Introduction to Ethical Finance and Responsible Investments

Responsible investing, in a similar way to critical consumption, is a tool to change the economic system, to trigger alternative mechanisms for sustainable development and social justice.
Promoting Responsible Investments and Commerce in Europe

PRICE (Promoting Responsible Investments and Commerce in Europe: Fair Trade and Ethical Finance Responds to Global Crisis) is an international project which aims to raise public awareness and promote education to mobilise greater financial support for actions against poverty and for fairer relations between developed and developing countries in the field of responsible investments for fair and sustainable trading activities. PRICE is co-financed by the European Union, and involves 9 European countries on the issue of Fair Trade and Ethical Finance with the intention of researching and verifying the causes and factors that may bring greater collaboration between the two sectors and expand their range of action. The project is run in three phases:

**Phase 1** - Research and development of training materials. In particular, the research intends to shed light on the relationship between Ethical Finance and Fair Trade, the current level of interaction between the two concepts (demand / offer of services for pre-financing or for imports) and the levers and tools for greater collaboration. The results of this research will allow the development of a set of training tools that will be used during phase two.

**Phase 2** - Training and awareness raising. Diversified training initiatives to bring together national experiences and disseminate good practices and innovative solutions.

**Phase 3** - Campaigning on Fair Trade and Ethical Finance to mobilise public opinion through outreach events.

PRICE is coordinated by the Spanish NGO COPADE, with the participation of partners from 8 other European Union countries: AGICES (Assemblea Generale Italiana del Commercio Equo e Solidale in Italy), FCRE (Fondazione Culturale Responsabilità Etica in Italy), WFTO (World Fair Trade Organisation headquarters in The Netherlands), Equação (Portugal), Fair Trade Hellas (Greece), Ideas Factory (Bulgaria), Koperativa Kummerľ&Bust (Malta), the Polish Fair Trade Association (Poland) and Védegylet - Protect the Future (Hungary).
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Introduction

We live in an interconnected and globalised world. As the well-known adage goes: ‘a butterfly beating its wings on one side of the globe, can create a hurricane on the other side of the world.’ In today’s world, the butterflies can be simple financial transactions that have an impact in other parts of the world, as happened in the recent global financial crisis. Imagine a Mr. Smith, clerk in the mainstream of American society, who is going to sign a subprime mortgage loan to buy his dream home. What he does not know is that his signature - along with the signatures of thousands of other Mr. Smiths - will contribute to triggering a disaster. A series of chain reactions at the global level, from the United States of America to Europe, which will cast banks, financial institutions and the so-called “too big to fail” into crisis. Governments and entire societies are hit. An economic and financial catastrophe whose impacts and end date are hard to calculate. The financialisation of the economy has generated a highly complex system, with many variables and too few rules. This is the most obvious example of the chaos theory.

This hypothetical example demonstrates the most drastic consequences of a policy of encouraging consumer credit. We imagined a citizen / investor / consumer. But what happens to the most complex economic segments, such as small and medium-sized enterprises, during a credit crunch? What might be their escape routes from the tunnel of crisis?

In recent years we have heard about recipes and remedies to overcome the Crisis. From the injection of capital into the veins of those same bodies which were the architects of the Crisis, all the way to the European austerity measures which have proved unsuccessful and pejorative. Yet there are those who, under the current volatile financial climate, are working to rebuild a real economy - a system of production and consumption built upon ethical, sustainable and responsible principles. Recent history has shown how dangerous it is to act without ethical principles. An ever increasing section of civil society is aware of this and is calling for new rules and evaluation criteria which take into account impacts upon the environment and people.

This guide is intended to help expand the size of this “active” public, which is both conscious and responsible, and which does not wish to give up the benefits of economic growth and prosperity. It is a functional tool, which may be used by a range of civil society actors in the process of positive change, towards a new dynamic and ethically robust economy.

The process was triggered by the growth in available data on capital movements in ethical banks and an upsurge in responsible investment. Investors are increasing seeking out a sustainable and ethical development process but are left frustrated by the lack of information available on ethical finance and how to invest in sustainable initiatives.

Ethical Finance and Responsible Investments are the themes of this guide. Throughout the guide we provide values, numbers, names and valid proposals to suggest a change of behavior and a way to manage your savings and investments in a more responsible manner.
1. Understanding what Ethical Finance is

Ethical Finance: Definition, values and practices for a new solidarity economy

“Banks are the symbol of the crisis, the symbol of speculation, injustice and the primary cause of poverty”. This is an extremely simplified view of all that did not work and still does not work, but one which is shared by many people today. We need to be careful not to generalise the complex causes of the economic crash and not to indulge in a fatalistic “nothing will ever change” point of view. Instead we must always distinguish the means from the ends.

Finance is neither good nor bad. It is a tool to achieve an end, which can be speculative (causing negative externalities) or it can be more collective and supportive of the general well-being of the many (in which case it will cause positive externalities). The problem is that today ‘Finance’ has lost its core role, as a means to support and promote economic activities and has invaded the social and democratic spheres.

An answer to the current crisis is Ethical Finance. But in order to talk about this topic, first we should ask ourselves some key questions, such as:

1.1 What do we understand by the term Ethical Finance?
1.2 What kind of institutions provide this service?
1.3 What are the values that Ethical Finance promotes?
1.4 Is Ethical Finance sustainable?

So, let’s start answering these questions...

1.1 What do we understand by the term Ethical Finance?

Ethical Finance is any activity that...

• Invests money in people and the environment, supporting actions for social and/or environmental enhancement and developing depressed areas at a high risk of social exclusion.
• Provides credit without discrimination, based on wealth, gender, ethnicity or even migration status.
• Uses money as a means and not an end.

Ethical Finance DOES NOT:

• Use money for purely speculative purposes.
• Use money merely as a charitable action.
• Aim at maximising profits (at the expense of people and the environment).
• Support any activity or organisation that is not sustainable in social and/or environmental terms.

We can thus describe “Ethical Finance” as an alternative to “Speculative and Market” Finance and therefore as a tool used to maximise positive externalities.

“Ethical finance aims to develop a fairer and more equitable interaction between humanity and the environment through the global economy”
1.2 What kind of institutions provide this type of finance?

We can distinguish between 3 different kinds of institutions:

- Ethical Banks
- Ethical Finance cooperatives or consortia
- Microcredit cooperatives

These institutions all offer different financial services to prospective investors. The essential distinguishing features of each are provided below:

- **Ethical Banks**: An Ethical Bank is a bank concerned with the social and environmental impacts of its investments and loans. Customers can find most of the same services which can be found in any other commercial bank (savings and checking accounts, credit and debit cards, payroll deposits, etc.). It is important NOT to confuse Ethical Banks with commercial banks offering ethical or sustainable products. In such cases the whole commercial bank is not considered as "ethical" per se, only the given product.

- **Ethical Finance cooperatives/consortia**: The Ethical Finance cooperative is a democratically run organisation providing microfinance services to low income individuals and small and/or family businesses. These services include loans, savings accounts, insurance and remittance services. Such institutions can also be organised as a consortium or microfinance organisation. Ethical Finance cooperatives and consortia are usually more limited than banks in terms of the services they provide.

- **Microcredit cooperatives**: A microcredit cooperative provides small financial loans to poor or low-income clients. The loans can be offered, often without collateral, to an individual or through a group lending mechanism, which allows a number of individuals to provide collateral or to guarantee a loan through a group repayment pledge. The incentive to repay is based on peer pressure; if one person in the group defaults, the other group members must make up the payment amount.

Although all Ethical Finance institutions are related, to a greater or lesser extent, to one of the three types of institutions mentioned above, institutions do not work the same everywhere. Financial institutions are a product of the particular economic system in which they developed and thus vary around the world, depending on prevailing cultural, social and normative characteristics.

Box below, provides information on the different investment approaches used by Ethical Finance institutions.

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### Four different approaches

- **Alternative and critical Finance**: the use of money for a social cause that combines the exchange of equivalents (the exchange value of a good being defined by the expenses spent on producing it) and reciprocity, so as to bring social relations back to the center of economic activity. The general aim here is to move money from commercial banks to alternative economies: this type of finance usually does not act through formal structures (banks) but prefers more informal exchanges, through associations and consortia. Training and technical assistance towards the beneficiary are considered a very important part as well.

- **Solidarity Finance**: use of money to support projects for social and/or environmental promotion and the development of depressed areas with a high risk of social exclusion. This approach is oriented towards local development.

- **Socially responsible finance**: the use of money and its investment in financial products, taking into account the impact that such investments have on society and the environment. In other words, applying social responsibility to investments, with third-party agencies evaluating ethical and sustainability aspects.
Cultural paradigms at the basis of Ethical Finance

Ethical Finance does not have one single history. It has many, depending on the geographical area and cultural background in which it is practiced. In Europe, we can make a general distinction between 6 different geographical areas:

- **Area 1: Mediterranean**, influenced by the Catholic culture.
- **Area 2: Central Europe**, with a Steinerian influence.
- **Area 3: Francophone area**, in which there is a stronger mutualistic and cooperative matrix.
- **Area 4: Northern Europe**, with a clear focus towards social and environmental responsibility.
- **Area 5: Anglosaxon countries**, characterised by the development of responsible investment fund management.
- **Area 6: The “Former Warsaw Pact” countries**, where the economic and social necessities after the fall of the USSR have favored the diffusion of microfinance.

The European Ethical Finance movement therefore reflects the many different practices and types of organisations that it inspired. Ethical Finance introduces new benchmarks by placing the risk factor and profit of an investment side by side with the evaluation of externalities. For example, the evaluation of an economic activity includes assessment not only in economic terms, but also in terms of environmental and social impacts. These parameters strengthen the assessment of financial transactions, for the development of a humane and ecologically sustainable model, where finance is at the service of those activities which produce a social and environmental benefit. Activities which

- **Mutual Finance**: financial assets that conform to the following principles: access to credit without discrimination based on wealth, gender, or ethnicity; preference for personal forms of guarantees, transparency and participation. This approach can take different forms, but generally there is a strong sense of community and of sharing the risks and guarantees.

The common denominator in each approach is the human experience of sharing certain values. In essence, Ethical Finance is a contemporary economic model which approaches money as a means and not as an end, holding as its main goal, the realisation of each person and the common good. Or as Italian ethical bank, Banca Popolare Etica, says, “the highest interest is everybody’s interest.”

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1. “La finanza etica in Europa... strumenti Attori e pratiche per lo sviluppo del Nord e Sud del mondo”, edited by Ucodep for the project ‘Financing for development: raising awareness on alternative resources to promote Microfinance in the South’ financed by the European Commission (CNG-ED/2002/019-026).
2. Banca Popolare Etica, Italy – The original version in Italian is: “L’interesse più alto è l’interesse di tutti”.
3. The “Atlante Ragionato della Finanza Etica Europea” (Analytic Atlas of Ethical Finance in Europe) is a research project commissioned by Banca Popolare Etica to the Department of Economics and Business “Marco Fanno” Credit & Finance – University of Padua. Author: Marco Gallicani. Scientific coordinator: prof. Alberto Lanzavecchia. The figures refer to the Financial Statements ending on 31/12/2012 of a number of credit institutions in Europe (see on the PRICE website: link). The figures are indicative and based on the documentation submitted. Contact the author for more information: m.gallicani@gmail.com.
4. Rudolf Steiner (1861-1925) was an Austrian philosopher, social reformer, architect, and esotericist. At the beginning of the twentieth century, he founded a spiritual movement, anthroposophy, as an esoteric philosophy with roots in German idealist philosophy and theosophy. Steiner worked to establish various practical endeavors, including Waldorf education, biodynamic agriculture, and anthroposophical medicine.
deliver innovative and positive social impacts, such as social cooperation, international cooperation, Fair Trade, organic agriculture, renewable energy and eco-friendly business. For examples of organisations that work with Ethical Finance see Annex 2.

1.3 What are the values that Ethical Finance promotes?

In 2012 the European Federation of Ethical and Alternative Banks (FEBEA)\(^5\), drew up a list of **key values to be used for the identification of Ethical Finance institutions in Europe**. FEBEA is a key European body financing the non-profit sector, including non-bankable*, environmental and cultural activities. The basic approach used by FEBEA is to understand **banking as a tool for the community’s common good** and to raise awareness and promote education on finance.

The **Ethical Finance criteria** that FEBEA considers are:

- **The origin of money**: an Ethical Finance institution does not accept “dirty” money coming from illegal, speculative or highly polluting activities.

- **The destination of money**: the lending activities of an Ethical Finance institution are oriented towards positive social, environmental and/or economic impacts. For this reason it supports activities to promote weaker human, social and economic sections of the population and the most disadvantaged areas by promoting social integration and employment.

- **The criteria and values for the use of money**: transparent management of loans and symmetric information between an Ethical Finance institution and its customers. The business model is traditional, in that most of the savings collected are used for lending activities. The granting of personal financial guarantees (or social services provided by local networks to which they belong) go together with economic guarantees.

- **The management and objectives of the Ethical Finance institution**: an Ethical Finance institution does not consider the search for profit as an end in itself. A fair profit is necessary to ensure reliability and affordability to the institution. Profits are reinvested for the most part in the social objectives of the bank or institution.

As discussed in Section 1.2, when we talk about “Ethical Finance” we may be referring to any of three different types of institutions related to this activity (see p. 5). One of these is Ethical Banks. Some of the **main differences between an Ethical bank and a Commercial bank** are shown below.

<table>
<thead>
<tr>
<th>Ethical Banks vs. Commercial Banks</th>
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<tr>
<td><strong>VALUES</strong></td>
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<tr>
<td>Operate with a clear set of ethical values, known, accepted and respected at all hierarchical levels.</td>
</tr>
<tr>
<td><strong>SOCIAL - ENVIRONMENTAL</strong></td>
</tr>
<tr>
<td>Pursue both financial and social environmental gains.</td>
</tr>
<tr>
<td><strong>STAKEHOLDER PARTICIPATION</strong></td>
</tr>
<tr>
<td>Investment decisions belong, firstly, to customers (depositors, creditors), who choose the ethical project to be financed.</td>
</tr>
</tbody>
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5 www.febea.org

"NON-BANKABLE": Those who are excluded from the possibility of having banking relationships either because they are not able to have adequate income or because they cannot offer guarantees.
1.4 Is Ethical Finance sustainable?

In the previous sections we have presented some of the admirable goals of ethical finance. But the fundamental question is, are these goals attainable and sustainable? In short, does Ethical Finance have a role to play in the real world?

The answer is, yes.

Since the beginning of the global financial crisis the efficiency and soundness of Ethical Finance institutions has grown, and drawing increasing attention from investors. According to data collected6 from three timeframes (2003 to 2007 - before the crisis, 2008 to 2012 - after the explosion of the crisis, and 2003 to 2012 - across the full cycle), Ethical Banks have continued to increase the volume of activity and stability of their assets.

In particular, considering the period after the explosion of the crisis, at a global level ethically oriented banks:

- Deliver nearly twice the credit in proportion to the assets of the financial statements, with respect to the systemic banks7.
- Support themselves largely by collecting customers’ savings.
- Maintain a better level of capitalization - the ratio of capital to total assets.
- They offer a higher return on investment and lower levels of volatility.

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7 Global Systemically Important Financial Institutions (G-SIFIs).

Source: adaptation from “THE FINANCIAL CRISIS IMPACT ON ETHICAL FINANCIAL INSTITUTIONS”, by Barbu Teodora Cristina and Boitan Iustina Alina, ASE Bucarest 2009.
As far as the European area is concerned, **Sustainable Banks show continued growth in the collection and use of money, as well as stability and profitability in investments, especially in the period from 2008-2012.** This is exemplified by data on financial flows through Ethical / Sustainable banks⁸, shown in the table below:

### Financial comparison between Ethical/Sustainable Banks and Commercial Banks in Europe in the period 2008 - 2012

<table>
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<th></th>
<th>Ethical Banks</th>
<th>Traditional Banks</th>
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<tr>
<td><strong>Loans to total assets⁸</strong></td>
<td>43.7%</td>
<td>74.7%</td>
</tr>
<tr>
<td><strong>Deposit to total assets</strong></td>
<td>32.8%</td>
<td>69.6%</td>
</tr>
<tr>
<td><strong>Capital strength - Equity/Assets⁹</strong></td>
<td>4.4%</td>
<td>12%</td>
</tr>
<tr>
<td><strong>Financial Returns on assets¹⁰</strong></td>
<td>0.53%</td>
<td>0.37%</td>
</tr>
</tbody>
</table>


So far we have talked about the theory of Ethical Finance. **Now it is time to talk about Ethical Finance in practice!** In the next chapter we discuss how readers can participate in ethical and responsible finance, how they can choose ethical institutions and which decision making tools they may use.
So you are thinking of making the leap, and deciding to use your money for good? Investing in projects which bring benefits to others as well as yourself? There is a lot you can do. You can spread funds between ethical banks, Ethical Finance cooperatives and microcredit organisations. Or you can focus on a single type of institution.

Consumers and investors are increasingly aware of their decision-making power. Making choices based on the social and environmental impacts of their investment influences the way financial institutions operate.

“Responsible investing, in a similar way to critical consumption, is a tool to change the economic system - to trigger alternative mechanisms for sustainable development and social justice.”

The responsible investor has a number of options. Whether he/she wants to deposit savings or invest in financial assets (savings accounts, checking accounts, term deposits or bonds, etc.). In some cases it is also possible to choose the area in which the funds will be used (environment, renewable energy, Fair Trade, culture, social activities, etc.).

In order to become a responsible investor, you must know:

- 2.1 Which institutions to use
- 2.2 Which financial tools are available

2.1 Which institutions to use?

Where you put your money makes a difference. We are going to show you some actions you can do in order to decide which option is best for you. We recommend that you start by taking the following steps:

Start at home...

Step 1: Gather information

- Take the time to gather information and think carefully before choosing a financial intermediary or institution. In the annexes to this guide, you can find many examples and starting points.
- Ask yourself which ethical aspects are most important to you (human rights, the environment, political lobbying, tax havens, the proportion of women on management boards, the difference in pay between directors and other workers … the list is endless!). Then search for organisations which promote your particular ethical interests.
- Check different sources of information. Besides economic news and analysis, annual reports issued by companies are also a good source of information. Some also produce specific social and/or environmental reports.
- There is a growing number of websites which rate the main banks and financial institutions, such as that promoted by the ‘Move Your Money’ campaign (moveyourmoney.org.uk) in the UK. Similar national campaigns exist in Holland (banksecrets.eu), Belgium (fairfin.be) and Italy (nonconimiesoldi.org). For more information on ratings campaigns, see Annex 3. Other publications and advertising materials, as well as Financial Institutions’ websites can be used to assess availability of information and investment activities.
Check in your town…

Step 2: Ask institutions directly

The “Not with my money” campaign suggests five questions to ask, which can be very handy to find your way through the jungle of financial institutions.

1. How are my savings going to be used?
2. What does the financial institution do with my money?
3. Does the financial institution participate in the speculative system?
4. Does the financial institution have a branch in any tax havens?
5. How, and to what extent, do profits come from traditional lending activity that supports the real economy and the creation of jobs? And how much from playing with derivatives and structured products or the shadow banking system?

If the people at the front desk are well informed and willing to give you this information, then you are probably on the right path…

Finally...

Step 3: Choose a bank / cooperative

- Select a financial institution which provides guarantees regarding transparency, strong links with your home territory and which discloses its investment sectors.
- Be sure that you are able to get all the answers and information you need from the financial institution
- In due time, consider also becoming a member of the financial institution (if this is a possibility).

“ If everybody starts directing their savings and investments where they can have a positive impact, then together we can make a difference ”

What can I do if there is no Ethical Finance institution in the country in which I live?

If this is the situation you find yourself in, you are not alone. Some countries have only recently set up Ethical Finance institutions. In many cases however, Ethical Finance institutions do exist but are little known. You can promote the use of existing ethical approaches by:

- Informing yourself on the fiscal norms of your country concerning banking activities and the offer of financial products and services.
- Consulting supra-national networks, such as Febea, which provide screening of some countries and keep contacts with local organisations involved within ethical finance, especially with those who are working towards the creation of ethical finance instruments (not necessarily banks, but also funds, financial companies, foundations, etc.) - depending on context and needs. In the case of Febea, they keep references in Austria, Slovenia, Croatia, Portugal, Greece and Finland. Check the FEBEA website (www.febea.org), where you can find a list of member banks and information about existing agreements with banks near you (such as cooperative credit unions, savings banks, rural credit banks, etc.).

Using tools for investments to support social and solidarity economy. Also, browse information on-line regarding micro-finance and ‘social lending’. For more information, see page 17 (“c”).

Once you have decided upon a particular credit institution best suited to your needs, you then have important decisions to make regarding the specific services that you wish to use.

2.2 Which financial tools are available?

In the previous section we described how to select an Ethical Finance institution. Now it is time to address the issues surrounding management of savings and investments in ethical activities using a more technical approach, describing the range of products and services currently on the market. We can consider three main financial tools:
a. Ethical savings

In addition to standard banking services such as a savings accounts, deposit accounts and a checking accounts, Ethical Banks usually offer their customers products dedicated to supporting projects and/or non-profit organisations active in the fields of social solidarity, international cooperation, the environment, human rights, and Fair Trade.

These can take different forms – here are some basic examples:

- Certificate of deposit: an investment instrument that is binding on the savings for a fixed period of time and which allows the bank to financially support projects in the short and medium term. The advantage is that you can indicate the sector of finance in which you want to allocate your savings, amongst those usually supported by the bank (consistent with requests for funding inflows).

- Certificate of dedicated deposit: an investment which is usually fixed at rates directly connected to third sector organisations, for targeted support to their activities.

- Affinity credit card: a type of card which allows you to support projects and/or non-profit organisations by simply making transactions (at no additional cost) and on which the issuing bank donates a percentage to an organisation to which the card is connected.

Some existing institutions offering ethical savings are shown below:

**Banca Etica (ITALY):** Amongst its products, Banca Etica offers over 12 certificates of deposit connected to dedicated non-profit organisations that work in the areas of social cooperation, environment, culture and civil society, Fair Trade and international cooperation. When it comes to credit cards, it offers the Affinity card to support some Italian or international organisations such as Mani Tese, Intersos, Agesci, Amnesty International, Friends of the Children, Economy of Communion and CTM Allromercato.

**Credit Cooperatif (FRANCE):** This institution offers the possibility to use your savings to support 4 sectors of the non-profit and solidarity economy. The sectors include: ‘Agir pour la planète’ (Act for the planet), focusing on renewable energy measures to promote energy conservation, environmental protection; ‘Agir pour une société plus juste’ (Act for a more just society), focusing on welfare assistance and the right to health, childcare and social inclusion; ‘Agir pour entreprendre autrement’ (Act to do business in a different way), focusing on social enterprises/cooperatives and Fair Trade. All these areas service 19 beneficiary organisations, which are shown on the institution’s website. Each is associated with a current account and credit card. The “Agir Solidaires Ensemble” also allows the customer to directly add their own micro-donations to each transaction.

**Triodos Bank (SPAIN, THE NETHERLANDS, BELGIUM, UK AND GERMANY):** This institution offers a savings account with Triodos Bank and Triodos stores, where customers can donate part or all of the accrued interest* to one of 23 major organisations in the social, cultural and environmental fields.

**Shared Interest (UNITED KINGDOM):** This is a financial cooperative that offers financial assistance for Fair Trade. Established in the UK in 1990, Shared Interest collects the savings of British investors to provide credit and financial services to Fair Trade producers, retailers, importers and exporters around the world. The institutions website has detailed maps of the areas of investment showing loans to over 350 manufacturers in 53 countries. With this system, Shared Interest partnered with the UK Co-operative Bank, which provides credit at the same time to both producers – who are paid in advance - and to sellers, who have goods available to distribute. This results in an improvement of the well-being of economically disadvantaged producers, with the help of benefits such as access to markets, the payment of fair prices and continuity in business relationships.

b. Sharing the capital

Other possibilities to get a return on your investment and at the same time provide support for the development of actions and solidarity activities, are those offered by different forms of capitalisation. This means that investors buy shares of capital stock of a solidarity finance cooperative.

**Remember: Investing in capital share is to become a co-owner, or member of a cooperative**
When you share capital, you are contributing to strengthening the cooperative and increasing its capacity in the long run. The sharing of business risk increases the awareness and involvement of investors. You become a shareholder and gain power to ensure that social objectives are achieved through effective management and efficient organisation.

Popular or opened share distribution is a form of investment in the share capital of a company that makes the investor partner and shareholder and therefore co-participant in the company’s strategies. There are many forms of share ownership by size of company and by sector. Investments are used to finance specific projects of interest to the enterprise (usually a cooperative), such as solidarity financing (or pre-financing) of local solidarity economy businesses or initiatives.

Another example of financial participation is that promoted by World Shops cooperatives and the collection of savings among members, which is used to support the commercial activities of the World Shops, as well as the pre-financing of Fair Trade projects.

### Entrusting your savings to a World Shop

Many World Shops allow you to invest by acquiring capital shares or using the membership savings system, whereby they can have a better cash flow.

Members of World Shops can decide to deposit their savings with the cooperative which uses the "social savings" to:

- Finance its own ordinary activity and growth.
- Finance international cooperation projects, either directly or through organisations which develop micro-credit for Fair Trade enterprises.
- Finance an importer and support pre-financing and prompt payment of producers.

In Italy, in 2013 there were around 30,000 members and 90 Fair Trade organisations registered with the AGICES system in Italy (Assemblea Generale Italiana del Commercio Equo e Solidale) 11.

c) On-line micro-finance and social lending

As mentioned previously, many people live in countries which still have relatively undeveloped networks of Ethical Finance institutions. If you are a prospective ethical investor located in a country like this then on-line ethical investment tools may be a solution for you.

**On the internet you can find more tools to support the financing of valuable projects with social and economic positive impact**

There are two basic options:

i. Online micro-finance.
ii. Peer-to-Peer lending.

### i. Online micro-finance

This set of tools allows the lender to choose where to allocate their funding. With this system, it is possible to finance the projects of micro-entrepreneurs all around the world. With interest rates for the borrower that are below those of the commercial banking system but which have a shorter chain of intermediaries, this method may be suitable for investors seeking transparency in their investments.

There are various online possibilities, some of which are in collaboration with local microcredit or microfinance organisations, assisting micro-entrepreneurs and managing returns of loan installments.

12 See: www.agices.org
Some examples are:

Kiva.org, a non-profit plan which is inspired by the microcredit experience of Mohammed Yunus. It was founded in 2005 to fight poverty through the connection between people who use loans to support economic projects of small business owners who would otherwise be excluded from economic cycles. Kiva uses the possibilities offered by the internet and a worldwide network of microfinance institutions to channel loans, starting at US$ 25, and to help create opportunities around the world. Since 2005, USA based Kiva has attracted 1,007,121 lenders, providing US$ 488,196,900 worth of loans, with an index of 99.03% repayment. This investment is managed through 227 micro-finance organisations in 73 countries around the world.

Myc4.com, a Danish initiative which has been active since 2007. It focuses funding on small and medium sized enterprises on the African continent and provides interest to lenders.

Babyloan.org, a French initiative which defines itself as the “First European social micro-lending platform.” It was renamed Finansol in 2009 and operates in a similar way to Kiva.

ii. Peer-to-Peer or social lending

Also known as P2P, this investment method has taken off since the 2008 financial crisis and the subsequent credit crunch.

Peer-to-peer lending involves online social lending, directly between people. In other words, it works mainly between individuals, usually within the same country (both for legal and language implications), and is done through micro-loan websites, where demand and offer are matched and the interest rate and repayment instalments are agreed by both parties.

“For the investor, the interest rate received is higher than any savings bank would issue, while for the borrower it is cheaper than a normal bank loan.”

The investor can choose which project to invest in and have a say in how the funds are used. They can also request periodic updates and have direct contact with the borrower. At the same time, there is a maximum amount (usually quite small) that can be invested in any single project, in order to divide and reduce the risk.

Peer-to-peer tools are still quite new however their development could greatly benefit investors and borrowers, if they are guided by strict social and ethical finance principles.

Here are a few examples:

Zopa.com was created in 2005, in the UK (Zopa Ltd). In a few years it has become an alternative financial model that works on a large scale. Zopa acts as an online broker between borrowers and individuals willing to offer loans. Zopa is also present in the United States and Italy, with the name of Smartika (www.smartika.it) and works with the authorisation of the Bank of Italy to protect investors.

FundingCircle.com and FundingKnight.com promote “crowd lending” between individuals and small businesses. The way they work is similar to Zopa, but in this case loans are targeted differently. These P2P tools may be suitable models for a future Fair Trade business social lending platform.
Conclusions

In this guide, we have described the general framework of Ethical Finance in Europe, some examples and some suggestions, hoping to provide useful knowledge for those who want to undertake responsible and socially beneficial investment of their savings. The global financial crisis and the consequent negative social impacts have caused civil society to reflect upon the urgent need to regulate the financial system and to move towards an economy based on ethical values.

This need is being expressed through the growth of Ethical Finance, which in the last years has been able to concretely demonstrate the validity and practicality of responsible and ethical investment. Ethical Finance brings the opportunity for investment in new sectors, provides a higher level of control and transparency to investors and provides solutions to population groups and businesses normally excluded from the traditional banking system. Recent studies show that there is an ongoing process of consolidation of Ethical Finance and Socially Responsible Investments as a greater section of civil society becomes aware of the benefits of ethical banks, cooperatives and micro-lending institutions. Although still in its infancy, answers to difficult questions regarding the profitability and sustainability of Ethical Finance are now beginning to emerge. An increasing amount of data supports Ethical Finance as a viable and appropriate method for running a real economy. A reformed and resilient economy based on the commitment of people, on tangible corporate responsibility and on innovation derived from shared values and alliances.

Now is your time to get closer to these initiatives and start changing the system!
Here is a non-exhaustive list of different and representative financial institutions in a variety of countries. A more comprehensive list can be found on the PRICE project website (www.thepriceproject.org).

**Name: Banca Popolare Etica**  
**Country:** BE  
**Origin:** It began operating in 1999, with a history that starts from the bottom: the commitment of thousands of citizens and organisations that activated to form a credit institution inspired by the Ethical Finance.  
**Criteria:** Banca Etica finances environmentally friendly activities, volunteering and associations in Italy and development projects in the third world and all of its work takes place in accordance with the principles of Ethical Finance and Corporate Social Responsibility.  
**Members:** Today more than 37,000 members have a share of the bank, 6000 of which are civil society organisations and cooperatives.  
**Website:** www.bancaetica.org

**Name: COOP57**  
**Country:** Spain  
**Origin:** It started in Catalunya when a group of workers from a publishing house that was about to close was fighting for their jobs. When the publisher finally closed, some ex-workers created a fund with their own money to support projects that would create jobs with quality. This is how in 1996 COOP57 started.  
**Criteria:** COOP57 provides loans only to its members. The projects that COOP57 supports are those that have social interest, are local, have a democratic management, generate steady jobs, equal income distribution, and socially and environmentally sustainable.  
**Members:** It has 275 members, and they come from fields like: development, environment, education, social movements, etc...  
**Website:** www.coop57.coop

**Name: FIARE**  
**Country:** Spain  
**Origin:** FIARE is an exclusive agent of Banca Popolare Etica, S. Coop. an Ethical Bank from Italy. It starts out of the necessity from many Spanish to decide where their savings should be invested in order to create an economy and society where the people are the objectives and money just a mean.  
**Criteria:** FIARE supports those projects that have a positive impact in the society. Each case is evaluated individually to make sure that the values of the projects agree with those of FIARE and its members.  
**Members:** Currently FIARE almost has 5,000 members, both legal entities and persons.  
**Website:** www.proyectofiare.com

**Name: Credit Cooperatif and La Nef**  
**Country:** France  
**Origin:** Credit Cooperatif is a financial institution that has its roots in the financial cooperative associations linked to the artisan guilds of the period of the Paris Commune.  
**Criteria:** Besides its own operativity, the Crédit Coopératif supports for its banking operability La Nef, a cooperative bank based on Steiner’s work, with a widespread activity in many solidarity initiatives, including micro-credit, and in support for many small groups of investors.  
**Website:** www.credit-cooperatif.coop, www.lanef.com
**Name: Club Cigale (Club of Investisseurs pour une Alternative Management Local et de l’Epargne)**  
**Country:** France  
**Origin:** The Cigales are associations for Investment Management and Alternative Local Savings, founded in France in 1983 and working in the field of venture capital and local solidarity.  
**Criteria:** Set up to support areas which did not have sufficient capital, project promoters without bank guarantees and social utility projects.  
**Website:** www.cigales.asso.fr

**Name: MAG (Mutual Self-Management Organisation)**  
**Country:** Italy  
**Origin:** MAGs are small companies based on principles such as solidarity and democratic management of money, which started at the end of the 70s to give hope to entrepreneurial activities and individuals considered non-bankable, according to the parameters of commercial banks. The MAGs, following the revision of the Consolidated Law on Banking of 1991 which requires the provision of banking services by corporations with high minimum capital and an organised business structure, went through a readjustment process which led to the creation in the late 90s of Banca Popolare Etica.  
**Criteria:** The MAGs all subscribe to the “Manifesto of Mutualistic Finance”, approved by the MAGico coordination in 2010 in Turin. www.finanzaetica.net  
**Members:** Mag Mutua e Mag Servizi (Verona), Mag 2 Finance (Milano), Mag 4 Piemonte (Torino), Mag 6 (Reggio Emilia), Mag Venezia, Mag Firenze, Mag Roma

**Name: JAK Medlemsbank**  
**Country:** It is a Swedish cooperative Ethical Bank, which does not apply interests to loans.  
**Origin:** JAK is short for Jord Arbete Kapital, in Swedish Labour Earth Capital, to understand the resources given by nature, human labor and man-made infrastructure that allow you to enhance efficiency; seen as the three key principles of real economy.  
**Criteria:** It is a real bank owned by its members, each holding a single share and has the same weight in decision-making as the Board of Trustees. JAK has a critical position towards today’s speculative economy, which runs on income derived from mathematical multiplication of money, thanks to the mechanism of interest. JAK’s Financial model is based on a free transfer service for savings and loan, far from the logic of interest rates.  
**Members:** the 35,000 members in Sweden lend money to each other, bypassing the traditional banking system.  
**Website:** www.jak.se
The steady growth of these and many other institutions of Ethical Finance have led them to create strategically collaborative networks for sectoral development. Here is a list of some of the major international networks and organisations of ethical and solidarity finance institutions.

**Name:** SEFEA *(Société Européenne de Finance et Ethique Alternative)*  
**Country:** Belgium  
**Origin:** Is a cooperative founded in 2002 by 10 FEBEA members.  
**Criteria:** SEFEA supports and promotes the development of solidarity economy and Ethical Finance in Europe; it provides financial aid and advice to existing ethical institutions or in the process of being created, through the use of certain financial instruments such as the granting of credit in the medium or long term; the supply of capital; investment funds for social cooperation and other tools helping to finance the main actors of Fair Trade or organic producers.  
**Members:** Today has 29 European members and a share capital of € 4,177,000.  
**Website:** [http://www.ethicalbankingeurope.com/content/sefea-european-ethical-and-alternative-financing-company](http://www.ethicalbankingeurope.com/content/sefea-european-ethical-and-alternative-financing-company)

**Name:** FEBEA *(Fédération Européenne des Banques et Ethiques Alternatives)*  
**Country:** Belgium  
**Origin:** A non profit organisation founded in Brussels in 2001 by the Cooperative Credit (France), Caisse Solidaire du Nord - Pas de Calais (France), Crédal (Belgium), Hefboom (Belgium), Banca Etica (Italy) and TISE (Poland).  
**Criteria:** FEBEA is a place for the exchange of financial instruments as well as a laboratory capable of contributing to existing European initiatives and encourage the growth of new initiatives in the field of alternative finance.  
**Members:** Comprising 23 members, divided among 10 European Union countries and 2 neighboring countries (Switzerland and Norway), it currently includes 13 banks, 5 savings cooperatives, 4 investment companies and 1 foundation of banking origin for an overall budget of ca. 36,000 EUR (as of 2012).  
**Website:** [http://www.ethicalbankingeurope.com/](http://www.ethicalbankingeurope.com/)

**Name:** I.N.A.I.S.E. *International Association of Investors in the Social Economy*  
**Country:** Spain  
**Origin:** Has operated in Europe since 1989 and brings together some of the most significant experiences of alternative credit. Founded in Barcelona by 7 organisations.  
**Criteria:** The investment policies of IInaise influence and promote the development of organisations and businesses in the following areas: 1) Environment, sustainable development, renewable energy, 2) social economy, 3) health and social services , 4) Fair Trade and Microcredit, 5 ) Education, Training and Culture  
**Members:** It now counts 46 members from over 18 countries and includes banks, financial institutions, cooperatives, non-profit associations, foundations, venture capital and guarantee funds, showing a great diversity in organisational structures and legal size, policies and financial instruments (on the website you can find the complete list of members Inaise). Social investors from around the world met through it to exchange experiences, disseminate information and to prove that money can actually use to get a positive environmental and social change.  
**Website:** [www.inaise.org](http://www.inaise.org)

**Name:** GABV - *The Global Alliance for Banking on Values*  
**Origin:** It is a membership organisation founded in 2009 and made up of the world’s leading sustainable banks, from Asia, Africa, Australia, Latin America to North America and Europe.  
**Country:** Holanda
Criteria: All comply with sustainable banking principles and have a shared commitment to find global solutions to international problems – and to promote a positive, viable alternative to the current financial system. These organisations believe that we must improve the quality of life for everyone on the planet, recognising that we are economically interdependent and responsible to current and future generations. The network’s members have to meet three criteria: 1) they are independent and licensed banks with a focus on retail customers; 2) with a minimum balance sheet of $50 million; 3) they should be committed to social banking and the triple bottom line of people, planet and profit.

Members: Members include microfinance banks in emerging markets, credit unions, community banks and sustainable banks financing social, environmental and cultural enterprise.

Website: www.gabv.org

Name: FETS - Financiación Ética y Solidaria
Country: Spain
Origin: It is an association that brings together the second-level entities of the third sector and the social economy, promoting business ethics in Spain. Founded in 1999
Criteria: It works to achieve the objectives of awareness and dissemination activities for the responsible use of money; promotion of the circuits that offer products and services for business ethics; support to new initiatives of social action.
Website: www.fets.org

Name: Finansol
Country: Francia
Origin: It is an association that promotes sustainable investment. In 1997 it created the label Finansol to distinguish solidarity savings from other savings products. This label is designed for financial products and not for institutions that issue them.
Criteria: The characteristics required for the use of the label are: labor inclusion, social and housing, environment, international solidarity. Certified products are books, contracts of life insurance, investment fund (FCP; SICAV, venture capital funds, ...), saving funds for employees, unlisted shares of social enterprises, current accounts dedicated, bonds, micro-loans solidarity, deposits, investment companies. With a total of more than 120 certified products, today Finansol groups together almost all the actors of the French Ethical Finance.
Website: www.finansol.org
Here are some of the most successful campaigns which you are invited to explore further:

**Move your Money**  ([www.moveyourmoneyproject.org](http://www.moveyourmoneyproject.org))
This campaign started in 2009 with the goal of empowering individuals and institutions with respect to financial matters: the suggestion is to divest and move your savings from a local financial institutions, such as small local banks and credit unions. Since 2009 approximately 9.6 million people have joined Move your Money moving their savings. Move your money has spread from the U.S. to the UK, infecting even France.

**Banxodus** ([www.banxodus.org](http://www.banxodus.org))
This portal helps investors to find credit unions and banks which are transparent and sensitive to ethical issues of finance, using crowdsourcing to provide more detailed information to those who want to switch banks. Banxodus has created a database with more than 7,500 banks.

**Not with my money** ([www.nonconimieisoldi.it](http://www.nonconimieisoldi.it))
An campaign promoted by the Cultural Foundation for Ethical Responsibility and Banca Popolare Etica to stimulate a reflection on the causes of the financial crisis and the role of citizens and savers in this crisis. Change roles, switch from being an unaware saver to a responsible one to put a stop to the Finance Casino betting and speculation. Not with my money helps investors understand that they share responsibilities with their financial deposits to feed the “monster” of financial speculation, which enchants with interest rates, but obscures the costs of the consequences of unconscious, uninformed choices. The campaign encourages people to convey the information and facts they learn to others who are not aware, check where the money really goes and especially decide to choose their destination.

**Error104.it – System Error: Will the system change you or you change it?** ([www.microfinanza-italia.org/saveforgood](http://www.microfinanza-italia.org/saveforgood))
Error 104 is the international information and awareness campaign created in Spain in the spring of 2008, and operating in Italy and other countries. The campaign asked individual savers, enterprises and local authorities to get to know and promote Ethical Finance, Microfinance, Microcredit, etc. in order to make use of economic resources for a collective local development, rather than for the sole purpose of individual accumulation.

**Finanzas Éticas** ([www.finanzaseticas.org](http://www.finanzaseticas.org))
This is a campaign led by the Spanish NGO SETEM. The campaign tries to show the unethical use that commercial banks do with our money, and it also suggests some sustainable alternatives, like: Ethical Banking and responsible consumption.

**Bank secrets** ([www.banksecrets.eu](http://www.banksecrets.eu))
International campaign of information on banks, promoted in 2009 by BanckTrack, Campaign to Reform the World Bank (now Re: Recommon) (IT), Platform (UK), Urgewald (DE), Les Amis de la Terre (FR), SETEM (ES), Netwerk Vlaanderen (BE). Banksecrets.eu is an extensive database that collects information on private banks operating in Europe: general info, map and type of investments. Through the website, you can act immediately thanks to some applications and formats that allow you to write a letter directly to your bank, a list of questions to ask the bank, a list of European ethical banks and instructions to “take action” to create an infopoint in your own city.
Fairfin (www.fairfin.be)
It is the site of Netwerk Vlaanderen, the Belgian organisation that since the 1980s works on the issues of sustainability, finance and responsible use of money. It has conducted several awareness raising campaigns such as the link between Banks and Weapons (Cluster Munition), Banks and Environment (Coal Finance Campaign). It is part of the International Campaign Banksecrets.eu.
» "Fair Bank Guide" by Oxfam Novib, Amnesty International Netherlands, Dutch labour union FNV and Friends of the Earth Netherlands www.eerlijkbankwijzer.nl

» Global Alliance for banking on Values, "Real Banking for the real economy: Comparing Sustainable Bank Performance with the Largest Banks in the World" (October 2013) www.gabv.org


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- Banca Popolare Etica - www.bancaetica.com
- Vizi Capitali - www.vizicapitali.it
- Non Con I Miei Soldi - www.nonconimieisoldi.it
- Save for good - www.microfinanza-italia.org/saveforgood/index.php

Spain
- Finanzas Éticas - www.finanzaseticas.org
- Banca Limpia - www.bancalimpia.com
- GAP - www.gap.org.es
- Banca Ética - Información y difusión - www.infobancaetica.wordpress.com
- REAS - www.economiasolidaria.org
- Triodos Bank - www.triodos.es
- FIARE - www.proyectofiare.com

Belgium
- Fédération Européenne des banques Éthiques et Alternatives - www.febea.org
- FairFin - www.fairfin.be/en

The Netherlands
- Global Alliance for Banking on Values - www.gabv.org

United Kindom
- Move your money - www.moveyourmoney.org.uk
- Banxodus - www.banxodus.org
- Robin Hood Tax - www.robinhoodtax.org

European Union
- BankTrack - www.banktrack.org
- Control arms - www.controlarms.org
- Bank Transfer Day - www.facebook.com/Nov.Fifth