



Ethical Finance: Challenging the mainstream or a marginal alternative?

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WORKING DRAFT – FOR COMMENTS

Introduction

Ethical finance has generated broad interest in recent years. A significant number of investors have started to use finance as a way to achieve social outcomes, as evidenced by the estimated £5 billion allocated to socially responsible investment (SRI) funds in the UK.² Consumers seem to be ‘putting their money where their mouth is,’ by not only buying organic, fair trade and environmentally friendly products, but also by depositing and investing their money in ways that reflect their ethical perspectives.³ While most of the attention to date has focused on SRI funds that invest in publicly listed companies, there has also been a wider proliferation of ethical finance products. The offering of ethical current accounts, mortgages, savings, and social investment vehicles for ethical businesses and community development finance institutions (CDFIs) represents a significant extension of the ethical financial landscape. Ethical finance in the UK is now a broad space that encompasses a number of diverse initiatives.

Optimists see the growing presence of ethical financial options as a sign that sustainable economic principles are filtering into the mainstream; reflecting consumer demand for enhanced transparency in financial institutions and attention to the social and environmental implications of investment decisions. This paper seeks to examine whether ethical finance challenges the mainstream financial system or represents the latest trend in diversified consumer choice, to remain marginal once the focus has passed on. Perhaps the appeal of ethical finance lies in its alternative status, making it unlikely that its market share will grow beyond that of a niche sector.

To explore this question, we need a composite understanding of the UK ethical finance sector with clear indications of its impetus and direction. This paper begins by examining the emergence of ethical finance in the UK. We move on to suggest a much needed taxonomy for the sector, offering a more comprehensive understanding of the structure of ethical finance in the UK. From this basis, we examine the issues that ethical finance seeks to address and, critically, analyse whether ethical finance is delivering on its promises. Significantly, we make

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² £4.2 billion based on EIRIS retail investment figure as of December 2003; however, industry actors consistently estimate a current figure of £5 billion.

³ In 2003, UK sales of Fairtrade products reached a retail value of over £100million, a 46% increase from 2002 (Source: Fairtrade Foundation)

the first attempt to size the whole of the UK ethical finance market. From this basis, we examine the barriers to growth of the industry and explore opportunities for its development. We conclude with a preliminary response to the key question we have raised above. Ultimately we seek to extend our analysis across Europe to provide a definitive answer to this question of whether ethical finance will re-define the mainstream, or remain an alternative to existing financial imperatives.

On the word “ethical”

To date, analysis of the ethical financial sector has narrowly focussed on the perspective of individual industry segments. Whether from the vantage point of SRI fund management, social finance initiatives, or microcredit institutions, critical analysis has not yet clarified the various organisations and objectives that make up ethical finance in the UK. There is a clear need to understand the sector as a whole, identify policies that have supported its emergence, and determine the implications of its actions for the UK financial system. Attempts to create a universal definition of ‘ethical’, ‘social’, ‘alternative’, or ‘solidarity’ finance – terms often used interchangeably – have proven challenging given the multiplicity of perspectives from across varying contexts. Ethical finance has evolved under different names in accordance with the particular strategy and objectives of the country or industry segment in which it has developed.

While we have chosen the term ethical finance for this paper, we acknowledge that its use is problematic. As one interviewer noted, it carries a “holier than thou” connotation which makes many in and outside of the sector uncomfortable. The Webster’s dictionary⁴ highlights the constrictive nature of the term by defining ethical as “pertaining to or dealing with morals or the principles of morality; being in accordance with the rules or standards for right conduct or practice, especially the standards of a profession.” We are not concerned to establish the precise understanding of ‘what is ethical’, but rather to formulate a working map of financial initiatives in the UK that are self-classified as ethical. While we recognise the inherent problems with the use of the term ‘ethical finance’, we have chosen it because of its general usage in the UK to describe products or initiatives that combine investors’ interest in achieving financial return with a concern for social, environmental and/or ethical (SEE) issues. This typically involves a willingness to forgo some economic profit in order to achieve an implicit social return.⁵

⁴ *Webster’s College Dictionary*. Random House (New York, 2001).

⁵ Increasingly the SRI community champions the possibility of ethical investment without associated loss of financial return. This ‘win-win’ investment paradigm has functioned to broaden the appeal of SRI, and remains a key area of research that has generated much discussion. See for example 2004 Moskowitz Prize winner: M. Orlitzky, F. Schmidt, S. Rynes, “Corporate Social and Financial Performance: A Meta-Analysis.” More broadly, a majority of ethical investments outside of publicly traded shares currently involve a higher level of risk, reduced liquidity, and the likelihood of a reduced rate of financial return.

Method

We base our analysis of the UK ethical finance sector on a dual method of data collection. In the first instance, we reviewed available secondary literature published in the past ten years, including journal articles, monographs, government reports, and newspaper articles. We found that a majority of these sources focused on a niche area within ethical finance and substantiate the need for examination of the sector as a whole. This analysis was supported by semi-structured interviews with key industry figures. Questions centred on the individual's categorisation of ethical finance in the UK, perception of their organisation's role, and expectations for the future of the sector. Interviews lasted approximately one hour each and provided a wealth of information on the current state of the industry. We incorporated interview data into our analysis by identifying recurring themes and highlighting key observations. These interviews informed our mapping of the sector and identified issues facing its future growth.

Emergence of ethical finance in the UK

Ethics in finance is not new. It can be found in the preoccupation of the medieval Catholic Church to avoid usury. The avoidance of accruing interest, combined with a concern to invest money in ethical causes, is also apparent in Islamic banking principles adhering to Sharia'a law. Religions have a long history of incorporating their ethical beliefs into economic decisions, exemplified by avoidance of business transactions relating to alcohol for Methodists, weapon manufacture for Quakers, and animal products for Hindus.

Ethical finance initiatives have historical roots in these religious bodies' concerns for the manner in which their funds were employed. As early as the 18th century, the Quakers in the UK refrained from investing in industries they morally opposed such as tobacco, alcohol, gambling, and the slave trade. In its more modern form, ethical investment emerged from decisions of the Methodist Church in North America in the 1920s to invest in the stock market. Their concern to screen out negative activities, or 'sin stocks', encouraged steps toward formal methods of socially responsible investing (SRI). This resulted in early examples of SRI funds such as the 1928 Pioneer Fund.⁶

Demands for enhanced financial transparency, along with the conviction that funds could be used to achieve social change, achieved greater imperative in the 1960s and 1970s – an era of social activism. Public demand for ethical investment vehicles took off in the US with the launch of the Pax World Fund in 1971, a reaction against the Vietnam War. Discontent with the Vietnam War led some investors to question how their money was being used, and resulted in shareholder activism such as public challenges to Dow Chemical's production of Agent Orange. In the UK, this new awareness was exemplified by the attempts of Charles Jacob, an investment manager with the Methodist Central Finance Board, to establish an ethical investment fund. He prepared a proposal for the first ethical unit trust in 1973, but encountered

⁶ The Pioneer Fund in 1928 incorporated negative 'sin' screens and is cited as the first externally screened US ethical investment fund.

some resistance from the Department of Trade. These preliminary efforts did, however, result in the formation of an informal ecumenical ethical investment network, the Church Investors Group, bringing together Christian and Jewish denominations to discuss and share common experiences on ethical investment.

With the arrival of the 1980s, a growing opposition to apartheid resulted in a boycott of businesses operating in South Africa, and fuelled the ethical investment movement in the UK and abroad. Friends Provident became the first financial institution in the UK to launch a socially responsible investment fund in June 1984. Friends Provident, originally established to provide life assurance to members of the Society of Friends, offered to manage an ethical fund with the investment criteria determined by a separate committee. This led to the launch of the Stewardship Unit Trust, Stewardship Life Fund and Stewardship Individual Pension Fund. Charles Jacob, who had led previous attempts for an ethical fund, was appointed as a founder member of the Stewardship Committee of Reference. In the same period, the Ethical Investment Research Service (EIRIS) was established to provide critical research and information on companies' social, environmental and ethical performance. The launch of the Merlin Ecology Fund, now known as the Jupiter Ecology Fund, soon followed in 1988. This reflected an increasing preoccupation with 'green' issues linked to sustainable development, and presaged the development of additional environmental funds in the field.

These early efforts to address SEE issues in finance primarily took the form of negatively screened investment funds, known collectively as SRI funds. For much of the 1980s and 1990s, ethical investment in the UK was largely synonymous with SRI activities. SRI continues to dominate media and public attention in the UK as the most well known form of ethical investment. The formation of the UK Social Investment Forum in 1991 as an active trade body representing ethical fund managers lent further momentum to this growing sector.

Nevertheless, throughout this same period, initiatives in ethical banking and other social investment vehicles gained a foothold. The first social bank in the UK, Mercury Provident Society (now merged with Triodos Bank) was established in 1974, and led efforts to provide finance for socially beneficial projects. They were also responsible for the 1978 launch of the Mercury Provident Pension Scheme. Such efforts were followed by the founding of the Ecology Building Society in 1981, providing mortgages and loans for ecologically sound homes and conversions. The Unity Trust Bank opened its doors in 1984 to serve trade unions and not-for-profit organisations, followed by the creation of Shared Interest in 1990 to help provide finance for fair trade cooperatives in developing countries. In May 1992, the Co-operative Bank adopted its ethical banking policy. By the late 1990s, a number of community development finance institutions (CDFIs) evolved to channel loans and investment to micro and small businesses in deprived areas, social enterprises, as well as to financially excluded individuals. The CDFI sector was galvanised by the recommendations of the Social Investment Task Force which also led to the creation of the Bridges Community Ventures in May 2002. Bridges is the first UK public-private venture capital initiative to invest in growing businesses in deprived

areas, thereby creating a social benefit through investment in community regeneration. Building on the Charities Aid Foundation project *Investors in Society*, the Charity Bank opened its doors in September 2002. The first bank to also be registered with the Charity Commission, Charity Bank seeks to help fund the growth of the charitable sector. As evidenced, ethical investment in its present state encompasses a wide range of varying initiatives that address social, environmental or ethical factors as part of their objectives.

Taxonomy and scope of the ethical finance sector

While ethical finance in recent years has benefited from increasing attention from the public and policy makers, this renewed interest has contributed to a proliferation of jargon. Pundits often use different names for what is essentially the same concept and sometimes cannot agree on terminology, leaving outsiders confused. The varying use of terms is partly due to the different traditions from which ethical finance actors have emerged. As was discussed in the introduction, the roots of ethical finance vary from country to country and result in a preference for specific terminology in each. In France for example, the sector emerged from the solidarity movement and concerns for social justice. The preferred phrase *finances solidaires* is a reflection of these roots. When the sector is broken down into its component parts, many more terms with disputed definitions emerge. While different actors regularly attempt to clarify the term they choose, there is an urgent need to try and agree some basic terminology. This is not only critical from a research perspective; it is also in the sector's best interest in order to help it sustain its growth by prompting more consumers to choose ethical banking and investing options. We hope that our categorisation of these terms will represent a key step towards the clarification and distinction of current overlapping terms.

It is also necessary to delineate the elements that make up the ethical finance sector. As we've mentioned, existing literature does not define the ethical finance sector as such. Most discussion of ethical finance quickly hones in on a specific segment of ethical finance, such as SRI or microcredit, and analyses issues relating to this area. Our interviews identified that some ethical finance organisations do not see themselves as belonging to a wider industry other than the related actors they identify as their direct peer group. For example, most community finance institutions think of themselves as belonging to the CDFI sector and ethical unit trusts to the SRI or fund management industry. While some of these organisations might hesitate to identify with the ethical finance space more broadly, we believe it makes sense when considered from the viewpoint of the ethical consumer. A consumer that wishes to align her finances with her values will consider the available options and group various organisations together that, currently, only have informal interactions with each other. The following section thus focuses on scoping out the ethical finance sector in the UK from a consumer's standpoint, as well as to determine a taxonomy for general use.

Table 1 provides an overview of the UK ethical finance sector. The starting point is consumer needs: depositing money, borrowing money, buying insurance and investing for the

Table 1: The Ethical Finance sector, consumer's viewpoint

Consumers' needs	Examples of providers	What ethical concern does it address?	Comment	Sector label
Deposit money				
Current banking	Co-operative Bank/Smile	Broad policy (see below)	Only lend to companies that meet ethical policy	Ethical banking Ethical current accounts
	Independent buildings societies	Social	Most only lend to individuals for personal loans or mortgages	
Short term savings	Charity Bank	Social	Only lends for charitable causes	Ethical savings
	Triodos Bank	Social & environmental	Only lendsto organisations with social & environmental missions	
	Co-operative Bank	Broad policy (see below)	Only lend to cies that meet ethical policy	
	Credit unions	Social	Serves the needs of members in a common bond area	
	Independent building societies	Social	Serves members' needs only	
Borrow money				
Personal loans	Co-operative Bank/Smile	Broad policy (see below)	Interest earned goes to support the bank	Ethical loans
	Credit unions	Social	Serves the needs of members in a common bond area	
Mortgages	Ecology Building Society	Environmental	Interest earned goes to support building society concerned with promoting sustainable housing	Ethical mortgages
	Co-operative Bank	Broad policy (see below)	Interest earned goes to support the bank	
	Independent building societies	Social	Serves members' needs only	
Buy insurance				
Insurance	Naturesave	Environmental	10% of premium is used to lobby insurance industry to promote change	Ethical insurance
Invest money				
Ethical investing				
In less liquid market (higher risk)				
Equity in start-up	No network exists yet	Variable	Invest in start up ethical businesses	Social venture capital: Ethical business angel investing
Equity/debt in later stage org	Ethex	Variable	Buy shares in later stage ethical businesses that aren't publicly traded (e.g. shares in Cafedirect or Golden Lane Housing bond)	Social investment: Ethical businesses
	Community bonds	Social	Example?	
Investment in financial intermediaries	CDFIs	Social at home	Buying withdrawable share capital in CDFIs that are IPSs, similar to a debt product.	Social investment: Community finance
	Shared Interest/Oikocredit	Social in developing countries	Provides working capital to cooperatives or helps to make loans to microentrepreneurs in developing countries	Social investment: Finance for developing countries
In more liquid market (lower risk)				
Equity in ethical unit trusts	60 plus ethical funds in UK	Variable	Companies are chosen according to negative, positive screens and also might include shareholder activism	Socially responsible investment (SRI)
Note: The Co-operative Bank's ethical policy excludes dealing with organisations that infringe on human rights, deal in the arms trade, GM foods, have a negative ecological impact, test on animals, disregard labour standards or have irresponsible marketing. Policy actively supports social enterprises and charities.				

long term. The table lists the different products available to the consumer, such as ethical current accounts or ethical mortgages, gives examples of providers, and explains which of the SEE criteria the products claim to address. There are a range of financial products available to the ethical consumer. Some product areas are well developed and others less so: there are over sixty ethical unit trusts in the UK, yet there is only one provider of explicitly ethical current accounts for individuals. Provision in other areas, such as ethical insurance and ethical mortgages, is equally patchy. This could partly be due to the fact that what constitutes unethical practice in the mortgage or insurance sector is less clear than in other parts of the finance industry. We recognise that our inclusion of building societies and credit unions may be controversial. Until now, these organisations haven't been widely recognised as part of the ethical finance industry. But the case for bringing them into the fold is strong. Indeed we believe that as more ethical consumers begin to question the ethics of their banks' business models, they will see credit unions and the few remaining independent building societies as positive alternatives to mainstream banks. Credit unions and building societies exist to serve the best interests of their members. They typically don't engage in commercial banking, nor do they serve the needs of outside shareholders. Most building societies engage in business banking, and their money is invested in its members' homes. They can be seen as good, although limited, alternative for customers who want to avoid supporting a range of unethical activities.⁷

The terminology in the ethical banking sub-sector mirrors that of mainstream banking. Where things get muddled is when one moves from banking products to investment needs. There are a number of reasons for this. One is that different terminology has evolved on the investment side to highlight the motivation behind the investment. For example 'green' investments refer to those that are motivated by a desire to protect the environment. While more precise language is helpful, terminology is confused when multiple terms are used interchangeably (social finance/alternative finance/ethical finance), as well as being used to denote sub-sectors of the ethical finance sector as a whole. A second reason for the muddle is the increased use of investment jargon in the charitable sector. The advent of 'venture philanthropy', which applies the approach of venture capital to charitable giving, is partly responsible for this increasingly blurred distinction. Though the money that venture philanthropists "invest" in charities is typically non-repayable and constitutes gift capital, they use language directly borrowed from venture capital. Some see this increased focus on return on investment (albeit social) and high engagement grant-making as a positive development for the charity sector. Nevertheless, the term 'venture philanthropy' has made terminology less precise as investment language is used to describe what is not an investment in the financial sense.

We posit that to be included within the ethical finance sector, an investment has to have both a social and a financial imperative. While we recognise that individual motivations for making certain investments vary greatly, we believe that to be included in the ethical

⁷ "Raking it in," *Ethical Consumer* 94, 8-12, May-June 2005.

finance sector (as opposed to philanthropy) the investment has be structured in such a way that there is the possibility of making a financial return. For our mapping exercise, we've applied these criteria at the point at which the funds are initially parted with. This means that an organisation which raises a fund through charitable donations, and then invests the funds in ethical causes through loans and equity, would fall outside of our review of the ethical finance sector. Such a fund, while perhaps being highly innovative and filling a market gap, falls within an individual's philanthropy choices and not her ethical finance options.⁸ Thus we draw the line between charitable giving and the ethical finance sector here.

Table 2 lists the different terms that are used in the sector and highlights the main characteristics of each as we understand them. 'Alternative finance', 'social finance' and 'solidarity finance' are sometimes used interchangeably with ethical finance. This occurs most frequently in countries where ethical finance has its historical roots in movements promoting social justice. In the UK context, however, social finance is used to refer to a sub-sector of the ethical finance sector, what we have labelled as 'social investment'. Similarly 'solidarity finance' carries a strong element of social justice at its core, particularly implying solidarity with developing countries. 'Alternative finance' is rarely used in the UK, as it implies some kind of radicalism which is notably absent from the ethical finance sector here.

We would suggest that the term 'SRI' be reserved to describe investments made in publicly listed companies resulting from some type of screening. Many others have taken SRI to have a broader meaning to include, for example, all social investment or to include funds that practice engagement only without screening.⁹ For clarity, we suggest a more narrow definition of SRI. The terms social investment and socially directed investment should be used in situations where the social return is the prime consideration and there is proactive support for an organisation because of its social and environmental aims. 'Green investment' is a subset of either SRI or social investment, where the organisation supported has strong environmental benefits. Community investment is used when the social or environmental benefit goes to a local community.

Table 2: Sector terminology

Term	Characteristics
Social finance	Finance used to support the social economy and socially and/or environmentally driven organisations. Social return is the prime consideration so SRI would be excluded from this.
Solidarity finance	Typically used when all or a portion of the investment is used to support projects in developing countries. Sometimes used to denote investments that support social justice goals at home. Most widespread use is in France where it is used to denote the whole ethical finance sector.

⁸ An example is Venturesome, a project of the Charities Aid Foundation. Venturesome lends to and invests money in organisations to help them meet their charitable objectives. The individuals and organisations that contribute to Venturesome do so in grant form.

⁹ See among others, "Ethical Investment in a Neo-Liberal Economy," Friends of the Earth presentation (March 2005) website: www.foe.org and Haigh, Matthew and James Hazelton. "Financial Markets: A Tool for Social Responsibility?" *Journal of Business Ethics*, 00:1-13, 2004.

Social investment	Investment in an activity where both a financial return and a social and/or environmental return is sought. Social return is the prime consideration so SRI would be excluded from this.
Socially responsible investment (SRI)	Investment in publicly listed companies that are screened to weed out those that produce negative impacts or to select those with positive impacts. Fits within a “do no harm” approach as opposed to actively seeking to promote social or environmental considerations.
Socially directed investment	Similar to social investment. Main consideration is the social return element.
Green investment	Primacy given to environmental considerations. Usually implies a positive stance, i.e. investing in renewables.
Community investment	Community investment is used when the social or environmental benefit go to benefit a local community. For example an investment in a CDFI.
Alternative finance	More limited usage as many elements of ethical finance have entered mainstream thinking and have lost any alternative edge.

Issues ethical finance seeks to address

As the range of terminology used to describe ethical finance attests, there are a number of issues which the sector seeks to address. These issues have evolved along with broader trends in the 20th and 21st centuries. Indeed the emergence of ethical finance can be seen as a response to consumers having become dissatisfied with the perceived effects of a global economy in which large multinationals are not subject to effective international governance, and in which the negative externalities of production may have devastating impact on local communities and ecosystems. Increasing awareness of the cost of climate change, environmental damage caused by irresponsible corporate action, and scandals associated with child labour violations – to name a few – have galvanised support for not-for-profit organisations such as Amnesty International and Greenpeace. They have also motivated the rise of ethical investment as both individuals, charities, and socially-minded institutions recognise their money can be used as a tool to support their ethical choices. Innovations in ethical finance may also reflect a concern about the limitations of consumer capitalism to provide solutions for social justice, as inequalities in wealth continue to produce widening gaps between rich and poor.

The issues that the ethical finance sector seeks to address vary across the sector but they can be grouped into four broad categories. The first three relate primarily to SRI funds and banks with broad ethical policies like the Co-operative Bank. The last category refers to the efforts of other specialist lenders like Charity Bank and Triodos Bank and to investment in less liquid markets through social venture capital and social investment.

- To reduce financial support for unsustainable activities or industries deemed as unethical (negative screening). These include for example the arms trade, tobacco, alcohol, pornography, extractive industries as well as companies with unethical

business practices: infringement on human rights, labour standards, and unfair terms of trade.

- To increase financial support for companies deemed ethical (positive screening). These include, for example, companies developing technologies to harness renewable sources of energy or companies that are particularly good corporate citizens and lead the way in corporate social responsibility and employment practices.
- To convince “bad” companies to change their behaviour and become more socially responsible through shareholder activism.
- To help meet the capital needs of organisations that have a strong social or environmental mission: charities, social enterprises or ethical businesses and that struggle to raise capital through traditional channels.

There is a long list of issues that SRI funds in particular target for exclusion in order to reduce financial support for unsustainable or unethical activities or industries. Not all funds take the same approach and some will concern themselves only with some of these issues. They can be grouped into three broad categories¹⁰: sin stocks (tobacco, alcohol, gambling, pornography), environmental damagers (polluters, extractive industries, etc.) and those with “bad” business practices (human rights, labour rights violations, supporting oppressive regimes, etc.). This categorisation reflects the timing of the different waves of issues that have arisen over the last twenty years. The broadening of the issues over time causes some to accuse the sector of just brandishing “fashionable causes”. However, there is remarkable consistency across SRI funds of the issues they try to address and the issues on this list have resisted the test of time.

Is ethical finance delivering?

The question of whether ethical finance is delivering on its promises is challenging to answer conclusively. A definitive response is beyond the scope of this paper. Nevertheless, we cannot sidestep this difficult question. To assess whether ethical finance is impacting mainstream finance, we have broken down this issue along four main lines which we will examine in turn: Is ethical finance delivering: to the consumer; on the issues it claims to address; in terms of relative size; and finally, by impacting mainstream finance?

Is the ethical consumer getting what they were promised by the provider? The SRI industry in particular has attracted criticism for its lack of transparency.¹¹ This includes charges that ethical unit trusts don’t make clear what the investment criteria are, nor how they are applied. Paul Hawken points out that it is difficult, in some cases, to distinguish the holdings of an ethical fund from that of a related stock market index. He argues that SRI mutual funds and unit trusts at times do not provide the same transparency and disclosure

¹⁰ Anderson, Digby, et al. *What Has ‘Ethical Investment’ to do with Ethics?* The Social Affairs Unit, 1996.

¹¹ *Socially responsible investing: How the SRI industry has failed to respond to people who want to invest with a conscience and what can be done to change it*, Paul Hawken and the Natural Capital Institute, October 2004. And *What has “Ethical Investment” to do with Ethics?* Anderson, D. et al. Social Affairs Unit, 1996.

that they expect of the companies they screen. In Europe, it is hoped that newly introduced EUROSIF guidelines for fund managers will increase transparency in the industry and bolster investor confidence.

There are also some problems of transparency and accountability within ethical current and savings accounts. Some ethical banks won't disclose their client list, leaving the customer to trust that the bank is following its stated ethical policy.¹² However, this isn't a uniform practice, with some ethical banks building their business models around provision of a high level of transparency. Both Triodos Bank and the Charity Bank regularly publish the list of organisations to which they lend. In addition to being transparent about its lending portfolio, we believe that any bank promoted as ethical should be held to a higher standard of customer service than other financial institutions. This means that the products and services provided should be priced in a fair, straightforward and transparent way. This criterion is one of the reasons why we believe that independent building societies and local credit unions can be a good choice for an ethical consumer, as they typically provide better value for money than traditional banks, even the explicitly ethical ones. We recognise, of course, that credit unions and some building societies cannot provide all of the services offered by a bank. As is the case with most ethical financial products, a consumer would need to complement products and services from a credit union or a building society with that of other banks.

While lack of transparency in some quarters of the ethical finance sector makes it difficult to evaluate the sector's impact, we attempt below to assess how well the ethical finance sector addresses the four broad categories of issues that it seeks to tackle.

Reducing financial support for unsustainable activities. To assess whether financial support for unsustainable activities has decreased, one must gauge whether the amount of capital available to companies engaging in these activities has been rationed or their cost of funds rose. Recent research shows that SRI funds haven't been successful at doing either. Haigh and Hazelton¹³ argue that the effect of the SRI industry is dampened by its relative insignificant size when compared to the industry overall. Our research shows that screened occupational pension funds in the UK represented only 0.8 per cent of the total occupational pension fund market as at 31 December 2003¹⁴. When one SRI fund pulls out of a company, there are plenty of other equity investors to fill that gap. The largest SRI fund in the world, Calvert, holds less than one percent of a company's total shares. This makes it very difficult to have any real impact on the capitalisation of a company. Haigh and Hazelton further argue that even if SRI funds commanded a higher market share, any effect from investors pulling out of a "bad" company would be temporary, given liquid capital markets. If a company's share price were driven down by investors selling, other investors would see the stock as

¹² Lang, Peter. *Ethical Investment: A saver's guide* Jon Carpenter Publishing. (Oxfordshire, 1996)

¹³ Haigh, Matthew and James Hazelton. "Financial Markets: A Tool for Social Responsibility?" *Journal of Business Ethics*, 00:1-13, 2004

¹⁴ Based on data from *Socially Responsible Investment among European Institutional Investors*, EUROSIF Report, 2003 and National Statistics, *Share Ownership: A Report on Ownership of Shares as at 31 December 2003*.

being undervalued. They would buy the shares at the deflated price thus driving it back up to close to its original valuation.

Increasing financial support for companies deemed ethical (positive screening). Most of the ethical unit trust industry mainly focuses on negative screening. Within publicly traded equities, there is less focus on actively supporting certain categories of ethical businesses, except for green funds focusing on the environment. The factors that influence access to capital for publicly listed companies are so numerous, it is impossible to judge whether the SRI industry has been responsible for channelling funds to companies deemed ethical. For example, companies in the renewables industry trade on high price to earning multiples. It would be difficult to attribute such a success to SRI funds when mainstream investors have also been investing in this sector in droves because of its potential for high earnings growth.

Convincing “bad” companies to change their behaviour and implement greater corporate social responsibility through shareholder activism. There are many anecdotes of active shareholder campaigning and public relations pressure campaigns that have yielded positive outcomes. However many of them were led by grassroots campaigning organisations such as Greenpeace and Friends of the Earth as opposed to institutional fund managers. Indeed, the fact that ethical fund managers often work for larger organisations that also offer unscreened funds that probably have a stake in the offensive company is a conflict of interest. But regardless of whether it is institutional fund managers or NGO shareholders who bring resolutions to the fore, unsuccessful shareholder resolutions have been the norm,¹⁵ casting doubt on shareholder activism as an effective means of practicing socially responsible investment. Haigh and Hazelton successfully argue that any successes on this aim are merely superficial anyway as the long-term impact of the shareholder resolution is “unlikely to be guaranteed if the economic opportunity underlying those operations remains available to the rest of the market.”¹⁶ Other companies will just move in to take advantage of the gap left by the “bad” company’s retrenchment of its activities.

Helping to meet the capital needs of organisations that have a strong social or environmental mission. We now move to assess an issue that other ethical finance actors, apart from SRI funds, focus on. And this is clearly a segment of the market that has seen vast improvement in the last five years, partly as a result of government intervention through CITR and increased policy focus on the equity gap for socially driven businesses. Through their deposits in Charity Bank or buying Cafédirect shares for example, ethical investors are playing a valuable role in channelling capital to organisations that struggle to raise it otherwise. The capital needs of socially driven organisations (charities, social enterprises, ethical businesses, CDFIs) are being met through various sources: mainstream banks, government initiatives and ethical finance investors. It is difficult to quantify how much is coming from each provider but there is tangible evidence, as shown in Table 3, that ethical

¹⁵ Whincop, M.J. “The role of the shareholder in corporate governance: A theoretical approach,” 2003 website: www.austlii.edu.au.

¹⁶ Haigh, Matthew and James Hazelton. “Financial Markets: A Tool for Social Responsibility?” *Journal of Business Ethics*, 00:1-13, 2004, p 2.

finance providers are playing a big role in channelling capital to these organisations. Our conservative, and limited, estimate is that individuals that are making ethical choices with their money are helping to channel at least £263.2 million¹⁷ to these types of organisations. And this does not include the leverage effect that these investments and deposits have by enabling further money to be on-lent/invested in these organisations.

One measure of success of the ethical finance industry is its relative size. We present below in Table 3 our first attempt at sizing the whole ethical finance market in the UK. This is a preliminary endeavour. We note that there are outstanding issues to debate regarding valid comparisons and elements for inclusion. On this basis, we estimate the ethical finance market to be worth at least £20.5 billion without the inclusion of building societies. We have excluded building societies from this total as they skew the amount drastically because of their large stake in the mortgage market.

Table 3: Sizing the ethical finance market in the UK

Consumers' needs	Providers	£ million	Source/Comment
Deposit money	Co-op Bank/Smile	6,566.0	Co-operative accounts (2004)
	Charity Bank	27.1	Interview with CEO (2005)
	Triodos Bank	198.5	Triodos accounts (2004)
	Credit unions	284.9	FSA website (2004)
	Building societies	156,000.0	Buildings Societies Association website
	Total	163,076.5	
Borrow money	Co-op Bank/Smile	6,974.0	
	Charity Bank	9.8	
	Triodos Bank	105.0	
	Credit unions	346.4	
	Building societies	240,000.0	
	Total	247,435.2	
Buy insurance	Naturesave	0.6	Premium income, interview (2005)
Invest money			
In less liquid market			
Equity in start-ups	No established network	NA	
Equity/debt later stage	Ethex	15.2	Cafédirect, Ethical Property Co., Golden Lane
Investment in financial intermediaries	CDFIs	4.0	Estimated from <i>Inside Out 2004</i>
	Shared Interest	18.4	Shared Interest accounts 2004
	Oikocredit	NA	
In more liquid market			
Retail unit trusts screened		4,200.0	EIRIS figures
Occupational pension funds screened		1,800.0	Eurosif report 2003
Insurance companies on behalf of individuals		NA	Probably nil as most only practice engagement
	Total	£416,550m	
	Total without building societies	£20,550m	

This estimate is, of course, quite small compared to the aggregate value of the financial industry. For example, even the largest ethical bank (the Co-op) holds only 0.887 per cent of the total market for deposits in the UK and 0.647 per cent of the total lending market in

¹⁷ This includes the deposits of Charity Bank, Triodos Bank, individuals' shareholdings in CDFIs, investment in Ethex "traded" companies and investment in Shared Interest.

the UK.¹⁸ The Co-operative Bank, Triodos Bank, Charity Bank and the credit unions combined make up less than one per cent of total deposits in the UK (0.96 per cent). These banks and credit unions are dwarfed when compared to the assets of the likes of Barclays, Royal Bank of Scotland/National Westminster Bank, LloydsTSB and HSBC. Does this mean that the efforts to build up the ethical finance sector are marginal?

It is clear that ethical finance organisations have a positive impact that extends beyond their relative size. In this sense, ethical finance, as we have more broadly defined it, is creating waves throughout the financial industry. There is a multiplier effect resulting from the innovative methods that these organisations have adopted to address questions of sustainable development. Their active efforts to incorporate SEE issues are taking hold. The trickling of these issues into the mainstream, represented by SRI engagement strategies that leverage total funds under management,¹⁹ is a significant achievement for ethical finance. There is some risk that this ‘engagement’ could follow the path of corporate social responsibility (CSR), to become a concept that everyone can agree is positive, but no one can define in practice. However, the fact that fund managers are adopting the language of SRI to interact with companies in which they invest is a step in the right direction.

We feel strongly that SEE issues are pertinent to the future of finance in the 21st century, and these ethical finance organisations represent the vanguard. Whether through media attention, enhanced consumer awareness, or the success of their models, ethical finance initiatives have effectively placed SEE issues on the financial agenda. Evidence of this lies in increasing membership of UKSIF, the expanded customer base of ethical research institutions, and the widening recognition of ethical brand names. While previous research has claimed that social criteria weren’t taken into account²⁰ by mainstream fund managers, our research shows this is changing. Evidence suggests that there has been some incorporation of SEE terms in investment analysis of the “fundamentals” of a company.²¹ Increasingly, enhanced disclosure requirements will also push institutions to review their financial portfolio in light of SEE considerations. We have already seen this with pension funds and charities. Though its effect in practical terms may take time to filter through, it means that financial advisors, as well as risk managers, are thinking in new ways about SEE issues and their impact. Evidence from our analysis suggests that ethical finance is a healthy and growing industry. It is peopled by dynamic individuals who are making a difference to the way in which mainstream finance perceives SEE issues, and designing constructive products to bring about social and environmental good.

¹⁸ UK banking industry data include total UK sterling lending to the private sector and total deposits from the private sector. Based on Major British Banking Groups reporting to British Bankers Association as at December 2004. website: www.bba.org.uk

¹⁹ According to EUROSIF 2003 Report, almost £200 billion of UK equity holdings are subject to SRI engagement activities. Dialogue and shareholder voting are the most popular methods of engagement, but may also include sponsorship of shareholder resolutions and collaborative initiatives.

²⁰ Mackenzie, C. 1997, “Ethical Investment and the Challenge of Corporate Reform”, Unpublished doctoral thesis. (University of Bath, England).

²¹ *EIRIS: The First 20 Years 1983-2003*, Ethical Investment Research Service (London, 2003).

Across the sector, there is a broad-based consensus that the future for ethical investment is bright. Analysts such as Russell Sparkes have likened it to a 'global revolution' which will propel value-based investing into the mainstream, and they predict rapid growth of ethically-motivated investments in the UK. Each of the professionals that we interviewed was equally optimistic about the future of ethical investment. To support these claims, individuals frequently cited steady growth in SRI retail funds and the increasing appeal of ethical consumerism, as captured by the Ethical Purchasing Index.²² Ethical funds in the UK have grown from relative non-existence in 1980 to over £4.2 billion in 2003, according to the most recent EIRIS assessment. National Opinion Polls (NOP) or MORI surveys regularly highlight the positive shift in consumer thinking towards principles of ethical investing. By way of example, a MORI survey conducted across 2,017 respondents in June 2004 revealed that 65 per cent of individuals were willing to invest money ethically – with an additional 24 per cent indicating they were willing to accept lower financial returns to do so. These surveys consistently demonstrate an appetite for incorporation of ethical criteria in mainstream finance.

Barriers to growth

However, there may be challenges for ethical investment to achieve its prospects for growth. In the words of one industry participant, the sector "could do with a shove, and the battle has yet to be won." There are a number of barriers to growth that industry actors recognised. We have presented these according to the broad themes identified in the interviews we carried out.

Shifting concepts of what SRI practices entail may *de facto* fuel their incorporation into mainstream investment strategy. While these trends suggest a trickling of SRI principles into the mainstream, they *raise questions about what ethical investment stands for*, and what it seeks to achieve. Some SRI investment managers have taken to adopt engagement strategies on behalf of their total assets under management, not just those held in ethically screened funds. This approach is likely to appeal to a wider audience with concepts such as improved corporate governance, reputation risk mitigation, and constructive stakeholder management. These practices represent the softer edge of shareholder activism, and proceed through consultation and dialogue, rather than overt pressure via public resolution. Ethical research firms, such as EIRIS, have also seen a broadening of their customer base, characterised by use of data on ethical company performance in novel ways to capture risk and provide more robust indicators of long term value. While the remoulding and extension of SEE issues can be seen as positive, there is concern that it may dissipate the ability of the sector to act in a concerted, co-ordinated manner to bring about well-defined outcomes.

A key barrier to growth cited by SRI fund managers and advisors alike was *ongoing scepticism on the part of independent financial advisors (IFAs)* and of institutional investors

²² The Ethical Purchasing Index (EPI) is an annual measure of consumer spending on ethical goods and services, compiled by **nef** (new economics foundation) for the Co-operative Bank.

more broadly. On the retail side, some interviewees questioned the extent to which general IFAs understood ethical funds and their performance profiles. There was concern that some IFAs resist new information and adoption of methods to disseminate information on ethical investment to clients.²³ A practical limitation in this respect has been that some ethical financial institutions do not pay commissions to IFAs to sell their products and that IFAs focus heavily on promoting equity-linked products. The degree of IFAs' ethical promotion to retail investors could shift with a new set of FSA rules coming into force in June 2005. These require all 'independent', whole of market IFAs to charge for services on a fee, rather than commission, basis. Conversely, some ethically-focussed IFAs fear the higher cost basis will further restrict mass market consumers from receiving specialist ethical financial advice. Attempts to raise IFA awareness are being addressed through initiatives such as the 'Investing Responsibly' toolkit distributed by UKSIF, designed to make it easier for advisers to offer ethical and SRI advice. At the institutional level, there was concern that investors continue to question SRI investments' ability to achieve comparable financial returns to standard investments, despite some evidence to the contrary. Apathy of institutional investors to SEE objectives is partially indicated by 2000 poll results revealing that 43 per cent of investors were either neutral or in disagreement with the idea that companies' social and ethical performance was increasingly important, even on the eve of impending changes to pension fund disclosure. SRI practitioners find that it remains a challenge in some quarters to link SEE concerns with long term financial performance benefits likely to result, and sense that most have not perceived the relevance of triple bottom line objectives. Additionally, there is a debate over how ethical investment would fare in a broader market downturn. One individual suggested it would be "the first to go when stock markets are declining," while a broader group pointed to a rapid post-9/11 recovery as indicative of inherent resilience and the "stickiness" of its investor base.

At present *the lack of diversified product options* represents a barrier to growth. The need for further innovation to attract additional clients is a theme that those interviewed consistently agreed on. Whether in the SRI or ethical banking sectors, industry actors concur that not enough has been done to create diverse products that appeal to a broad range of investors, adapted to consumers' risk profile and current stage in life. There is a concern that a majority of existing ethical finance instruments centre on equity-based options with a higher risk profile that precludes many investors from taking part. A focus on new products would make ethical finance available to people with less money to invest, or even develop more creative instruments for high net worth individuals.

Some of those interviewed cite *over-regulation* as a key bottleneck to creating change in product diversification. Investment practitioners and advisors alike were concerned that

²³ This resistance would be significant in the face of MORI poll (June 2004) results stating 65% of 2,017 British adults want IFAs to start taking the initiative and ask all investors whether they want to invest ethically, rather than waiting for people to specifically request it — the figure rises to three in four (77%) of investors under 45. *Public Attitudes to Ethical Investment* MORI Poll website: <http://www.mori.com/polls/2004/friends-provident.shtml>

FSA regulations placed an undue burden on their reporting and compliance requirements, sapping resources that could otherwise be channelled to new product development. It was also felt that regulations and defined mandates limited the extent to which SRI funds creatively invested in smaller or alternative investments. One fund manager noted that investment structures, tax considerations or minimum investment thresholds sometimes prevented them from allocating funds to attractive projects they would otherwise support.

Ethical banks and social investment initiatives face a specific set of issues. In particular those actors that focus on a narrowly defined market, like Triodos Bank or the Charity Bank, can find it challenging to on-lend the funds as quickly as their deposit base has grown. In addition, there is limited competition in the area of ethical current accounts for individuals, with barriers to entry quite high. With a focus on brokering finance to socially or environmentally driven enterprises, specialist ethical banks are likely to remain uninterested in the short term funds offered by current account banking, unless it is associated with building stronger relationships with charities and ethical businesses. An additional barrier to attracting a greater number of consumers to ethical current accounts may be consumer reluctance to change banks. In October 2003, a *Which?* survey of nearly 5,000 bank customers revealed that just 6 per cent of respondents had switched their current account in the previous three years. And according to research by internet bank Smile, although 80 per cent consider switching banks, 10 per cent are likely to do it.²⁴ Some of those we interviewed feared that consumer reluctance to act on financial matters may make ethical finance the last item on the ethical consumer's shopping list. Choice of financial provider involves a high level of trust and established credibility, to provide consumers with the comfort to entrust their funds. It may take ethical banks time to build up this critical mass, which they could achieve by focussing on enhancing customer relationships.

On the side of social investment, *there are challenges around illiquidity, risk tolerance and ownership structures* that have yet to be fully resolved. The sector has recently witnessed some big successes in the provision of equity capital to dynamic ethical businesses. A well known example is Triodos Bank's high profile share issue for the Fairtrade company Cafédirect in February 2004. The share issue was oversubscribed, raising £5 million from a broad investor base of over 4,400 individual investors in the UK. These shares can be traded through the nascent Ethex exchange, which seeks to match buyers and sellers of ethical shares and bonds. However, investors who bought into the handful of ethical share issuances have to be comfortable with the higher risk that a relatively illiquid market brings, along with the implication of a lower financial return. From the consumer standpoint, these investment vehicles may represent a small slice of an overall portfolio, or appeal to a smaller pool of specialised investors.

²⁴ "The Best Bank Accounts," *Moneywise* 25 February 2005, www.moneywise.co.uk

Opportunities for development

A critical opportunity highlighted by our interviews was *to expand knowledge transfer and formal co-operation across the industry*. The bulk of the individuals we spoke to narrowly defined their organisation as acting in a specific niche sector, and only indirectly positioned their organisation as part of a broader ethical finance industry. This was particularly true of SRI investment representatives, as this sector continues to dominate the ethical finance landscape, and in many minds, is a proxy for the industry as a whole. This niche approach is consistent with the trend of existing analyses which view ethical finance activities as separated into distinct segments. The key trade body, the UK Social Investment Forum (UKSIF), has evolved to focus on institutional and retail SRI investors, and very effectively represents interests specific to this membership body. As such, social investment issues outside of the SRI arena are either absorbed by the Community Development Finance Association (CDFA) or addressed through informal networks. It is clear that many issues fall through the cracks in this arrangement.

While interviewees did register a high degree of informal interaction and awareness of industry actors, their comments suggest that opportunities exist to further exploit collaboration. For example, one individual questioned why SRI funds do not put their cash deposits on account with ethical banks. Similarly, based on our preliminary investigations, we found that investment options presented by the community investment tax relief credit (CITR) -- designed to encourage investment in community finance institutions -- were not fully publicized in conjunction with SRI investment options. Opportunities exist to better integrate product offerings, collaborate for lobbying purposes, and co-operatively join forces on marketing initiatives to raise consumer awareness of ethical finance as a whole. Advancements such as efforts of institutional investors to bring awareness through the Carbon Disclosure Project, which focussed on the business implications of climate change, demonstrate the effectiveness of a collective approach.

We share the concerns of interviewees that “collaboration for collaboration’s sake” is not effective, and that “healthy competition” is required to foster innovative product solutions and better product provision for consumers. There was a distinct sense among those spoken to that co-operative efforts could only go so far in a competitive market. Nevertheless, joint efforts would work well to design integrated investment instruments; to push for enhanced transparency regulations across products; and to propose effective incentives benefiting a wide range of investors. These real challenges could be better addressed through creative collaboration and enhanced awareness of the range of ethical finance activities, perhaps by building a stronger collective industry identity.

Enhanced transparency across the industry is critical. There was agreement that extending and deepening the pensions disclosure requirements and changes to the charities Trustee Act achieved in 2000, would provide a significant boost to ethical finance initiatives. Interviewees observed that the expansion of transparency guidelines, as championed on a voluntary basis by EUROSIF, would increase the flow of funds to ethical products. As

discussed earlier, there was a sense that these would benefit the consumer by clarifying what investments are actually doing and what is really meant by ethical investment. While changes to regulation in this area would primarily affect retail and institutional funds, enhanced transparency across the commercial banking sector would greatly benefit the UK consumer, evidenced by the recent assessments of *The Economist* and *Ethical Consumer*, among others. In our view, ethical banks and building societies could do more to contrast their transparent lending practices and ethical policies with the poor performance records of their cousins on the high street. This marketing opportunity is all the more attractive in light of increasing consumer frustration with the exploitative, opaque practices of the high street banks.

Finally, it is evident that *public policy could play a strong role in further promoting ethical options*, provided it is designed with care. Respondents had mixed feelings about the role of regulation, citing it as both a barrier and a positive tool to support ethical finance initiatives. Excessive disclosure and reporting requirements were seen to stifle innovation, while extension of transparency guidelines across financial products were universally seen as a measure that would have positive implications. The bottom line seems to be that -- done right -- policy can enhance the existing growth in the sector and broaden its appeal. This could be achieved through targeted incentives, along the lines of the CITR, to encourage focus on SEE investment. Triodos Bank's Community Investor account offered a 10.43 per cent gross return to higher-rate tax-payers as part of the CITR scheme, and was fully subscribed, raising £3 million in Q3 2003. Additionally, the Charity Bank has had demonstrable success in the uptake of its tax efficient CITR accounts, providing a healthy flow of additional funds. Similarly the Enterprise Investment Scheme, though not targeted specifically to support ethical finance, has contributed to the success of the Cafédirect share issue, by reducing income, capital gains, and inheritance tax liabilities on higher risk companies. To extend the effectiveness of such mechanisms, one interviewee suggested a 'greening' of existing tax incentives that now broadly benefit investment firms, observing that all use of public money should, by its nature, incorporate social objectives.

Conclusion: Mainstream or marginal?

We return to the critical question: to what extent is ethical investment part of the mainstream as opposed to a marginal alternative? The answer is: both. In terms of size, our mapping of the ethical finance industry demonstrates that it has yet to achieve the relative scale to challenge the dominance of mainstream finance. As our estimates show, ethical finance initiatives still represent a tiny component of the financial market as a whole. In this sense, they represent a marginal alternative for financial consumers. Ethical financial products are still very much a specialised offering targeted to a niche market segment. The bulk of ethical investors are likely to allocate some percentage of their portfolio to ethical options, rather than adopting ethical investment strategies wholesale. In its present form, our

estimates suggest the UK ethical finance industry represents just over £20.5 billion in combined assets. At this size, it is not likely to shift the structure of the financial system.

However, ethical finance has had a much broader impact beyond its relatively small stature. Ethical financial objectives have begun to enter the mainstream through awareness of SEE issues. The relevance of ethical factors to valuation, financial decision-making, and risk management are broadly appreciated. There is an increasing recognition that issues ethical finance seeks to address – environmental destruction, climate change, social justice, to name a few – are central to the economic and social well being of an increasingly global society. Through shareholder activism, engagement, and media attention, the sector has done much to advance its objectives. Social and environmental issues are now on the table in the board room discussions of financial institutions.

Moreover, as our discussion of the emergence of this sector demonstrates, ethical finance has grown from a few isolated initiatives to a range of innovative offerings in the past 25 years. Its growth and diversification in this time period has been an impressive achievement. The industry is characterised by talented and entrepreneurial leaders who have made significant contributions to the field. The most recently available data from EIRIS indicates that retail SRI has grown at a compound average growth rate of 24.3 per cent in the 14 year period between 1989 and 2003. By our estimates, close to 40 per cent of institutional pension funds now practice some form of engagement on SEE issues. Emergence of new and creative investment strategies in the form of Bridges Venture Capital, Triodos Wind Fund, Charity Bank CTR accounts herald a degree of innovation that ensure continued evolution in ethical finance. The launch in April 2005 of 3iG investment, a new fund bringing together \$US 1 trillion (£550 billion) of funds from 20 organisations in the International Interfaith Investment Group, signals the ongoing role religious institutions can play to significantly expand ethical investment.

As indicated by our definition of a broader framework for the sector, the industry has evolved from a focus on SRI funds to encompass ethical banking, social investment in ethical businesses and community development institutions. There are real opportunities associated with this expanded definition. Were enhanced collaboration and co-operative marketing efforts to be put into place, the industry would likely see a broadening of its influence and appeal. To create systemic change, collective, focussed lobbying of companies and government is key²⁵. Through public policy there is a real opportunity to achieve extended disclosure guidelines across all products. This would benefit transparency, as well as raise the level of attention to ethical objectives. As we have noted, more rigorous adherence to principles of transparency in ethical finance can serve as a key distinguishing feature for ethical finance providers. There is a marketing opportunity to build on this commitment to transparency so as to attract new clients disgruntled with the prevailing 'hidden fee' regime associated with mainstream financial institutions. Enhanced transparency on ethical finance

²⁵ Haigh, Matthew and James Hazelton. "Financial Markets: A Tool for Social Responsibility?" *Journal of Business Ethics*, 00:1-13, 2004.

practices, in organisations' internal as well as external operations, would serve to capture a wider range of clients. Finally, there is no doubt that further product diversification, and ongoing introduction of novel ethical alternatives, would attract additional clients with varied investment profiles.

Growing consumer demand will act as the fulcrum to create the 'tipping point' at which ethical finance enters the mainstream. We have seen this potential realised in both the organic and fairtrade movement, which have evolved from relative obscurity to the shelves of Tesco. As we have noted, surveys on consumer opinion consistently demonstrate an appetite for ethical finance. An NOP poll of 1,000 individuals in October 2002 found that almost three quarters of respondents (73 per cent) appear to be fed up with conventional ways of saving and want new, more ethical alternatives.²⁶ In a consumer society in which brand choice is a form of identity, individuals seek products that reflect their ideals and self image. A trend towards individualisation of lifestyle choice, diversification of consumer options, and rejection of traditional institutions, is reflected in the embrace of alternative (though not all ethical) banking models such as Smile, Egg or Zopa. In this climate of openness to financial innovation, there is significant room for ethical finance to flourish. With five retail banks dominating the UK market, consumers are perhaps increasingly ready to embrace new hybrid financial models that reflect their broader concerns about society. Ethical finance is likely to be increasingly successful with a younger, more politically-aware generation, and will continue to evolve through collective strategies for marketing and integration as an industry.

²⁶ Triodos press release, "A New Spirit of Activism," 25 October 2002.

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Julia Dreblow, SRI Manager, Friends Provident, and Director and Chair of the UKSIF retail sub-committee, 16th May 2005

Emma Howard Boyd, Head of SRI, Jupiter Asset Management, 23rd May 2005

About nef

nef (the new economics foundation) is a 'think-and-do tank' with a strong record of innovative research and action in the areas of ethical finance and social entrepreneurship. **nef** fosters access to finance for socially driven organisations such as social enterprises by supporting new and innovative social enterprise models, increasing understanding of their needs and impacts, and developing public policy and financial solutions to support their growth and development. **nef**'s research in this area includes a strong focus on the financing structure of social enterprises and requirements for appropriate sources of finance. **nef** co-authored the Social Enterprise Coalition's guide to access to finance for social enterprises, *Unlocking the Potential: a Guide to Finance for Social Enterprises* (2004). **nef** has also researched the issue of access to finance for social enterprises in its publication: *Homeopathic Finance: Equitable Capital for Social Enterprises* (2001). To address social enterprise finance needs, **nef** incubated the London Rebuilding Society, which provides loans to social enterprises. More recently, **nef** was one of the founding partners of the Adventure Capital Fund, providing patient capital (both concessionary, long-term loans with innovative repayment features and 'social' equity investments) to community enterprises. **nef** was a founding member of the UK Social Investment Forum (UKSIF) and has supported the development of INAISE.

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