raised by the lack of oversight of devolved decision-making processes. These particular problems of managing growth are common to all banks.

**References**


**Author biography**

After 20 years in mainstream wholesale banking, Malcolm has spent the last 20 in socially responsible finance, pioneering the Charity Bank in the UK, being a board member of INAISe, and working, latterly with the Institute for Social Banking. He is now working on a community banking project in Scotland when not watching cetaceans or cultivating a desert garden in Andalucia. In 2013, he received the CBE for services to charities and social enterprise.

**Social finance in North America**

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Although the intentional application of finance to achieve both financial return and positive social or environmental impacts is a global phenomenon, there are a number of elements that are distinctly important in the North American context. The broad range of investment approaches seeking ‘blended returns’ (Emerson, 2000) includes a variety of concepts such as microfinance, socially responsible investing, and crowd-funding. While the term ‘social finance’ has been used in Europe (notably in the United Kingdom) for at least a decade, a different lexicon has been used in North America – notably, community investing, and more recently, impact investing.

The social finance ecosystem continues to evolve, but is generally composed of four key groups (Harji and Jackson, 2012). The first comprises asset owners, which include private foundations and high-net worth individuals. The second comprises asset
managers, the institutional stewards of capital that often include financial institutions and pension funds. The third group reflects the demand for investment from businesses, nonprofits and cooperatives that absorb social finance investments. Finally, a layer of intermediaries – including regulators, trade groups and service providers – facilitates the myriad of connections between the supply of and demand for capital.

Social finance in North America has been embedded in the fabric of societies in several ways. In the 1977, the Community Reinvestment Act provided the impetus for financial institutions to invest in underserved local regions and marginalized sectors. This has spawned a plethora of community development financial institutions that deploy significant amounts of capital in affordable housing, renewable energy and local economic development across the United States. As well, many prominent foundations – such as the Ford, Rockefeller and MacArthur Foundations – have actively invested their endowments in a manner that aligns with the practice of mission-related investing. In Canada, social finance finds its roots in credit unions and cooperatives across the country, and particularly in the province of Quebec. Notable examples include Vancity, with CAD17 billion in assets operating in the province of British Columbia, and the Desjardins group, the Quebec-based federation of caisses populaires (credit unions) with over CAD210 billion in assets under management.

Two broad but interrelated trends in the North American social financing sector are providing an emerging set of opportunities. First, while the current actors in the social financing market are mostly early adopters, they are developing track records that demonstrate market feasibility for other mainstream financiers. This signalling effect is attracting new investment. For example, the Canadian Social Investment Organization estimates that in 2012 socially responsible investing assets grew by 16% in 2012 compared to a 9% growth in total assets under management and a 5.8% growth in the Standard & Poors Toronto Stock Exchange (S&P/TSX) Composite Index (Bragg and Smeh, 2013). Second, the growth of the sector is sparking the need to develop and strengthen governance mechanisms. Industry associations such as the Global Impact Investing Network (GIIN) and standards such as the Impact Reporting and Investment Standards (IRIS) are providing the industry with a greater degree of self-regulation, and there is growing interest at state, provincial and federal levels in both Canada and the United States in reforming securities regulations, and developing new instruments such as social impact bonds. Consequently, a mixture of private, nonprofit and public sector intermediaries are at work, building the infrastructure needed to govern social financing in a more effective and transparent way.

Major mainstream sources of capital are beginning to dip their toes into the social financing waters. Mainstream financiers like JP Morgan, Goldman Sachs, Royal Bank of Canada (RBC) and Toronto-Dominion Bank (TD Bank) are developing social finance investment strategies. We have yet to see the most important potential shift into social finance at scale through movement of capital from pension funds into the sector; however, the adoption of the United Nations Principles for Responsible Investment by many large pension funds does raise the possibility of pension funds moving beyond passive strategies towards a more intentional integration of environmental, social and governance (ESG) factors within their investment strategies and portfolios.
A key gap that is beginning to be addressed is the need for sophisticated intermediaries to link capital and opportunities. The challenge of meeting demand in the middle is a difficult one, though large existing institutional intermediaries are working to make the supply of capital feel more comfortable while boutique firms are helping prepare investors for capital absorption. Networks such as the GIIN, the Global Alliance on Banking and Values (GABV) and B Corporation are building much of the self-regulatory capacity in the sector, as are the various roundtables and multi-sector task forces that are providing policy recommendations to government. Continued growth in the quantity, quality and diversity of these supporting institutions and networks will be an important contributor to a strong and functioning social finance ecosystem, and help to ensure that capital can be put to work in effective ways to generate compelling returns and tangible impact.

Another area of opportunity is access to the ‘everyday investor’. Currently, there is little retail-level social financing in North America though the evolution of the sector will no doubt move down this path. A century ago, a mixture of mutual banks, credit unions, philanthropic foundations and for-profit banks demonstrated the viability of the market, though many waves of for-profit bank defaults occurred before government regulations were enacted to provide the sector with stability. Today, many similar actors are at work, developing what will become retail social financing, with the important addition of Internet-enabled actors such as crowd-funding platforms like Kiva and Kickstarter. In the United States, the Jumpstart Our Business Startups Act, passed in 2012 included provisions intended on enabling equity-based crowd-funding. Some Canadian provinces are exploring the use of similar regulatory frameworks.

Social finance continues to gain momentum across North America, albeit at an uneven pace across the ecosystem. In order for it to realize its potential, the key players will need to be much more intentional around matching capital supply and opportunity through an appropriate mix of financing structures, terms and timelines. As well, there is great appetite and potential for social finance to become more inclusive – either for those that have capital or those that need it – as new platforms emerge in response to enabling policy and regulation. While the growth of these intermediaries has been strong, radical transformation of market intermediation is needed to enable mass participation in social financing. Only then will we see whether social finance can live up to its potential as a compelling approach to balance purpose and profit.

References

Author biographies
Sean Geobey is a doctoral candidate in the University of Waterloo and Research Manager with the Waterloo Institute for Social Innovation and Resilience, where his research is focused on social
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Karim Harji is a Co-founder and Partner at Purpose Capital, an impact investment advisory firm that mobilizes all forms of capital — financial, intellectual and social — to accelerate social progress. He recently co-authored Impact Investing in Canada: State of the Nation, which described the key trends, issues and opportunities in impact investing across Canada. Karim is a Senior Research Associate at the Carleton Centre for Community Innovation at Carleton University, and teaches social entrepreneurship in the Faculty of Applied Engineering at the University of Toronto.

Social finance and global development: Questions and challenges

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There are three main questions concerning the potential role of social finance in the global system, seen in its increasing interdependence with the most important economic, financial and political trends: first, what will be the place of social finance in the new tripolar world order comprising the G3: United States, China and Europe? Can social finance continue its original scope of fostering the real economy and contributing to the greater good of all, rather than being used for political purposes in the competitive politics between the G3? As China is forced by its rapid development to link its government-controlled financial sector with the global financial system dominated by the West and the latter’s international private actors, the question of who has the more ‘social’ approach has become a tool of ‘soft power’. The battle is over the future orientation of the global financial industry, and pits communitarian (Europe), socialist (China) and individualist (United States) against each other as the three main approaches to the social dimension of finance. Which of the three approaches will predominate? Can Europe play an intermediate role bridging socialism and individualism through communitarianism? And if so, what will be the role for the more narrow and specialized sector of social finance in such a constellation?

Second, can social finance address the challenges posed by the social and ideological polarization between the left and the right in networked societies within the current phase of globalization? Among the issues is the rise of 50% leftist against 50% rightist open