POLICY NOTE

HEADING TOWARDS THE 2024 EUROPEAN ELECTIONS

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FÉDÉRATION EUROPÉENNE DES FINANCES
ET BANQUES ÉTHIQUES ET ALTERNATIVES

As the European Parliament (EP) elections approach in 2024, FEBEA has been deeply engaged in internal discussions throughout this year, collaborating with its members to define fresh priorities for the European Union (EU).

We recognize the critical juncture facing the EU in the years ahead. The landscape is marked by a blend of complex challenges arising from shifts in geopolitics and economics. These challenges are compounded by the urgent issues of climate change, biodiversity crisis, and escalating social inequalities. As advocates for ethical finance, we stress the pivotal role of an adequate financial system. It should cater to the holistic needs of society, steering away from benefiting only a select few. Our focus remains fixed on prioritising the common good over the sole pursuit of profit for a privileged minority.

Thus, we are thrilled to introduce a series of contributions sharing our insights and experiences. These contributions aim to highlight both ongoing and new priorities for the post-election period.

We are delighted to kickstart this series with the insights and recommendations from our President, Pedro Manuel Sasia Santos, and board member, Andrea Baranes. Their contributions offer a deeper understanding of the aspirations of ethical finance in anticipation of the upcoming elections. You can explore their comprehensive contribution in the latest report on Ethical and Value-Based Finance in Europe.

Stay tuned for forthcoming issues in this series, featuring the voices and requests of our members. We look forward to the unfolding dialogue in 2024!

What Ethical And Value-Based Finance Asks To European Institutions

Despite recent achievements and the establishment of principles and values, rules governing banking and financial systems are often promoted based on a “one size fits all”approach, tailored to the needs and business models of the largest groups.

We must acknowledge the uniqueness of various banking models. However, this doesn’t imply creating a regulatory niche for ethical finance. On the contrary, **regulatory efforts should address the failures and flaws of the current financial system**, as mentioned in the introduction.

Finance is not an end in itself but a tool to serve society and the planet. As such, it must align with our goals and objectives. The needs of transnational corporations differ from those of social economy actors. In a complex society and economic environment, we require various financial tools and models, akin to “**banking biodiversity”.**

To move in these directions, several regulations could be implemented. We will highlight three proposals, each focusing on one of the three pillars of the traditional ESG approach. It’s important to note that ethical finance emphasises comprehensiveness, viewing ESG as an indivisible whole. For clarity, we’ve identified one specific proposal for each pillar in the rest of this chapter. These three proposals represent the core of the ethical finance movement’s desires for the financial European agenda in the coming years.

Enviromental

In the environmental section, several proposals can be put forward. Climate change stands as the most urgent and only direct emissions (Scope 1 and 2) while ignoring those more significantly linked to loans and capital (Scope 3) to delaying heavy commitments until after key decision-makers have left the company. Many net zero declarations focus on offsetting emissions rather than reducing them or rely on optimistic forecasts about currently insignificant technologies (e.g., Carbon Capture and Storage). Unfortunately, the list of accounting tricks for 'net zero washing' is extensive.

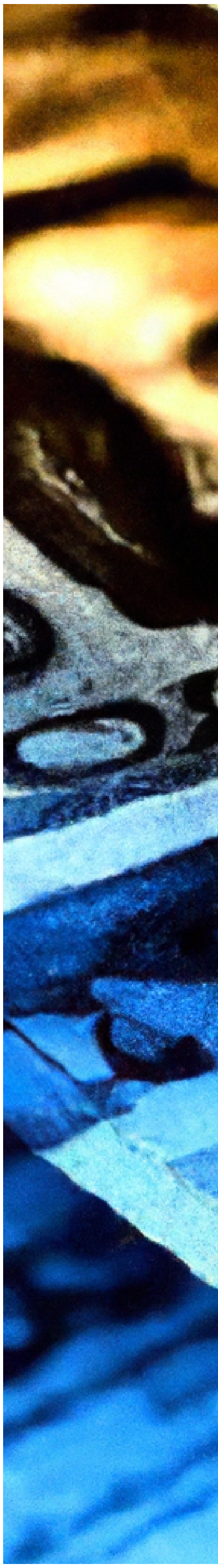
In this, as in other areas, ethical finance has taken a significantly different approach. It focuses on **accurate emissions accounting and transparent reporting,** using offsets only when necessary to address unavoidable emissions. It is not a matter of simply calculating economic convenience between pollution costs and compensation. Ethical finance often **avoids financial relationships with entire sectors, including coal and oil industries.**

As mentioned above, a few years ago, the European Union started the journey to define sustainable finance, despite facing several critiques. Nonetheless, the process aimed to establish a clear and shared understanding of 'sustainable finance'.

Now, **we require a similar commitment concerning 'net zero'**. We need a strong and transparent framework to address greenwashing in all its forms. A regulatory structure should outline how to achieve net zero emissions, apply it to daily operations, and facilitate proper reporting.

Social

In the social aspect, various proposals can be considered, but the primary focus might be on '*inequality*'. We see increasing disparities in wealth and income, which are becoming more and more unsustainable. Within finance, there are inequalities in access to credit and financial services for vulnerable populations. Gender-related issues like pay gaps in the financial industry are also crucial concerns. Numerous other inequalities could be addressed as well.



For instance, gender issues come into play in at least two ways. First, it involves the exclusion of female entrepreneurs from accessing credit. Second, it pertains to the gender wage gap within the banking and financial sector, which can be seen as both a social and governance issue.
Various proposals have been put forward in recent years to address these inequalities. One of them is related to the calculation of capital requirements following the Basel Accords. **Many social economy entities are unjustly classified as high-risk by default and subjected to 100% capital absorption.** However, this choice lacks foundation, as recent years have demonstrated their solid and resilient nature.

This figure is supported by the analysis of financial statements from ethical banks in Europe. Despite financing social economy entities more than the European banking system average, ethical banks have lower bad debt rates. **There are no technical reasons justifying why profit companies can have a capital absorption of 50% or 75%, while social economy entities are weighed as high-risk and heavily penalised.** Introducing the social supporting factor, which reduces capital absorption for social economy entities, would be a crucial boost for the sector's development, microfinance, and the fight against financial exclusion. These objectives are considered central by the EU, and this instrument has proven to be highly effective. Importantly, it comes at no cost to the States, which is especially relevant given the current challenges with public debts.

Governance

The most significant distinction between ethical banks and the mainstream system, regarding the third pillar of governance, is **transparency**. This keyword applies to various aspects, such as loans disbursed, internal payroll and retribution system, impact reports, shareholdings, and more.

A crucial area related to transparency, where progress is essential, is the **fight against tax havens.** Despite being on the European agenda for years, tax havens still thrive, major financial groups in Europe continue to exploit them freely, and there's a concerning race among EU countries to offer advantageous conditions to capitals and financial companies. This situation resembles more of a 'competition' rather than a European 'union'.

In recent years, some progress has been made, like the promotion of country-by-country reporting. However, there are limitations, especially concerning public access to information about companies.

Currently, **the regulation appears ineffective in countering the significant opacity of the financial system**. Financial entities exploit various jurisdictions to avoid taxes, lack transparency, and bypass regulations. This situation results in social injustice, worsens inequality, and creates unfair competition.

Conclusion

In the last two decades, European ethical finance has shown its strength by **supporting the real economy, creating jobs, and excelling in social, environmental, economic, and financial objectives, outperforming traditional counterparts.**

Regulators and authorities should acknowledge these accomplishments and recognize the unique features of ethical finance.

The regulatory framework should promote its growth instead of penalising it, fostering further development.

FEBEA – the European Federation of Ethical and Alternative Banks and Financiers – is a non-profit association based in Brussels. It gathers 33 financial institutions whose aim is to finance social and solidarity economy (SSE) and projects with social, environmental and cultural value in 17 European countries, serving more than 700,000 people.

Its objective is to support the exchange of experiences and promote cooperation between social economy and social finance practitioners.
Each FEBEA member is integrated in the SSE Sector in its country, focusing on mobilising savings and equity from responsible citizens and using these funds to finance sustainable development and local communities. FEBEA is member of GECES, the European Commission's expert Group on Social Economy and Social Entrepreneurship and of Social Economy Europe, the main European network of social economy practitioners.

FEBEA members finance:

- The creation of jobs, social employment in particular;
- Social enterprises and social economy;
- The non-profit sector and participatory economics;
- New forms of social entrepreneurship
- People or groups of people who are victims of social or professional exclusion or are unbanked;
- Sustainable development: renewable sources of energy, organic farming, biodiversity, etc.;
- International solidarity and fair trade.

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