Online Interbank Funding Platform for social-impact projects

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The idea of an online Interbank Funding Platform (IFP) has emerged from the recent growing interest in social and 'impact investment' businesses, which find it hard to obtain funding but are socially very attractive. This has led to the emergence of alternatives to traditional funding, mainly promoted on the Internet, which seek to support such projects through donations, cash rewards or interest rates that are generally lower than those available on the market. At the same time, traditional banking has reached a historic turning point: its behaviour is now increasingly challenged on ethical grounds, and it needs to innovate in response to this. This paper proposes a new Interbank Funding Platform that will put banks in closer touch with Socially Responsible Investment (SRI) and so have a greater social impact by funding a larger number of projects..

The rise and development of Socially Responsible Investment (SRI)

Socially Responsible Investment has gradually developed out of classic financial theory. The first changes were the result of demands by various religious groups which, starting in the United States in 1920s, called for more ethics in investment, with prior selection of assets based on a number of criteria. It was against this background that the Pioneer Fund – usually considered the first ethically inspired investment fund – was established in Boston in 1928.

This was the first attempt to take account of ethical motives, and eventually social and environmental ones, in investment by businesses and individuals. And during the 1960s, 1970s and 1980s, in response to the Vietnam War and South African apartheid, the idea arose on both sides

Depuis quelques années, les entreprises sociales et l'investissement d'impact suscitent de plus en plus d'intérêt.

Le comportement de la banque traditionnelle est de plus en plus remis en question en ce qui concerne l'éthique, c'est pourquoi dans le contexte actuel elle pourrait tirer avantage en favorisant l'innovation sociale.

Une Plateforme de Financement Interbancaire(PFI) permettrait d'encourager le financement de grand nombre de projets ayant un impact social.

Au cours de la dernière décennie, nous assistons à une augmentation de l'Investissement Socialement Responsable (ISR) ; de plus en plus de portefeuilles tiennent compte des questions environnementales, sociales et de gouvernance d'entreprise (ESG) .

of the Atlantic that investment was a good way to put pressure on businesses with regard to social issues (Eurosif, 2012).

The number of assets managed by SRI investment funds has been growing from year to year (Vigeo, 2012), rating agencies such as KLD and Eiris have proliferated, and SRI indexes have been created, including the Dow Jones DJSI World and DJSI STOXX indexes, and FTSE4Good. This has resulted in more and more investment portfolios being evaluated according to Environmental, Social and Governance (ESG) criteria, rewarding businesses that perform better.

According to data on the European market published by Eurosif (2012) this growth is essentially due to input from institutional investors, which account for 94% of such investment, whereas the other 6% comes from the retail market. One of Spainsif's challenges for the future (2012) is to attract more SRI investment from the retail market.

This growth has led to the market becoming diversified and the definition of SRI becoming more complex. Of the existing definitions,[1] we will keep to the one provided in the analysis by a Eurosif Committee of Experts, which in 2011 defined seven different strategies that would fit into a broader definition of this type of investment, in turn identifying those related to responsible investment, and specifying which ones would be considered true SRI strategies (Spainsif, 2012).

The most interesting strategy as regards the proposed IFP is 'impact

[1] See the United Nations Principles for Responsible Investment (PRI) at www.unpri.org/ or the European Fund and Asset Management Association (EFAMA) at www.efama.org

Table 1. Responsible Investment Strategies

1.	Investment in thematic funds
2.	Selection of 'best in class' investment strategies
3.	No investment in securities
4.	Filter based on international ESG standards
5.	Inclusion of ESG factors in financial analysis
6.	Active dialogue, shareholder activism and voting on sustainability issues
7.	Impact investment

Source: Spainsif Report, 2012. (Strategies considered as SRI are in blue)

L'ISR a évolué et est devenu plus complexe et diversifié, générant ainsi de nouvelles stratégies pour investir dans une entreprise socialement responsable.

Les investissements d'impact cherchent à générer un impact social et environnemental positif tout en assurant une rentabilité économique, avec un retour sur investissement.

investment'. Eurosif (2012) defines this as investment by businesses, organizations and funds with a view to generating a social and environmental impact as well as economic return, in both developing and developed countries. Such investment seeks a social or environmental impact that is accompanied by a financial return at least equal to the capital invested (Ruíz de Munain and Martín, 2012) or the savings generated.[2] Since the crisis erupted in 2007, Spain has seen a process of innovation among businesses and entrepreneurs, leading to greater awareness of social issues. One reason for this is that the traditional social economy has seen a fall in government contributions owing to budget cuts. According to the 2012 Spanish Social Economy Business Conference, this sector employs 2.4 million people in Spain.

This has coincided with a boom in such impact investment that seeks to fund bodies in the social sector, social businesses and entrepreneurs, and the social economy in general.

At the same time, the European Union is endeavouring to promote such activities. In 2011 the European Commission, through the Social Business Initiative,[3] proposed the creation of a 'European Social Entrepreneurship Fund' label to identify investment funds carrying out social investment in Europe (Ruíz de Munain and Martín, 2012).

The actors that fund such businesses and projects are summed up in the table 2.

Even though crowdfunding may not be considered impact investment in the true sense, it is included here. Some platforms and projects offer shares of the potential profits, or

[2] For example through social impact bonds: if a business achieves a given social impact that saves the government money, the latter will repay the capital plus an agreed rate of interest (Narrillos, 2012).

[3] ec.europa.eu/internal_market/social_business/index_en.htm

Table 2. Type of actors

TYPE OF ACTOR	*EXAMPLES IN SPAIN*
Microfinanciers	MicroBank, Microfides
Bodies and initiatives that support entrepreneurs / tenders	Moment Project
Public bodies	Fundación ICO, ENISA
Credit cooperatives	Coop57
Ethical banks	Fiare, Triodos Bank
SRI funds / social venture capital	Fundación Creas, ISIS capital
Banks' social projects / foundations	BBVA, Caixabank
crowdfunding	Goteo

Source: author's own list

Les projets en quête de financement qui ont recours au crowd-funding tireraient avantage de la PFI. En effet, généralement ce genre de projets est plus difficile à financer, leur rentabilité éco-nomique n'étant pas assurée.

Trois initiatives ont servi d'inspiration pour la PFI : la plate-forme en ligne de microcré-dits Kiva, la plate-forme de financement collectid Goteo et l'initiative *Tú éliges : tú decides* (Vous choisis-sez : vous décidez) de Banca Civica.

La diversité des communautés de *crowdfunding* permet à l'investisseur de mieux filtrer le type de projets susceptible de l'inté-resser. L'inconvénient réside dans le fait que beaucoup de ces plate-formes et communau-tés ne sont pas viables à long terme.

a rate of interest (X.net, 2013), but in most cases there are donations in return for recognition or products derived from the project. Nevertheless, this paper will not be confined to impact investment, for I believe that projects launched through crowdfunding may benefit the IFP and so reach projects which by their very nature require more complicated funding.

However, it is general practice to receive interest in return for investment. In its annual survey of philanthropic investment (2013), the European Venture Philanthropy Association found that in 2011 there was increased interest in investment that generated a social return as a priority while accepting a financial return, whereas in 2010 the emphasis had been on projects that generated a social return without a financial one.

Learning initiatives for the Interbank Funding Platform

This section identifies three initiatives that have inspired the proposed Interbank Funding Platform.

1. Kiva (www.kiva.org). Kiva is the first online microloan platform for lenders and microentrepreneurs.

What can we learn from Kiva?

Kiva is of interest to the IFP because of its philosophy. Kiva draws attention to entrepreneurs, explaining who they are, why they want money and how much they need. People read these stories, and if they are interested in making a loan they decide how much they want to contribute.

The money is channelled through local microfinancing bodies that have identified the people who need the loans. This means that the borrowers' use of the money is closely supervised. Throughout the duration of the loan, the lender can also be sent updates on the loan and how it is progressing. At the end of the agreed period the loan is repaid, and the lender can then decide whether to reinvest the money in another loan or else withdraw it. 90% of lenders decide to reinvest.

2. Goteo (www.goteo.org). Goteo is one of the leading crowdfunding platforms in Spain. It specializes in promoting investment in social, cultural, scientific, educational, technological or environmental projects that seek to generate new opportunities to improve society and enhance shared goods and resources.

What can we learn from Goteo and crowdfunding?

Goteo seeks funding and economic support for initiatives whose goals are valuable to society as a whole and are hard to fund through traditional channels.

The return to lenders may be symbolic, in the form of recognition, or else material rewards that increase in value in proportion to the amount lent.

Funding through a wide variety of crowdfunding communities is useful, for it helps to filter types of projects that may be of greater interest

L'initiative *Tú eliges: tú decides* (vous choisissez : vous décidez) permet de découvrir des projets d'impact social, sensibilisant ainsi les clients et la société en général à l' ISR. La revitalisation du marché de détail constitue le principal défi de l' ISR.

Alors que nous pouvons constater que le client est de plus en plus enclin à chercher d'autres alternatives pour gérer son argent (par le biais de la Banque Éthique), la banque espagnole traditionnelle n'encourage pas encore suffisamment le financement de projets ayant un impact social.

to particular people. The observed drawback is that many of these platforms and communities do not prove viable in the long term, for several reasons:

• A small number of projects. If a platform has only a few projects, it is harder to earn enough money to make the activity profitable. Also, the fewer the projects, the fewer the potential clients.

• A small niche of investors. The more varied the communities are, the fewer people will be aware of the various projects.

• Communities drying up. Those who fund projects in communities involved in specific themes are unlikely to have the capacity to fund all the projects concerned (X.net, 2012).

• Difficulty in attracting large amounts of money, especially if the expected impact of the projects is long-term (X.net, 2012).

3. Banca Cívica (Civic Bank): *you choose, you decide* (www.cajanavarra.com/tu-eliges/que-es). CaixaBank, acting through Banca Cívica (which has emerged from an association of several Spanish banks), has launched an initiative called *Tú eliges, tú decides* ('You choose, you decide'). For example, one of the banks, Caja Navarra, has decided that anyone over 18 in the northern province of Navarre can choose a social project to which the bank will contribute ten euros a head – a total of 5.14 million euros. The novel thing about this initiative is that anyone in Navarre – not just clients of the bank – can help decide where the money will go.

What can we learn from the 'You choose, you decide' initiative?

Caja Navarra brings projects with a high social impact to the attention of the people of Navarre, who usually know nothing about them. This makes the bank's clients, and the rest of society, more aware of SRI. As already mentioned, one of Spainsif's priority challenges (2012, p. 19) is to attract more SRI investment from the retail market, which has a more conservative profile and is unaware of SRI products. This also shows a commitment to projects that have a positive social and environmental (rather than just economic) impact, as well as the need for traditional banks to take greater account of social issues.

An Interbank Funding Platform for social-impact projects

In the wake of the financial crisis that erupted in 2007 and is still being felt in many countries – including Spain – in 2013, there has been a growing interest in the funding of social businesses and initiatives. As we have seen, the number of initiatives to promote SRI is increasing, and there are many different ways of funding projects.

Despite all this, and aside from isolated initiatives, Spain's traditional banks are not doing enough to encourage such funding. This is a matter of increasing concern to their clients, who are looking for alterna-

Les nouvelles technologies, en particulier internet et les réseaux sociaux , ont permis la diffusion d'un grand nombre de projets sociaux. Par ailleurs, ces mêmes technologies, permettent d'établir de plus en plus de filtres pour contrôler l'excès d'informations.

Nous pouvons observer une tendance à l'équilibre entre l'abondance d'informations -nécessaire pour fournir des contenus personnalisés à un public diversifié - et une réduction de l'information fournie à l'utilisateur, permettant ainsi un gain de temps et d'attention.

tive ways of managing their money.[4] What is more, 88% of people in Spain doubt the credibility of banking institutions (Random, 2012).

Added to this loss of clients and credibility are the bankruptcies of Spanish savings banks due what is widely perceived as mismanagement, mortgage foreclosures (and the resulting human tragedy of eviction), and the preference shares scandal.[5] All this has increased the pressure on traditional banks to evolve, innovate and adapt so that they can repair the damage to their public image.

Increase in alternative kinds of funding, and segmentation of the market

In his study of consumption and consumer choices (2004), the American psychologist Barry Schwartz drew an interesting conclusion: a large number of choices adversely affects consumers' ability to choose, for they need more time to gather information, which implies a cost that may not be outweighed by the resulting well-being.

This is a relevant factor, for the initiatives presented in this paper presuppose greater opportunities to invest in the social economy and social-impact projects – but they are just a small proportion of the large number of emerging initiatives. The new technologies, especially the Internet and social media, have drawn attention to a greater number of projects and facilitated the spread of information about them. It seems we humans tend to consume large amounts of information and spread whatever bits of it we like.

The drawback is that the Internet offers us so much information and so many services that we end up needing filters. Evidence of this can be found in the shift from thematic sites and blogs to personal and social bookmarks, news aggregators, social media, applications such as Flipboard and the revolution created by mobile phone interfaces (such as HTC's recent BlinkFeed) which filter information so we only get to see what we want to see. Ultimately, what people want is to be fully informed and yet not be overwhelmed with content, which has to be relevant and easily accessible.

What we are moving towards is a balance between an abundance of existing information (which is necessary in order to offer personalized content to a varied public) and a reduction in the information displayed to users (to reduce the amount of time and attention they have to devote to it). The same thing happens when we want to find out about social investment opportunities on the Internet. Platforms and options are increasing so fast that the market is becoming segmented.

[4] Evidence of this can be seen in the growing number of people moving over to the Banca Ética ('Ethical Bank') – in 2012, according to data supplied by Financiación Ética y Solidaria (FETS): www.fets.org/, the figure doubled to more than 100,000.

[5] Many Spanish financial institutions sold people *participaciones preferentes* ('preference shares') and informed them about the potential returns – but failed to mention the associated risks.

Grace à la PFI, les banques traditionnelles dont les clients ne sont pas aussi familiarisés avec la banque éthique pourraient offrir simplement de nouvelles options de placements en accord avec des critères environnementaux, sociaux et de gouvernance d'entreprise (ESG) ainsi que l'accès à des projets classés investissements d'impact ou sociaux, projets qui de par leurs caractéristiques implicites ont difficilement accès au financement.

This may be a good thing, as everyone can go to the platform most suited to what they would like to fund; but on the other hand it is becoming more difficult to spread information about what is available. Meanwhile, many businesses and projects continue to approach traditional banks, which treat them no differently from other applicants for loans – and so they do not get funded.

The reason for the IFP

The IFP can help social projects and businesses because of:

1. The growing interest in impact investment

2. The rapid expansion in social entrepreneurship and social businesses, their influence and their contribution to employment

3. The difficulty in funding many of these projects

4. The growth in alternative kinds of investment, leading to segmentation of the market

5. The failure of traditional banks to respond to all this, at a time when their public image is declining.

The IFP would enable traditional banks, whose clients are not so familiar with ethical banking, to offer clear and simple investment options based on ESG (Environmental, Social and Governance) criteria and access to projects listed as social and impact investment projects which, by their very nature, have little access to funding. This would allow people to invest some of their money or profits in such products.

Which activities?

The activities to be funded will depend on where they take place. The developed countries, and specifically Europe, are promoting social innovation initiatives. In 2013 the European Commission has defined social innovation as the development and implementation of new ideas to satisfy social needs and create new social relationships and partnerships. These are responses to the pressures of social demand, which affect the process of social interaction. Social innovation is designed to improve human well-being, and the innovations are social in both their ends and their means. Not only are they good for society, but they also increase people's ability to act. The priority goal is to promote social change and create shared economic and social value.

The European Commission's *Europe 2020* strategy defines the type of growth that it seeks for Europe over the coming decade, in order to achieve a smarter, more sustainable and more integrating economy. A number of key areas have been identified: employment; research, development and innovation; climate and energy; education; and poverty and social inclusion. The social innovation and shared value strategies have a great deal to do with these five priority areas.

In developing countries our reference is the Inter-American Development Bank, whose *Opportunities for*

Les évaluations de l'impact social permettent d'identifier et de rendre viables des projets sociaux dont le retour économique est plus difficile à monétiser puisque la valeur sociale génère des économies sur le long terme.

De par le grand nombre de clients dont les banques traditionnelles disposent, elles joueraient un rôle fondamental dans la plate-forme de financement de projets à impact social.

the majority[6] programme has identified five sectors for intervention to achieve growth. The focus is on inclusive businesses and latent development opportunities at the 'base of the pyramid'. The five sectors are finance, housing, education, nutrition and health.

The point here is that the proposed platform has a broad spectrum of fundable projects, in both developing and developed countries, but that the social-impact projects should have a clear purpose.

Types of projects

By the very nature of social projects, some will be easier to monetize than others, and this will affect their viability. The platform should therefore offer both economically viable projects and ones that have a major social impact, but whose economic return is uncertain in the absence of in-depth analysis. Social impact assessments should therefore be extended and the savings that will be generated by long-term projects made visible. Social impact bonds and social impact measurement techniques are in line with this.[7]

There are thus three kinds of projects:

• Those that have a social and an economic impact.

• Those that have a high social impact and generate economic savings. These can only yield economic benefits if one of the parties agrees to pay the interest on the profits generated by the savings. Examples include social impact bonds and the Peterborough prison project in the United Kingdom.[8]

• Welfare projects whose viability is more questionable in both the long and the short term, but that are necessary to ensure social stability.

The actors involved in the IFP are summed up in the table 3.

How the IFP works

The idea is to set up an online platform for identified actors to join. This will create a multidirectional link in support of projects that generate a social impact.

In accordance with the table, the projects to be funded can come through two channels:

• projects selected by banking institutions;

• projects selected by collaborating bodies.

The value of the IFP lies in its potential to give traditional banking institutions a leading role, since they have clients who may be interested in funding such projects. The platform can help people become aware of the projects and hence the possibility of investing in them without having to spend too much time gathering information.

[6] www.iadb.org/en/topics/opportunities-for-the-majority

[7] ROI (Social Return on Investment) is becoming one of the main techniques for measuring the social impact of projects, monetizing the social impact generated for each euro invested.

8 www.socialfinance.org.uk/sites/default/files/SF_Peterborough_SIB.pdf

La PFI contribuerait à faire connaître les projets d'impact social, et de par là même elle promouvrait l'investissement tout en générant un gain de temps en recherche d'information relativement important.

Les fonds éthiques d'investissement, les dépôts bancaires, le client direct, les PFI, les institutions associées et l'État constituent la palette de possibles acteurs pour la levée de fonds de projets sociaux.

The facilities that banking institutions can provide thus include informing clients on the various ways of investing in or donating to social-impact projects, letting them know the opportunities they have to participate directly in the projects that can be funded through the platform, and filtering the projects according to the types that are likely to be of interest to their clients, e.g. the type of sector or the type of compensation they wish to receive.

The IFP is the nucleus, but investors and bank clients do not have to be in direct contact with it, thus simplifying their investment decisions if the banks make a selection in accordance with their clients' interests.

Once the projects are selected, the selected amount of money is channelled to the various projects. These can get started as soon as the required amount is collected, as in crowdfunding.

In addition, the funded projects must show investors the social impact that is being generated with the invested resources through periodic updates and measurement of the results achieved.

How investment funds are gathered

There are various ways of gathering funds:

1. Ethical investment funds. This does not mean investment funds that use filters to manage an investment portfolio, but ones that invest in social-impact projects.

2. Bank deposits that are invested in such projects, with interest rates lower than market rates.

3. Helping clients invest a certain proportion of their money in projects that are more difficult to fund:

- by donating or investing some of the interest provided by the banking institution;
- by investing a small percentage of their earnings in such initiatives;
- by pursuing a bank policy of investing in such initiatives, for example by investing additionally in investments made by their clients.[9]

4. True IFP: offering people alternative forms of investment or donation and facilitating investment through banking institutions that are part of the platform.

5. Collaborating bodies: gathering funds through their networks and making people more aware of projects in other networks.

6. Government: supporting such initiatives by:

- paying interest on the savings generated for the government;
- granting tax breaks;
- spreading the risk by participating with a percentage of public funds.
- providing public guarantees for such projects.

[9] Examples include businesses that double the value of their employees' investments in projects, or the more recent instance from the Goteo crowdfunding platform, Capital Riesgo: goteo.org/service/resources

La PFI permettrait non seulement de partager le risque entre un grand nombre d'acteurs, mais également de regrouper l'information concernant les projets sociaux. Ceci permettrait d'améliorer la qualité de l'information tout en réduisant le facteur temps (pour le choix), considéré comme le principal obstacle lorsqu'il s'agit de capter des clients.

Conclusions

As argued above, the idea of the platform is to centralize efforts in support of projects that generate a greater social impact. Many such projects have a questionable economic return, and innovations are needed in funding so that they can get off the ground.

The platform's greatest potential lies in **spreading risk** over a wide range of actors and **concentrating information** about such projects in a global platform that can improve information and reduce the time people need in order to make choices (which is considered the main barrier in reaching clients).

Ultimately, the proposed platform is an innovative tool designed to involve the main actors and encourage change in traditional banking institutions, so that they will finance this type of project and at the same time make the general public aware of opportunities for such investment and how it can benefit economic development and society in general. •

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Table 3. Actors involved in the IFP

Actor	ACTIVITY	VALUE TO THE IFP
Independent body	• Managing the platform • Centralizing and drawing attention to the various projects to be funded, with support from banks and collaborating bodies • Pooling the interests of banks, investors and promoters • Providing information on the need to fund each project • Certifying the value of the projects • Providing information on the state of the various projects being funded	• Centralizing social investment options to increase the impact • Channelling money more directly towards the projects • Spreading awareness of SRI • Sharing risks between citizens, banks and the government
Banking institutions	• Offering clients investment and/or donation alternatives for the projects in the platform • Making its clients aware of SRI and promoting it among them • Including new projects in the platform	• Reducing the risks of projects by sharing them among various bodies and investors • Renewing perceived commitment to society at a time of tension • Banking innovation: new products and services in response to social change
Project promoters	• Demonstrating the social value that their projects create (as a condition for taking part in the platform) • Providing information on how their projects continue to develop when funding comes to an end	• Opportunities to generate positive social change • New opportunities to generate employment and work in sectors that would not normally be considered profitable
Government	• Using public funds to reduce the risk involved in certain projects, in an innovative form of public-private partnership • Guaranteeing the viability of projects through measures to encourage enterprise	• Saving costs on programmes through early intervention to avoid social problems that may arise • Increasing tax revenues through increased employment and reduction in social welfare benefits • Facilitating compliance with the goals of the Europe 2020 strategy for the EU and its member states
Collaborating bodies	• Bodies that spot projects to invest in. The range is very wide – for example, they may be established crowdfunding networks or non-profit bodies that carry out projects or work with microentrepreneurs • Networking by offering the platform additional services	• Promotion: making their own network/organization more visible • Possibility of obtaining more funds for projects that wish to develop
Investors/ donors	• Investing in projects offered by the platform •Types of investment: -Direct investment, with greater focus on more committed investors, who themselves select the projects of most interest to them -Indirect investment: using preselected parameters, the bank will allocate the money to similar projects and ones that it considers of value to the client or of greater social value	• Clients commit themselves to the development of initiatives that enhance social cohesion, improve opportunities and reduce inequality • They receive an economic as well as a social return, or other kinds of material reward or gratitude • Greater individual and social happiness through the act of giving