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- Thesis -

- Social banks and impact measurement: The cases of Charity Bank and Triodos Bank-

Hand-in date:
01.09.2012

Campus:
BI Oslo

Supervisor:
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Examination code and name:
GRA 19003 Master Thesis

Programme:
Master of Science in Political Economy

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Foreword

This thesis finalizes my master degree in Political Economy. Writing it has been a wonderful and challenging process, and I have learned a lot. The social bank Cultura Bank originally initiated this master thesis to be written for the bank, focusing on impact measurement. This is confirmed with the preliminary thesis report in the appendix. I also worked part-time for a period at the bank. However, in an early stage of the thesis I decided to write my thesis independently of Cultura. This made me able to select several cases in my case-study. Still Cultura Bank appears throughout the thesis with examples, and it is selected as a case study. This is partly due to my previous research on the bank, but mostly because it is an interesting case study.

I hope this thesis will enhance the interest of students and professionals in the topic of social and sustainable banking, and contribute to an emerging research field.

Oslo, 1st of September 2012

Siri Aspevik Bosheim

Acknowledgements

I wish to thank my supervisor Kåre Hagen for guiding me through the process of writing this thesis. He has provided support, advice and good guidance. Thanks to the BI Library staff for helpful service and provision of literature on social banks.

Furthermore, I would like to thank social banking professionals for sharing their experience and information with me: David Korslund at Global Alliance for Banking on Values, Olaf Weber at the Export Finance Chair at the University of Waterloo, Canada, Sven Remer at Institute for Social Banking, and Lars Hektoen at Cultura Bank.

I also want to express a deep thank you to all my friends, especially the BI girls and CDO Oslo, for coffees, lunch breaks, group meetings and pep talk. My family has been the best, supporting me these two years at the master programme. Thank you so much. Last but not least, a big thank you to meu querido Gustavo.

Summary

Social banks are founded on values of using financial services to *"create a positive impact on the society and the environment"* (Weber 2011b, 5). How can the banks know that they actually achieve positive impact? How can this impact be measured? This thesis discusses exactly the question on how to verify social and environmental impact. This is analysed using two cases selected based on impact measurement methodology and one contrasting case.

The focus of the thesis is social banks and measurement of social and environmental impact created by loan projects in their loan portfolio. To analyse verification of impact, I have dedicated a separate chapter to illustrate challenges connected to conceptualisation of "impact". Challenges between theory and practice, and between ideals and reality are explored through an analysis of current practices and theoretical methodologies.

The case studies illustrate that social banks use different strategies to verify impact. Triodos Bank has chosen an approach based on clearly communicated indicators such as amount of CO_2 emission reductions, whereas Charity Bank has selected a spider-web diagram to illustrate impact in every project. Cultura Bank uses storytelling as a way to provide transparency more than impact measures. It seems as Triodos is more focused on quantitative measures, whereas the other two are more in the direction of qualitative.

This thesis argues that measurement is a way to verify social and environmental impact for social banks. Quantitative measurement is challenging, but possess great possibilities. Independently of whether the measurement is quantitative or qualitative, social banks need to start measuring something in order to validate their own claim of contributing to social and environmental value creation. Based on this I give suggestions for further research in the field, and present a framework for an impact measurement tool for use in social banks.

1.0 Introduction

This thesis is about banks that are different from conventional banks. These banks are called *social banks*. These banks focus especially on creating social and environmental value. The underlying idea is that banks themselves do not produce this value, but generate it through companies and projects they lend money to. Thus, the banks select borrowers that are assumed to contribute to positive social or environmental value. The central theme of this thesis is to analyse how such banks can know and verify that they are different and contribute to social and environmental value, or impact. Two banks are selected as case studies and their impact measurement methods are analysed. Throughout this thesis I emphasise mostly on *quantitative* measurement when discussing measurement. This does not indicate that qualitative measurement is inferior.

1.1 What are social banks?

The recent financial crisis that started in 2007-2008 had numerous cause-and-effect mechanisms with consequences for people, firms and states. Banks were scrutinized for their speculative behaviour, and banks' systemic role was highlighted in a negative way. Growth of speculative behaviour can be illustrated as a detachment of the financial system from the real economy, which is defined as "*the part of the economy that is concerned with actually producing goods and services*" (Financial Times Lexicon 2012). When the bubble burst and financial crisis was a fact, considerable consequences became apparent in the real economy (Benedikter 2011). An example is the large public rescue packages to bail out banks, directly using taxpayers' money to save the banks that were deemed "too big to fail". In addition to bail-outs, regulatory and supervisory failure by governments, complex financial products, lack of transparency and remuneration policies have all contributed to public distrust in banks (Benedikter 2011, 15).

A strong, relatively single-minded focus on growth and profit maximisation has been at the core of banks' behaviour. The relation between the crisis and banks' systemic role led to increased focus on sustainability and ethics in the banking sector as a means of banks to regain trust in the society. This led to interest for innovative approaches to banking and new ways of connecting depositors and borrowers to the real economy.

A small group of banks were focused on traditional banking activities (deposits and loans) with a social and environmental focus for years before the financial crisis hit; namely *social banks*. These banks do not take part in speculative financial market operations and in most cases they are not even listed on stock exchanges (Scheire and Maertelaere 2009). Thus, their assets are directed purely towards the real economy.

With social banking I understand *"a way of value driven banking that has a positive social and ecological impact at its heart, as well as its own economic sustainability*" (Weber and Remer 2011, i). Social banks see themselves as contributing to solving social and environmental problems. This is done through providing credit to create sustainable growth. The notion of sustainability was conceptualised by the Brundtland report in 1987, which focused on sustainable development as "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" (Brundtland 1987). Sustainability is about taking responsibility for actions and consequences so future generations are not deprived of any possibilities.

A financial intermediary facilitates communication between those who have resources to those who need access to credit (Mishkin 2010). This gives banks a systemic role. Banks are financial intermediaries and can therefore contribute to sustainability by directing credit to projects with a sustainable focus. In this way, social banks contribute to sustainable growth. Social banks as such are part of a green economy movement and connected to ecological economy because of their focus on current environmental and social challenges, but will not be discussed explicitly within this frame. Social banks are connected to ethical banking, social responsible investment (SRI), corporate social responsibility (CSR) and impact investing. These concepts are however more related to "*private and institutional investors*" (Weber 2011c). Social banks have a broader approach than SRI and CSR. Firstly, the activity takes place within the frame of being a *bank* providing *loans*, not just as an investor. Further, there is no separate SRI strategy or CSR department. Instead there is a holistic focus in the organisation to work in a sustainable manner with social impact at the heart of the activity. This helps to address the issue of "green washing"[1]. Moreover, social banks focus firstly on environmental and social issues and secondly at profit, as will be elaborated in chapter 2. This, together with a crucial emphasis on transparency, is the strongest ways social banks differ from conventional banks with a CSR/SRI focus.

Social banks and social entrepreneurship share several characteristics. Social entrepreneurs are defined as addressing social issues and by the use of innovative approaches to reaching this goal (Nicholls 2006a). This is true for social banks as well. Additional shared characteristics are a focus on societal change, creation of social value, the view of money as a tool rather than a goal, and the emphasis on fulfilling a mission instead of creating profit (Nicholls 2006b; Dees 2001). Social banks create impact i<u>ndirectly</u> through lending activities, whereas social entrepreneurs create impact <u>directly</u> through business activity. The relation between social entrepreneurship and social banks is interesting, however too big a topic to elaborate on in this thesis. Suffice to say, they share many characteristics. This explains my choice to use academic literature from the social entrepreneurship field in selected parts of the thesis (see chapter 5).

Profit maximisation and creation of return to shareholders are characteristic banking values (Becchetti 2011). These goals are relatively easy to measure, as the language of money and accounting helps to illustrate whether banks perform satisfactory or not. As the main success depends on the return on investment, the degree of success in conventional banks is independent on social and environmental value of the project they lend money to.

How to measure the success of social banks is a central theme in this thesis. This can be done with quantitative or qualitative tools, and the core issue is to measure *something.* The theoretical approach is mostly related to quantitative measures. Social banks are funded on missions of creating social and environmental impact, thus measuring success and mission achievement is related to measuring impact, which is far from straightforward. With impact I understand the "*proportion of the*

1 Attempts to be perceived as more green/environmental friendly in order to respond to popular demand (Laufer 2003).

outcome" that results from the activity in question (Nicholls et al. 2009, 55). Impact is a relatively vague concept that is difficult to estimate. Throughout the thesis, impact is used as concept illustrating the wider results of the work of social banks. It refers to results such as a numeric output or an outcome experienced by stakeholders. With stakeholders I understand people that can benefit from or be harmed by, an activity or a result (Crane and Matten 2010).

"Impact" and "value creation" are related because social or environmental impact has a value for the stakeholders experiencing it. Impact measurement tries to assign a value to outcomes of social banks' actions. Value is often thought of as a monetary value, but is not necessarily equal. This is the reason why non-monetary value is so difficult to measure. For monetary values a common scale exists, NOK 10 is twice as much as NOK 5. However, for impact there is no such commonly agree-upon measurement scale. A discussion about the relation between value, money and impact is interesting but outside the scope of this thesis. Thus for simplification, "value" and "impact" is to some extent used interchangeably throughout the thesis[2].

Social banks' *raison d'être* is different from conventional banks. Social banks are banks that work with a triple bottom line with a focus on people and planet before profit. They contribute to sustainable growth through their loan portfolio. The businesses or persons that borrow money from the bank are highly important, as this is exactly where the sustainable impact is created. Selection of borrowers creates the premises for fulfilling mission statements of sustainability and impact creation. On the other hand, sustainability, impact and related concepts are less easy to measure. From this develops a problem, how can social banks actually know that they reach the goals that justify their existence? Conventional banks have financial statements as a proof of their goals, while social banks do not have a similar tool for communicating their *core* activities. The language of money is less helpful to measure the success of social banks, but at the same time a profound challenge exists, as there is no standardised method for measuring social and environmental impact or value.

[2] See chapter 4 and 5 about this topic.

1.1.1 Contribution and relevance

Social banks are interesting because they acknowledge the systemic role banks have as financial intermediaries of connecting savers and borrowers (Benedikter 2011). Moreover, they are interesting because they perform this role in a sustainable matter. Their emphasis on traditional banking tasks in a sustainable framework made social banks outperform conventional banks in the time of the financial crisis (GABV 2012b). The focus of this thesis is to elaborate on how these banks can verify that they contribute to a positive social and environmental impact, thus fulfilling their mission and goals.

Lack of standards and need for communication on *core* activities is why impact measurement is of such great importance for social banks. I have chosen to focus on this particular side of social banks in my thesis, as I find it a challenging theme that at the same time is of general interest. There is practically no academic literature on impact measurement in social banks, and the banks themselves are in need of way to communicate their uniqueness in order to develop further (Remer 2011). Thus this thesis will be highly relevant and contribute to the literature with a comprehensive analysis of social banks and impact measurement. Such an analysis is of current interest as social banks are becoming more popular and scrutinized based on their claims of having social and environmental impact. The main analysis of the impact methodologies of Charity Bank and Triodos Bank further provides important comments both on the specific methodologies and on a conceptual level when it comes to best-practises and challenges.

Lack of impact measurement can create a less than optimal outcome for social banks, because there is no scale on which they can improve, nor prove, the impact and goal achievement. I contribute to this by highlighting challenges related to impact, and furthermore present important steps in a framework for impact measurement in chapter 8.

This is a classical political economy theme, as it is a systematic review of approaches to promote or ensure creation of social value to the benefit of people and societies. This value is created in the banking sector, a setting that is originally purely economic. However, an important difference is that resources are not allocated to profit maximisation but to social and environmental value maximisation, and here lies the social value creation. This makes social banking highly interesting for political economy. Furthermore, if such banks actually *have* the social impact they claim to, this thesis is an important message to governments, challenging them to rethink how social value can be created.

1.2 The research question

The fundament for this thesis is a need for systematic conceptualisation and discussion of several aspects connected to social banking. Measurement challenges and broader questions connected to value creation are highly interesting. Together with the preliminary research, this led to the research question:

How to verify social and environmental impact of social banks? The case of Charity Bank and Triodos Bank.

The foundation of the research question is that banks are important in the society as financial intermediaries providing credit, and that this role can be used to provide sustainable growth. The underlying idea is that impact measurement is important in order to know *where* and *how* the impact is made, and to know *what* actually contributes to impact. This way measurement is a method to effectively increase the impact. On the other hand, impact happens through activities of the *loan projects*, the banks simply facilitate the activity to happen through granting a loan. As such, the banks only catalyse the impact through directing credit, and this role is what I will focus on in the thesis.

The research question further implies that social banks assume that they have a special or certain impact. It is relevant to assume this also for my thesis. This result from mission statements, selection criteria and assessment of the loan portfolio as analysed by San-Jose, Retolaza and Gutierrez-Goiria (2011) and Relaño (2011). The thesis discusses the research question through operationalisation of concepts and case-studies. It explores *measurement* as a central way of establishing and verifying impact. The thesis searches to clarify important issues rather than generalise from the case-analysis. Social banks need to express impact in order to keep a reputation of being more sustainable or ethical than mainstream banking, and to be acknowledged as proper social banks (Weber 2011a).

There is a whole range of concepts within the social banking tradition that need further research. Unfortunately, I cannot touch upon all these in a thesis and have rather chosen to focus thoroughly on one aspect that is highly relevant for social banks. The most important limitation is the focus on the indirect impact that comes from the loan projects of the bank. Hence, I do not focus on the banks themselves in terms of recycling, energy efficiency etc, nor why they are established in the first place. Because the banks are very small, the most interesting and profound impact takes place through the loan projects. As a result, the unit for measurement is the loan projects. Furthermore, financial value creation is left outside the scope of the thesis, as this follows the same principles in social banks and conventional banks, and do not add much to the analysis of impact measurement in the banks. In addition, I will not go into a discussion on tax refunds related to renewable energy funds and social projects, as this is relatively demanding without giving substantial information to the analysis.

Other interesting ways of “alternative banking” such as Islamic banking, microfinance and poverty alleviating banks are left outside my analysis. This is in order to limit my research field and because these topics already are established research fields within academic literature.

1.3 Research approach

Compared to conventional banks, social banks are marginal in size and outreach (Weber and Remer 2011; Scheire and Maertelaere 2009). The largest social bank, Triodos Bank, is small compared to large international financial institutions. To illustrate, Triodos has 720 employees and a balance sheet of 4’291 million euro (Triodos Bank 2012d, 2012a). Deutsche Bank has ca. 100’000 employees and a balance sheet of 2’164 billion euro (Deutsche Bank 2012b, 2012a). Social banks are niche-banks, which also might explain the limited research on such banks. In addition, literature on social banks and impact measurement is to a large extent missing. However, the banks have grown substantially after the financial crisis, for instance Triodos Bank had a 24% increase in number of customers and 51%

increase in net profit from 2010 to 2011 (Triodos Bank 2012d). Growth like this draws attention of professionals and researchers, and might influence development of literature. This thesis analyses two main cases and one contrasting case. Sources for information have been academic literature and the banks presentation of themselves through annual reports and websites. I present a thorough analysis of two impact measurement methods, which enable me to say something about strengths and weaknesses of the two methods. As the two cases I have chosen have well-developed methods, my analysis is an important comment in a discussion on an “ideal” impact measurement method.

1.4 Structure of the thesis

The purpose of the thesis is to give the reader an overview of social banks, and conceptualise important related concepts. Challenges between theory and practice, and between ideals and reality are explored through an analysis of current practices and theoretical methodologies.

The thesis follows a structure to *understand, approach* and *answer* the research question through working questions that highlights different aspects of the research question. First, in order to *understand* the research question, the first part discusses questions such as what are social banks. Why and how are they special? What kind of theory suits impact measurement in social banks? Secondly, to *approach* the research question, I focus on concepts highlighted in the question and look at questions such as what is impact, how and where is it created, and why is it difficult to measure? Lastly, to *answer* the research question I analyse the two impact methodologies of two selected banks. A contrasting case is selected to show that there are many challenges connected to impact measurement and that the first two cases have well developed methods. The cases provide empirical answers to the research questions on how to verify impact. The implications of this are discussed in chapter 8 and 9.

To *understand* the research question, chapter 2 introduces social banking in a literature review focusing on how social banks are different from conventional banks. Method and case study selection are the focus of chapter 3. Theoretical foundations for social banks and impact measurement are elaborated in chapter 4.

To *approach* the research question, chapter 5 conceptualises impact and impact measurement and challenges connected to this. To *answer* and *analyse* the question, chapter 6 analyses the impact measurement methodologies in two selected cases, and chapter 7 discusses a contrasting case to highlight that not all banks have the same approach to impact measurement. Implications of the research question are the focus of chapter 8, where further academic research and practical policy advises for social banks are found. Chapter 9 concludes the thesis.

2.0 Social banks as a research topic

This chapter introduces banks and the loan process. A literature review presents characteristics of social banks that differentiate them from conventional banks. These characteristics are values connected to their mission statements such as transparency and a secondary profit motive.

2.1 What is a bank?

A bank is understood as a financial intermediary and a deposit-taking institution (Jeucken 2001). It accepts deposits and lends them out. Banks have an important systemic position through being financial intermediaries providing credit that creates employment, development and growth. Here banks have a potential large influence as they can decide what kind of businesses or projects that get access to credit, and thus what kind of development and growth to contribute to. Rather than looking into investment activities, I focus on banks that perform traditional banking activities of accepting deposits and allocating these to credit. For such banks, loans are the main source of profit, as they have highest return. This is because of low liquidity and possibility for default (Mishkin 2010, 229). The process of applying and granting a loan is subject to the banks' own risk assessment. Normally, an application for a loan requires documentation of income, a budget and justification for use of the money. Collateral is usually required to reduce the risk related to the loan (Mishkin 2010). The loan process is relatively similar in conventional banks and social banks, as the projects need to be financially sound.

2.2 Characteristics of social banks

Social banks are in many ways similar to conventional banks, as many governmental rules regulate banks' behaviour and operations. The risk assessment of the loan is based on financial data and collateral, and normally the loan is priced via the interest rate accordingly (e.g. Cultura Bank 2012a). However, a literature review reveals that social banks have some core characteristics that differentiate them from conventional banks: a strong focus on transparency and a different approach to profit. These values are founded in their mission statements, which defines social banks.

Social banks are banks and therefore need to be certified as such through national authorities (San-Jose, Retolaza and Gutierrez-Goiria 2011). They are similar to conventional banks in that they provide loans and retail banking services. Some social banks provide current accounts, payment card and Internet banking while some only provide savings accounts and loans to specific sectors.

2.2.1 Definition

The literature agrees that social banking is not a new phenomenon, and also that there is no commonly agreed definition of social banks (Benedikter 2011; de Clerck 2009; Weber and Remer 2011). There are different reasons and ideals behind founding the banks, a variety of different structures and business models, and also a fairly limited number of banks (de Clerck 2009). Thus defining social banks is challenging. A definition needs to focus on shared values and missions, rather than differences. Social banks share a view of money as a tool, a means to an end of a better society and environment (Milano 2011). Literature focus on GABV (Global Alliance for Banking on Values) and ISB (Institute for Social Banking) members as the core social banks[3] (Scheire and Maertelaere 2009; Weber and Remer 2011). These two networks are relatively new organisations working for more education and research on social or sustainable banking[4].

Scheire and Maertelaere (2009) further distinguish between two groups of social banks as they have somewhat different missions, organisations and funding structure; social banks as *poverty alleviating banks* with focus on providing financial services to the poor, and secondly social banks as *ethical banks,* with a focus on sustainability, culture and environment. The latter are mostly European banks. This thesis focuses only on these European banks when discussing social banks. Much research have focused on microfinance and poverty alleviation, hence this thesis provides a contribution in discussing the under-researched European social banks.

[3] See appendix for a list of banks.
[4] (GABV 2012a; ISB 2012)

To elaborate on the short definition of social banks presented in chapter 1, I understand social banks as providing banking services through the triple bottom line of people, profit and environment as their core business model. While profit is necessary, it is neither the main nor the single goal. Through a transparent business process the mission statements of social banks focus on positive impact and sustainable human and environmental development[5].

2.2.2 Literature review

The purpose of this review is to look at literature on social banks in terms of characteristics that differentiate them from conventional banks. This will be seen in relation to the mission statements of social banks. The literature on social banking is recent but relatively limited. Some of the banks relate to the anthroposophic ideas of Rudolf Steiner, but I will not emphasise on it as it requires a broader discussion (see for instance Benedikter 2011).

<u>Transparency</u>

A value that strongly characterises social banks is *transparency* (Benedikter 2011). Social banks focus on sustainability in a transparent way through publishing the loans they grant. This way, stakeholders can assess the lending projects and know who borrows the money. Several banks have transparency inherent in their mission statements, such as Merkur Bank, GLS Bank and ABS Bank (Scheire and Maertelaere 2009). Transparency can also be illustrated with examples from the loan portfolio: ABS Bank in Switzerland publishes details on all loans they grant (Weber and Remer 2011). Charity Bank and Triodos Bank publish information on all loan projects (see chapter 6). This is an "*unusual high level of transparency*" compared to conventional banks (Cowton 2002, 398). These practices encourage openness and dialogue between the bank and the customers. For ethical consumers wanting to know where the money is allocated, social banks readily answer. Thus transparency is one way to differentiate social banks from conventional banks.

[5] See the preliminary thesis report in the appendix.

Focus on sustainability through social and environmental values

The literature mostly agrees on the nature of social banks, and the purpose they work to achieve. Social banks focus on, and contribute to sustainable growth by providing credit to the real economy and by setting social and environmental criteria for this credit (Remer 2011). They contribute to positive social and environmental impact through lending money to projects with a social or environmental focus. "*The commitment of social banks to sustainable development is (…) their raison d'être*" (Relaño 2011, 279). This is inherent in their mission statements, and example is Triodos Bank's mission: "*to make money work for positive social, environmental and cultural change*" (Triodos Bank 2012l). This focus is further illustrated through Charity Bank that only lends to charities and community organisations working for social purposes (see chapter 6), Cultura Bank lending to projects that has a distinguished "*social or ethical quality*", and GLS Bank's mission to direct credit to sustainability and lend money to "*cultural social and ecological projects"* (Weber and Remer 2011, 5). These values result in a relatively unique loan portfolio consisting of projects assumed to have a specific social and environmental value.

What makes social banks different is that they before the financial evaluation assesses whether the project has a social or environmental value. ABS Bank's mission to "*place a rational emphasis on sustainability and ethical principles"* rather than *"insist on maximizing profit*" demonstrates this (ABS Bank 2012). At Cultura Bank, applications only proceed to financial analysis if social or environmental qualities are clarified first (Cultura Bank 2012a, 6). This is a nice ideal situation, but it can be challenged when looking at the reality. To illustrate, the loan portfolio of Cultura shows approximately 36% of the total outstanding loans are to mortgages (ibid). Do mortgages have a special social value? If so, what then does *not* have a social value? This is an important conceptual challenge that social banks need to acknowledge. Merkur Bank have a similar ratio where approximately 30% is to private loans, in particular housing/mortgages (Merkur Bank 2012, 28). On the other hand, it might be that a share of these loans is for environmental-friendly housing, making the picture less miserable. Moreover, social banks are still banks – are they expected to have 100% of their loans in social or environmental projects? Or is it acceptable that perhaps 20% is for conventional housing for the bank's clients?

Lack of profit maximisation

Social banks are similar to mainstream banks in that they require the project to be financially sound, but they do not focus on a single goal of profit maximisation (Becchetti 2011). Social banks "*are prepared to accept lower margins and/or higher risks to stimulate certain activities*" (Jeucken 2001, 73). These "certain activities" can refer to social and environmental projects that might (but need not) be less profitable or more risky than conventional projects. To exemplify, Cultura Bank argues that profit is not the goal but "*a necessary precondition for the realisation of the bank's overriding objective"* (Cultura Bank 2012a, 4). There is also support for this claim in the mission statement of ABS Bank above.

A lack of profit supremacy is more difficult to verify than transparency or social and environmental focus, because most social banks actually run profits in their business. This makes comparison to conventional banks difficult. On the other hand, Scheire and Maertelaere (2009, 6) find that *none* of the banks have shareholder value as a goal, which can support the argument that social banks do not maximize profit without taking sustainability into the equation.

Transparency, sustainable focus, and lack of profit maximisation together sums ups social banks efforts to focus on the triple bottom line of people, planet and profit (Benedikter 2011). To summarise the essence of the literature review I have created a matrix (figure 1) showing different approaches to banking, based on primary and secondary goals. This is a simplified illustration, but it nevertheless models the basic categories. I argue in figure 1 that conventional banks without SRI focus will emphasise on profit and financial values. Conventional banks *with* SRI focus are argued to firstly focus on profit, and secondly on environmental or social values. There has been an increase in conventional banks with a focus on ethics and sustainability. However, these practises fall outside the definition of social banks. This is due to a difference in the inherent motivation, firstly in terms of a profit motive, secondly in terms of that SRI "*relates to the ability to influence company behaviour through the provision of capital to stock-listed companies*" (de Clerck 2009, 217). Most social banks do not focus on influencing company behaviour, because this is taken care of in the selection process before a loan is granted.

This thesis understands social banking as focusing on the provision of "*direct finance (...) to fulfil the financial needs of selected entrepreneurs, organizations and businesses"(de Clerck 2009, 217)* (ibid), and is thus more directly related to the real economy than SRI. Relaño (2011) finds that social banks have more assets in client transactions, whereas conventional banks have most assets in financial transactions. This supports the argument, as allocating the money to clients is to allocate credit to the real economy – whereas the financial transactions illustrate detachment of conventional banks from the real economy.

This figure illustrates that social banks argue to *firstly* emphasise on social and environmental values, and secondly focus on profit.

Figure 1*: Characteristics of social banks*

<table>
<tr><td rowspan="2" colspan="2">Characteristics of social banks</td><td colspan="2">PRIMARY GOAL</td></tr>
<tr><td>Profit</td><td>Social and environmental value</td></tr>
<tr><td rowspan="2">SECONDARY GOAL</td><td>Profit</td><td>Conventional banks without SRI focus</td><td>SOCIAL BANKS</td></tr>
<tr><td>Social and environmental value</td><td>Conventional banks with SRI focus</td><td>NGOs, environmental organisations, UNICEF, etc</td></tr>
</table>

<u>Academic research</u>

It is furthermore interesting to examine some academic approaches to how social banks are different, and whether the mission statements of transparency and social value holds for academic research. The Radical Affinity Index (RAI) is highly interesting for how social banks are different from conventional banks. San-Jose, Retolaza and Gutierrez-Goiria (2011) constructs an index that captures differences between social banks and conventional banks. Calculation of RAI is based on four indicators where social banks are assumed to differ from conventional banks (San-

Jose, Retolaza and Gutierrez-Goiria 2011):

- Placement of assets in socially profitable projects
- Level of transparency
- Stakeholder participation
- To what extent alternative guarantee systems are developed

In the RAI, affinity refers to "*positive social and ethical values*" (San-Jose, Retolaza and Gutierrez-Goiria 2011, 151). Based on the four indicators, the authors calculate RAI for a large number of European banks. Evidence shows that level of transparency of information and placement of assets in socially profitable projects are the factors that mostly determine banks branded as social banks from other financial intermediaries. This is a strong argument in favour of social bank actually doing what they claim to do. This is furthermore an interesting result as transparency and social value are inherent in the mission statements of many social banks, and hence can indicate that they are fulfilling their goals.

A general comment on social banking characteristics; both conventional and social banks claim to care for the environment and the triple bottom line. How to know the difference between glossy reporting and actual impact? This is a challenges related to verification, which is the responsibility of the banks. Looking at balance sheets, social banks are committed to their own claims of relating to the real economy (Relaño 2011). This is through allocating a large share of their assets in "client transactions", implying that deposits are allocated to credit, whereas conventional banks have a much smaller share in client transactions and a large share in financial transactions (Relaño 2011). This supports the claim that social banks focus on the real economy and not on speculative transactions. This makes social banks less vulnerable to fluctuations in the financial system. Additionally, most social banks are not listed at stock exchanges, and have relatively low default rates (Scheire and Maertelaere 2009). An example is Cultura bank with a loss of 0.13% of the total loan portfolio (Cultura Bank 2012a, 7).

In the financial crisis, social banks grew substantially. A GABV report shows that social banks outperformed large conventional banks between 2008-2010 on a range of measures, such as increases in deposits and loans, and profitability measures such as return on assets and return on equity (GABV 2012b). Growth in deposits and number of depositors are interesting, as it illustrates that customers are in fact moving their money to social banks. Recently a scandal at Barclays Bank in the UK led customers to again loose trust the big banks. This lead to a 200% increase in number of new depositors compared to last year for Charity Bank, and a 51% increase for Triodos Bank UK (Stewart 2012). People *are* moving their money.

2.3 Critical comments

It is striking that GABV member banks outperform conventional banks on measures such as return on assets (ROA) and return on equity (ROE), as these are important measures of performance, efficiency and general profitability of banks (Walsh 1996). I would expect social banks to have lower ROA and ROE as a result of profitability being a secondary goal.

Average ROA and ROE for conventional banks from 2007 - *before* the financial crisis crunched the numbers - was in fact significantly larger than for GABV banks in the period 2008-2010 (GABV 2012b). This might imply that the reason for low ROA and ROE in the period 2008-2010 for conventional bank is in fact the financial crisis. Social banks were not hit so hard by the crisis as they have more assets directed to the real economy, and their ROA/ROE did not change profoundly. Thus, the reason for social banks to outperform conventional banks in 2008-2010 is perhaps more related to low performance of conventional banks because of the financial crisis.

Furthermore, the sheer size makes social banks truly a niche business (Scheire and Maertelaere 2009; Weber and Remer 2011). Triodos Bank, the largest European social bank with a balance sheet of 4 291 million euro in 2011 (Triodos Bank 2012a) is tiny compared to large conventional banks such as Deutsche Bank with a balance sheet of 2 164 billion euro (2011) (Deutsche Bank 2012a). Is there in fact demand for the services of social banks? It seems to be, because the banks are growing, and in an increasing speed after the financial crisis. Ethical consumerism has grown the last years (Crane and Matten 2010), and this can also be seen in relation to growth of social banks.

Remer (2011) addresses a crucial challenge for social banks. In order to actually contribute to social or environmental value creation, the money need to be lent to projects that can create this value. As mentioned above in Relaño (2011), their balance sheet is an argument that they in fact do this. The banks experienced huge inflow of funds after the financial crisis. Being mostly saving and loan- banks, these savings need to be transformed to loans. However, based on data from 2008, Remer (2011, 144) argues that the banks "*on average had less than two-thirds of their balance sheets outstanding as loans*". This implies that about 30% is not allocated for social or environmental projects, but instead this surplus liquidity is placed in governmental bonds or in other social banks[6]. Social banks cannot claim that this money is contributing to social and environmental impact when they are in fact not lent out to such projects. This is a danger to their reputation. Why is this? Is this because of too little demand for social banking-loans? Are the selection criteria so strict that there is a lack of high-quality projects fulfilling these criteria? Are social banks too conservative in their lending policies? There are actually some evidence that social banks do not find enough good projects to fund (Remer 2011; Scheire and Maertelaere 2009).

An argument that supports that social banks might be too conservative in their lending is found in Stiglitz and Weiss (1981). In this argument, I understand credit rationing as an indicator of conservative lending. The authors present a model showing that credit rationing is the equilibrium in a loan market (Stiglitz and Weiss 1981). This happens as a result of imperfect information regarding borrowers' capacity to pay back the loan – this makes the bank set the interest rate higher, creating possibilities for adverse selection and moral hazard. This in turn leads to credit rationing. Buttle (2007) criticises this model, based on that the behaviour of both banks and borrowers are assumed to result mainly from the price of credit. This assumption is weak for conventional banks, as they are highly dependent on other products and services besides credit (Buttle 2007). In other words, the behaviour of conventional banks is not necessarily a result of the price of credit, which can make the model less useful for conventional banks. My argument is that from a social banking point of view, Stiglitz and Weiss' model is

[6] It is not possible to have a conversion rate (deposits to loans) of 100% because of regulations, but Remer (2011, 221) argues that 75-80% is an appropriate ratio.

useful to explain credit rationing. This is because social banks are in fact dependent on credit, as we see from the balance sheet investigation in Relaño (2011). Social banks' behaviour can therefore be assumed to result mainly from the price of credit as we see in the original model, which can explain that social banks might be too conservative in their lending policies.

This chapter has provided an introduction to social banks, which helps to understand the research question. Academic literature and statements from the banks have been used to demonstrate the most important characteristics; transparency, sustainability and lack of profit maximisation. Critical comments have been raised for discussion of social banks' behaviour. The next chapter presents the methodology and data I have used to answer the research question.

3.0 Methodology and data

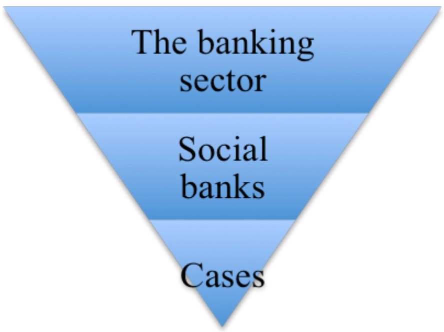
Based on the research question, qualitative research is the foundation of this thesis. A case-study method illustrates how two banks verify social and environmental impact. This chapter limits the empirics to two main cases and one contrasting case that will be analysed.

A reminder of the research question: *How to verify social and environmental impact of social banks? The case of Triodos Bank and Charity Bank*

3.1 Research design

The selected research design is case-based, which is selected to give a best possible answer to the research question.

Figure 2: *Narrowing the scope for analysis*



The area for research is within the banking sector. This is narrowed down to a special category of banks, namely social banks. Further limitations focus on the selection of a few cases, which are chosen based on several criteria.

A challenge for the analysis of impact measurement models has been that there is little academic research to build upon. To some extent this has been dealt with by relying on literature from the social entrepreneurship field. After thorough research, I found that social banks and social entrepreneurs have many similarities. Independently of this, they face many of the same challenges when it comes to measurement of their impact. Impact measurement in social entrepreneurship literature is a more developed research field, which is a benefit social banks can gain from.

3.1.1 Qualitative research

In an ideal world with many social banks with well-developed methods for impact measurement it would have been interesting to conduct quantitative research on this topic. However, this is far from reality. Because of the nature of the research topic and question, a qualitative approach has been chosen.

The main goal of this thesis is to get a better understanding of social banks and their impact measurement, which makes a qualitative approach suitable. Qualitative research with an interpretive approach has the goal of *understanding* a certain subject or topic, not discovering an objective truth (Willis, Jost and Nilakanta 2007). Interpretivism as a paradigm acknowledges that reality is subjective (Willis, Jost and Nilakanta 2007, 8). This is an appropriate approach in the thesis because of the presence of subjectivity in relation to impact measurement and because standardisation for impact measurement in social banks is non-existing. The impact that social banks contribute to is in many cases subjective; examples are community development, happiness, and a better life. These are all experienced by stakeholders, and are therefore subjective because the impact depends on how stakeholders experience it.

The goal of generalisation is relatively limited. The possibility to generalise from the analysis is more related to the methodologies having experiences that other banks can draw upon, and from the contrasting case illustrating challenges that other banks might also recognise.

Within an interpretivist approach it is important to "*deal with biases directly*" (Willis, Jost and Nilakanta 2007, 210). There is one evident source of bias in this thesis; the thesis was originally initiated to be written for Cultura Bank. I also worked part time at the bank for a period. I decided to write my thesis independently of the bank, but the origin has undoubtedly influenced it. Cultura's initiative was the original motivation for writing this thesis, and for focusing on impact measurement. Furthermore it has influenced the selection of Cultura as a contrasting case, due to my previous readings about the bank. I have dealt with these biases through only basing my information on written reports, annual reports and information available online. This ensures the academic integrity and quality. I will elaborate on the selection of Cultura as a case in 3.1.3.

3.1.2 Comparative case study

The comparative case study is a traditional approach in social sciences and is an approach that "*seeks to understand complex units*" (della Porta 2008, 198). Scholars argue that case studies follow the same research logic as other more statistical research logics, and further strive to increase *N* as much as possible (e.g. Lijphart 1971). The essence of this approach can be summarised below with the variable-based approach in table 1. However, this thesis does neither aim for generalisation, nor rigorously test hypothesis as in traditional statistical analysis. Therefore, a different research logic is needed. I build upon a Weberian logic as characterised by different tools such as analysis of complex units, methods of similarities and differences and the use of a narrative technique as a tool for analysis (della Porta 2008, 203). This logic goes "*beyond descriptive statistical measures, towards an in-depth understanding"* (della Porta 2008, 202) and is favourable because my goal with the research question is to shed light on how social banks can verify impact. The goal is to provide contextual knowledge about how banks *actually* perform impact measurement in the daily banking activity. A case study is a good way to approach this, as it provides a practical and situation-based knowledge. Another aspect is that social banks are typical case studies, because of a low number of banks, limiting the possibilities for other methods.

Table 1*: Two types of comparative research*
(Cited from della Porta 2008, 208, Table 11.2)

Comparative research	*Variable-based*	*Case-based*
Cases as	Anonymous – variables	Names, complex units
Number of cases	*N* as large as possible	Keep *N* low
Case selection	Random	Intentional
Diversity	Search for generalizations	Understand through exploring differences

It is natural and appropriate to select a case-oriented rather than a variable-oriented approach for analysing my research question. This is firstly because the cases are "*names with capitals*" implying that they are not treated merely as anonymous variables, but as units for analysis (della Porta 2008, 208). This is what I do by selecting Triodos Bank, Charity Bank and Cultura Bank as units for analysis. Social banks are complex in their differences and in order to understand them better, it is necessary to go into the cases. The cases are analysed on several dimensions, in order to give a full examination of their business and impact methodology. Secondly, social banks are relatively few in numbers, indicating that *N* cannot be large. A small *N* is characteristic of case-based research design for comparative studies (ibid). Furthermore, in this research tradition the selection of cases is intentional, not random, which is analogous to my selection process (see 3.1.3). Lastly, the main research purpose is to provide insight and gain understanding on how impact measurement can contribute to verifying impact, and this is distinctive for case-based research (ibid).

I analyse the impact methodologies in the selected cases, and use a method of similarities and differences in a comparative case study of the two methodologies. Here I focus on what makes the methods similar, and what makes them differ. The analysis enables me to conclude on core characteristics of both methods.

3.1.3 Selection process

The selection process is done in order to limit the empirical data. A common, agreed-upon definition of social banks does not exist in the literature, hence the optimal "*universe of cases*" from which I select my cases is not predefined (della Porta 2008, 211). However, I have taken some limitations through defining social banks as members of GABV and ISB, and to focus on European social banks.

<u>Triodos Bank and Charity Bank</u>

The selection of cases in a case-based approach is not random but intentional, and relies on that the selected cases are important for a specific reason (Ragin 2004). The cases are selected so that they are relatively similar when it comes to the matter for analysis (Ragin 2004, 128). For my analysis the selection is based on how social banks verify their impact, and more precisely the existence of an impact measurement methodology. Firstly, I looked at GABV and ISB members, as these are defined as social banks in this thesis (see list in the appendix). Secondly, I further narrowed the search to banks in the western hemisphere, as a result of the choice to not look at microfinance institutions and poverty alleviating banks (see chapter 2). Lastly, the most important criterion was the presence of a well developed approach to impact measurement. This selection of positive cases, "*where the outcomes of interest occur*" is typical for qualitative research (della Porta 2008, 216). This criterion is relatively diffuse. A way to deal with this was to search the websites of the banks for information about their approach towards impact measurement. A present, but not decisive criterion was to limit the case selection to banks that had websites in a language that I understand, because this made me independent on the banks sending me information. This way I am certain that I have equal access to the websites and published information, as a way of assuring that the information I have is unbiased. It is also most likely more relevant to have impact measurement in banks with a mission statement related to impact such as Charity Bank that work to "*maximise impact on society*" (Charity Bank 2012c) and Triodos Bank that emphasise on "*banking to make a positive impact*" (Triodos Bank 2012r).

This selection process highlighted Charity Bank in the UK and Triodos Bank based in the Netherlands as two very interesting cases to research. They both provide extensive information about their impact reporting regimes through their websites, annual reports and impact reports. They are similar in that they are both social banks; Charity Bank is member of the ISB, whereas Triodos Bank is member of both ISB and GABV. They both have a comprehensive method of impact measurement and provide loans to projects focusing on social or environmental issues. However, they differ profoundly in their approach towards impact measurement, in the services they deliver, and in many other aspects. In chapter 6, I provide a full presentation of the banks and their activities.

Cultura Bank

It is interesting to look at best practises, but it is also interesting to look at the diversity of approaches to impact measurement in social banks. For a broader view of challenges connected to impact measurement, I added a contrasting case to the analysis.

Cultura Bank is to some extent selected because of my previous knowledge of the bank, but more because of its similarity to social banks such as Merkur Bank, Ekobanken and to some extent GLS Bank. These social banks are relatively equal in size, outreach and mindset, and have relatively similar approaches to impact measurement as Cultura. The strongest reason for choosing this bank is the interest of analysing a contrasting case. Charity Bank and Triodos Bank are best practises, resulting from the selection process. The variety among social banks is illustrated with an example that is less developed in the impact measurement field. This makes the analysis more comprehensive, and exemplifies challenges that many other banks than Cultura faces.

The analysis of these cases illustrates a way to approach the research question in empirically investigating how social banks try to verify their impact.

3.3 Data gathering and sources of data

In social sciences, data can take a variety of forms and shapes. There are many methods of getting access to, or making own data. For my analysis, I have relied mostly upon information available on websites of the banks. The data available has equipped me with enough information to perform a comprehensive analysis of the impact methodologies used. The availability of the data is a result of the banks having a large degree of transparency, which makes them publish large amounts of information.

3.3.1 Primary sources

Primary sources are data that comes directly from the object under research, such as reports from the banks (Flick 2011, 33). In my analysis, I have used annual reports from several years, in addition to impact reports and other information found on the websites. These are reliable presentations to the banks' stakeholders and fulfil the purpose of analysing the impact methodologies. Available in these reports are basic statistics, information on mission statements, organisation, business operations, and how the banks perceive and conceptualise social and environmental impact. Both Charity Bank and Triodos Bank were helpful in answering specific questions on their impact methodologies. Mail contact with social banking professionals, especially Dr. Olaf Weber at the University of Waterloo, has given me great insight and understanding.

3.3.2 Secondary sources

Examples of secondary sources are academic articles about a topic or an event, where the author has used his own interpretation of primary sources. *" (...) in secondary sources usually several primary sources have been summarized, condensed, elaborated or reworked by others*" (Flick 2011, 33). My literature review is based on several secondary sources such as books and journal articles. Theory and conceptualisation on impact measurement relies on academic articles, some within the social banking literature, and some within the social entrepreneurship literature.

The articles used are as far as possible from peer-reviewed journals, but especially literature on social entrepreneurship is in some cases from university journals, networks or research centres. Limited academic literature confirms that the topic has been under-researched. Nonetheless, this is a developing research field, which demonstrates that interest in social banks is increasing.

This chapter has elaborated on methodology and data. The research design is qualitative and case-based with two main cases and one contrasting case. Data is mostly academic literature and documents available on websites of the banks. The next chapter focuses on theory for impact measurement of social banks. It discusses value creation and presents a framework that take both social/environmental <u>and</u> financial value creation into account.

4.0 Theory on social banks and impact measurement

This chapter clarifies approaches for how to understand and conceptualise social banks and impact measurement. Methodologies for measurement are then discussed within a selected framework.

There are several challenges with measurement of social and environmental impacts[7]. A great challenge with social values and impact is that there is no consistent way of measuring it, compared to financial values. How can you measure that someone is happier, has a better life-quality or that a community functions better? To some extent such measurement has relied on stories or intent of having a social impact, instead of attempting to measure such outcomes (Emerson 2003). As a result, a large degree of subjectivity prevails. This is a challenge for impact measurement, because it implies that there is no structure or special features to report on, it is not comparable, and it is less robust than for instance a profit statement. Thus, an approach towards measuring inherently subjective matters relies on the use of *indicators as proxies* for these values of a better life etc. This is the core feature of the approach taken in this thesis.

As impact measurement of social banks has been under-researched, the selected approach of a "blended value" is influenced by several sources (e.g. Weber 2011a). The blended value approach is relevant for organisations working with social value creation (Bonini and Emerson 2005). This is a framework to understand impact measurement of social banks, which consists of several levels as presented below.

Moreover, measurement of environmental value has been developing considerably recently. This can be illustrated with measurement of CO_2 emissions and development of emission trading systems as scientists have gotten increased knowledge about the consequences of emissions. Development of indicators such as carbon reduction/emission as proxies for impact is encouraging also for social impact measurement, because it illustrates that there is progress in fields that have been somewhat outside the main discussions. I will throughout the thesis mostly

[7] This will be further discussed in chapter 5.

use examples showing social impact. This is not because environmental impact is less important, but because social impact is more difficult to measure at the same time as it is less developed, so focusing on this will clearer illustrating challenges for impact measurement.

4.1 Why social banks need a different approach

Creating value to shareholders is important for many conventional banks when looking at their visions or mission statements (e.g. Deutsche Bank 2012c). For such banks, annual reports and financial statements show the essence of their success. Accounting rules and financial statement outlines have developed over a period of time, whereas impact measurement still is without a standard (Bonini and Emerson 2005). Social banks' mission statements focus on providing greater value to the society and environment indirectly through the lending projects. How are results of this core activity communicated to stakeholders? Social banks are subject to auditing and reporting rules just as conventional banks and publish annual reports and financial statements accordingly. These reports capture their banking activities, but not the essence of their "social banking" activities. Thus social banks need a technique to communicate their core activity to verify the impact claim and be accountable to stakeholders. Just as balance sheets verify how conventional banks have performed, impact reports can be a channel for communicating and verifying impact.

4.2 What kind of value do social banks create?

The concept of value creation is part of a larger philosophical discussion, which is outside the scope of this thesis. It suffices to argue that the social and environmental value social banks claim to create is not currently measured in money. Thus this value do not appear anywhere in the balance sheet, but might be verbally described in the annual report. Just because there is no social equivalent to financial statements does not mean there is less value. Here the challenges of measurement lie, in that there is no developed standard for social value.

There are different ways to theorise about social banks and value creation and to further proceed to measure this value. One way is to focus on how sustainable a bank is, and sustainability in the business practises. Many conventional banks do this, and measure it; they recycle, save energy, encourage use of public transport, gives money to special causes, etc. This is also the focus on man of the established reporting tools, such as the Global Reporting Initiative (GRI 2012). While being valuable, this approach does not capture the broader role of banks as financial intermediaries. Banks can have a potentially greater effect on society and environment through their role as credit providers. Another approach is made by charitable organisations trying to measure the output of their activities. This relies on a clearly formulated goal; if the mission is to provide housing for homeless people, then the impact is connected to how many people that has been helped with housing through this project.

Existing in the area between charities and conventional banks, social banks need a unique approach. Some social banks take the sustainability approach one step further by focusing on the indirect impacts from the *loan projects*. This approach takes the wider systemic role of banks into account, and acknowledges that the largest contribution to sustainability is through what kind of projects or businesses that are granted loans. This thesis focuses on impact measurement at the project level; how social banks enable and encourage indirect social and environmental impact. The foundation is that social banks use financial services to *"create a positive impact on the society and the environment"*(Weber 2011b, 5). This implies using an approach that captures both;

- Financial values, because lending and borrowing requires financial activity to be able to repay the loan, and
- social and environmental values, because this is the core sector where social banks lend money to.

Using a blended value approach to social banks follows research by Dr. Olaf Weber (Weber 2011a). This approach has also been connected with charities and social entrepreneurs and has been developed relatively recently. Jed Emerson argues that there is no trade off between social and financial return, and that the maximisation of blended value will maximise both financial and social impact or return (Emerson 2003). How is this done? To maximise this blended value, a crucial component is measuring performance on social and environmental indicators (Emerson 2006, 398). Performance measurement on blended value can illustrate successes or failures, and assist managers in their daily work to improve the organisation (Lingane and Olsen 2004). Indicators are used as proxies for experienced impact that is not straightforward to measure. This indicator-approach is still in its infancy, without standards.

4.2.1 How to create impact?

Social and environmental impact results from the loan projects of the banks. Thus in order to contribute to this impact, social banks need to lend out the deposited money to projects with a social and/or environmental profile. This is not necessarily easy. Firstly, there might be need for a range of criteria to assess the sustainability and possible impact of projects applying for loans. Secondly, as mentioned in chapter 2, the banks have challenges with "*transforming deposits into loans for sustainability oriented companies and projects*" (Remer 2011, 144). As social banks experienced inflow of funds during and after the financial crisis, the ability to allocate these funds to credit is an important skill necessary to actually contribute to impact creation. This is a central challenge, as their loan to balance sheet ratio was already relatively low (see page 18).

4.2.2 The blended value framework

A blended value approach is a framework to understand impact measurement of social banks. This framework consists of several aspects or layers, and the presentation is based on Bonini and Emerson (2005).

- First, the use of different indicators or metrics to capture differences in the loan projects is the central issue in this framework. This illustrates the motivation or purpose for measurement, and here lies a discussion about important concepts in the measurement methodology. These indicators contribute to clarifying impact from a loan project. An example can be number of people reached per loan provided (average loan size). The direction of change from projects to the actual *quantitative* results implies finding a causal relation between the projects -> their outputs -> outcomes -> impacts through using measurable indicators[8]. This direction of change is an example of a logic model (Bonini and Emerson 2005). This is a

[8] I will elaborate on the concepts of output, outcome and impact in chapter 5.

management decision-making tool that clarifies what is special about a loan project and what happens as a result of the project.

- Secondly, the selection of *what* to measure is a discussion of uttermost importance. It affects selection of indicators and the data gathering. Not all indicators are equally good, so deciding on the *purpose* of measurement is absolutely crucial in order to make the right decisions when it comes to selecting indicators to report on (Bonini and Emerson 2005, 27). Decisions on what to measure are reflect the above-mentioned direction of change; what kind of *outcome* are we looking for? Clear goals for outcome give more focused social impact because it facilitates selection of appropriate indicators as proxies for goal fulfilment. Using the example from above, does the indicator "number of people reached per loan provided" serve the purpose of what we want to measure? The level of measurement is also necessary to look into, is it the level of the individual or the society?
- Lastly, is the challenge of *how* to measure. Several methodologies are available for social banks within the blended value framework, and I will elaborate below. There are developed some recommendations for blended value methodologies though not specifically tailored to social banks (Clark et al. 2004).The core challenge and central point is the lack of a social banking standard approach, both when it comes to framework, methodology and indicators. Indicators will differ as a response to different activities within the loan projects, but the method applied could be equal in all social banks.

4.2.3 How to measure: Possible methods

There is a variety of methodologies and reporting tools available within a blended value approach. To mention some; the AccountAbility, different Logic Models, Balanced Scorecard, TBL (Triple Bottom Line), Social Return on Investment (SROI) and Social/environmental impact assessment (Emerson 2003, 42). Other frameworks exist, but report on the activity of the firm itself, as the more narrow approach discussed above (see page 29). The issue in this thesis is social banks' indirect impact, which complicates selection of a suitable framework. To look at indirect impact at the project level implies that methods focusing on detailed reports are not a feasible option for social banks, as they would need to get or gather many details from their loan projects. In the end, the result would not say much about total impact the bank contributes to. Therefore, there is a need for a methodology that requires less detailed data, is flexible when it comes to indicators, and still provides a good level of analysis. Dr. Olaf Weber argues that social banks could select only a few indicators for sectors they are active in[9]. Hence, the possibility to adjust the method to different banks and sectors is crucial. Flexibility in selecting and using various indicators is important. From this, comparisons would eventually be possible, not between sectors and between different banks, but at least between different years/sectors within the same bank.

4.3 Blended value: Social Return on Investment (SROI)

The blended value methodologies found in Clark et al. (2004, 4) are flexible and can be adapted to different purposes. One method that has been highlighted is the social return on investment (SROI) methodology. SROI is a quantitative method that incorporates social and financial values, monetises non-monetary values and quantifies social and environmental value. SROI focuses on the change that stakeholders are experiencing and is closely linked with both cost-benefit analysis and social accounting (Nicholls et al. 2009). SROI is an *"outcomes- based measurement tool*" (Nicholls et al. 2009, 33). Lingane and Olsen (2004) argue that an SROI analysis facilitates a maximisation of social and financial impact. The core feature of the method is that it analyses the social impact "… *in dollar terms, relative to the investment required to create that impact and exclusive of its financial return to investors*" (Lingane and Olsen 2004, 118). SROI is flexible in the use of indicators, which is good as it is not tailor made for social banks. The banks could make it fit their business model, and select some indicators.

SROI uses the "logic model" format, see figure 3. Output is relatively straightforward qualitative measures, outcome is how these measures affect stakeholders, and impact is the share that the banks can claim of the outcome.

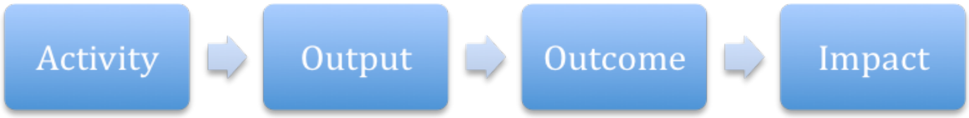
The core feature of the SROI methodology is that the impact can be measured as quantitative results. Bonini and Emerson (2005, 35) argue that "(*...) work*

[9] Personal communication. E-mail to author, 2-27 March 2012.

regarding logic models indicates many of those in the field are beginning to use a standard format and framework". This implies a development towards something that might become standard. Any logic model such as this would fulfil the purpose of tracking performance on selected indicators. This is because it clarifies the direction of change, and what to track or measure.

Figure 3*: SROI methodology*

Based on Nicholls et al. (2009) and Bonini and Emerson (2005)



Impact measurement of social banks is a new research field, and I have presented one approach to deal with it in this chapter. A disadvantage is that it can be claimed that these logic models are less useful as they are subjective in their attempts to monetize inherently non-monetary values. And is it desirable to assign a monetary value to everything? This is just a comment belonging to a larger discussion, but measurement is an important way to provide verification of a claim of having impact. SROI and logic models present one solution. Nicholls et al. (2009, 8) indeed argue that "*SROI is about value, rather than money. Money is simply a common unit and as such is a useful and widely accepted way of conveying value*". Other methods might be developing, but at the present time this is a highly interesting approach for social banks. The blended value approach is a valuable methodology, as it captures the social and environmental value creation in addition to the financial.

This chapter has illustrated some challenges for social banks and impact measurement. The core feature of the blended value framework is the use of indicators as proxies for impact. A logic model such as the SROI-method is further emphasised as an appropriate method for social banks. The next chapter goes further into SROI methodology and conceptualising of "impact". It also gives reasons for social banks to carry out impact measurement.

5.0 Conceptualising impact measurement

This chapter builds on the blended value approach and SROI presented in chapter 4. It conceptualises quantitative impact measurement in relation to social banks, which is required because "impact" is a relatively vague concept. Quantitative measures of impact will illustrate the degree of success in terms of whether social banks create social value or not. In order to measure success in social banks, it is necessary to *measure impact.* To do that, conceptualisation is essential.

This chapter builds on social entrepreneurship literature. This is a result of similarities between social entrepreneurs and social banks as mentioned in chapter 1, and because research literature on measurement is better developed in the social entrepreneurship field.

To conceptualise impact measurement, it is necessary to discuss the concepts. What is impact? How can we assign a value on impact? What do we want to measure? I will not go into a broad philosophical discussion of valuation and impact, but will illustrate the presence of a dilemma of <u>monetised value</u> with an example which is inspired by Jed Emerson (2003): A bottle of water can be bought at the supermarket at a given price, say NOK 15. This is the price of the good. For the person buying it, the *value* of this bottle is not necessarily explained best in monetised form. If you were thirsty, having NOK 15 in coins would not help you at all with your thirst. However, a bottle of water might be highly appreciated. This implies that *value* is not equal to *price*. The economic term "willingness-to-pay" is connected to this, which is defined as the highest price a consumer is wiling to pay for a good (Krugman and Wells 2009, 94). This term is economists' answer to the problem of valuation. A *market* with producers' supply and consumers' demand is necessary to create a monetised value as a *price*.

This example illustrates that value and money is not the same. In spite of this, the SROI methodology presented in chapter 4 monetises social value. The argument is that money is a tool to describe the value. The story further illustrates that the market place is important in determining monetary value in prices. Social banks contribute to values such as a better community, happiness etc – these values might not have a proper market to assist with the construction of a monetised value. That a better community has a value is not controversial, it is just not expressed in monetary terms. This illustrates some of the challenge for social impact measurement.

Weber and Remer (2011, 9) argue that through the mission statements of the banks, social impact is defined as sustainability. That implies that impact "*is defined in an intergenerational responsibility for the society, the environment and the economy*"[10]. This illustrates how social impact is a diffuse concept. How can we be sure whether responsibility has been taken for future generations and for the environment? And how to *measure* it? Impact is a cornerstone for social banks (Weber 2011a). It is clear that this concept needs operationalisation to be of practical use for social banks.

5.1 Measurement methodology: What are output, outcome and impact?

Following figure 3 in chapter 4, I will go deeper into the concepts of output, outcome and impact. The foundation for these concepts is input; activities by the bank and project staff in order to generate impact. I will not elaborate on input beyond a comment that this is where the bank offers the loan and uses resources connected to this, and where the project activity happens. In an SROI analysis, input is understood as a cost that should be subtracted from the calculated impact. Input is not elaborated in the theoretical discussion because it is more urgent to discuss the more abstract concepts.

5.1.1 Output

Output is the "*quantitative summary of an activity*" (Nicholls et al. 2009, 32). This is a concept that has become widely used in for instance NGOs. An example of this is Doctors Without Borders (MSF[11]) that reports on number of vaccinations, patients treated, surgeries performed etc (MSF 2011). This powerful quantitative tool should not be underestimated, especially for social banks. It seems to be relatively straightforward to get data on output. This relies on the loan projects

[10] Weber and Remer (2011, 9) refer to Brundtland (1987) for a definition of sustainability, see chapter 1.

[11] Medécins Sans Frontières

gathering data, and for social banks to collect them. Is it likely that loan projects collect some kind of data as evidence of their activity? To gather data as proxies of their success should be in the interest of the projects themselves. Currently, relatively few banks seem to collect or report on this.

Triodos Bank's impact method relies strongly on output measurement (see chapter 6). An example is number of people benefiting from "care for elderly" projects. Output measures are a good step towards developing an impact approach, as it gives stakeholders information about tangible results of how the money is spent. Quantitative measures for output later enable estimation of impact and make it possible to say something about achievements of each loan project.

5.1.2 Outcome

In the SROI model, outcome is seen as results of the activity as stakeholders experience it (Nicholls et al. 2009). It is necessary to have output measures to measure outcome. An example from Nicholls et al. (2009,33) illustrates the difference between output and outcome: The activity is a job-training course where *output* is number of people completing the course. *Outcome* in this example is the number of people getting a job. Hence, the outcome relates to *changes* happening because of activities of a loan project. This example also illustrates the importance of clearly formulated goals, which is crucial in order to say whether the goals have been achieved or not. Outcome measures can verify a claim of mission achievement.

The strength of reporting on outcome in addition to output is that it shows how the bank contributes to change. This illustrates change in people's lives, as output *and* outcome are the results of the loan granted by the bank. It is realistic to assume that the projects social banks finance have some degree of data on their own activities. Basic information like how many people benefiting from a project is data that the project themselves "*should be recording (...) anyway*"[12]. Banks can use this data for measurement purposes.

[12] Personal communication, Mary Locke. E-mail to author, 19 June 2012.

An additional example from Triodos Bank is related to organic food and farming (see chapter 6). The area of organically cultivated land is the output of lending activities. *Outcome* is calculated as how many organic meals this could produce in a year, which is then transformed into how many people that could be nourished with organic food for one year. In this case, organic meals are introduced as an indicator for impact of projects, which is an indicator related to stakeholders. This example demonstrates that output is the foundation for outcome measurement.

5.1.3 Impact as quantitative results

The foundations of impact are the concepts of output and outcome. Nicholls et al. (2009, 55) defines impact an estimate of the ”…*proportion of the outcome [that] can be isolated as being added by your activities*”. Hence impact is more precise than outcome, because it reduces the possibility to over-estimate results of the activity performed and clarifies the real effects of a loan. Impact has three components: deadweight, attribution and displacement (Nicholls et al. 2009). Deadweight accounts for outcome that would have happened without the activity in question being performed or not (Nicholls et al. 2009, 56-59). Attribution accounts for how much of the actual outcome that was *caused* by the activity we measure – in relation to what other organizations and activities might have contributed with (ibid). Displacement is to control for whether the outcome crowd out or disturb *other* outcomes (ibid). These three components follow a research-based approach, which is academically preferable but on a practical scale is highly resource demanding to estimate for all loan projects in a bank.

To demonstrate this, I use a loan to organic farming as example. This farm might borrow the whole amount they need from the bank, or just parts of it. The impact the bank can take credit for is the proportion of the outcome that resulted from the loan. If the bank provided 60% of the loan, it can only claim 60% of the outcome. This is to take attribution into account. Continuing with Triodos’ approach, this indicates that the total number of organic meals (the outcome) needs to be adjusted to whether Triodos was the only funder or not. Otherwise the bank over-estimates its impact. This is of course compared to an ideal situation, and reality is usually somewhere in between. It is resource demanding to take the three components of impact into account, and the workload for a bank such as Triodos

Bank with almost 22.000 loans is immense (Triodos Bank 2012a). Charity Bank's solution has been to simply ask, with the result that 70% of the loan projects stating that they could not have proceeded without the loan from the bank (see chapter 6). This implies that Charity Bank can assume to account for a substantial share of the impact in these 70%. This is a practical way to consider attribution, even if it is not perfect.

5.1.4 Indicators as proxies for impact

An indicator is quantitatively measured in numbers, ratios, metrics, shares, scale or percentages (etc.) and relates to measures for output and outcome. An indicator-approach uses such measures as proxy of a certain impact, making it more practical. This is applicable to social banks and enables them to a greater degree to conceptualise impact. Dr. Olaf Weber suggests several indicators, one example is: *"Loans (...) selected by positive social or environmental impact criteria/total loans*" (Weber 2011a, 204).

Furthermore, highlighting output and outcome is a large step for social banks in general, because the sector still does not report on this to a great extent. Reporting on output and outcome are steps towards measuring impact. Impact is the core theme in this thesis, and it has been shown that this is not straightforward to measure. Thus when I refer to impact measurement in subsequent chapters, this might imply a focus on output or outcome more than impact as it is presented in this chapter. This is because social banks have not come so far in making impact practically applicable to their loan portfolios.

5.2 Why measure impact?

There are many reasons for measuring, depending on what the purpose is. I chose to focus on two distinct reasons in this sub-chapter. Alex Nicholls argues that a reason for measuring social impact is that is provides a "*proper picture of a social entrepreneur's success or failure*" (Nicholls 2006a, 18). Another argument is that measurement (through ratings) "*enable banks to operationalize their ethical values by way of quantifying social and ecological factors*" (von Passavant 2011, 83).

Are we measuring too much? Is social impact beyond measurement? Surprisingly social initiatives themselves have argued that impact cannot be measured (Emerson 2003; Bonini and Emerson 2005). It is in the interest of social banks to perform impact measurement based on two main reasons, based on Bonini and Emerson (2005): Firstly, measurement provides accountability in order to validate a claim of having an impact. Secondly, measurement is a management tool that can improve the decision-making process. Through highlighting effects of the activities, impact can be increased.

5.2.1 To provide accountability

There is a real danger of confusing the *intention* of impact with actual *achievement* of impact (Emerson 2003). This is a challenge for banks that "know" they have a social impact, but that does not provide verification of achievement. Self-proclaimed impact can be associated with green washing if little information on how this "green" impact happens. It can also be hard to attract investors based on self-proclamation. In these situations, measurement is a tool that validates the achievement of impact.

Measurement provides accountability to depositors who choose social banks because they perceive such banks to be a greener alternative (Becchetti 2011). It also provides accountability to stakeholders such as investors and owners, showing the impact that takes place because of the activities. Measurement is a way for management to show owners that the goals have been fulfilled, which improves the credibility of the banks.

5.2.2 To increase impact

Von Passavant (2011, 79) argues that the mission statements of the social banks have to be developed beyond a "*promotional brochure*", because it should present the banks' promises to stakeholders, nothing more or less. She argues that social banks need to be managed like professional business enterprises and that *"management means implementing the company's goals"* (2011, 78). Thus when impact is the goal of the bank, it is management's responsibility to reach this goal. Measurement is a tool for management to know whether it is achieved or not.

Tracking performance on impact can be a decision-making tool for managers. Measuring impact makes visible what creates impact. Quantitative measurement puts a number on the effects of an action, and from one year to the next, changes become clear. An analysis of this change gives knowledge on what influences impact, giving managers better information to act in a way that increases impact. Thus, measurement assists managers to maximize impact.

Moreover, when an organisation lack measurement of a concept that is crucial to their goal attainment and existence, how can it know how well it is performing? Does it reach its goals? How to become better? Lack of measurement can create a less than optimal outcome for social banks, because there is no scale on which to improve, nor prove, the social impact or social value creation. I propose a solution to a situation with lack of measurement in chapter 8.

5.3 How to measure impact

How to measure depends on the purpose of measurement, and the method chosen. I use an approach from social entrepreneurship literature to illustrate selection of appropriate measurement tool. Here the focus is that the *types* or categories of social entrepreneur influence the selection of appropriate measurement tool. These types or categories are also suitable for social banks, and this approach therefore highlights selection of measurement approach.

Zahra et al. (2009) propose three types of social entrepreneurs (Zahra et al. 2009): The Social Bricoleur is a small, locally based initiative that works to handle specific local challenges. The Social Constructivist finds unsolved challenges in the social market and come up with solutions to this that can be applied to equal challenges in different places (regional or national). The Social Engineer focuses on large challenges and international social issues such as global poverty etc., and provides a solution. Thus, these types of social entrepreneurs increase in scope, size and geographical outreach. Smith and Stevens (2010) argue that the type of entrepreneur and nature of the project influence how social impact is measured.

The authors argue that Social Bricoleurs are locally based projects that relies on *narrative information* as a measure for communication of results to funders (Smith and Stevens 2010). When size and geographical outreach of projects increase, ties to the local society and between funder and project become less clear. Thus as the scale increases from local to global, direct ties and relation between the actors reduces. This calls for more complex impact tools, as the narrative approach is no longer sufficient (Smith and Stevens 2010).

Following the argumentation in relation to social banks, the impact measurement methods following from these types of entrepreneurs will be different depending on the size, geographical orientation, and scope of social banks. This approach could explain if smaller, more locally based social banks rely more on narrative communication of impact. Based on my case studies in chapter 6 and 7, it seems to be some support of this, in that the larger banks such as Triodos Bank have more sophisticated measurement methodologies.

5.3.1 Clarify goals or missions

Determining *what* to measure is crucial in order to decide *how* to measure it (Bonini and Emerson 2005). One way to decide this is to clarify the *raison d'être* of the bank. What are the goal, mission, and purpose of the organisation? To clarify this in tangible rather than fluffy terms will go a long way in helping social banks to take a position on impact. This will make it easier to assess goal achievement. Clarification do not need to compromise a broad focus in social banks, but forces the banks to take a clear position in order to encourage impact measurement.

To illustrate, an organisation with poverty reduction as a goal, should report on exactly this – whether they have reduced poverty or not. One way to solve this, after clarifying how poverty can be reduced, is to define some proxies that measures success of reaching the goals, and then collect data on this. See next section.

5.3.2 Methods for measuring impact

As mentioned, there is no standardised way of reporting on social value creation. It is argued that even if no standard exists, theory on social value creation is developing (Emerson 2006). Much of this development is focused on methodologies following the logic model approach, such as the SROI method.

Here I will shortly discuss one feature of the SROI methodology. A challenge is the relatively deep level of details that is needed in order to perform a proper analysis. In order to proceed from outcome measures to impact measures, attribution, deadweight and displacement must be accounted for. This implies that SROI is a relative measurement tool, as opposed to absolute measurement. Following this, social banks would need to find detailed data on every loan project. What would have happened without the loan being granted (deadweight)? How much of the outcome was result of the loan from the bank – and not from other loans (attribution)? In addition, it would be necessary to find data on how the outcome from each project might crowd out other possible outcomes (displacement). The data collection would be immense, and with a large number of loans even in small banks, social banks would get an impossible workload.

These requirements witness about a certain distance between the theoretical SROI methodology and what is practically applicable in a bank. The approach chosen by Charity Bank to simply ask the projects if their activity would happen without the loan is very interesting. Another solution used by Triodos Bank is to assume that the bank contributes to 100% of the loan, such that the bank can claim 100% of the impact[13].

5.3.3 Current practises: Storytelling

Storytelling is an example of narrative communication used by smaller banks, in the sense of being social bricoleurs (see page 40-41). Social banks currently measure impact in several ways, some have impact reporting schemes and some do not. Chapter 6 and 7 analyse the way Charity Bank, Triodos Bank and Cultura Bank do this. Here I wish to elaborate on the method of storytelling that other

[13] See chapter 6 for these examples.

social banks besides the selected case studies rely on. Examples are Ekobanken in Sweden, Merkur Bank in Denmark and GLS Bank in Germany[14].

The storytelling method is used in the non-profit sector as a way of attracting funders (Merchant, Ford and Sargeant 2010). This method is also associated with marketing for consumer goods (Woodside, Sood and Miller 2008). The art of telling a story appeals to humans because it is fundamentally a *narrative* method based on qualitative methods (ibid). Transferred to social banks, this implies communicating goal attainment through telling a story about a certain loan project. Following the argumentation from R. McKee (2003, in Merchant, Ford and Sargeant 2010, 754), storytelling makes depositors develop a more emotional relation to the projects, because people more easily follow a narrative approach. This can make depositors more connected to the loan projects, which illustrates a reconnection between depositors and borrowers. This connection demonstrates a return to traditional banking values related to the real economy (Benedikter 2011).

An example of the storytelling method presented by Merkur Bank (2012, 25) demonstrates how social banks use storytelling. Studiecykel.dk is a project that searches to reach students in Denmark and in Africa. In Denmark students are provided with a bike for one year, which is financed through advertisement on the bikes. This is called green advertisement, as it contributes to environmental friendly transport and reduces pollution while at the same time make students exercise (Studiecykel.dk 2012). After being used in Denmark, the bikes are to be shipped to Africa where they will be given to African students with the hope of improving the possibilities to pursue education and improve their future (ibid). Merkur Bank gave a start-up loan to Studiecykel.dk. Storytelling provides a description of the business idea behind this loan project, the mission and goal of the project, and what action Merkur Bank did in relation to the project.

In general, what we learn from a storytelling presentation of a loan project is the purpose and idea of the project, perhaps some information on values, and the Internet page of the project. Some banks publish the size of the loan to projects (e.g. Charity Bank), but most do not (e.g. Merkur Bank, Ekobanken). Does this

[14] (Ekobanken 2011; Merkur Bank 2012; GLS Bank 2012).

make storytelling a suitable measurement tool? This is indeed very difficult to answer. There is no structure or special features to report on. It is not possible to verify the size or outreach of the projects, nor if the bikes are in fact sent to Africa. The *intent* of impact is clear, but whether it actually happens or not, is not clear from a storytelling presentation. On the other hand, storytelling is a good approach to verify a value of transparency, which might be the intention of it. However, then impact claims are still without verification.

Social and environmental projects are borrowing money from social banks, but a discussion on *why* and how such projects have positive social or environmental impact is not very clear. It might be obvious, but to question the obvious is certainly legitimate when it comes as a claim with little supporting argumentation. Thus, how can social banks argue to create social and environmental value without providing a proper discussion around *how* this value is created? Organic production might be good but in order to establish this, argumentation is certainly needed. Stories or descriptions *about* organic projects are perhaps not enough. Jed Emerson (2003, 37) puts it like this[15] *"(...) they justify their efforts on the basis of perceived social intent – thereby confusing programmatic intent with documented social impact*". Just because there are yet no social equivalent to standard financial accounting does not mean there is less value, nor does it justify lack of measurement. Arguments of intended impact need verification, and this is where social banks fall behind their own visions.

5.4 Measurement challenges

There are numerous challenges linked to measuring social and environmental impact of projects that social banks lend money to. I will present some evident challenges, and together with every challenge, shortly propose possible solutions. I acknowledge that these are not quick-fix problems, the purpose is merely to illustrate that impact measurement is not impossible. The list is not exhaustive.

1. The projects contribute to intangible and immeasurable impacts such as improved self-esteem, a better life, happiness and so on.

[15] While talking about social responsible investors and charities.

Solution: Using a survey or questionnaire, this can certainly be measured, for instance as percentages of people reporting on increased life quality.

2. Even if these concepts could be measured, it is not possible to transfer them into investment decisions or monetary values.
   Solution: A project with a larger number of people helped for the same amount of loan implies that the impact is larger. This can be transferred into investment decisions by directing funds to projects where impact is higher. It is also possible to investigate *why* impact might be lower in some projects. Further, it is possible to calculate percentage of people reporting on for instance increased life quality into financial values by making it a share related to loan (Weber 2011a). Imagine a number of people reporting on increased life quality after an activity. This can be compared to the total loan amount: Number of people with increased life quality/NOK 1000 loan.
3. To analyse impact from every single loan project will be too large workload, as impact measurement is resource demanding.
   Solution: This depends on the chosen approach. It is an inevitable fact that measurement requires resources, which in the end depends on whether the bank prioritises it or not. Secondly, it is possible to choose a few indicators for each sector and let these be proxies for impact. For instance, Triodos Bank has chosen this approach (see chapter 6).
4. There is no standard methodology for impact measurement within the social banking sector.
   Solution: This is the exact reason why it is so important to perform research on impact measurement and to develop it within and between the banks. No standard means large possibilities for shaping how the way forward will be. Standardisation will also develop through networks and other arenas for information exchange (Bonini and Emerson 2005). Examples are networks such as the ISB and GABV The analysis in chapter 6 demonstrates that even without a standard methodology, both Charity Bank and Triodos Bank have tools to clearly demonstrate their impact.
5. Social and environmental impacts might become evident first in the long term and it is difficult to internalise these impacts at present time.
   Solution: Through using discount factors and present value it is to some extent possible to internalise future impacts. The Stern Review uses this

method to calculate economic impacts of environmental impact such as climate change (Stern 2006). It is likely that social impact measures can draw on experiences from the environmental sector.

6. Non-monetised, non-tradable qualitative values carry a challenge of being subjective, which can decrease the validity of the measurement and the possibility to compare impact from different projects or sectors.
   Solution: This is a highly valid challenge, which also relates to the need or desires to compare all outcomes. Perhaps it will be possible to just compare within one sector, and at a later point between different sectors or banks. As social impact measurement develops, I believe it will become increasingly standardised and less subjective. A thought for consideration is whether subjectivity is just bad or objectivity just good.
7. It is not desirable to measure qualitative values with quantitative measures because not everything is meant to be measured.
   Solution: This refers to the discussion in 5.2. Depending on whether this is a challenge within the bank or within the project, it needs to be handled in different ways. Within the bank, it might originate in lack of resources, which depends on how the bank prioritises impact. Within the separate loan project, resources and lack of interest might be reasons. This boils down to how much data is required for analysing impact. It is natural to assume that e.g. a cultural project has some numbers to indicate its activity, for instance how many visitors or performances it has had. Lack of interest for this leaves the project without a way to assess its own goals.
8. Disagreements on what should be measured.
   Solution: This boils down to unclear missions statements and/or goals, which can be clarified through discussions and workshops.

This chapter has developed the concept of impact in relation to social banking, drawing upon the logic SROI model. Accountability and increased impact have been discussed as reasons for conducting impact measurement, and clarification of goals has been emphasised for facilitating measurement. Challenges and possibilities for social banks and impact measurement have been highlighted. This chapter has given a background for the empirical analysis that follows in the next chapter, where I analyse Charity Bank and Triodos Bank's impact methodologies. This gives an empirical answer to the research question of how to verify impact.

6.0 Analysis: Impact measurement in social banks

This chapter analyses two case studies in order to empirically answer the research question. In addition to the research question, several questions have guided the analysis. Are Charity Bank and Triodos Bank characteristic social banks? How do they attempt to verify that they have an impact on the society? Do they follow a logic model approach? What kind of methodology do they use, and how do they solve practical difficulties? Even if there are several challenges to measuring impact, this chapter shows that both qualitative and quantitative methods are tried. The two banks are presented together with their approaches to impact measurement. The methods are analysed separately, and then compared to find differences and similarities. Strengths and weaknesses of both methods are also discussed. That social bank have transparency as a core value is a main reason that my analysis has been possible, as it is based on documents published at the banks' websites.

6.1 Strategies for verifying impact

Social banks can use some strategies to verify that they "walk the talk" and have a positive impact. Measurement is analysed as a way of verifying impact and lending criteria is shortly presented as another way. Lending criteria are applied before a loan is granted, and measurement is performed at a later stage after the loan is assigned. These two strategies vary on several levels. These two approaches are not mutually exclusive, and the ideal situation would be a combination of the two. Both clearly established criteria before a loan is assigned and impact verification after the loan is granted. The ideal situation is where these two strategies can be checked by a third part at any time, and that they are both accessible online.

Measurement has been discussed in previous chapters. Lending criteria are in one aspect less detailed in that they can be both negative and positive. Negative criteria focus on what the bank will *not* lend money to (or invest in), and positive criteria concentrate on preferred sectors or types. The result is a loan portfolio based on selection criteria. A detailed checklist for criteria is challenging, as the core business activity is *positive impact*, which is difficult to measure. Therefore, criteria might instead focus on certain sectors or industries as a way to come around this challenge. Examples can be to positively focus on sectors such as organic farming and fair-trade products. However, this necessitates an additional value-based discussion and a clear argument on *how* and *why* organic farming and fair-trade are ways to bring positive impact.

The following sections present history and statistics of the banks, their characteristics, project portfolio and impact measurement methodology. Ownership structure and how funds are raised are not discussed, as it is assumed less relevant for the development and shape of the impact methodology.

6.2 Charity Bank

Charity Bank was established with a banking license in the United Kingdom in 2002 (Charity Bank 2012b). The process started 10 years before, when the Charities Aid Foundation*,* an organisation providing financial services to charities, started to look into possibilities of opening a bank for charities (ibid). In 1995 the Investors in Society was established within the Charities Aid Foundation as a loan fund. In the following years, the business model was developed and necessary permissions and licenses were obtained (ibid).

Charity Bank has 2400 depositors, a total staff of 42 and a balance sheet total of GBP 80’585 000 (Charity Bank 2012a, 37; 2012e). The bank operates in the UK and offers savings accounts and loans. Loans have been approved to a total of 1006 organisations and the value of loans agreed in 2011 was GBP 26.6 million (Charity Bank 2012a, 26-27). Charity has an average loan portfolio growth of 33% on average from the start in 2002 and growth in deposits on average 42% annually (ibid). Charity Bank is a member of the Institute for Social Banking (ISB).

6.2.1 Characteristics

Charity Bank argues that there are several aspects of its business practise that make it different from conventional banks (Charity Bank 2012c). The most important are the mission statement and the transparency value. A different view on money is the foundation for these values. "*Our ultimate mission is not to maximise profit, but to maximise impact on society*" (ibid). This clearly illustrates that impact is the most important goal, which makes it crucial for the bank to report on especially this. These values makes Charity Bank a characteristic social banks with reference to figure 1 as presented in chapter 2 (see also page 69).

A statement of using deposited money to "*create social change*" (ibid) indicates that positive criteria are determinants of loans. Furthermore the statement necessitates verification. How are the loans granted creating positive social impact and change? The project impact report illustrates both impact and transparency, and is divided into 10 sub-fields where the projects are grouped into sectors such as *housing, community* or *health* etc (Charity Bank 2012a). Different sectors are presented together with information on why they are important. Transparency is ensured through publishing details on the lending portfolio; *all* projects are described, together with the projects' websites.

Charity Bank is registered both as a charity and as a Financial Services Authority (FSA) regulated bank, and argues that this dual regulation gives it a special position (Charity Bank 2011). Being a charity illustrates the mission statement and protects the pursuit of societal goal instead of profit to shareholders. Banking regulations provides protection for depositors and borrowers. The bank argues that *"Your money is used for charity loans and loans to social enterprises that make a positive impact*" (Charity Bank 2012f). This makes Charity Bank an investment solution for socially responsible people wanting an alternative between profit maximisation and charitable donations (Charity Bank 2011).

<u>Example: Lyvennet Community Trust</u>

To illustrate with an example, Charity Bank describes its contribution to housing challenges. Housing is a basic human need, and Charity Bank finances projects for people with different needs (Charity Bank 2012a). Homeless people, people with low income, disadvantaged people, and in general people that are excluded from access to housing are targeted through such projects. An example from the housing sector is the *Lyvennet Community Trust* in Cumbria, UK (Charity Bank 2012a, 16). Charity Bank provided a loan of GBP 1 million to build affordable homes for local families. The bank presents a problem of access to housing in areas where housing prices are far above average income levels. This situation can occur in places where strong "second home" buyers dominate the housing market, creating challenges for local inhabitants to afford housing. To counter this process there are organisations providing affordable housing. Many small organisations of this kind do not have access to mainstream finance, and Charity Bank finds its niche here.

This is storytelling in its essence; describing the project, its funding need and purpose. Furthermore, describing the action taken by the bank in the specific case is transparent and verifiable.

6.2.2 Impact approach

What kind of strategy does Charity Bank use to verify its impact; reliance on criteria or impact assessment? Applicants have to fulfil certain criteria before a loan application is considered. Applicants have to "*demonstrate that they are constituted with social objectives and are non-profit distributing to private individuals*" (Charity Bank 2012d)[16]. Thus the bank in general only lends money to charities, for-profit companies on a normal basis would not be eligible to loans. This is an interesting feature compared to conventional banks, which are in many cases excluding charities as borrowers (Charity Bank 2012a). Charity Bank does not seem to rely heavily on formulation of rigid principles, and rather use minimum requirements for applicants. The consequences are that the possible business area becomes large and undefined, as social objectives are not further defined. At the same time it gives the bank an opportunity to evaluate a wide range of possible applicants.

Charity Bank has recently developed its own impact measurement model, in order to capture some quantitative data while still continuing storytelling based on qualitative data. This was developed in 2010, with some changes in the method from 2010 to 2011. The bank presents it as a tool for depositors, borrowers and investors to assess its "*ability to select and lend to effective high impact*

[16] The bank can lend to for-profit enterprises "if the loan is for exclusively charitable purposes". (ibid).

organisations" (Charity Bank 2011, 8). As the bank emphasises on having social impact it is crucial to report on exactly this and Charity Bank seems to rely on impact assessment as a tool for verifying this claim.

This methodology is new and developing. The bank states that "*As part of our application process we assess the potential impact on beneficiaries, and on the organization itself*" (Charity Bank 2012a, 12). This implies that this method is used both as a strategy for evaluating the project before a loan is assigned *and* assessing the impact after a given period of time, giving the tool higher value. The method combines the two strategies of criteria and measurement and provides transparency to stakeholders and the community. Further the bank emphasises on the loan having both a direct and an indirect impact (Locke 2012). The direct impact is on people that benefits from the projects' activities (beneficiaries). And the indirect impact is on the organisation, in terms of making the charity focus more on their financial situation, find new solutions and be more strategic – which in turn makes the organisation stronger (ibid).

6.2.3 The methodology

The unit of analysis in this method is each separate loan project. The impact model from 2010 was built on 5 key metrics that were estimated for each project (Charity Bank 2011, 9):

1. Mission fulfilment: how the organisation accomplishes its mission.
2. Beneficiary perspective: how mission fulfilment leads to changes in stakeholders' lives.
3. Wider community: impact on the local society.
4. Organisational strength: the organisations "quality, transparency and soundness" (ibid).
5. Impact of loan: how the bank's decision to lend money has brought change in terms of improvements and growth.

Charity Bank developed its impact methodology from 2010 to 2011. Now the analysis is based on 4 indicators (Charity Bank 2012a, 12). In 2010, the focus was very clearly on project impact. Now the headline is "*key to a successful mission driven organisation*" (ibid), which is slightly different and might have influenced changes in indicators.

1. Mission focus: Does the project have a clear mission, and to what extent is it achieved?
2. Organisation resources: Knowledge within the charity, staff, location and motivation.
3. Financial resources: How is the financial situation?
4. Wider impact: The impact of the organisation on community, staff and environment.

From 2010 to 2011 some changes are clear, for instance in adjusted indicators. Impact manager Mary Locke explains the most important change, *"We now look at the organisation and its work separately, whereas last year they were mixed together"*[17]. That means the impact methodology now is two-folded. The **indirect** impact of the bank is on the organisation (Locke 2012). This is the focus of the first three indicators, which together are seen as very important for an organisation's success (Charity Bank 2012a). The fourth indicator captures the **direct** impact of the loan for beneficiaries, through the organisation's activities. This indicator consists of social and environmental responsibility of the organisation and impact on beneficiaries and community (Locke 2012).

In the abovementioned example of the Lyvennet Community Trust, Charity Bank writes that it provides "*bridging finance and a long-term loan to enable the project to go ahead. It also helped the trust unlock £675,000 of additional grant and loan funding*" (Charity Bank 2012a, 16). The following figure 4 illustrates how Charity Bank assesses impact based on the four indicators (ibid):

[17] Personal communication, e-mail to author, 19 June 2012.

***Figure 4**: Lyvennet Community Trust: Impact*

The blue area is the project impact. From the figure it is clear that the strongest impact in on indicator 1 and 2, and the weakest is on indicator 4. A high value of indicator 1 implies that the loan to the organisation was crucial in order to build these houses. A medium value on indicator 4 implies that the impact on the local community was present but not immense.

This way of showing project impact is illustrative yet daring, as it is easy to criticise because it is not clear how a value on the four indicators are estimated, and why especially these four indicators have been chosen. Mary Locke explains that there are a number of questions asked, which together make up a score on each indicator[18]. This approach makes it difficult for stakeholders to assess the process of assigning value to the four indicators.

The estimated impact is openly published for projects independently of the size of the impact, which demonstrates transparency. In the 2010 and 2011 reports only a couple of examples of this methodology exists, but there are plans to analyse the whole loan portfolio (Charity Bank 2012a). In addition, the bank publishes some "multiple impact" indicators on the level of the bank, instead of the project level (ibid). This includes goals of strengthening the organisations, illustrated through a survey concluding that approximately 2/3 of the borrowers report that the loan made them plan more strategically and manage their finances better (ibid). Further, Charity Bank provides statistics on sector level such as *housing* consisting of 49 projects, all together having a loan of GBP 14.6 million (ibid). As

[18] Personal communication, e-mail to author. 19 June 2012.

much as 70% of projects would not have happened without the support from Charity bank (ibid). In 2010 this was number was 40% (Charity Bank 2011).

In addition to the visual figure, the bank writes the total loan amount to the housing sector, how many projects, how many people are helped and what kind of housing they benefit from (Charity Bank 2012a, 15). For each specific project, the bank presents a narrative description of the impact of the loan on the organisation and the beneficiaries. This illustrates that storytelling is still important.

6.3 Triodos Bank

Triodos Bank was established in the Netherlands with a Dutch banking authorisation in 1980 (Triodos Bank 2012m). Prior to this, Triodos Foundation was established with the aim of reaching projects with a sustainable focus (ibid). After being established as a bank, Triodos soon developed different environmental funds and continued to grow in Europe, opening branches in Belgium, United Kingdom, Spain and Germany (ibid). It is now the largest European social bank, both in terms of employees and in size of balance sheet (Remer 2011). Triodos Bank has 720 co-workers and has a balance sheet total of 4'291 million euro, which is more than doubled from 2007 (Triodos Bank 2012b, 2012a). The bank has 21'900 loans which is more than 3 times the number of loans in 2007, and size of the loan portfolio is 2'838 million euro (Triodos Bank 2012a). There is remarkable growth in all key figures since 2007, implying that Triodos is one of the banks that experienced the effects of the financial crisis in terms of increased demand for ethical responsible banks. The bank now has 355'000 customers (Triodos Bank 2012d).

Triodos is organised as the Triodos Group consisting of Triodos Bank and Triodos Investment Management (Triodos Bank 2012g). The bank offers all traditional banking activities such as lending, deposits, Internet banking, payment card etc, and Triodos Investment Management manages different investment funds (Triodos Bank 2012f). This thesis focuses on the banking activity of Triodos, thus with the term "Triodos" I refer to the banking activities. In addition, the Triodos Foundation is an active donor that supports projects through gift-money (Triodos Bank 2012p). Of the European social banks, Triodos in the largest and most comprehensive comparison to conventional banks it that it offers complete investment services, in addition to loans. It is argued that Triodos presents the "*most comprehensive set of funds based on principles of social investing*" (Weber 2011d, 107).

Triodos is a member of the Institute for Social Banking and the Global Alliance for Banking on Values, where it also holds the Chair through its CEO, Peter Bloom (GABV 2012c).

6.3.1 Characteristics

Triodos Bank argues that it is different from conventional banks for several reasons. The most important reason are sustainability, positive screening and transparency (Triodos Bank 2012s). Emphasis is put on having a positive impact, and the bank claims that money deposited will only be used for this (ibid). The mission is "*to make money work for positive social, environmental and cultural change"* (Triodos Bank 2012l). Money is invested in the real economy and the bank emphasises on *trust* as an important issue. Trust is ensured through transparency, and through publishing data on the whole loan portfolio. Values such as trust and transparency might be reasons for Triodos' growth in the financial crisis. "*At Triodos Bank, we see profit as proof of a healthy organisation, but not as an end in itself*" (Triodos Bank 2012o). Based on these values, Triodos Bank is a characteristic social bank with reference to figure 1, chapter 2 (see also page 69).

The main lending sectors are environment, social and culture (Triodos Bank 2012b). As an example, Triodos argues that culture contributes to positive human development, and therefore is a priority area together with social and environmental projects (Triodos Bank 2012j). There are many sub-categories such as *organic farming, community projects,* and *arts and culture.* On the website it is possible to find comprehensive information on the lending portfolio. For instance, there is a section with general information on organic farming, together with details on all 320 projects in this category (Triodos Bank 2012i). The extent of information varies between projects, but details on what kind of organic farming it is, are provided. In the sub-categories exemplified above there are 241 community projects, and 288 arts and culture projects (ibid).

Example: Ardalanish Organic Farm, UK

Triodos Bank presents argumentation for *why* organic farming is a sector for investment. "*Organic agriculture recognises the relationship between our environment, our health and the food we eat*" (Triodos Bank 2012e). Organic farming does not use chemical fertilizers and pesticides that prevent the soil from regenerating, and produces less greenhouse gasses than conventional farming (ibid). An example of a loan project is Ardalanish Organic Farm in the UK. This is an organic sheep farm producing wool and meat, which is being sold through a shop at the farm (ibid). This example demonstrates transparency and storytelling in that we get information on the project, which is relatively limited.

6.3.2 Impact approach

What kind of strategy does Triodos Bank use to verify its impact; reliance on criteria or impact measurement? Triodos has both criteria and impact assessment. The bank has positive screening through a focus on project that contribute to "*positive and lasting change*" with three outspoken focus areas; nature and environment, culture and welfare, and social business (Triodos Bank 2012k). Triodos acknowledges that it is a very broad idea to fund enterprises working for positive change and as a response they argue that it is crucial to have lending criteria that are well defined. A list of criteria has the shape of a guide for minimum standards that are for both the loan and the investment portfolio (Triodos Bank 2012n). The minimum standards focus on sustainable products, sustainable processes and the precautionary principle (ibid). In addition to criteria, a range of products and sectors are excluded from loans or investments, implying a form for negative screening.

For the investment funds, criteria that are more concise exist. Three steps determine whether the company is eligible for investment. The first investment criterion is that the firm should have "*(...) over 50% of its revenues from sustainable activities*" (Triodos Bank 2012h). This is a very concrete example of a criterion that directly influences the way money is invested, resulting in an investment portfolio with a clear sustainable profile. Secondly, if the projects do not fulfil the first criterion, the bank assesses the total sustainability performance of the firm based on selected social and environmental indicators and chooses best-in-class companies (ibid). Thirdly, organisations or firm fulfilling these criteria are then subject to the minimum requirements (ibid). These are related to un-sustainable activities such as nuclear energy, child labour or environmental hazard, non-sustainable products, processes or working conditions, in general "*any organisation that puts profit before people and planet*" (Triodos Bank 2012k). In general, this process results in screening out 75% of the companies analysed for investment purposes (Triodos Bank 2012q).

In addition to these criteria, the bank assesses its impact with an output and outcome-based methodology. The method is very recently developed and the first impact report is in the annual report from 2011 (Triodos Bank 2011).

6.3.3 The methodology

Triodos has also developed its own impact measurement methodology, quantifying non-financial impact. The impact method is developed to measure the impact from projects Triodos finances, and is divided into five sectors (Triodos Bank 2012b). The bank presents argumentation for lending to the different sectors, and provides information on results from activities (ibid). The five sectors have different indicators to illustrate impact.

- *Energy and climate*: Reduction in CO_2 emission and number of households that could have been provided with green energy from the projects.
- *Arts and culture*: Number of visitors at shows, performances, workshops etc. The numbers are provided by the projects themselves.
- *Social/Microfinance*: Number of people reached with access to basic banking services.
- *Care for the Elderly*: Number of beneficiaries that receive care.
- *Food and Farming*: Size of organically cultivated land results in estimated annual total number of sustainable meals. This gives number of people that could be on a "sustainable diet" for a year.

For these five sectors, reasons for lending are provided, together with the result Triodos contributes to.

Energy and climate: The bank argues that global temperature and climate change is a challenge and that fossil fuels are connected to this (Triodos Bank 2012b, 8). The bank therefore views renewable energy and CO_2 emission reductions as crucial to limit climate change, and invests in such projects. The result is to invests in renewable energy projects and projects for energy saving or emission reductions. Through lending and investment activities Triodos contributes to green energy production that could 1.5 million households with renewable energy which avoids emissions of 2 million tonnes CO_2 (Triodos Bank 2012b, 2).

Arts and culture: This is an important sector because it provides positive human development, positive change and because "*personal creative expression is a fundamental human need*" (Triodos Bank 2012b, 6). The result is to provide loans (and grants) to such projects. 617 cultural projects with a total lending amount of 114 million euro and a total gift amount of 118 million euro together resulted in 6,8 million visitors to the cultural events (ibid).

Microfinance: The rationale is to provide access to basic financial services to people that lack this. Triodos argues that access to financial services "*has a fundamental impact*" which comes from the possibility to save, start up small businesses and to provide security (Triodos Bank 2012b, 12). However, microfinance has been debated enough for this argument to require evidence. The resulting impact is here measured as number of people getting access to financial services. Triodos Investment Management provides finance to microfinance institutions in several countries, reaching 7.9 million borrowers where the majority is women (Triodos Bank 2012b, 13).

Organic food and farming is a focus area because it is a sustainable way of producing food that takes the natural eco-systems into account (Triodos Bank 2012b). The result is that the organically grown land that Triodos provides funds to can provide an equivalent to 18 million meals, or feed 16.500 people on an organic diet for one year (Triodos Bank 2012b, 3).

Care for the elderly is not explained further in the impact reports of 2010 or 2011 report and is therefore not elaborated here. One explanation for this is that it might be assumed to be self-explanatory. The result is care for 10.331 individuals, which increased from 4.818 in 2010 (Triodos Bank 2011, 2012b).

***Figure 5**: Illustration of Triodos' impact*
(cited from Triodos Bank 2012b, 3)

This approach actively uses selected indicators for each sector as a measure of impact. In addition Triodos also perform a Global Reporting Initiative (GRI) report on its own activities, and they achieve an A+ level (Triodos Bank 2012b). GRI is a reporting tool for sustainability reporting, which encourages companies to report on their performance on financial, social, environmental, and governance values (GRI 2012). This is directly related to Triodos' own performance and not their projects as such, which is the focus of the thesis.

6.4 Analysis

Conventional banks and charities are approaching impact measurement from different angles, with various methodologies and results. Social banks are somewhere in between, and can draw on experiences from both sides. Still they would need to tailor the solutions to their special business practise, and both Charity and Triodos have chosen to develop their own methodologies. Charity Bank emphasises on impact measurement as being about showing results, being effective, reaching high impact and to communicate effects (Charity Bank 2011). Triodos Bank emphasises on impact measurement as illustrating their transparency, providing information to stakeholders, and showing what kind of changes or differences the bank has contributed to (Triodos Bank 2012b).

How are the methodologies of Triodos and Charity related to the previous discussion on blended value and impact measurement? When it comes to impact measurement, the distance between reality and ideal expectations is quite distinct.

As discussed in previous chapters, following a logic model in the blended value approach, the emphasis is on quantitative measurement of output, outcome and impact. Is this how Charity Bank and Triodos Bank conduct their measurement? Firstly, from the presentation of the banks, it is clear that they both focus on creating blended value, both financial and social or environmental. It even seems as social or environmental value is more in focus, however they are still *banks* needing profit to stay in business. The loans need to be repaid so the banks do not loose money. Secondly, how about measurement of output, outcome and impact? This analysis will focus on how the two banks measure this impact.

Ideally, I would expect all social banks to have a clear focus on impact measurement as a way to measure goal achievement and validate statements. They would also have a common "social-banking" methodology and comparable results. However, this is far from reality. Impact measurement in social banks has been under-researched. No standard exists, which makes direct comparison of impacts of different banks impossible. But it is possible to compare the *methods.* Both banks have recently developed own methodologies, countering the lack of research. In addition to their newly developed tools, both banks still use storytelling in the sense of describing the projects. The methods are still early in development, but illustrate an increased importance for measurement. As a result of increased popularity after the financial crisis, social banks might be more scrutinized by critical consumers. Hence, the need to verify their uniqueness and how exactly they are different from conventional banks becomes crucial.

This section will analyse the two impact measurement methodologies, and look at differences and similarities. Furthermore, I will highlight best practices and weaknesses of both methods, demonstrating difference between them.

6.4.1 Charity Bank's method

The methodology used by Charity Bank is very illustrative and clarifies how project impact is estimated. This method is difficult to verify for a third part, as there is little information on how value is assigned to the 4 key metrics. The selection of these four specific indicators is not explained, which is a limitation with the methodology. Charity Bank has provided some answers, but the following analysis is mostly based on my own assumptions and understanding.

I replicate the figure of Lyvennet Community Tryst to give the reader a reminder. The figure illustrates a value given to all four indicators, and my estimated value is based on the visual presentation in figure 4.

Figure 4, replicated: *Lyvennet Community Trust: Impact.*

1) Mission focus: Ca 20 out of 30.
2) Organisation resources: Ca 20 out of 30
3) Financial resources: Ca 17 out of 30
4) Wider impact: Ca 15 out of 30

The indicators are given a value between 0 and 30. This way of assigning a quantitative value to indicators through rating them is difficult to verify for outsiders. How is mission focus measured with a number? What does a value of 20 on mission focus tell us? Is a mission focus of 20 twice as good as a mission focus on 10? If so, what does that tell us? Further, how does a mission focus of 20 relate to an "organisation resource" of 20?

It is challenging to guess how the bank measures the degree of goal fulfilment. It can be through discussions among staff, or discussions among staff and project employees or between project employees themselves. Mary Locke states that "*each section gets scored via a number of questions*"[19]. This implies that each of indicators is actually a summary of certain characteristics of the projects. How are the indicators selected? How are the questions measured, weighted and rated? Especially after changing the indicators from 2010 to 2011 these are interesting

[19] Personal communication. E-mail to author, 19 June 2012

question. It seems as the reason for altering the method is mostly based on the decision to look at the project on one side and then the activity performed by the project on the other side. Mary Locke further argues, "*the system is still evolving as we test out both the questions and the weighting of the scores*"[20]. It might be that the underlying questions behind the indicators are be more or less the same, and that the only change is the formulation of the "summary-indicators".

A further interesting feature is that loans can be assessed on an annual basis showing changes in the indicators from one year to another (Locke 2012). Based on the figure it would also be possible to provide a percentage of "project impact", the blue area as a percentage of the total area. This would enable interesting comparisons between impact in different projects and between sectors. How is the average impact in different sectors? Comparisons would also be possible; how is the average impact in the housing sector compared to the average impact in the community sector? This would be highly interesting to see. Further, are some of the indicators always lower or higher in some sectors? Can we assume that the ideal size (value 30 on all indicators) is equal across all sectors? Would the scoring on the indicators be the same, independently of who assigned the score? There are many questions arising to the method of Charity Bank. It would be valuable for stakeholders to have a folder explaining the development and characteristics of this methodology.

The four indicators are not equally easy to measure, which might affect the accuracy. The last indicator is particularly interesting yet difficult to grasp. Social and environmental responsibility of the organisation is within this indicator (Locke 2012). It would be highly interesting to know how this is measured. The last indicator also captures impact on beneficiaries through evaluating the breadth and depth of the project's activities. The breadth is assessed through number of people reached, and is thus an output-based measure. The depth of the activity seems to be measured with an outcome-based approach, because the focus is change happening as a result of the project (ibid). In conclusion, the fourth indicator is complex and a value between 0-30 is almost meaningless as it

[20] Personal communication. E-mail to author, 19 June 2012.

contains so much aggregated information. From this it is clear that Charity Bank implicitly relate to a logic model of output and outcome to measure impact.

In addition, Charity Bank does to some extent rely on storytelling through providing information on the amount of money being lent out to each project, which could give information on attribution. Moreover, 70% of the projects say that the project would not go on without the support from Charity Bank, implying attribution close to 100% for these cases (Charity Bank 2012a). For the rest of the loan portfolio it is not possible to estimate attribution.

Charity Bank divides the loan portfolio into ten sectors; Arts, Community, Education, Environment, Faith, Health, Housing, Regeneration, Sport and Support (Charity Bank 2012f). This shows the areas where the bank is active. The bank publishes information about the size of these sectors in terms of number of loans and total amount lent to the sector, enabling comparisons. In 2011, this information was extended with information on e.g. how many people that are provided with housing, and what kind of housing (ibid). The bank clearly puts effort into providing transparency and information about the loan portfolio.

An interesting aspect is whether Charity Bank's approach is possible to scale up, in order to be comparable to Triodos' approach because of the differences in the size of the banks and their loan portfolio. Would Charity Bank still be able to publish the same amount of details *and* project impact analysis if the loan portfolio consisted of 21 900 projects instead of 1006? On the other hand, the approach is so new that they have not analysed all projects yet. This seems like a considerable amount of manual work.

Charity Bank is aware of many of the challenges to impact measurement[21]. It acknowledges that the work is done by the projects themselves and that impact is not static. Feedback from borrowers is important, and the bank does not want to impose a strict metrics system on their borrowers. A dialogue with borrowers on how the loan assists goal achievement, and provides assistance in improving financial planning and literacy within organisations seems to be crucial as well.

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[21] Personal communication, Mary Locke. E-mail to author, 19 June 2012. Also (Locke 2012).

6.4.2 Triodos Bank's method

The methodology by Triodos is illustrative in a different way, as the approach uses one indicator for each of the five sectors (see 6.3.3). Results in the report are aggregated numbers for the whole Triodos group, but are based on country specific data[22]. The following analysis is mostly based on my own assumptions and understanding, with some answers provided by Triodos.

When it comes to choice of the five sectors, I assume that this is selected based on division of activities within the loan portfolio. The loan portfolio is divided into environmental, social, cultural, municipality and private loans (Triodos Bank 2012b). 49% of the loan portfolio is for environmental projects, capturing energy and climate plus organic production (ibid). 28% is for social projects, capturing care for elderly and microfinance and 12% is cultural, capturing arts and culture (ibid). Thus the choice of sector division follows from the loan portfolio.

The core feature of this methodology is selection of connected indicators for each sector, highlighting a limited part of the loan portfolio while still clearly illustrating impact. It is challenging to discuss this, as the bank provides limited information on why especially these indicators are chosen. Triodos Bank openly states that it is continually working to develop its methodology, and that other measures exist (Triodos Bank 2012b). Triodos measures output and calculates all the output measures into how many people that would be affected, *"because people are at the heart of what we do*"[23]. Number of people affected could be understood as outcome. This is because outcome is related to people experiencing changes as a result of the output in question. When it comes to attribution, Triodos assume to be the main funder and thus can account for 100% of the impact (Triodos Bank 2012b)[24]. However, if this assumption fails, the bank over-estimates its impact. This illustrates that the bank relates to the logic model presented earlier, in measuring output and outcome related to impact. Displacement and deadweight are however not discussed.

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[22] Personal communication, James Niven (Head of Public Affairs). E-mail to author, 22 June 2012.

[23] Personal communication, James Niven. E-mail to author, 22 June 2012.

[24] When talking about the cultural sector. Assumed to equally apply for the other sectors.

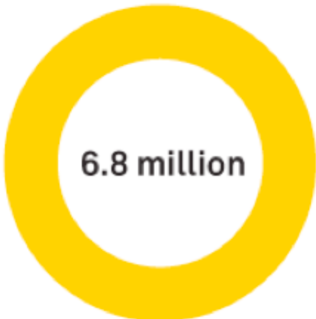
Figure 6*: Impact of energy and climate*
(cited fromTriodos Bank 2012b, 2)

The renewable energy projects we finance generated enough green energy to meet the needs of the equivalent of 1,500,000 European households, avoiding 2,023,143 tonnes of CO_2 emissions

- Energy and climate

CO_2 emission reductions and the amount of green energy produced are relatively uncontroversial indicators, which have become more normal to use as environmental impact has been increasingly conceptualised. These measures are concrete and commonly applied measures that tell of a direct impact. This approach is based on quantitative measures of output, calculated into outcome related to people.

Figure 7*: Impact of arts and culture*
(cited fromTriodos Bank 2012b, 2)



During 2011 Triodos Bank finance helped make it possible for 6.8 million visitors to enjoy theatres or museums across Europe.

- Arts and culture

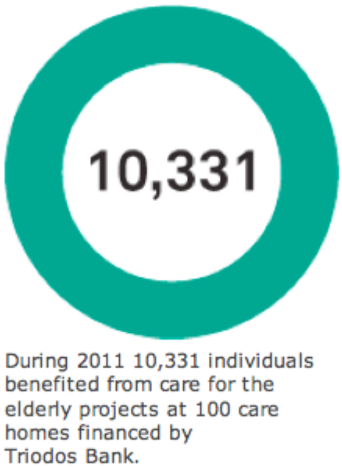
Number of people attending cultural events is an indicator that tells about the outreach of cultural projects. This category is very broad, and an example illustrates this: For a handicrafts shop producing and selling pottery, the visitor-indicator do not capture the activity. It might be that the sector is too broad, another alternative could be to use different indicators in addition to number of people. A number could be attached to production or sales of artistic work. This would to some extent capture the impact or more specifically, the result, of the pottery. Triodos also write that several categories such as individual artists are excluded because of measurement difficulties (Triodos Bank 2012b).

***Figure 8**: Impact of social/microfinance*
(cited fromTriodos Bank 2012b, 3)

- Social/Microfinance

The selected indicator for this sector measures number of people getting access to financial services. It is unclear what kind of projects that belongs to the "social" part of this category. It seems to be a collective term for finance with a goal of reaching underserved clients. Further it is not elaborated on what *kind* of financial services. Referring to this number as a measure for impact necessitates argumentation for *why* and *how* access to financial services has a social and environmental impact. Ideally speaking, it is also a question whether the micro-enterprises receiving loans have an environmental policy or not. Should not positive **and** negative environmental impact from this be emphasises? The dilemma between an ideal solution and what is practically possible in reality is clearly illustrated.

***Figure 9**: Impact of care for elderly*
(cited fromTriodos Bank 2012b, 3)



- Care for the elderly

This sector is in stark contrast to the other indicators, because it is less broad, and more specific and clear, making it easier to measure. This indicator is concise, but no information is provided on *what kind* of care this relates to. Does this mean that 10 331 people is taken care of every day in the whole year? Or is it part time care, so that people come for a limited period of days, weeks or months and then go back to their home? Are all these counted independently of how many days they might have received support? It is also striking that this sector is not elaborated in the 2010 or 2011 report. This is a weakness as it is unclear what is actually measured.

Figure 10: *Impact of food and farming*

(cited fromTriodos Bank 2012b, 3)

The organically managed land on the farms which Triodos Bank finances could produce the equivalent of just over 18 million meals in 2011, or enough food to provide a sustainable diet for 16,500 people during the year.

- Food and farming

This sector is wide and challenging to approach when it comes to measurement and indicator selection. Triodos has chosen to use a measure for number of meals per year as a basis for calculating number of people that could be on an organic diet for one year. This number is based on the total production of all the farms – while the bank at the same time acknowledges that it may only contribute with some of the needed finance, not the total finance (Triodos Bank 2012b). Thus, this measure might over-estimate the bank's impact. The method is based on the Environmental Footprint method developed by the WWF and is based on among other things, the number of hectare with organically cultivated land[25].

Triodos further acknowledges that "*Most measures of non-financial impact have both pros and cons"*(Triodos Bank 2012b, 2). This makes it easy to criticize the selected indicators. However, Triodos have made considerable effort with its impact measurement, and it is very comprehensive. The measures are accurate and concise and the bank tries to measure at least 80% of the relevant sector portfolio in each country (ibid). On the other hand, some projects are excluded (see above). This implies that the whole loan portfolio is not measured, and that the indicators might be biased in favour of projects with impact that is easier to measure.

6.4.3 Differences and similarities

There are apparent differences between the banks and their methodologies. Both experience, size and business model can be explanations for the choice of two relatively different approaches. I here look at differences and similarities with the two approaches.

[25] 21.300 hectares in five European countries (Triodos Bank 2012b).

Differences in size

Developing an impact methodology seems to be a matter of priorities. Charity Bank is a small, young bank with less than 50 employees and a GBP 80 million balance sheet – still it has found resources to develop an own approach. Triodos Bank is larger and older bank, which has grown substantially in the last years. Triodos has over 700 employees and a GBP 3'584 million balance sheet (Triodos Bank 2012c). The difference in size of total loan portfolio is also big, where Triodos has a total number of loans of 21.900 and Charity bank has 1006. From this it is clear that the banks differ substantially in size and resources.

The amount of resources spent on impact measurement annually is not published, but Chairty Bank has at least one impact manager. Triodos does not state how much resources they have, but James Niven at Triodos tells that "*specialists within departments are responsible for this activity, although this is not ordinarily a full-time job*"[26]. In addition comes gathering the data, which is done by the branches or departments. It is difficult to compare the amount of resources spent on this. However, as the methods are very recent, it might be that the vast amount of hours spent is related to developing the methodology, at least for Charity Bank. For Triodos Bank it seems more resource demanding to get enough data from all the branches and sectors, as results are calculated from data for many loan projects.

Differences in products and services

Based on size differences, other differences might be logic such as difference in business models. Triodos provides all retail banking services such as a current account and payment card in addition to loans and investment funds. These green investment funds are important, as they could attract more investors to the bank. Furthermore, the investment activity can have influenced how the impact methodology is developed through an emphasis on tangible results that is easy to communicate to investors. As James Niven puts it; "…*it's also important for some stakeholders – such as investors – to see quantitative measures of impact*"[27]. Charity Bank provides savings account and loans to charities, and actively

[26] Personal communication. E-mail to author 22 June 2012.

[27] Personal communication. E-mail to author, 22 June 2012.

excludes loans to for-profit enterprises. This makes Charity Bank stand out, whereas Triodos Bank is more similar to other social banks such as Cultura Bank and GLS Bank, as they all lend to for-profit projects. This is a crucial difference, and implies that Charity Bank will refuse some projects that might be accepted by Triodos Bank. One example can be organic production, which is not a big priority area for Charity Bank. This has implications for value creation; Triodos argues to contribute to blended value, both financial and socially/environmental value whereas Charity Bank is restricted to financial value kept within the charity. To illustrate this difference I reproduce figure 1 from chapter 2, with a slightly different touch. Charity Bank is placed in the right lowest part of the box and Triodos Bank to the left. This shows the differences between the banks.

***Figure 11**: Characteristics of Charity Bank and Triodos Bank*

<table>
<tr><td colspan="2" rowspan="2">Characteristics of social banks</td><td colspan="2">PRIMARY GOAL</td></tr>
<tr><td>Profit</td><td>Social and environmental value</td></tr>
<tr><td rowspan="2">SECONDARY GOAL</td><td>Profit</td><td>Conventional banks without SRI focus</td><td>Triodos Bank Charity Bank</td></tr>
<tr><td>Social and environmental value</td><td>Conventional banks with SRI focus</td><td>NGOs, environmental organisations, UNICEF, etc</td></tr>
</table>

<u>Differences in methodologies</u>

It is clear that the methodologies differ in scope, complexity and resource-use. Charity Bank uses the same approach for the whole loan portfolio, providing a broader but less concise methodology. Using the same method for all projects makes project impact comparable – it is just to look at the blue area in the figure. Hence, the data is comparable across sectors and time. This approach can also give project managers inputs on areas that need improvements. Triodos Bank's methodology presents very detailed data, which does not enable comparisons across sectors. It makes little sense to compare reduction in CO_2 emissions to number of people attending cultural events. However, the indicators are converted to outcome-based measures with people as the "scale" for measurement, implying that it is possible to compare number of people visiting cultural performances to number of people with access to renewable energy. Whether this comparison is useful is another question. Thus, Triodos' data is comparable mostly across years within each sector and clarifies direct results and impact that people might personally relate to.

An interesting difference is that the two methodologies differ in the level of analysis. Charity uses the single project as the measurement level, whereas Triodos uses the whole portfolio. This also leads to very different data collecting methods. I assume that Charity Bank need to conduct interviews or questionnaires with projects in order to estimate values on the indicators, while Triodos can focus on one indicator from each project. A different level of analysis has several implications, such as different possibilities for comparisons, different level of details and clearly differences in resource use. The banks do not say how they collect their data, or whether the projects are required to report to them. Still there is a considerable job in analysing the data once it is collected.

Relating to the previous discussion about blended value and the logic model, the methodologies are quite different. Both focus on creation of a kind of blended value. Triodos Bank focuses on gathering data for output on the selected indicators, which is translated into effects for people. This can be understood as outcome. The result is tangible, hard numbers in a more quantitative approach. This might be because Triodos seem to be more oriented to financial measures, as the Triodos Group consists of both the bank and the investment funds. Charity Bank also gathers data for output, but not on strictly decided indicators. The approach is more flexible in relation to what kind of data that best describes the loan project, a more qualitative approach. Furthermore, outcome is also integrated into the approach, and together the result is shown in the spider-diagram. Thus, both banks work with output and outcome as presented in the logic model, but conceptualise impact in different ways. Their methods are different in that they are closer to quantitative or qualitative approaches. This might be a result of Charity Bank focusing on the charitable sector, which traditionally has been more prone to use methods such as storytelling.

Similarities

The two banks have in common a claim of contributing to positive social and environmental impact. They both have transparency as a strong value connected to their business activity and provide information on specific projects they lend to through storytelling. The content of this description is more or less the same; some cases have more, some have less information while still providing basic information about the projects. However Charity Bank provides information on the size of the loan to each one of the exact projects. Both banks also provide information on sector level, such as the number of projects within the different sectors, and the total loan amount for that sector.

Both banks focus on absolute measurement, and do not attempt to do relative measures. They report on what they do, but do not attempt to relate this to what impact or outcomes that would have happened without them. This is also very resource demanding and requires much research.

Both banks operate mostly in Europe; only the investment organisation of Triodos Bank is active in other parts of the world. Consequently, the market they approach is more or less the same. Both banks also experienced large growth after the financial crisis, both in new depositors and profits. The most important similarity is that both banks have an approach that acknowledges creation of a blended value, which necessitates more than a financial statement. It is interesting that they both have a focus on a logic model with trying to quantify outputs and outcome, even if they approach output and outcome in different ways.

6.4.4 Best practises

To sum up the analysis, I pinpoint the main strengths of the two methods. Compared to Triodos Bank's approach, Charity Bank's strongest contribution is the use of a single approach to the whole loan portfolio. This enables comparisons both within and between different sectors. The indicators also highlight possible areas for improvements in each project. The methodology is very illustrative and shows several aspects, which gives space to demonstrate diversity within different projects.

Compared to Charity Bank's approach, the strongest feature of Triodos' method is that the illustrations are easy to understand, and the results are concrete without needing much further explanations. The method shows over-all performance of Triodos Bank as one unit, which provides a clear picture of what change the bank actually contributes to.

6.4.5 Challenges

The analysis also clarified some challenges. The lack of a common methodology is in general the biggest challenge, leaving out comparisons between the banks' performances. Lack of a common methodology is challenging because it takes time to understand the different approaches of the banks, and to recognise the essence of the method.

A weakness with Charity Bank's method is that it is more complex and difficult to verify for outsiders. The way of assigning value to the indicators is unknown, which reduces some of the value of the illustration. How can a project score better on organisation resources without knowing how it is measured? In addition, the four indicators are very broad, and how they are selected is unknown.

The biggest weakness of Triodos Bank's method is that the results do not provide possibilities for comparisons between different sectors. Furthermore, some projects are left outside the scope of measurement. This implies that parts of the portfolio are not measured, which is a bias towards measuring things that are easy to measure. We do not know how large share of the portfolio is left outside scope of measurement, and this is a limitation.

Referring to the discussion on the SROI method as an example of a logic model, none of the banks look directly into "attribution". Hence, there is a possibility that both banks over-estimate their impacts, but this might be related to that it is relatively resource demanding to take attribution into account. Triodos openly assumes to be the main loan provider for its projects, effectively leaving out to handle this issue. Charity Bank checks whether the projects would have been able to continue without loan from the bank, implying that it can take a relatively large part of the attribution in those projects.

6.5 Summing up

This whole analysis is made possible because both banks have an extensive transparency focus, with information available online. Furthermore, they have provided answers on issues that have been unclear.

Through this analysis, I have shed light on the research question of how social banks can verify impact through discussing two cases. They have two different approaches for impact verification with different strengths and weaknesses. It would be truly interesting to investigate the possibilities for a method that would combine the strengths of both approaches.

Both banks clearly focus on impact measurement, even if it is difficult. It is easy to criticise methods that are still early in development, but on the other hand, both banks have put substantial effort into conceptualising impact. It is only through daring attempts such as this that impact measurement of social banks can improve. The next chapter will look into a contrasting case, which exemplifies that Triodos and Charity Bank have well-developed methodologies. The contrasting case is in some ways similar to other social banks, which demonstrates that impact metrics is a field requiring developments.

7.0 Further analysis: A contrasting case

I elaborated on the selection of the Norwegian Cultura Bank in chapter 3. Cultura Bank provides a good contrasting case, demonstrating that social banks have different approaches to measurement. Because of its similarity to other social banks, the discussion of Cultura's impact approach can illustrate some common challenges. This give a broader view on impact approaches in social banks. In this chapter, the bank and its impact methodology is presented, followed by a discussion around it.

7.1 Cultura Bank

Cultura Bank is a Norwegian social bank. It started as a credit cooperative in 1986, and was formally founded as a savings bank in 1997 (Cultura Bank 2012c). Cultura has 4'100 customers and a total balance sheet of NOK 476 million (Cultura Bank 2012a, 2012e). The bank has one office with 17 employees and offers ordinary banking services such as Internet banking, payment card and loans to private and companies (ibid). It does not offer investment funds. Total deposit is NOK 418 million, growing 12.8% from 2010, and the loan portfolio of NOK 329 million grew by 12.3% from 2010 (ibid). The bank has 480 loans[28]. Cultura Bank is a member of the Institute for Social Banking and the Global Alliance for Banking on Values.

7.2 Characteristics

Cultura's main principles are sustainability, transparency and to raise awareness about the relation between money and the economy (Cultura Bank 2012a, 4). Sustainability is understood as emphasising projects' social and environmental impact, and through granting loans, such impact is created (ibid). These characteristics are arguably the main features that differentiate social banks from conventional banks (see chapter 2). The lending activity is based on values such as protecting environmental concerns and respect of human rights. Deposited money will be lent to socially beneficial projects (Cultura Bank 2012h).

[28] per 2011. Personal communication, Kjell Fredrik Løvold. E-mail to author, 11 July 2012.

The value of transparency is exemplified several ways. Cultura states "*it is important for the bank to give depositors good information on what types of loans the money is invested in, and transparency in this area is one of the bank's main principles*" (Cultura Bank 2012a, 6). Information is published on the projects that Cultura lends money to, and on central sectors (Cultura Bank 2012g). In addition, the bank reports on how loans and risks are evaluated financially. Collateral and ability to pay are rated, resulting in a matrix giving risk classifications of borrowers (Cultura Bank 2012a, 18).

Before evaluating financial values in a loan application, loan projects are evaluated based on social and environmental criteria (Cultura Bank 2012f). The bank requires that projects are "*able to demonstrate some environmental, social and/or cultural qualities*" (Cultura Bank 2012a, 6). After passing this "test", the loan application proceeds to the normal financial evaluation. This is a interesting characteristic, which implies that projects have to be within Cultura's focus areas before the financial assessment is even started. This results in an interesting selection process that resembles Triodos' approach. However, there is no documentation available on how projects demonstrate these qualities. It would be interesting for stakeholders of the bank to know more about how this assessment is performed.

Cultura Bank views money as a tool to achieve societal development, and profit is needed in the sense of ensuring continued business practice (Cultura Bank 2012a). The bank furthermore has a mission of raising awareness about responsible money and finance in the society (ibid). In addition to emphasising social or environmental impact in the loan portfolio, the bank encourages to development of environmental policies in loan projects (Cultura Bank 2012d). This is an interesting feature, but there is no information on how many of borrowers that have an environmental policy.

Transparency, lack of profit maximisation and a focus on social and environmental values shows that Cultura Bank is a characteristic social bank as shown in figure 1 in chapter 2.

The largest sectors in the loan portfolio are mortgages, educational activity, organic farming and environmental projects (Cultura Bank 2012a, 6). The bank presents size of loan sectors, and has eleven categories, plus mortgages and individual loans. From the annual report it is clear that 2/3 of the loan portfolio goes to "universally beneficial" projects[29], and 1/3 to mortgages and individual loans (ibid). It is crucial to emphasise that mortgages and individual loans take up about 30% of the total loan portfolio. How is this consistent with the argument of having an assessment based on cultural, environmental or social criteria before assigning a loan? If the bank argues that mortgages has a social purpose and imapct, then conventional banks offering mortgages could also claim to be social banks, focusing on social impact. Such a division of the loan portfolio is a weakness for the argument of having social value at heart. At the same time it does not fulfil expectations depositors might have about allocation of funds to special ethical, social or environmental projects.

Example: Maaemo AS

The value creation and project qualities are seen as qualitative values, and reporting of this qualitative impact is through storytelling. An example of how Cultura does this is Maaemo, an organic gourmet restaurant. Below is a citation of the information available on the website, in Norwegian (Cultura Bank 2012i).

Figure 12: *Maaemo AS*
(cited from Cultura Bank 2012i)

Økologisk gourmetrestaurant

Maaemo er Norges første økologiske restaurant! Med fokus på ærlige, ekte og naturlige råvarer lager restauranten et naturlig og personlig råvarebasert gourmetkjøkken.

Med en tydelig identitet og referanser til naturen rundt oss har Maaemo tilført noe nytt til Oslos restaurantscene. Restauranten åpnet i Oslo i vinteren 2010.[30]

[29] Prosjekter med almennyttige formål.

[30] Author's own translation: Organic gourmet restaurant. Maaemo is the first organic restaurant in Norway! With focus on honest, genuine and natural raw materials, the restaurant creates a natural and personal raw-product based gourmet cuisine. Maaemo has added something new to Oslo's restaurant scene with a clear identity and references to the nature around us. The restaurant opened in Oslo in winter 2010.

The information available online tells that Cultura has provided a loan to Maaemo, and something about the restaurant, with links to its website. There is no information on how large the role of Cultura was. It is therefore not easy to theorise about how much outcome and impact that Cultura has contributed to. Furthermore, Maaemo is a highly renowned restaurant, which received the quality stamp of two stars in the 2012 Michelin guide (NRK.no 2012). No other Norwegian restaurant has this award, and Maaemo is a popular restaurant with months of waiting list (Maaemo 2012). The restaurant is an example of a success story that Cultura bank could actively use in a much broader sense, without abandoning the storytelling approach.

7.3 Impact approach

The impact approach of Cultura has not been developed as much as the methods of Charity Bank and Triodos Bank. Cultura relies on the method of storytelling to illustrate value creation. However, the bank is currently working to quantify its impact through impact research under the leadership of Global Alliance for Banking on Values (Cultura Bank 2012a).

Cultura has ethical guidelines for the lending process. These are focused on the project's mission, organisational structure, and impact on environment and people (Cultura Bank 2012b). The guidelines are used together with the financial analysis, but are not a checklist (ibid). Thus, there is limited information on what the bank emphasises through these guidelines, and on how projects are performing on matters related to the guidelines. The result is less accountability. This gives less work in (internal) reporting on the guidelines. This is a challenge for the bank and it might be dangerous for its reputation because it can be confused with "glossy reporting". Verification of impact claims and principles applied to the loan portfolio could differentiate the bank from conventional banks. On the other hand, Cultura Bank is different in the composition of the loan portfolio, and in providing transparency in the loan portfolio.

As mentioned above, Cultura firstly evaluate clients based on social, environmental and cultural qualities. Providing information on the results of this evaluation would be interesting and also give the bank a strong argument in its work with social and environmental impact. The second evaluation focuses on financial values. After a loan is granted, information about the project might be published at the website with the consent of borrowers. The project is described as in the abovementioned example of Maaemo. We learn that it is a restaurant with focus on organic and local food, but not much more than that. There is no information about when the loan was granted, the size of the loan, or about what kind of impact that is assumed to come from this project. I cannot find any information about how this project (or other projects) proceeded, whether it was a success or a failure. In order to say something about the presence of output, outcome or impact, it is essential with information on results. This is especially interesting in relation to Maaemo, because it has become such a great success.

7.4 Analysis of Cultura Bank's impact approach

Cultura argues that the selection of projects is based on social or environmental qualities (Cultura Bank 2012a, 4-6). Furthermore, it is central that projects contribute to societal value creation, and it is important to clarify the social return of activities (ibid). However, there is no information on how such qualities are evaluated, or results of this evaluation. Whether this influences the risk assessment and interest rate offered is also highly interesting. All these are important characteristics of the bank, but there is a lack of verification on these values. How is this different from glossy reporting? If the social and environmental qualities are evaluated, why not share the results? It seems natural to publish at least parts of the results of this together with the presentation of the project.

On Cultura's websites, names of projects, business idea and in some cases websites of the projects are available. It seems as the storytelling approach in Cultura Bank is mostly for transparency reasons and not for impact measurement reasons, because there are no comments on results or impact in the descriptions. A list of sectors that the bank lends to is provided, but no justification or argumentation for *why* these sectors provide a special value (Cultura Bank 2012g). *Why* is education or organic agriculture selected areas, and *how* specifically do they have an impact? A discussion on this would enrich the story presented.

It is also argued that money is lent to social beneficially projects (Cultura Bank 2012a). This is a very open concept that surely needs further conceptualisation and a definition. What *is* a social beneficial project? There is no concrete position or argumentation on what social beneficial projects are. This vagueness and lack of argumentation is a limitation with the chosen approach.

Lack of demand from stakeholders for verification can also lead to slow development of impact methodology. This can be connected with a greater trust between the customer and the bank, but might also be related to investors and whether they require information on how social impact is achieved. It might be that Cultura has less institutional investors than Charity Bank and Triodos Bank.

It is clear that Cultura does not follow the logic model presented previously. Instead, the bank appeals to depositors and stakeholders through the narrative technique of storytelling. As argued in chapter 5, this is a powerful tool. Storytelling as such might provide a good framework, but the way it is currently being performed is not providing justice to the assumed project impact. The project description is incomplete and could benefit from providing arguments for why projects are selected and what kind of impact they have. A clear structure of information in each project would also be valuable.

7.5 Comparisons

Cultura has been chosen as a contrasting case for several reasons; the most important one is to highlight impact measurement challenges. It has become clear that impact measurement includes concepts that require further developments. To have socially beneficial projects at the heart of the business necessitates discussion of what “socially beneficial” is. There are some differences and similarities between the three banks analysed in the case study. Table 2 summarises key figures presented in chapter 6 and 7.

Table 2: *Case studies, key figures summarised*

Data per 2011, growth figures 2010 – 2011. Numbers not previously cited are calculated from annual reports (Triodos Bank 2012d; Charity Bank 2012a, 2011; Cultura Bank 2012a).

	Triodos Bank	*Charity Bank*[*]	*Cultura Bank*
Employees	720	42	17
Balance sheet size in GBP	GBP 3'584 million	GBP 80 million	GBP 50.4 million[31]
Number of loans	21'900	1'006	480
Number of customers	355'000	2'400[**]	4'100
Growth in loans	33.4%	33%	12.3%
Growth in balance sheet	23%	17.6%	12.3%

[*] Charity Bank's growth figures are average for the ten-year period 2002-2012.

[**] Depositors

Differences

The sheer size of Cultura Bank with 17 employees is a lot smaller than Triodos, and even Charity Bank. Hence, the amount of human resources available to develop an impact approach is substantially less in a small bank such as Cultura. When it comes to balance sheet size, number of loans and customers, Cultura is smaller than Charity Bank, but still on a comparable level. They are both relatively small banks measured on key figures in table 2. However, one has a well-developed impact method and one has not. This implies that the difference in development of an impact methodology might be independent of these key statistics.

In addition, the analysis has shown that growth in financial values such as balance sheet, deposits and loans has been lower for Cultura than for Charity Bank and Triodos Bank. It would be interesting to investigate whether this could be a result of European countries being hit harder by the financial crisis than Norway. This might have led consumers in Europe to be more sceptical to conventional banks, making them move their money to social banks. This could explain growth of Triodos and Charity, and the comparable lower growth of Cultura.

[31] A currency rate of 9.45 from the Norwegian central bank (10.07.12) has been used to calculate the size of Cultura's balance sheet per 2011 in GBP http://www.norges-bank.no/.

Cultura Bank has come shorter in conceptualising social value and impact compared to Triodos Bank and Charity Bank. This is evident for instance from ethical guidelines that are not concise, and emphasis on social and environmental qualities of projects, which also are not concrete. Neither one of them are verified. These features might have influenced a less developed measurement approach.

Cultura Bank shares similarities with other social banks, illustrating that many banks might lack a comprehensive impact approach. This is a developing field with great importance. I believe this is one of the most important areas for social banks in the future, because they need a way to stand out from conventional banks that are increasingly into "green investments" and trying to appear more ethical.

Similarities

It seems as Cultura's approach of illustrating impact with storytelling is to some degree similar to Charity and Triodos' project descriptions. However, Charity and Triodos describe *all* projects. Moreover, they use this information in addition to comprehensive impact reports. Thus, the similarities are more related to values than to the impact approach, as this differs substantially. The three case studies are all social banks claiming to have social and environmental impact. They all focus on transparency together with impact, which has been illustrated as core characteristics of social banks. A strong similarity is a shared value-based approach to banking. Furthermore, all three banks are members of the Institute for Social Banking. Triodos and Cultura are also members of Global Alliance for Banking on Values. This shows that the banks are actively participating in knowledge-sharing and research development within these networks.

This chapter has provided an analysis of a case that contrasts to the cases analysed in chapter 6. This has clarified that Charity and Triodos are best practises. It is to some extent possible to generalise from the analysis of Cultura Bank, as a result of its similarity to other bank. At the same time, it is highly evident that social banks are in the need of a tool to verify their own claims. The next chapter provides themes for further research and a discussion on how to develop an approach towards impact measurement. A general framework is proposed, consisting of the main processes related to measurement. This is based on the insights provided from the analysis.

8.0 Further research and policy advice

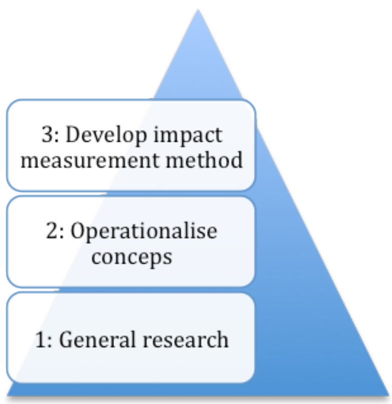
Based on the previous analysis, the purpose of this chapter is to bring some considerations on the way forward for academic and practical research on how to verify impact of social banks. Suggestions for further academic research and practical policy advices for the banks are discussed. The practical discussion is two-fold: Firstly, some developments within the banks are necessary to have a foundation for starting impact measurement. Secondly, a general framework for a measurement tool is suggested, based on insights from the analysis. This is one way for social banks to verify their impact.

Academic research and practical suggestions together provide a complete approach to essential developments in this important field. This is valid for all firms working with social values and impact, not just for social banks.

8.1 Further academic research

It has become clear that social banks as such have not been a prioritised research field. As such banks are becoming increasingly popular in Europe as a result of the financial crisis and banks behaviour, this is rapidly changing. Table 2 in chapter 7 summarised growth in some key financial figures. Increased popularity and attention make researchers more aware of the field, at the same time as social banks have developed their own knowledge-sharing networks such as ISB and GABV. Nevertheless current academic research on social banks is inadequate, and topics for development of academic literature are therefore suggested.

Figure 13: *Recommendations for further research*



1. Firstly, general research on social banks with a proper working *definition* will be of great importance as a foundation for further research. This will necessarily focus on how social banks are different from conventional banks, and how they are similar to each other. This is also

related to their mission statements, and can draw upon previous research by Benedikter (2011), San-Jose, Retolaza and Gutierrez-Goiria (2011), Scheire and Maertelaere (2009), Weber and Remer (2011). It also would be interesting to see academic literature discussing the relation between social banks and other related areas such as social entrepreneurship, social finance, social economy and ecological economics. Can social banks draw on experiences in these fields?

2. Building upon general social banking research, operationalisation of specific concepts such as *impact* and *value creation* in the context of social banks is necessary. This will help social banks achieve the desired outcomes through clarifying the goals.
3. Based on the first two steps is measurement research and development of a common social banking impact methodology. How can impact created by social banks be *measured?* This can make performance measurement on impact a tool to guide management decisions and company strategies so that social and environmental impact is maximized. A common methodology would be based on insights from developed approaches and would be applicable in all social banks. It would need to be a flexible tool, as the banks have different business models and missions.

The central issue is that this literature needs to be developed within the field of *social banking*. To do this, researchers can look into other fields and build upon research in these fields (see 1.). There is no need to reinvent the wheel. The social banking movement is to some extent unique, but share characteristics with other approaches that focus on solving social and environmental challenges.

It would also be highly interesting to conduct empirical research on possible reasons for *why* and how the methodologies of the banks are developed as they are, and what influenced for instance Charity Bank and Triodos Bank in so different directions. Furthermore, academic research is useful for social banks in their daily work in highlighting challenges and possibilities, and theorise about important ideas for the banks. This gives new insights and input to the daily, practical work of the banks.

8.2 Practical policy advice

This is the first part of the practical discussion, which builds the foundations for section 8.3. Practical advises relate to building foundations within the banks for conducting impact measurement. It builds on the case studies in chapter 6 and 7, and are shortly summarized in three points below. This is clearly a simplification leaving out many difficulties, but the suggestions draws the main big lines.

- Firstly, social banks will gain from operationalising their mission statements and visions into tangible, measurable concepts. Visionary words are common, but less concise and less easy to work with. This can limit the degree of goal achievement, simply because of lack of clarity. If the bank does not know exactly what its specific mission is, how can it then achieve it? How to know when or if the goal has been accomplished? It is necessary to shape a concept of value creation, which is the foundation for measurement of social and environmental impact.
- Secondly, social banks without measurement systems can benefit from quantitative measurement, and *motivation* for measurement is crucial for success. Selecting some indicators for performance measurement on a social or environmental scale implies measuring something with a number. This does not mean abandoning storytelling. A qualitative storytelling method can be enriched with quantitative data collected through surveys on the bank's clients or borrowers.
- Thirdly, when deciding on an approach to impact measurement, it is helpful to learn from already developed measurement tools. This implies working through networks, sharing experiences as well as successes and failures. Social banks are recommended to reduce the focus on negative criteria, as this is also becoming more used in conventional banks with a CSR/SRI perspective (Weber 2011a). In order to differentiate from conventional banks, social banks should rely more on positive impact criteria (ibid). In order to do this, and know where and how positive impact is created, measurement is necessary. This will be elaborated in 8.3.

8.3 Elaboration on policy advice: A framework

This is the second part of the practical discussion. To elaborate on the policy advice a general measurement framework is suggested as a solution. This section proposes an impact measurement tool as a way for banks to verify impact. The framework is based on insights from the analysis of Charity Bank and Triodos Bank, SROI-methodology and discussions with social banking professionals[32]. Before a measurement tool is useful within a bank, operationalisation of mission statements and motivation to measure is essential.

What is the optimal way forward for development of a practical impact measurement tool? I suggest different approaches for social impact and environmental impact because of current difficulties with comparability between such impacts. Different indicators could be developed for *"social"* and *"environmental"* in order to capture the uniqueness of projects. Alternatively, it is possible to follow Triodos Bank in relating everything back to how many people that are affected from the activity in questions. According to Dr Olaf Weber, it would be possible to develop some indicators for impact that would be applicable to all loan projects of social banks[33]. Few indicators would be a strong point for a methodology as it makes impact clear, tangible and possibly also comparable.

Figure 14: *Proposal for a measurement framework*

The analysis and discussions result in a proposal for a tool in three steps, summarising benefits from existing approaches and current academic research - see figure 14. In this framework, projects provide tangible results, which are presented using indicators as proxies for impact. The tool is clearly is a simplification, and would need development in order to be of direct practical use. The framework is useful to highlight processes connected to impact measurement. Furthermore, it brings attention to some of the necessary discussions that will need to take place within a bank before

[32] Personal communication, Olaf Weber. E-mail to author, 2-27 March 2012. Personal communication, David Korslund. Skype conversation with author, 9 February 2012.

[33] Personal communication. E-mail to author, 2-27 March 2012.

implementing an impact measurement tool. The framework builds on the policy advices in 8.2, and therefore assumes that these challenges have been dealt with before starting the measurement process.

8.3.1 Part 1, assessment

The first step is assessment. When the loan application is processed and the individual financial considerations are made, there is a need to highlight the essence of each project. This stage will highlight assumed impact, and will be based on statements from the applicants. Deciding on suitable indicators to describe impact will be done in this stage, in which quantitative data will be collected. This can be used to verify impact. After establishing whether the project assumes to have social or environmental impact (or a combination), examples of indicators that can be used as proxies for impact are:

- For *social* impact: How many people do you reach through your project? How does these people experience change?

These questions will capture results of projects such as the number of visitors to cultural activities, people that have been provided with housing, participants in sports activities, treatment or activities for kids and disabled, people treated through different health care services, students enrolled in education etc. Furthermore the second question will capture *how* these people experience the impact. Examples of answers to this are through better self-esteem, improved quality of life, provision of health care, exercise or leisure activities etc.

- For *environmental* impact: How much reduction in CO_2 emissions does your project contribute to? How much renewable energy is produced from your project? How much organic food/goods results from your project?

These questions highlight what kind of environmental impact the projects have, and *how* projects contribute to impact on the environment. The questions cover areas such as renewable energy, energy saving, eco-friendly housing, technology improvements etc. SROI methodology together with the approaches by Charity Bank and Triodos are influential in this step.

This process assesses projects in terms of what kind of impact they assume they will have. Thus, borrowers will be required to keep track records and collect data on selected indicators to support their claims. This leads to the next phase.

8.3.2 Part 2, evaluation

Second, following assessment is the evaluation phase. Here data on the selected indicators are collected and evaluated. The core feature is that based on this the banks can estimate how many people are reached per loan or per NOK, euro, etc, and what environmental effects it would contribute to. This provides data for comparisons within the sectors. In general the analysis will be better the more information we have. In addition to the social and environmental indicators, data on certifications could be collected. This would enable the bank to rightfully argue that for instance 40% of the loans goes to projects which have some kind of environmental or social certification such as fair trade, organic certifications etc. This is a very strong testimonial of social and environmental awareness, verified by the certification organisations. In addition, questions such as the ones Charity Bank provides are interesting. Examples previously mentioned are percentages of projects that would not precede without the loan, or that have better financial planning etc. In general, it is highly valuable to perform surveys to illustrate important features of the relation between the bank and the borrowers, because it can increase the credibility of claims.

8.3.3 Part 3, reporting

The third step is reporting, which informs stakeholders and the wider society on results of the banks' actions. This can make the bank more available for criticism, but in my opinion constructive critique is important both in order to improve and for discussions on the method. Reporting illustrates results of measurement, and verifies claims of impact. Impact reporting can take different shapes as we have seen from the case studies. To reproduce one example, Charity Bank produces an impact report within its annual review, highlighting some projects and their performance (see chapter 6). In addition it publish percentage of projects saying that loan played a major part in achieving the organisation's mission, help them expand, secured additional funding, projects would not proceed without the bank etc (Charity Bank 2012a). This provides information on the impact of the bank's activities.

How the bank chooses to report on indicators is an individual choice. Banks using storytelling do not need to abandon this, but could structure storytelling around the indicators[34]. Moreover, reporting is a crucial tool for impact verification as it "puts the impact out there" for discussion.

8.4 Implications

This framework implies that the results will not be comparable between different banks. This is natural from the current stage of impact research in social banks, which is in its infancy. Further research from social banks, social entrepreneurs and charities will conceptualise impact to the benefit of all organisations working for social and environmental change. An additional influence might come from the increased popularity of social banks, which incentivises the banks to become more credible and accountable to their depositors. As a result of further research and practical advice, the way forward is clear. More research and work on impact measurement is required. This thesis has highlighted several issues connected to development of this. Now the ball is passed on to social banks and academia, with a challenge to take action.

[34] Personal communication, David Korslund. Skype with author, 9 February 2012.

9.0 Conclusions

The thesis started with curiosity and interest for social banks and what made them different. Through the thesis and the preliminary report, I have explored literature on the topic and found certain characteristics that differentiate social banks from conventional banks. These characteristics are illustrated and verified in different ways. A goal of transparency is verified through openness in the loan portfolio. A goal of social and environmental impact is partly verified through measurement. The analysis is a result of the transparency value the three banks have, because the thesis is based on reports and information available online. I would like to give credit to all three banks for making this possible.

From the case-analysis it is possible to sum up an answer to the research question. I have worked with the deliberate approach that measurement is a strong way to verify impact. The case studies have demonstrated that measurement verifies impact, but also that there are many challenges for impact measurement. I have therefore chosen to not go into discussions on other possible methods for verification, in order to provide a full discussion focused on quantitative measurement.

9.1 Answer to the research question

This thesis has explored quantitative <u>measurement</u> as a way to verify social and environmental impact, and looked into challenges and possibilities with this. The case studies have supported the view that impact measurement is important, and is becoming increasingly so.

9.1.1 Implications

The analysis showed three different approaches to verify impact, where strengths and weaknesses became evident. Through the analysis it is clear that impact measurement is a highly challenging topic, still in its infancy. Furthermore, there are several ways of performing impact measurement, depending on whom it is directed towards. The approach will differ based on whether it is meant for large institutional investors or small depositors. I have focused on measurement as a verification tool, and emphasised on it as mostly directed towards non-institutional stakeholders such as depositors.

My findings illustrate how difficult impact measurement is, and demonstrate a variety of approaches for impact verification. At the same time, the implications are that it is highly necessary for social banks individually *and* through networks, to put impact measurement on the agenda. This needs to be developed in order to make the banks accountable to their own claims.

Measurement might be difficult and challenging on a practical basis. But it does not need to be highly complicated, and it is possible to break it down into manageable concepts. I have proposed a framework with three main stages in such a process that can assist in solving measurement challenges.

9.1.2 Impact, so what?

Social banks are small compared to conventional banks. The impact they enable through their loan (or investment) portfolio is negligible compared to the rest of the conventional banking business as a result of their small size. However, the banks are growing fast and there is a demand for such banking services and for sustainable banking. The wider consequence of this development is greater impact in the long run.

Quantitative measurement of social and environmental impact is a new and developing research field. Compared to measuring success through “profit”, it is barely developed. As bookkeeping and financial statements have been conceptualised over many years, it is natural that this way of measuring is well developed. In relation to this, it is interesting that measures of for instance CO_2 emissions and ecological footprint have been developing rapidly the last years. These measures have also become increasingly used. This is encouraging news for impact research, as it illustrates that developments are certainly taking place within the field.

An additional example is how social banks influence conventional banks. Triodos Bank started with renewable energy funds and after some years, most Dutch banks now offer such funds as well (Niven 2010). Through being at the forefront and providing innovative funds, a greater impact is achieved through conventional banks *and* social banks.

9.2 Concluding remarks

I have provided a critical assessment of impact methodologies of the selected social banks. The critique is compared to an ideal situation where the banks have resources available and a methodology for impact measurement.

Generalising has not been a goal of the thesis, but a limited level of it is nevertheless present. The case of Cultura Bank is representative specifically in relation to other social banks without a clear approach towards impact measurement. Critical comments and the framework proposed for a measurement tool can be suggestions in a discussion on development of a measurement approach. Moreover, impact research performed in Charity Bank and Triodos Bank show many important aspects of measurement, and it is possible to learn from these experiences.

On the other hand, social banks differ in several aspects, such as business organisation, core focus and mission statements. This makes the case for generalisation weaker, but all social banks share elements of the same challenges towards impact measurement. Thus all banks, both social and conventional, can learn from this, making this thesis an important comment in the larger discussion on responsible and ethical banking.

My work has perhaps provided more questions than answers, offering the reader food for thought. I have given a contribution to systematic thinking around social banks and impact measurement. The conclusion is that quantitative measurement is necessary for verification of social and environmental impact. Impact measurement is here to stay.

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Annex

Appendix 1: GABV and ISB members

Global Alliance for Banking on Values: Members and country of origin, per 2011.

Source: (GABV 2011)

GABV Members	*Country of origin*
Alternative Bank Schweiz AG	Switzerland
Banca Popolare Etica	Italy
BancoSol	Bolivia
BRAC	Bangladesh
Cultura Bank	Norway
GLS Bank	Germany
Integral	El Salvador
Merkur Bank	Denmark
Mibanco	Peru
New Resource Bank	USA
OnePacificCoast Bank	USA
Triodos Bank	The Netherlands
Vancity	Canada
XacBank	Mongolia

Institute for Social Banking: Members and country of origin, per 2011.

Source: (ISB 2011)

ISB Members	*Country of origin*
Merkur	Denmark
Cultura Bank	Norway
Ecobanken	Sweden
Triodos Bank	The Netherlands
Hannoversche Kassen	Germany
GLS Bank	Germany
GLS Treuhand	Germany
Hermes Österreich	Austria
Stiftung Edith Maryon	Switzerland
Banca Popolare Etica	Italy
Alternative Bank Schweiz AG	Switzerland
La Nef	France
Charity Bank	United Kingdom
Ecology Building Society	United Kingdom
Clann Credo	Ireland

Appendix 2: Preliminary Thesis Report

ID number: **0889676**
Siri Aspevik Bosheim

BI Norwegian Business School:
Preliminary Thesis Report

- Conceptualising social banking-

Supervisor:
Kåre Hagen

Hand-in date:
16.01.2012

Campus:
BI Oslo

Examination code and name:
GRA 19003 Preliminary thesis report

Programme:
Master of Science in Political Economy

Summary

This preliminary thesis report creates the foundation for the master thesis by clarifying several concepts and develops a research question. It gives the reader a broad introduction to the phenomenon of social banking, and clarifies the most important characteristics of social banks. Their mission statements and their transparency are argued to be the main characteristics.

Social banks claim that they have a positive social impact, and this argument is the basis for a discussion leading up to a research question for the master thesis. The question focuses on measuring the impact of the activities performed by social banks. I also pose several working questions that can be helpful to highlight different sides of the problem definition.

In order to conceptualise the research done on social banking, a literature review discusses how social banks are defined and how they are different from mainstream banks. This literature review also made evident that impact measurement has not been the focus of researchers. This lack of literature will make the work with my master thesis very interesting yet challenging.

The paper finishes with an outline and suggestion for a structure of the master thesis, naturally following from the research question and the literature review.

1.0: Introduction

This paper is about social banks, and their social impact. In order to assess possible impact from an activity, measurement concerning the impact is necessary. This has been done qualitatively in social banks, but the master thesis will try to measure the impact through quantitative measurement tools.

This preliminary report gives an introduction to social banks and their founding ideals. The report will conceptualise the research field for the master thesis, and develop a research question that focus on the impact from activities performed by social banks, and how this can be measured.

A bank is a financial intermediary that is a place to meet for those who have abundance of capital, and those who need access to capital (Mishkin 2010). I focus on financial intermediaries that are deposit-taking institutions, and have their core emphasis on performing task that banks traditionally have performed – take deposits and lend them out. Social banks are one particular interesting branch of banks. They are different from conventional banks in their focus on transparency and their value-based approach to handling money while providing banking services, such as access to a current account and a payment card. They focus on providing credit to the real economy (Benedikter 2011b). This makes the banks stand out in comparison to mainstream banking institutions.

The purpose of the paper is to clarify and conceptualise the field of social banking, and to create a framework that the master thesis will build upon. The first section presents an introduction to social banks. Section two will discuss characteristics of social banks, and the third section analysis issues leading up to the research question for the master thesis. The fourth section analyses a literature review regarding a definition of social banks, and how they differ from mainstream banks. Section five sets out a structure for the master thesis and the last section concludes.

2.0 Characteristics of social banks

"Social banks" have also been branded "ethical banks" (San-Jose, Retolaza and Gutierrez-Goiria 2011) or "sustainable banks" (Jeucken 2001). To clarify, this paper will only use the term social banks and social banking, in line with Weber and Remer (2011). This is done to clearly distinguish social banks from conventional banks that have a new focus on ethics and sustainability in their practices. Social banks are founded on ideals such as sustainability and societal change, and have performed their activities along these ideals from the start. This calls for a different view on social banks from mainstream banks with a new focus on ethics.

Social banks will in this paper refer to the core social banks that are members of the Global Alliance for Banking of Values (GABV) and/or the Institute for Social Banking (ISB). See the appendix for a list of banks. The ISB is a purely European organisation, whereas the GABV is international. The membership is to some extent overlapping – 6 of the 15 European banks are also members of GABV. These social banks are distinguished as poverty alleviating banks and ethical banks (Scheire and Maertelaere 2009). Poverty alleviating banks are mostly found in countries with lower scores on the Human Development Indicators (HDI), and focus on providing access to credit and human development in a sustainable way. Ethical banks are mostly found in Europe and the USA – which can have influenced their mission of focusing on organic production, environmentally sustainable solutions etc.

This paper will focus on the subgroups of social banks in Europe when referring to social banks. This is because the master thesis will be written for a Norwegian social bank, Cultura Bank. This bank was founded in 1997 as a savings bank. Before that it existed as a credit cooperative (lånesamvirke) from 1986. Cultura Bank has been growing steadily, but is still small and has ca 4100 customers (Cultura Bank 2011b). Cultura bank will be exemplified throughout the text, and also be analysed in the master thesis with examples of measurements of the effects of social banking.

2.1: Mission

Social banks have a distinguished set of mission statements and visions. They want to contribute to social development and focus on sustainability in processes that they are involved in. Transparency is a core value that serves as the basis for all activities performed by the banks. They provide transparency in areas where mainstream banks are "hiding" behind confidentiality. Social banks inform their customers about their transparency policies and have publicly available information on their loan-recipients and projects (Cultura Bank 2011b). The mission statements and founding ideals that social banks build on include two important concepts (Scheire and Maertelaere 2009):

1) They are not profit maximises, but need to be profit making.
2) They are founded to "*serve the un(der)served"* (Scheire and Maertelaere 2009, 6)

These two core elements together with transparency distinguish social banks from mainstream banks, and also make them highly interesting as an objective for research. It is also interesting to understand how such organisations are structured and function, and how they conduct their business.

Founding ideas and philosophy behind these banks are based on the work of Rudolf Steiner and the anthroposophy movement, the activities of different environmental groups and the civil society (Benedikter 2011b; Scheire and Maertelaere 2009). This connects the banks to their customers, in that the initiative often originates in societal groups. The founding ideas of social and economic change can also be found in other areas such as in the approach of ecological economics (Ingebrigtsen and Jacobsen 2011).

The founding ideas of social banks have made them stand out after the financial crisis. It seems to be an agreement in the literature published after the financial crisis that social banking has been a good alternative for bank customers in such times, and that social banks even increased in importance after the financial crisis as a result of increased number of customers and deposits (Benedikter 2011a). The reason is inherent in the values of transparency, responsibility and the focus of performing the "core" tasks of banking such as savings and lending, that are at the centre of social banks (Benedikter 2011b). The fact that most social banks do not take part in speculative activities, and focus their activities in the real economy also make them more robust towards fluctuations as a result of speculation.

2.2: Profit and criteria

Even though social banks have an emphasis on positive societal and environmental change, they are still banks, not charitable organisations. Hence they need to make profit in order to continue their activities. They will also have certain criteria for giving loans to projects and individuals, and focus on the triple bottom line of the people, planet and profit in the whole process. For Cultura Bank, there are some criteria that they focus on before a loan is provided. They make a judgement on whether the project has a social or environmental dimension, and they will also need to use financial judgement about the soundness of the economy of the project (Cultura Bank 2011a). This last principle is based on the capacity in the recipient to repay the loan, which is necessary for all banks to assess in order to minimise the probability of default on the loans. In comparison to mainstream banks, social banks might provide loans to projects that require more work for the bank, and hence result in less profitability. This is in line with their goals and missions of not having profitability as their main goal.

On the other hand, research has also been done which concludes that the lending criteria might not be well enough developed (Veltmeijer-Smits 2010). This result is based on research on one social bank in Europe, but is likely to be valid for more than that bank. This is important to notice and also serves as an important are for further research.

All these features of social banks make them highly interesting to study from an academic point of view. It is also possible to contribute to the academic literature in this field as it is quite new, and at this point it exists relatively limited academic literature on social banking.

2.3 Social banks and social entrepreneurship

Thinking of social banks, the term social entrepreneurship seems somewhat connected. Is it a term that is relevant when discussing social banks?

There is little academic agreement on the definition of social entrepreneurship, and it has been defined in a numerous amount of ways. Most of the definitions focus on social entrepreneurship as referring "*to an ability to leverage resources that address social problems*" (Dacin, Dacin and Matear 2010, 38) – however this definition is very broad. Another more concise definition is "*economically sustainable ventures that generate social value*" (Emerson and Twersky (1996) and Robinson (2006) in Dacin, Dacin and Matear 2010, 38).

Does these definitions comprise social banks? In one sense they do, because social banks provide capital to projects that have a social or environmental value. Another interesting question is whether social banks are *first and foremost* banks or social entrepreneurs. This is a demanding question without a simple answer, and the social banking literature say very little about the relation between social banking and social entrepreneurship. This also seems to be connected with the difficulties with proposing a proper definition of social banking (see below).

I will argue that the founding of such banks is the act of social entrepreneurs. This is because these banks are founded on missions such as creating positive social and environmental change. They want to work for a better economic system that includes everyone in a social and environmentally sustainable way. So the act of founding a bank can thus be argued to be the act of social entrepreneurs, also because they mostly have arisen from societal movements as mentioned in Scheire and Maertelaere (2009).

After the establishment, they are banks that operate in the same field as mainstream banks, and offer many of the same services. They have certain criteria in the loan process that the projects need to fulfil in order to get access to credit – no matter how good the project might be social or environmentally, it also need to be financially sound. This joint approach is what makes social banks so unique. Hence I will argue that these banks are social entrepreneurs, due to that they have a goal of societal change and that they want to generate social value. Now they are in business in order to provide access to capital for other social entrepreneurs. GABV argue that they "*finances sustainable entrepreneurs from around the world, from Lima to London*" (GABV 2011b).

3.0: Developing the research question

To look closer into social banking is interesting for a master thesis due to new interest for these kinds of banks in the academic literature. They are also interesting because they are relatively different from mainstream banking – as a result of their mission statements and business models. Hence it is possible to contribute with the master thesis. To conceptualise the research methods that the master thesis will perform concerning social banks, I use the argument below as my starting point. This approach clarifies the research question.

3.1: Social banks have an impact on the society

This argument builds upon the main mission statement that social banks have (Scheire and Maertelaere 2009). It also builds upon the loan criteria and the work of social banking networks such as the GABV and the ISB. These networks focus on creating positive social change. Social banks search to include people, sectors or businesses that don't get or want loans in mainstream banks – this is embodied in the mission statement of serving those that do not have sufficient access to capital, or are denied access based on for example too low profitability. Hence, the impact on society, people and the environment is the goal of their activities.

The argument that social banks have an impact on the society is also based on what the banks claim, through e.g. ISB (ISB 2011c). This is also a core argument when it comes to attracting ethical customers. The depositors are given the opportunity to contribute with their use of banking services to positive developments in society. Social banks are in this way becoming the ideal bank for conscious consumers who want to "vote with their wallet" and encourage sustainable alternatives.

But how can banks establish that they contribute to a better development of the society, and that they have a social impact? This is what the master thesis will focus on.

Implicit in the argument there is also an assumption that *banks* have an impact on the society. Banks have in general a systemic role, which supports this assumption. The important role of banks in the society also became evident in the financial crisis, which made clear that incentive structures for profit maximisation and bank behaviour were directed towards earning money rather than to encourage a healthy financial system. This is perhaps not so strange, because the business model mainstream banks builds on, have a core value of maximising profit to the shareholders, and not necessarily taking into account the extended responsibility that comes with being such a systemically important sector. On the other hand, governments and regulators are the ones setting the framework that banks operate within, so the "blame" cannot only be levied on the banks. Nevertheless the financial crisis made the systemic role of banks in the economy evident. It also clarified that financial intermediaries could focus less on speculation and more on the originally tasks of being intermediaries between depositors and borrowers – in order to connect banking to the real economy again (Scheire and Maertelaere 2009).

If banks have an impact on the society in developing the economy through providing credit, we need to look closer into how *social* banks have an impact, and what kind of impact.

3.2: Conceptualising

In order to establish the argument above, it is necessary to look closer into what "social banks", "impact " and "society" means. When it comes to defining social banking, this is not straightforward. A discussion around a definition is provided in section 4. Society is understood as the local environment people live in, the environment as such and in general the connection between human being and the nature. It is necessary to develop and conceptualise this concept further in the master thesis, in order to be able to measure the impact.

3.2.1: What is impact?

Impact is defined as being the estimate for the "*proportion of the outcome [that] can be isolated as being added by your activities*" (Nicholls et al. 2009, 55). This means that social banks are performing an activity, such as providing a loan to an organic farm. The outcome is organic production of food, and the impact is the proportion of the outcome that was a result of the loan.

There seems to be agreement in the literature that social banks have a positive impact of the society (Benedikter 2011b; Weber and Remer 2011). This is exemplified in terms of case studies, or information on what kind of projects the banks are lending money to. The banks publish this on their websites (Cultura Bank 2011c; Charity Bank 2011). The positive impact is assumed to come from the selection criteria that the banks have, in the projects they choose to provide loans to. However, impact is difficult to establish and people receiving the loans might not care that much about measurement, but trying to measure the effect can nevertheless highlight where impact is being made.

Impact can also be argued to come from providing access to credit. But on the other hand it is argued that guarantees or collateral that the social banks require in order to provide a loan is mostly the same as in conventional banks (San-Jose, Retolaza and Gutierrez-Goiria 2011). This can originate in the two requirements as mentioned above (Social or environmental aspect of a project and whether the project is economically sound). However, social banks still provide loans to projects that might not get access to credit from the mainstream banks, not because they don’t have collateral, but because it might be too time consuming and not profitable enough for a mainstream bank to give them a loan. Social banks take this extra effort when it comes to projects that have a social or environmental value.

Another way of looking at the impact from social banks is that value-based organisations such as special environmental organisations might want to use social banks that also focus on environmental issues, instead of conventional banks. This way impact for the banks is ensured through the activities of their customers.

3.3: The research question

If social banks have a positive impact on the society, how can this be measured quantitatively? How is the use of Social Return on Investment (SROI) suitable for social banks as a measurement tool? Applying SROI-analysis to Cultura Bank's loan portfolio.

This research question is the foundation for the master thesis. The master thesis will test the argument that social banks have a positive impact on the society, through measuring the impact. SROI has been suggested by Cultura Bank as a method for impact measurement. This is a quantitative method where financial proxies are used in order to estimate social impact (Nicholls et al. 2009). Earlier the bank has used qualitative ways of describing their projects, so the SROI method represents a new approach. Hence the paper will need to set out the foundations of this method, and explain how it works.

3.3.1: Working questions

In the thesis I will also pose some smaller working questions that will help me to answer this question. I suggest some of them here, however due to time or space constraints it is not certain that all of these will be addressed in the master thesis.

- Conceptualise social banks, distinguish between poverty alleviating banks and "ethical banks".
- How are social banks organised?
- More information about Cultura Bank
- Conceptualise impact better in order to be able to establish and quantify it.
- How can we measure social impact?
- Which methods for impact measurement are available?
- What are the mechanics of the SROI method?
- Is SROI the best option for social banks when it comes to impact measurement?
- What kind of data and skills are required in order to perform an SROI analysis?
- Cultura bank as a case-study: Apply SROI to projects in their loan portfolio
- Possibly create a standardized approach for calculating SROI for certain sectors or projects
    - Organic farming
    - Environmental projects

- Schools

The last point is based on the yearly report of Cultura Bank (2010) and the three sectors mentioned above are the ones that dominate the loan portfolio (Cultura Bank 2011b).

4.0: Literature review

In order to create a framework for the master thesis, a literature review is a good way to get an overview of the relevant literature. I have chosen to focus the review on conceptualising a definition of social banking, and how social banks are different from mainstream banking. This is because these two concepts are highly linked, and because they will be necessary to clarify for the thesis.

The challenge with a literature review in the field of social banking is that it will be heavily shaped by the way one chooses to approach social banking. Terms that are affiliated with social banking are terms such as (Socially) Responsible Investments (S)(RI), Corporate Social Responsibility (CSR) and social entrepreneurship (SE). There are a number of international organisations, institutions and agreements operating in the field of sustainability in finance and investments. To name a few, the equator principles, UNPRI, UNEP FI, the European Investment Fund, the UN Global Compact and the Global reporting initiative (GRI) are all influential.

In general, sustainability in business practices and ethical behaviour in mainstream banking has become more important. This is definitely a positive development on the behalf of conventional banking. However I refer to my discussion concerning the definition of social banking, and hence mainly exclude literature focusing on the above mentioned terms.

The literature on social banking is not extensive, but is it fairly recent. Published books and articles mostly agree on the nature of social banks, and the purpose they work to achieve. The nature of social banks is to focus on sustainability, social and environmental processes, in a transparent way (Benedikter 2011b; Weber and Remer 2011; Scheire and Maertelaere 2009). Several of the banks also have social change as a part of their goals and founding ideals (e.g. Triodos, Banca Etica) (Scheire and Maertelaere 2009).

The purpose of the literature review is to look at different ways of approaching social banks, both in terms of differentiating them from conventional banks and in terms of defining them.

4.1: Different from mainstream banking

The way social banks differentiate themselves from mainstream banking is through several processes. Firstly, transparency is very important. Projects that receive a loan from Cultura Bank, is being published on their website (Cultura Bank 2011c). This encourages openness both for the bank and the customers. Secondly, the loans are given to projects that have a social or environmental profile. Thirdly, social banks do not focus on a single goal of profit maximisation. On the other hand, social banks are similar to mainstream banks in that they require the project to be financially sound. But they are still different from mainstream banks in that they "*are prepared to accept lower margins and/or higher risks to stimulate certain activities*" (Jeucken 2001, 73). This is a quite interesting argument, which also captures the mission of the banks to serve the "un(der)served".

The poverty alleviating banks differ mostly from conventional banking in that the risk rating is different from the risk rating process of conventional banks, exemplified through the use of group lending as opposed to the requirements for collateral (Weber and Remer 2011).

From an academic perspective, I will highlight two different approaches (San-Jose, Retolaza and Gutierrez-Goiria 2011; Kaeufer 2010). San-Jose et al. and K. Kaeufer both try to distinguish social banks from conventional banks, but they do it in two different ways. San- Jose et al. (2011) construct a Radical Affinity Index (RAI) that captures the differences, while K. Kaeufer divides the activity of a bank into different levels of responsibility and "green" approach.

The RAI is based on a selection of four areas where social banks are considered to differ from conventional banks. The calculation of RAI is based on placement of assets in socially profitable projects, level of transparency, stakeholder participation and to what extent they have developed alternative guarantee systems (San-Jose, Retolaza and Gutierrez-Goiria 2011). In the RAI, affinity refers to "*positive social and ethical values*" (San-Jose, Retolaza and Gutierrez-Goiria 2011, 151).

Based on the four criteria the authors calculate RAI for a large number of European banks. The evidence shows that the level of transparency of information and placement of assets are the factors that mostly determine banks branded as social banks from other financial intermediaries. This is positive, as these factors also is inherent in the mission statements of many social banks, and hence can indicate that they succeed in fulfilling their mission or goals.

Kaeufer's approach is to distinguish "*five levels of socially responsible and green banking*" (Kaeufer 2010, 5). The levels presented below are based on business practices and strategy, and is the basis for current research by Kaeufer.

- Level 1: Corporate activity can support community projects, but this is not part of a business strategy.
- Level 2: Corporate activity in limited areas that have a green profile. An example can be investment funds directed towards renewable energy.
- Level 3: Principles of social and green responsibility and impact are inherent in most practices in the bank.
- Level 4: Sustainability is the core of the activity, and the bank engages in innovation to meet external threats or challenges. Examples are creating networks and alliances, and to inform the public about their activities and purposes.
- Level 5: Sense of responsibility for the whole eco-system and willingness to create a positive scenario instead of avoiding a negative scenario. The bank is at the forefront of addressing challenges to the whole eco system.

Source: (Kaeufer 2010)

Kaeufer does not determine exactly where social banks are on this scale, but based on research it is naturally to assume that social banks would be in category 3, 4 or

5. On the other hand the boundaries between the levels are not clearly defined and this makes it difficult to establish where social banks are. Level 5 might also be a rather optimistic view on the notion of a bank, and it is also not entirely clear defined. Nevertheless, her approach also supports the argument that social banks are different from conventional banks with a focus on environmental investment funds etc – which would be level 2. It would also prove very interesting to deeper clarify the concept and boundaries of level 3 further in the master thesis.

De Clerk (2009, 217) also argues that social banks are different from social responsible investment funds etc, due to that SRI focus on "*influencing company behaviour through the provision of capital to stock-listed companies*". Social banks on the other hand, focus on the provision of direct credit and loans to projects that have a social or environmental profile – hence the behaviour do not need to be influenced in the same way, because it is already there, motivated by the project goals themselves.

4.2: Definition

Most sources agree that social banks are not a new phenomenon (e.g. (Benedikter 2011b; Weber and Remer 2011). However, the definition of social banks is a somewhat difficult matter, and the literature seem to agree and also be content with that there is no clear, common definition of social banks. This is due to their differentiated nature, structure and organisation, and the fairly limited amount of banks (de Clerck 2009; Weber and Remer 2011). San-Jose et al. (2011) also remains from providing an adequate definition, and leave it outside the scope of their paper.

Firstly, social banks need to be defined in terms of being **banks**. Hence they need to be recognized as this, trough for example recognition from relevant national authorities (San-Jose, Retolaza and Gutierrez-Goiria 2011). For this paper, a bank will be defined as a financial intermediary, and a deposit-taking institution (Jeucken 2001). They act as a intermediary between those who have resources to those who need access to credit (Mishkin 2010).

The matter of social finance is also important, but this paper and the master thesis will only focus on banks, and not on social finance institutions. This is due to the need for a deeper understanding of social banks, and also due to the recent popularity of ethical investments, social responsible investments etc. Hence these kinds of investments is a research area with its own importance, and it would be too large a scope for this preliminary report to go into this field in addition to the field of social banking.

A definition would need to focus on the common founding values and missions that social banks have. They focus on money as a means to an end, which is a better society. This approach of money as a tool, not a means in itself is characteristic for social banks. The literature also focus on GABV or ISB membership banks as the "core social banks" (Scheire and Maertelaere 2009; Benedikter 2011b; Weber and Remer 2011). Hence a definition should encompass these banks.

Now it is established that social banks need an authorization as banks or credit institutions), and that social finance institutions is left outside the definition. How to deal with conventional banks with an increased focus on ethics, sustainability and environmental approaches? Can they be considered as social banks? This traces back to the section on how social banks differentiate themselves from conventional mainstream banks, and as argued above, the RAI index is of good help when attempting to see the difference between social banks and socially responsible banks.

Based on the last to sections I propose the following definition of social banks that also will have to be further defended in the master thesis.

Social banks are providing banking services working with the triple bottom line of people, profit and the environment as their core business model. While profit is necessary, it is neither the main nor the single goal. Through a transparent business process social banks focus on sustainable human and environmental development and positive impact on the society.

4.3: Interesting findings

The literature reviewed in the research process captures other aspects of social banking than the definition and how they are different from conventional banks. Mission statements, economic performance, organisational structure, and networks they have created are analysed (Benedikter 2011b; Scheire and Maertelaere 2009; Weber and Remer 2011). However, the literature does not give any clear answers on how social banks can grow in size and importance, nor does it say much about how to verify the claim of a positive social impact. The social banks are still relatively small, which make the impact they have rather limited. The measurement of the outcome of activities of social banks proves to be a challenging and new area for researchers, and with the theme for the ISB summer school 2012 being "The Impact of Sustainable Banking", the importance of this area is highlighted (ISB 2011a).

5.0: Thesis outline

The literature review found that impact measurement has not been the focus of research on social banks. The thesis will work with the argument that social banks have a positive social impact. In order to establish this with quantitative measures, the thesis will use SROI to hopefully find support for the argument of social impact. This can give Cultura bank especially, but social banks in general also, a new tool of communicating their work.

5.1: Structure of the thesis

The thesis will build upon this preliminary thesis report. I will present and discuss the research question and pose several working questions that are also intended to serve as a structure for the thesis. These working questions will highlight different aspects of this research area, and they will be helpful when it comes to answering the main research question.

The thesis will also have a more thorough literature review, searching for more literature that focuses on impact measurement. In order to find out more about this, I will also try to get contact with other researchers that are working with impact measurement in relation to social banking, as well as the ISB and the GABV.

The next step is to look into impact measurement, and why this is important – and why it is important for social banks as being one way of validating their argument of having a positive social impact. Measurement of non-monetary values is a new and challenging research topic, which also makes it very interesting. The thesis will look at different impact measurement approaches, and see strengths and weaknesses of them. It will also discuss whether it is possible to use the measures for comparisons across sectors or even between different projects. It will especially discuss the method of Social Return on Investment (SROI), because Cultura Bank has suggested that SROI is a method that can be good for assessing the impact from social banks' activities. To get thorough knowledge of the SROI-method, I hope to attend an SROI-course in England, which is offered by the SROI-network and the New Economics Foundation (nef).

After assessing the SROI method, the thesis will apply this method to selected parts of Cultura's loan portfolio. This is likely to be the most challenging part of the thesis. The data required to perform an SROI-analysis are assumed to be at a relatively detailed level, requiring either information from Cultura Bank, or interviews with the loan recipients – and most likely both. The work with the SROI-method will be dependent on the access to available data from Cultura Bank or their loan recipients. If this is not possible to access, the thesis will still mainly be structured as above, but will not perform an SROI analysis. Then I plan to look closer at what data the bank would need in order to perform an SROI analysis, and attempt to create a standard or a form that they can use with regards to the information the bank requires from their customers when they assign a loan. This might also clarify the lending criteria that the bank has, in line with the need for further research based on Veltmeijer-Smits (2010). This will enable the bank at a later point to perform SROI analysis.

6.0: Conclusion

This preliminary thesis report has given the reader an introduction to social banks. These banks are argued to be characterised by transparency, the lack of profit maximisation as the main goal for their business activity, and that they are founded to serve the “un(der)served”, and fulfil a need that conventional banks do not. Social banks are also seen in relation to social entrepreneurship, and these concepts are connected.

An argument about social banks providing an impact on the society serves as the basis for discussing a possible research question to be answered in the master thesis, that focus on social banking having an impact on the society, and how this can be measured. This necessitates conceptualisation of impact, but also social banks. This is the foundation for the literature review, which looks into how social banks are different from mainstream banks. The review also goes deeper into a definition of social banking, and proposes one based on the discussion.

The literature review also resulted in a notion that research regarding measurement of the impact of social banks is rather limited. This provides the basis for my thesis, and the last section then proposes an outline for the master thesis.

Appendix

Global Alliance for Banking on Values, members and country of origin.

Source: (GABV 2011a)

GABV Members	*Country of origin*
Alternative Bank Schweiz AG	Switzerland
Banca Popolare Etica	Italy
BancoSol	Bolivia
BRAC	Bangladesh
Cultura Bank	Norway
GLS Bank	Germany
Integral	El Salvador
Merkur Bank	Denmark
Mibanco	Peru
New Resource Bank	USA
OnePacificCoast Bank	USA
Triodos Bank	The Netherlands
Vancity	Canada
XacBank	Mongolia

Institute for Social Banking, members and country of origin.

Source: (ISB 2011b)

ISB Members	*Country of origin*
Merkur	Denmark
Cultura Bank	Norway
Ecobanken	Sweden
Triodos Bank	The Netherlands
Hannoversche Kassen	Germany
GLS Bank	Germany
GLS Treuhand	Germany
Hermes Österreich	Austria
Stiftung Edith Maryon	Switzerland
Banca Popolare Etica	Italy
Alternative Bank Schweiz AG	Switzerland
La Nef	France
Charity Bank	United Kingdom
Ecology Building Society	United Kingdom
Clann Credo	Ireland

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