Just Money

Mission-Driven Banks and the Future of Finance

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To COS
To my parents
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A year ago, when we were walking the streets of Madrid looking for a place to have lunch, we opened an app on our cell phones and were able to find an organic restaurant just two blocks away. The app was designed by a financial institution, the Netherlands-based Triodos Bank, which has operations across Western Europe and finances social and green businesses and projects. This app allowed us to locate all the bank’s business customers in the area. Triodos Bank created the app because its business model is based on the concept of transparency. Customers choose Triodos Bank because they want to know how their money is used. As Triodos Bank sets social and ecological standards for its clients, the app allowed us to identify social and green businesses around us. With this app, and with a policy that requires the names of all business clients to be published on its website, Triodos Bank lifts the curtain between depositors and loan clients so that depositors know what their money is financing and with that knowledge are able to take responsibility for the impact of their money. This transparency also facilitates networking.
and connections among Triodos Bank’s clients, thereby growing the community of social and green businesses.

Let’s move to a different continent and another online tool created by a financial services institution. Vancity Credit Union, located in Vancouver, British Columbia, on the west coast of Canada, created the Fair & Fast online loan, a nonpredatory credit-building alternative to payday lending. Payday loans have become an increasingly popular credit option for families living paycheck to paycheck in the United States and Canada. This unsecured loan provides a cash advance based on the borrower’s payroll and employment records. Payday loans are easy to acquire and may have terms of no more than a few months. They are often predatory, designed for clients who have no other alternative to bridge a short-term cash flow gap. Because the clients are desperate for funds, the lender can charge an annual percentage rate (APR) as high as 600 percent in some cases. Clients who are not able to repay the loan on time may quickly enter a cycle of debt in which they take out additional loans to repay the rapidly accumulating interest.

Vancity Credit Union noticed that some of its members were caught in this debt cycle and designed its Fair & Fast Loan to provide a responsibly priced alternative and to help members build their credit history. Credit union members can receive Fair & Fast Loans of up to Can$2,500 with terms of up to two years. The loans are considered fair because the APR is low (19 percent as of January 1, 2020), payment terms are flexible, the language of the contract is simple and transparent, and there are no hidden fees. Since the loan is not
evaluated based on the borrower’s credit score, the barriers to borrowing are reduced. An added benefit is that, unlike payday lenders, Vancity reports to credit bureaus, meaning Fair & Fast Loans can help members boost their credit scores or build a credit history.

Now let’s travel south to El Salvador and visit SAC Apoyo Integral, a microfinance bank operating primarily in that country. Microfinance describes a range of financial services such as lending, providing access to saving vehicles, and creating insurance pools for individuals and small businesses with no or limited access to mainstream banking, often because of poverty, social exclusion, or geographic exclusion. Microfinance aims to fight poverty and support clients in becoming self-sufficient. Integral was founded as a credit program by the nonprofit Salvadoran Foundation for Integral Support (Fundación Salvadoreña de Apoyo Integral, FUSAI) and has since become one of the fastest-growing microfinance institutions in Central America. This accomplishment is particularly impressive in light of the challenging socioeconomic conditions in El Salvador. After a two-decades-long civil war that ended in 1992, extreme levels of violence have persisted. The violence has made El Salvador one of the most dangerous countries in the world. There has also been a mass exodus of Salvadoran workers to the United States, and remittances from these workers make up around 17 percent of El Salvador’s GDP. In these conditions, Integral focuses on the segments of the Salvadoran population that are most in need of economic development and support. However, unlike many microfinance organizations, which operate primarily with
a profit motive, Integral is driven by a mission to improve the overall quality of life of its clients and their communities. In addition to financial services, Integral offers technical assistance for home improvement, micro health and life insurance, and free financial and environmental education, among other programs. Integral develops long-term relationships with clients and uses quality-of-life improvements as an impact measure. Improvements should be sustainable in the long run and should be measurable not only in financial well-being but also in education, health, and living conditions.

Let’s make a final stop in South Asia, where we step into a branch of BRAC Bank in Bangladesh. Sir Fazle Hasan Abed founded BRAC, one of the world’s largest nongovernmental organizations (NGOs), to address urgent humanitarian challenges in Bangladesh and several other countries.\(^5\) BRAC operates as a microfinance institution and also runs schools, health centers, crisis relief operations, and institutions of higher education. While microfinance, if done well, can be a first step toward a family in need securing an income, growing a business requires access to financial tools that go beyond microfinance. The next larger loan size is often called the “missing middle” because of the systemic gap in finance in providing these medium-sized loans.\(^6\) Getting a loan can be a problem for small and medium-sized enterprises (SMEs) not only in Bangladesh. SMEs in Australia, Germany, the United States, and other high-income countries face the same challenge. The main reason is that this loan size is harder to standardize. It is more expensive for banks to
service one hundred loans of $10,000 each than one loan of $1 million. But loans to SMEs are important for job creation and innovation in our economies and therefore are relevant to society as a whole.

In Bangladesh, Sir Abed and his team founded BRAC Bank, in part to address this challenge. BRAC Bank has become the largest provider of collateral-free loans in Bangladesh. Doing away with the requirement for collateral allows BRAC Bank to finance new and small entrepreneurs who have no credit history, which is common in an environment where small businesses rely primarily on cash transactions. BRAC Bank fills a systemic gap and addresses a structural challenge in finance.

**Just Banking: From Ego-System to Ecosystem Finance**

The financial institutions described here are examples of what we call “Just Banking”—they use finance as a tool to address social and environmental challenges. These banks translate the ideas and practices of a socially responsible enterprise into the financial sector. The socially responsible business model combines the entrepreneurial dynamic of a for-profit business with the objective of creating a positive social or ecological impact. To the goal of profitability these businesses add goals they believe will create a positive impact beyond their organizational boundary. By expanding the purpose of the business to include impact objectives, they use their innovative and entrepreneurial potential to
proactively address societal challenges. Examples of social business can be found around the world and in all sectors, whether it is designing an ecological clothing line, producing sustainable cleaning products, or employing a workforce recruited from marginalized communities. Social businesses range from those that integrate a few socially responsible practices into their operation to those that create an entire business model driven by social impact.

This way of operating a business has many names: mission-driven business, social business, and triple bottom line (people, planet, profit), to name a few. But the common denominator is the decision to intentionally shift from a focus on just one variable, namely, profit, toward the impact the business has on the ecosystem in which it operates. We describe this intentional shift as moving from ego-system to ecosystem awareness. Ecosystem awareness describes how an entrepreneur or a business makes decisions and sets objectives that advance the well-being of the ecosystem. The ecosystem of a company includes all key partners and collaborators that need to connect and collaborate differently in order to change how the system operates. An ecosystem can be the community in which the business is operating, the sector, or society as a whole. Ecosystem thinking requires actors to consider their impact on the larger ecosystem in their decisions. SAC Apoyo Integral’s creation of a range of interventions in the communities the bank serves, from microloans to insurance to financial education and technical training, requires the bank to look at the impact of its operations on the community as a whole, not just on individual customers.
As our journey to financial institutions around the world illustrates, stepping into this ecosystem perspective and creating a positive impact with financial institutions requires structural innovations and changes to standard financial practice. These changes include increasing transparency, developing client-centered innovations, and putting in place new operational processes. The shift also has implications for the culture and leadership of the organization. Although this type of banking has existed for years, a growing number of financial institutions are aiming to innovate ecosystem finance practices and methods.

Banks that put positive societal impact on an equal footing with or even before profit challenge the popular image of banking. Why do these banks exist? Are they merely exceptions to the rule, or are they innovating in ways that will influence how we think about the role of banking in the future?