These new initiatives are the Commission’s response to the report of the Social Investment Task Force[2]. Social Investment is the use of funds to achieve a double bottom line: a social as well as a financial return. The Task Force was set up in the spring of this year at the invitation of the Chancellor of the Exchequer to examine ways of generating greater capacity within the poorest communities for wealth creation, economic growth and employment.

The Task Force, which reported at the end of October, acknowledged the key contributions that trusts and foundations had made through the provision of grants to the creation of some of the most pioneering community development schemes. But the report argues that grants from charitable trusts and funds from the state are not enough to regenerate the poorest communities – a broader and more diverse range of finance is needed if small commercial enterprises, social entrepreneurs and community controlled businesses are to flourish and be sustained.

The Task Force members assert that:
“After a period of sustained growth, the UK is wealthier than ever before. Yet, poverty has become more concentrated and inequality more marked. With rates

[1] Charity Commission Press Release (PR 27/00; 8/11/00): *Enterprising Communities*
[2] *Enterprising Communities: Wealth beyond Welfare;* October 2000. The Task Force report can be accessed, along with supporting papers, on www.enterprising-communities.org.uk or ordered from the UK Social Investment Forum, Holywell Centre, 1 Phipp Street, London EC2A 4PS

of unemployment more than six times the national average, some parts of our cities and countryside have become no-go areas for investment.
“Under-invested communities suffer from a spiral of multiple disadvantage. Industries that were previously major employers have collapsed, leading to loss of employment, incomes, wealth and purchasing power. In such circumstances, it is often the case that private sector investment dries up and that even those financial resources available within a community are spent outside it. Confidence collapses and, with it, the climate for enterprise. In some poor communities, research has shown that as much as 75 % of the cash in circulation may come from central and local Government. The result can be an intransigent form of welfare dependence, where the state confines its contribution to providing a minimum level of income and social services, but ignores wealth creation.
“For a community to thrive, it needs individuals seeking to create wealth for themselves and their families and investors seeking a financial as well as a social return. Poor communities do not have enough of either, which is why they are better described as under-invested communities.
“At the same time, around £3 billion a year of public regeneration funding has been poured into the UK's poorest areas. But the effect has often been confined to improvements in the physical appearance of places that, year after year, remain stuck on the UK's list of poorest neighbourhoods. Public expenditure programmes have done little to increase the incomes or personal assets of the people living in these areas. Public funding has too often "compensated people for being poor" rather than helping them find ways of creating wealth. Public money comes in, through welfare, housing, public services and regeneration projects, but it leaks straight out of the area rather than fostering local markets and enterprise.”

Central to the strategy set out in the report is the creation of a network of Community Development Finance Institutions (CDFIs): Community Development Banks, Community Loan Funds, Micro-loan Funds and Community Development Venture Funds - standing between Government, banks, individual, charitable and other investors on the one side, and businesses and social and community enterprises on the other.

The Task Force believes that CDFIs are vital to boosting enterprise and wealth creation in under-invested communities. It also argues that they provide an excellent conduit for charitable funds to support community development in such areas, alongside commercial investment and statutory funds. The report also commends trusts and foundations to consider making loans and equity investments in CDFIs, as well as grants – a combination of support called Programme Related Investment (i.e. the achievement of a charitable trust’s purposes by the use of some of its capital as well as through its distributable income).

At the time of the launch of the Task Force report – at Community Links in Newham, East London – by the Chancellor of the Exchequer and of his subsequent positive endorsement of its recommendations in his autumn statement at the beginning of November, most media attention focussed on the recommendations for:

- A Community Investment Tax Credit to encourage private investment via CDFIs in both not-for-profit and profit-seeking enterprises in under-invested communities.
- A Community Development Venture Fund - a matched funding partnership between Government on the one hand and the venture capital industry, entrepreneurs, institutional investors and banks on the other.
- Disclosure by individual banks of their lending activities in under-invested areas, and the creation of a rating system to reward excellent performance by banks. (The Task Force believes that disclosure should be done on a voluntary basis, but that, if this is not achieved quickly, proposes that the Government should introduce legislation that requires disclosure, in the manner of the Community Reinvestment Act in the USA).

No less important to the overall package, in the judgement of the Task Force, was the recommendation that the Charity Commission should address through the preparation of new guidance the confusion as to what aspects of community development finance and social investment are and are not charitable; and also to encourage charity trustees (and their investment advisers) to adopt a more flexible approach to the use of equity finance and loans, alongside grants, to pursue their charitable purposes.

The Charity Commission's response has been quick and positive – and should prompt an extensive debate among trusts and foundations about the potential of Social Investment as a means of adding a new dimension to their efforts to address poverty and the regeneration of our poorest communities.

David Carrington
12 November 2000

[David Carrington was a member of the Social Investment Task Force. He is keen to discuss the report's recommendations and possibilities for Social Investment with the staff and trustees of grant-making trusts and foundations and with their investment advisers; he can be contacted on 020 8870 2821 or davidcarrington@btinternet.com]