Global Alliance for Banking on Values

How Financial Institutions Drive Positive Social Change
Lessons from Frontrunners

As the dust settles in the early aftermath of the COVID-19 pandemic, and longstanding challenges such as widespread income inequality and climate change persist, the need for individuals and institutions working specifically to achieve positive social impacts is more urgent than ever. It may be relatively surprising to learn, however, that some of the most effective efforts toward social empowerment, environmental regeneration, and economic prosperity can be attributed to a somewhat unlikely band of protagonists: Banks.

We aren't talking about all banks, but rather a diverse sector of values-based banking institutions, sometimes referred to as "ethical banks." For years these institutions have delivered positive social and environmental impacts for clients and communities. They have done so while generating a fair profit. But rather than be in business to maximize profit, their very DNA and mission statements have been developed around concepts such as equal opportunity and sustainability. In other words, for some banks, making a positive impact is simply what they do.

But how do they do it? This was the focus of an exploratory study published in the academic journal Sustainability, which outlines a model for advancing social impacts in banking. The study fills a gap in current literature about best practices by financial institutions to achieve social impact and about the pioneer role that values-based banking has played in the banking industry for decades. More importantly, the findings have practical implications for all types of financial institutions willing to improve the way in which they address social challenges, and ultimately, create a more resilient and transformative financial system.

This comes at a time when the need for sustainable finance has never been more apparent. As the UN seeks to meet the environmental, economic, and societal challenges laid out in their Sustainable Development Goals (SDGs), the wisdom and direction of values-based financial institutions could turn out to be an invaluable resource.

The Five Stage Model of Values-based Banking

Until now, progress of the UN's SDGs has been insufficient and uneven. Much of this is due to funding gaps, particularly in developing countries. It is also due to an approach to business that sees social responsibility as a means to increase profits rather than positive impact as an end in itself. In this current situation finance and sustainability is inadequate to finance the SDGs.

The new study identifies a systematic approach derived from the best practices of 30 financial institutions - all members of the GABV and frontrunners in their industry - which shows how practitioners, including bank managers, investors and public authorities, can design and embed effective social impact practices across their entire organisation.

This five-stage 'social impact virtuous circular model' recognises that efforts toward societal transformation should be continuous, holistic and comprehensive. It posits that an institution must **DEFINE** social impact objectives, **DESIGN** a comprehensive approach to achieve that impact, **IMPLEMENT** the design in practice, and **MONITOR** the result in order to evaluate the initiative's success, ultimately allowing for the possibility of **SCALING UP** these efforts in the future.

Customer Group	Minimum	Additional
Start-ups without an organisational structure	Jobs created (output)	Jobs retained
	Clients funded (output)	Clients supported in formulation of business start-up plans Referrals to government-affiliated financial institutions for start-up support
	Income of borrower as percent of average median income (input)	
Micro, small and medium enterprises	Share of loans to micro enterprises in portfolio (output)	
	Number served by programme (output)	Cases of main business support Cases of business succession support Cases of M&A support
	Ownership by underserved clients, women, people of colour (input)	
	Organisational structure is mission-focussed (non-profit, cooperative, etc.) (input)	
	Corporate practises including no corruption and compliance with labour laws (input)	Hiring practises for disadvantaged groups (input)
	Sector including housing, education, healthy food, etc. (input)	Transactions
Large enterprises (≥250 employees)	*All of the above plus:* Loans and advances (input)	
	Quality of trade portfolios (input)	
	Compliance	
	Digitisation	
Individual customers	Share of rural clients or other low-income areas (output)	

Selection of reported indicators used to track performance in advancing social impact.

1. DEFINE: Positive Impact

The first stage, defining social impact, is critical to an institution's ability to set meaningful priorities. Even if there remains a lack of official consensus around what constitutes "positive impact," the study found that for values-based financial institutions "impact is about the difference we make for society and the environment." It further concludes that a positive contribution to impact must consist of three parts:

1. Values to inform decisions and the direction of travel;
2. Social, economic and/or environmental challenges that need addressing;
3. Resources in the hands of clients and communities enabled by banking activity, i.e. jobs, health, education, basic infrastructure, housing, food and safety.

Key to the definition of positive impact is the centrality of values in the envisioned future. In practice those institutions that prioritize the values of fairness and inclusion reported offering targeted access to capital for underprivileged groups. Those that also prioritized sustainability and human dignity focused on quality affordable housing, for example.

2. DESIGN: Comprehensive and ambitious

As important as defining positive social impact is how value-based financial institutions design their processes, products and services to ensure that they adequately reflect their impact priorities and provide them confidence in achieving their specific goals. The design stage ensures that values-based institutions incorporate social impact into every level of operations, from products to organisational structure and human resources tools.

The three main impact targets considered at the design stage are the economic sector, such as agriculture, energy, arts and culture, asset class – mortgages, commercial real estate, business loans - and the personal characteristics of clients, including race, gender and employment status. The emphasis on these dimensions varies among institutions, but ensuring current accounts were focused around client personal characteristics was common, while sector was the most relevant dimension for business loans and investment products.

Values-based institutions also consider in their design two main impact pathways: how the client is directly impacted and also how the activities of the client indirectly impact different sectors, whether it is around social, economic and environmental well-being. Later these institutions will often measure their effectiveness ex post in the number of loans provided to migrants, share of portfolio in alternative energy sources in rural areas, number of clients who remain in newly renovated rental properties or by the full set of beneficiaries of banking products and services like the ambition to impact 250 million lives by 2025.

In some cases, impact targets are above those set by government authorities and central banks for certain business models.

At the heart of the design stage is creating products and services that prevent locking-in harm. This goes much further than considering any significant risks to the borrower, client or community and to the environment due to the activities of the borrower. Negative impact risk is addressed directly in all products and services to eliminate potential biases, and can also involve pro-active activities such as resolving community issues or enabling resources. Some go even further to utilize strict exclusion lists to identify activities, products and, in some cases, transactions and practises that should not be financed because of the harm they cause and these are characterized by the study as "comprehensive and ambitious."

3. IMPLEMENT: Unique business model

Designing social impact in the context of large values-based financial institution is inherently complex. The implementation stage refers to how these institutions effectively facilitate the delivery of impact at every level, where having a social impact is the responsibility of all co-workers rather than one department. As the study states, "internal coherence is key."

For one thing, social impact is not merely an "add-on" for values-based institutions. It is integral to their identity as a business and embedded into their culture and operations. Values-based financial institutions were in overwhelming agreement on the cultivation and maintenance of progressive working environments, with four-fifths openly promoting equal gender wages and "encouraging innovation" related to inclusion in the workplace.

A number of tools have been developed to support coherent decision making, with these institutions putting impact transparency and client advisory protocols that advance their values alongside financing and investment guidelines at the start of the underwriting process. Loan committees also support the implementation of social impact by including a loan's contribution to impact in their assessment. A key point of difference that the values-based model offers is in its close communications with clients. Counsellors, for example, work closely with clients in debt and struggling financially, and partnerships with organisations in the community are also integral.

There is also a unique level of Board engagement at values-based institutions in driving positive social impact, and they play a key role in setting voluntary environmental commitments and ensuring that environmental and social regulatory requirements are met. More than two-thirds of respondents reported Board support for monitoring and tracking progress on social impact.

4. MONITOR: Continuous feedback loop

The purpose of monitoring is to verify that the key stages have been integrated through oversight of the targeted points of impact. However, the level at which values-based institutions measure impact goes way beyond standard reporting.

When assessing direct impact, values-based institutions distinguish between "minimum" or "sustainable," where direct minimum impact might mean providing financial access to underserved populations, and direct sustainable impact goes another step further to also ensure that these activities cause no significant harm to the environment. For indirect impact, these banks distinguish between "minimum" and "transformative", where the minimum would be facilitating activities to address multiple and intersecting challenges, and transformative means financing clients to transform their business activities for sustainability and social impact and do no harm to the environment.

Crucially, the integrated approach to social impact used by these banks allows them to capture changes in the number of resources financed, such as jobs, housing and education, and whether they can be linked directly to the performance of the definition, design and implementation stages. In this way, banks aim to develop a continuous feedback loop, where they learn from the process and then leverage on social impact to achieve a larger market share and scale up their business.

5. SCALING UP: Social impact as standard

Previous research by the GABV backs up the soundness of the values-based banking model, showing that lending to the real economy delivers better financial returns when compared with the largest banks in the world. Perhaps the biggest challenges facing these institutions, however, exist as a barrier to their ability to take their novel impact model to that next level of scaling up. The study outlines a number of current regulatory constraints in some regions and sectors that make it difficult for institutions to expand credit opportunities for the financially insecure. In some cases, values-based institutions simply lack the financial resources necessary to build out and launch more ambitious impact campaigns.

The best practices gleaned from this study suggest that there also is a business opportunity to consider. Changing the way banks operate, so that responsibility for the environment and society lies at the core of their business and mission alongside financial viability, means that banks can actively do good. The blueprint to make this a reality already exists; now is the time for financial institutions, policymakers, regulators and bank clients to trigger an evolution in banking so that our financial institutions deliver social impact as standard.

How to influence real change on a global scale

A unique systematic approach for empowering financial institutions to play a major role in addressing global social, economic and environmental challenges can be applied by banks across the globe. By aligning with the best practices of the frontrunners in values-based banking, banks can provide resources - jobs, health, education, basic infrastructure, housing, food and safety - through products and services, and have a direct impact on the wellbeing of communities.

Financial industry

Practitioners, including bank managers, investors and public authorities need to design and embed effective social impact processes across all their systems, products and services. In considering the scale of exposure, where the bank's core business and major activities are currently based, strict selection protocols can support financing positive impact and avoid financing harm. Through their regional associations, the GABV can help educate bankers, asset managers and their boards making a difference and delivering social impact and to secure proof points of progress.

Regulators and policymakers

Making this model a reality requires regulators and policymakers to tackle obstacles to scaling up this model such as acknowledging the low risk profile of social impact portfolios in banking rules, by limiting the finance of harm, and helping to empower citizens to invest in positive impact.

Researchers

The study provides a valuable resource for researchers investigating the role of finance, and challenges them to conduct a deeper investigation into the scaling up stage and work towards creating a more resilient and transformative banking system. For a start, a better understanding of the evolution of sustainable investment and credit markets is needed, examining customer behaviour, new impulses from regulators and the potential increase in the number of enterprises that transform into sustainable businesses.

Customers

Bank customers need to ask what their banks and fund managers do; after all, as financial institutions are intermediaries of other people's money, there is a moral need for them to be especially aware of the direct, indirect, positive, negative, intended and unintended consequences that their activities have. This model for achieving social impact can help citizens ask the right questions and guide NGOs support in the wider educational agenda.

The Global Alliance for Banking on Values (GABV) is a network of banking leaders from around the world committed to advancing positive change in the banking sector. It is composed 66 member banks operating in 40 countries across Europe, Asia, Africa, Australia, Latin America and North America which represent a diverse range of banking institutions. Its collective goal is to change the banking system so that it is more transparent, supports economic, social and environmental sustainability, and is composed of a diverse range of banking institutions serving the real economy.