

## **SOCIALLY DIRECTED INVESTMENT And Its Potential Role In Local Development<sup>1</sup>**

### **Summary**

1. Socially directed investment aims to create social wealth, by developing the capacities of people and localities as a resource. It differs both from conventional economic investment which aims to create financial wealth for the investor, and from conventional social spending which consumes wealth.

2. The economic domain is conventionally given priority over the social on the ground that wealth must be created before it can be consumed. This ignores:

- the increasing number of enterprises, projects, programmes and policies with mixed economic and social objectives;
- the economic costs arising from unemployment, ill-health, crime, etc; and
- the need for economically positive ways of handling social problems.

3. The sources of socially directed investment funds include:

- the public sector;
- financial institutions in the private sector;
- non-financial corporations in the private sector;
- the personal sector; and
- the voluntary, non-commercial, non-governmental sector.

4. Although socially directed investments aim at many different kinds of outcome, and are made by the various sources with different motivations and procedures, a comprehensive approach is needed for a number of reasons.

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<sup>1</sup> John Stacpoole, Paul Ekins, and Francis Miller contributed to earlier versions of this paper, one of which was discussed at a small New Economics Foundation seminar on Social Investment on 20th October 1986. Previously, social investment had been one of the topics discussed at The Other Economic Summit (TOES) in both 1985 and 1986. At the 1985 meeting, part-sponsored by WHO, the context was social investment in health (see the subsequent TOES publication "Health, Wealth, and the New Economics"). At the 1986 meeting the context was social investment in the local economy and in local employment initiatives.

5. Socially directed investment need not necessarily be concerned with the development of particular localities. But this paper concentrates on that.

6. Further work is needed on:

- 1) flows of spending and saving in particular localities, with a view to increasing local circulation and investment;
- 2) the social benefits and costs of particular local socio-economic enterprises and other developments affecting particular localities; and social accounting methods, indicators of social wealth creation, and operationally useful definitions of social wealth and social investment;
- 3) the scope for expanding socially directed investment from the sources at 3 above, and obstacles to expansion;
- 4) a classification system for different types of enterprises in the local socio-economy, linked with a classification of the investment sources available to them; and
- 5) an action check-list and resource directory on socially directed investment in local community initiatives.

### **Provisional Definitions**

This paper generally uses the term "socially directed investment" rather than "social investment". It is concerned with something more positive than simply avoiding investing in weapons, tobacco, alcohol, South Africa or whatever else one wishes to avoid supporting. Thus socially directed investment goes beyond the aim, important though that also is, of the social investment funds which aim to maximise financial returns to investors from socially acceptable investments. Socially directed investment directs investment, from either the private or the public sector, into specific activities that are positively regarded as socially benign.

Socially directed investment aims to create social wealth, by developing the capacities of people as a resource. As such it is to be distinguished, on the one hand, from conventional or "economic" investment which aims at creating financial wealth for the investor and, on the other, from conventional public spending for social

purposes which is regarded as wealth consumption. It is also different from charitable giving, which seeks no return on - nor the repayment of - the sum given.

For practical purposes socially directed investment often means investment in enterprises, projects, programmes and policies which have mixed economic and social objectives, or which pursue social objectives subject to the constraint of economic viability. Such enterprises may operate in any sphere of activity in which providers of funding wish to be guided by wider than strictly financial criteria. Our primary concern here is with local development, where an increasing number of local initiatives have such mixed objectives. But socially directed investment does not have to be local in outlook.

These definitions raise many further questions. For example, how is "social wealth" to be more precisely defined? These are practical questions, to be answered by developing operational procedures, e.g. for appraising social investment decisions and for evaluating and auditing social investment projects. It is one of the purposes of this paper, and of the practical proposals which will emerge from it, to help to develop operational procedures of this kind.

Some examples of socially directed investment institutions are noted in the Appendix.

### **Economic And Social: A Divided Duality**

In the past few years almost all the industrialised countries have been taking a new interest in local employment initiatives and "homegrown economy" projects in their cities and localities.

Increasing emphasis has also been given to community social initiatives, together with a more decentralised approach to the social services. However, these two strands of development have, in general, proceeded in separate compartments. Moreover - and this is a crucial point - since the economic domain has been assumed to be about wealth-creation and the social domain to be about wealth-consumption, public policy has given priority to economic development. Social development has been treated as secondary to,

and dependent and consequential on, successful economic development.

This conventional perception of the economic and social aspects of human activity as a divided duality, and the prevailing institutional arrangements for dealing with them as such, is now becoming a serious obstacle to economic and social wellbeing for increasing numbers of people and localities. Confirmation that this is not just a theoretical or marginal concern comes from EEC and OECD findings on local employment initiatives, and from emphasis on the need for an intersectoral approach in recent WHO programmes on health promotion and healthier public policies.<sup>2</sup> More generally, it is becoming widely recognised - on the negative side - that social costs (i.e. loss of social wealth through, for example, the erosion of supportive community structures or the demoralisation caused by unemployment) are soon reflected in financial costs arising from ill-health, crime, vandalism and the general depreciation and waste of potentially productive human resources. And - on the positive side - it is becoming widely understood that successful investment in social spheres such as education, crime prevention, preventative health and good housing brings an economic return.

By splitting economic "wealth creation" from social "wealth consumption" as they do, the prevailing institutional structures - and the assumptions which they reflect - make it difficult to develop ways of dealing with social problems which will also be economically positive, and vice versa. The development of new socio-economic ways of handling socio-economic tasks is one of the aims of the new economics; and socially directed investment is one of these ways.

In passing, we may note the analogous issues raised by environment and development. The conventional approach has assumed that, like measures to deal with social needs, measures to conserve natural resources and the environment should be seen as a wealth consumption cost to be met, if at all, out of the wealth created by

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<sup>2</sup> See Lloyds Bank Review, July 1986, for a summary of an unpublished October 1985 report on finance for local employment initiatives for the EEC and OECD by David Cadman and myself. And see the Ottawa Charter for Health Promotion, November 1986, and "Intersectoral Action for Health", 1986 - both from WHO.

prior economic production. But it is now widely understood - as recently confirmed by the Brundtland Commission<sup>3</sup> - that the conservation of natural resources and the environment is itself a prior condition of sustainable economic production.

Investment in environmental and resource conservation is thus, like investment in the capacities, resourcefulness and motivation of people, becoming a key requirement for socio-economic wellbeing. Both raise similar practical questions of appraisal and evaluation. Moreover, they are directly linked. In Africa, for example, it is only by acquiring rights of future control over local resources like trees, that local people will be motivated to conserve them; and such rights will also be a pre-condition of successful "homegrown" socio-economic development.

## **Sources Of Socially Directed Investment Funds**

At least five different sources of funds for socially directed investment can be distinguished.

### ***1) Public Sector***

By public sector socially directed investment we mean the use of public sector spending to enable people to realise and safeguard their own potentialities and to meet their own and other people's needs. This contrasts with the use of public sector spending to provide resources for delivering services to passively recipient clientele. That clearly represents wealth consumption. By contrast, effective public sector social investment can lead not only to the creation of social wealth (however that is defined) but also to future reductions in public spending, and thus be cost-saving. The concept of social

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<sup>3</sup> "Our Common Future", Report by the World Commission on Environment and Development, Oxford University Press, 1987.

investment as investment that brings financial savings consequent on reduced social costs, in addition to less easily quantifiable social benefits, is an important one.

One example of public sector socially directed investment is for local authorities to enable community businesses to come into existence to train and employ currently unemployed people to deliver maintenance services to the council housing estates in which they themselves live. That would be to create social wealth, by contrast with direct delivery of those services as at present customary, which results in keeping the recipients dependent - as unemployed people on the dole and as householders on council maintenance services. Another example is for local and health authorities to enable local community enterprises to come into existence to train and organise local people to provide one another with care, where care in the community is more appropriate than remaining dependent on institutionalised care and services.

A systematic examination of public expenditure across the board will almost certainly identify immense scope, at least in principle, for replacing existing wealth-consuming social service spending with spending on socially directed investment. In practice, there will be many problems to overcome.

For example, there will be interdepartmental and budgetary problems. The intersectoral nature of many, probably most, activities, enterprises, programmes and policies calling for socially directed investment means that they will often cut across existing departmental and budgetary demarcation lines. That implies that each particular proposal is likely to call for multiple sources of funding initially and to result in multiple cost savings in due course, the spread of the eventual savings over the different departmental budgets being most unlikely to match the spread of the initial financial outlays required.

There will also be resistance from vested interests, such as public service trade unions, commercial and other organisations and professions, engaged in remedial approaches to poverty, unemployment, ill-health, crime and so on, the necessity for which will be reduced by successful social investment.

**2) Private Sector: Financial Institutions.****3) Private Sector: Non-Financial Corporations.**

Socially directed investment from these two sources shares certain features but differs in others. Both financial and non-financial companies, e.g. through support for local enterprise trusts and Business in the Community, provide significant support to local community enterprises and other community projects. However, the scope for this is limited by the need for private sector organisations to invest in projects that will be profitable to their shareholders. Socially directed investments are normally managed by companies' "public affairs", "community relations" or "social responsibility" departments, separately from mainstream commercial operations. In Britain and other European countries, corporate social investment, for example by the insurance industry, plays a smaller part in local regeneration than in the United States. While recognising the limits, the scope for further expansion of corporate social investment needs to be explored, and possible obstacles to its expansion need to be identified with a view to removing them if possible.

The scope also needs to be explored for businesses to modify their mainstream commercial operations in ways that will help to create local benefits as well as being commercially profitable. For example, big businesses purchasing from local suppliers benefit the local economies in which they operate as well as - it is now being suggested - contributing to their own greater profitability. If local consumers were increasingly to demand locally produced products, then market pressures would push business purchasing policies further in this direction. Businesses (and non-commercial organisations) above a certain size might then find it necessary to publish figures of local sales compared with figures for local purchases and wages and salaries paid locally, to show how much money they were taking out of the local economy compared to what they were bringing in.

Financial institutions differ - in the context of socially directed investment - from non-financial corporations in one obvious way. They are in a position to develop investment services designed to provide their clients and customers with opportunities to channel their savings into investments selected on social criteria, as at (4) below. Financial institutions offer their services and products in the market

place, just as non-financial companies do. So, in the local context, if the demand were to grow for financial services designed to enable local customers to put their money to good use in their own local economies, the financial institutions would have to respond accordingly.

#### **4) *Private Sector: Personal.***

Socially directed investment by persons is investment that seeks to contribute to real (i.e., non-financial) goals which the investor personally supports, such as the revival of his or her local economy. It contrasts with investment that merely seeks an optimal mixture of financial return and financial security. Again, channels for this type of socially directed investment are more highly developed in the United States. But demand for them is now growing in Europe too. This is one aspect of the growing exercise of consumer choice by customers generally, not just customers of financial institutions. It links with the role that "ethical", "conscious" or socially motivated, consumption - as well as investment - may play in the revival of local economic activity in the coming years.

#### **5) *Voluntary, Non-Commercial, Non-Governmental Sector.***

Much of the spending undertaken for social purposes by charitable foundations, churches, and other similar organisations, is not strictly investment. However, they might be able to expand their support for socially directed investment in two ways. First, in managing their capital funds, these organisations might seek opportunities to invest in the kinds of enterprises and projects they positively wish to support, and not just try to ensure that their investments are ethical only in a negative sense - not tobacco, not armaments, not alcohol, etc. Second, as an objective of their grant-giving policies, they might seek ways of stimulating the expansion of socially directed investment by other sectors. In both these ways, these organisations might be able to play a larger part in the socio-economic development of any localities in which they take a particular interest.

### **Need For A Comprehensive Approach**

Socially directed investments from the different sources discussed above are made for different reasons and with different motivations.



The procedures for handling them, and the questions they raise, differ in some respects too. The outcomes which socially directed investment aims to achieve are also many and various. But, in spite of this variety of sources and outcomes, there are good reasons for considering socially directed investment comprehensively as a single subject. The development is proposed below of an integrated classification system for different kinds of socially directed investments, based on a taxonomy of distinguishing characteristics which will include different types of funding source and intended outcome. A linked classification system for different types of publicly, privately and charitably funded enterprises and projects is also proposed.

The first reason for a comprehensive approach is that all socially directed investment is concerned with creating social wealth, rather than with consuming wealth (as is conventional public spending on social services), or with creating financial wealth (as is conventional private sector investment).

The second reason, arising directly from the first, is that all forms of social investment call for new methods of social investment appraisal, social accounting and social audit to establish and evaluate the effectiveness of particular investments.

Third, any actual project or enterprise, such as a particular community business or local food co-operative, is likely to seek finance from a combination of the different sources of funding. Local enterprises raising finance need guidance on how to deal with this "packaging" of funds. Making arrangements, e.g through supportive intermediary organisations, for providing such guidance is an important aspect of what will need to be done.

Fourth, a rising demand for opportunities for personal investors to direct their funds into socially desirable enterprises and projects will stimulate financial institutions to develop the capacities and skills needed to meet this demand. They will thereby gain a practical understanding of socially directed investment, which may influence their own investing and lending policies.

Fifth, there, are instructive parallels to be explored between different types of socially directed investment. For example, as already mentioned, a feature of socially directed investment by the public sector is that it will often be cost-saving investment: successful investment in health promotion (or in enabling unemployed people to build up viable work for themselves) will reduce the cost of the remedial health care (or unemployment relief) that would otherwise have been necessary. Similarly, in the corporate private sector, insurance companies may be prepared to invest in encouraging people to live more healthily in order to reduce the scale and frequency with which the insurance companies will have to meet insurance claims.

Finally, we have to envisage the possibility that a "third sector" consisting of enterprises with mixed economic and social objectives will emerge alongside the conventional public and private sectors as a major feature of the 21st-century economy, and that with it will evolve a "financial third sector" alongside conventional public sector and private sector finance.

### **Further Work**

We have identified the following areas in which further work would be useful.

1. Local financial studies, throwing light on:
  - a) spending flows in particular localities, showing what proportion of local income circulates locally and thus creates local economic activity and employment, what proportion leaks out of the local economy, and what might be done (e.g. by local authority and local company purchasing policies) to increase the proportion circulating locally and thus to encourage the meeting of local needs by local work and local resources;
  - b) saving and investment flows in particular localities, showing what proportion of local savings and investments (bank and building society deposits, pension contributions, insurance premiums, etc.) is invested in the local economy to create local activity and employment, what proportion is invested elsewhere, and what might be done (e.g. through local pension funds, bank and building society branches, etc., or through the wider

development of credit unions and other local savings and investment facilities for the personal and household sector) to increase the proportion invested locally.

2. A series of studies on social benefits and costs including:
  - a) case studies of the social benefits and cost savings achieved by particular local enterprises and projects of a socio-economic character (e.g. a community business or a local cooperative);
  - b) other studies of social costs and benefits from which insights about the need for local socially directed investment can be drawn, e.g. on the social costs associated with identified health hazards (such as smoking or bad housing) more prevalent in some localities than others, or by the present unbalanced pattern of socio-economic development in the UK, leading to social disinvestment in the cities of the Midlands and the North and to capital shortages arising from the growing demand for new investment in the South;
  - c) the development of systematic techniques of social investment appraisal, accounting and auditing to be applied to local (and other) enterprises and projects with social and economic objectives;
  - d) the development of local (and, as appropriate, national) indicators of social wellbeing or its absence, in such spheres as housing, health, education, and income, to which social investment appraisal procedures for individual enterprises and projects might be usefully linked;
  - e) the development of operationally useful definitions of social wealth and social investment.
  
3. Studies of the scope for an expansion of socially directed investment:
  - a) in public sector spending programmes, e.g. by shifting the emphasis from the kind of programmes that deliver remedial services to dependent clients to the kind of programmes that enable and motivate groups of local people to create employment, or healthier living conditions, or better housing, or a more secure and pleasanter environment, or whatever, for themselves; these studies should include both a range of detailed analyses of specific proposals and a comprehensive

survey of public spending programmes across the board to identify further possibilities;

- b) by business corporations, including relevant innovations in their mainstream commercial operations (such as local purchasing policy and the introduction of accounting systems that can show if their local economic impact is positive), which will contribute to the socio-economic regeneration of the local economies in which they operate;
- c) by financial institutions, including the provision of facilities which will enable local clients and customers to direct some of their savings into investment in local enterprises and projects;
- d) by personal investors, including ways of providing them with easier access to local investment opportunities as at c) above;
- e) by local residents as customers, by use of their power of consumer choice to favour those businesses - both non-financial and financial - that are seen to make a positive contribution to the local economy;
- f) by grant-giving charitable foundations, churches and other non-governmental and non-commercial organisations, both in their own investment management policies and by adopting grant-giving policies which will help to stimulate a wider role for socially directed investment in local economic regeneration.

4. The development of a classification system (covering the private sector, public sector and third sector) of different types of enterprise according to their fields of activity and their legal, financial, managerial, and personnel characteristics, together with a comparable classification system covering financing organisations and procedures - to show, among other things, what sources of funding are available for what types of enterprise and what new sources of funding are needed to fill existing gaps.

5. Identification of existing institutional and other obstacles to an expansion of socially directed investment in local economies, and of ways in which those obstacles might be removed.

6. Preparation and publication of an action check-list and resource directory on socially directed investment for people and organisations involved in local community initiatives. The purpose will be twofold: to enable such people and organisations to mobilise funding from

existing sources; and to enable them to work for the expansion of the sources presently available. (This might be part of a more general check-list and resource directory on fostering local initiatives and local socio-economic development. Whether a single publication will be suitable both for professionals - including public sector employees generally - and for activists in community self-help groups and voluntary organisations, or whether separate publications will be needed, will be one of the questions to be decided as the work proceeds.)

### **Wider Implications**

Wider consequences for the economy, and for economic and social policy-making. will follow from a lasting shift of emphasis to greater local economic and social decentralisation, from the emergence of a "third sector" as a major feature of the 21st-century economy, and from an expansion of socially directed investment as a "financial third sector".

We cannot go into many of them here. But, for example, the structure of business, industry, government and the non-governmental sector will all be affected, and not just in terms of legal, financial and managerial characteristics. Small local enterprises can be expected to grow in numbers and importance in a variety of different industrial and service sectors. To what extent and in what sectors can national firms and other national organisations be expected to stay dominant - while taking steps to recycle purchasing power back into the local economies in which they operate? Developments in new small-scale technologies will be relevant. In what spheres of technology are new developments likely to enable business, industry, government and voluntary organisations to operate more effectively on a smaller, more local scale?

Those questions are analogous to those touched on already about the structure of financial institutions and the financial system: to what extent, and in which spheres of financial activity, should we look for the emergence of new local financial institutions which include social concerns among their operating criteria, in contrast to the existing main stream of development in the financial sector, typefied

by last year's Big Bang in the City of London, which concentrates on making money?

The New Economics Foundation intends to include such wider questions as these in its overall programme of work on "A New Economics For The Year 2000", and to relate them to the work discussed in this paper on the role of socially directed investment in the local socio-economy.

### **In Conclusion**

Participants in the conference are asked to consider the items of further work suggested on pages 6 to 8 above, possible modifications and additions to them, and possible ways of taking them forward.

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## **ANNEX**

### **SOME SOCIALLY DIRECTED INVESTMENT INSTITUTIONS**

This Annex gives a brief impression of various types of institution set up in recent years to handle socially directed investment, especially but not only in a local context.

#### ***Set up by Labour Local Authorities and Trades Unions***

**London Development Capital Fund.** Set up by the Greater London Council (now abolished) with £6 million raised from public sector pension funds in the London area to invest in local companies - as proposed by the Greater London Enterprise Board and London Borough enterprise boards.

**West Midlands Regional Unit Trust.** Run by the West Midlands Enterprise Board and a merchant bank, with contributions from 12 local pension funds in the public and private sectors, to invest in local companies.

**Unity Trust Ltd.** Set up by more than 30 trade unions and the Co-operative Bank, in order to invest in socially useful job-creating prospects.

#### ***Local Community Financing in the USA***

**Institute For Community Economics** - revolving loan funds. Lenders include individuals and organisations, such as churches, with social concerns. They may specify the types of community enterprise in which their money is to be invested as start-up capital. Each local community loan fund has lenders, local community activists and professionals on its board.

**South Shore Bank,** a subsidiary of Illinois Neighborhood Development Corporation. Develops residential and commercial real estate, invests

in businesses owned by economically disadvantaged persons, and is involved in training, job-placement and low-income housing.

### ***Socio-ecological Concern***

**MEMO Fund (Netherlands).** Raises money from private investors who want to invest in the small, socially and ecologically benign enterprises of the MEMO Movement, and are prepared to take low or no interest on their loans.

**Stattewerke/Okobank (Berlin).** A network of credit agencies originally established by the Green Party, to support local employment initiatives.

**Ecology Building Society.** Enables investors to lend money for buying properties to be used in ecologically valuable activities.

**Financial Initiative, Ltd.** Provides opportunities for personal investors to make equity investments in humanly and ecologically worthwhile projects.

### ***Anthroposophical Banks***

Mercury Provident Society. Puts lenders and borrowers together to finance socially useful projects of their choice. Lenders may take below market rates of interest. Borrowers may be asked to find a community of guarantors to support them and their project.

**Triodos Bank (Netherlands).** A bank that operates on similar principles to Mercury Provident (above). [In 1996 Triodos Bank took over Mercury (above) as its UK subsidiary. JHR, 2003.]

### ***Grass-Roots Banking in the Third World***

**SEWA Bank** (Ahmedabad, India). Set up by the Self-Employed Women's Association to provide their members with savings and credit facilities which the commercial and nationalised banks'were unwilling to provide. Supported by Women's World Banking.



**Grameen Bank** (Bangladesh). Villagers, who must meet certain poverty criteria, form groups of five. Each pays about 5p a week into a group fund. Loans are made for one year to members, who pay back 2% each week and also pay a loan tax of 5%.

### ***Co-operative Movement***

**Caja Laboral Popular** (Mondragon, Spain). The heart of the Mondragon Co-operative Group. Over 130 branches and 560,000 accounts. Provides banking and financial services to individuals and to co-operatives. Also promotes new co-operative start-ups.

**Industrial Common Ownership Finance (ICOF)**. Channels public grants, private gifts and loans to common ownerships and co-operatives. Lenders may choose to take low interest rates.

### ***Other***

**Credit Unions**. Financial co-operatives. Take savings from and grant loans to their members. Generally deal with individuals, but examples exist, e.g. in Quebec, where credit-union-type institutions raise funds for re-investment in local enterprises.

**Community Land Trusts**. The community land trust model, in use in Australia and the USA, may provide a growing number of local initiatives with a way of financing their land and premises.