



# 20 YEARS OF FEBEA. ETHICAL FINANCE IN EVERYONE'S BEST INTEREST.

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## TABLE OF CONTENTS

|                                                                       |    |
|-----------------------------------------------------------------------|----|
| FEBEA – 20 YEARS OF ETHICAL FINANCE STORIES IN EUROPE                 | 3  |
| FEBEA TOLD BY ITS FOUR PRESIDENTS                                     | 6  |
| FEBEA'S HISTORY                                                       | 13 |
| THE EVOLUTION OF ETHICAL FINANCE IN EUROPE                            | 15 |
| ETHICAL FINANCE: MUCH MORE THAN SUSTAINABLE                           | 19 |
| ETHICAL FINANCE EXPERIENCES: CITIZENS MONEY AT THE SERVICE OF SOCIETY | 22 |
| 20 YEARS IS NOTHING, WHEN IT COMES TO ETHICAL FINANCE                 | 26 |
| HEALTH CRISIS: A CHALLENGE FOR ETHICAL FINANCE                        | 30 |

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# FEBEA – 20 YEARS OF ETHICAL FINANCE STORIES IN EUROPE

By Pedro M. Sasia

The power of **narration** (storytelling), as a tool that allows to know how economic collective projects arise and develop, is well known. Without replacing strictly economic-financial **information** or social or environmental impact reports, telling stories helps us understand the reality much better, adding a context and a history to the still photo that these reports offer.

It is not therefore surprising that, in the conference organized by Febea on June 10, 2021 on the occasion of the 20th anniversary of our foundation, various messages from the speakers emphasised in one way or another the importance of developing a narrative that would help us understand the circumstances that gave rise to our birth, know our current reality and glimpse our **future**. Stories that Febea could use in the always unfinished process of political and social advocacy in favor of ethical finance.

## Ethical Finance: much more than storytelling

The dossier that you have before you shows precisely that current reality, but it also describes that context and that journey. It talks about **dreams**, aspirations, claims, **longings**. It is, in fact, much more than storytelling. We can say that this dossier is also storydoing, storygiving, storyliving. A material born to be shared, given away, lived, like a treasure that hides processes of **collective action**, of **critical thought**, of activism. Ultimately, it reveals the fabric of the ethical finance projects that make up Febea, the European Federation of Ethical and Alternative Finance.

Going through the various contents of this dossier will allow us to find unequivocal signs of an increasingly recognizable and legitimized financial space, with excellent **credit portfolios**, dynamic social bases, extensive knowledge and adaptability and, as has been shown during the pandemic of the Covid-19, a great **resilience**. Elements supported by numbers that prove our remarkable experience in financing contexts very little recognized by traditional

banks. The financial entities members of Febea operate naturally in these dimensions, demonstrating for many years their great capacity **to adapt** to the needs of the sectors we serve almost exclusively.

We know well these **social contexts**, as they constitute the priority on which many of the financial projects, that founded and consolidated our Federation, were built on. In the chapter dedicated to the latest report on Ethical Finance in Europe, the reader will find clear evidence of the current strength of this model and its significant differences with the large financial operators.

## The story of truly sustainable finance

The dossier also tells the story of a **truly sustainable finance**, with a purpose and practical performance that highlights the great path that the European Union regulators still have to travel to consolidate new regulatory frameworks that configure a financial space not only sustainable, but also capable of building a **legacy of sustainability**.

Febea's Position Paper in relation to the European debate on Sustainable Finance, which is presented in one of the sections of the dossier, is a clear example of the positioning and practice that characterizes the members of our Federation. A position that is much more than reflection or analysis, and that arises from the experience of financial institutions that have been committing themselves to sustainability for many years, understood as a challenge that cannot face environmental impacts separately and that must also address many others dimensions that are inevitably linked to the concept of **sustainability**, such as attention to **social impacts** and the **governance** model of the financial institutions themselves.

We will find among the contents of the dossier numerous examples of projects developed by the members of Febea over the last few years in areas as socially important as care for the migrant population, social and labor insertion, access to housing, care for the **disability**, workers buy out processes, **development cooperation**.... Financial projects developed in sectors usually considered "out of the market" and which truly sustainable finance must recognize as unavoidable **priorities**.

## The challenges for the future of Ethical Finance

Finally, this dossier also talks about our dreams, our vision and the strategic commitment we face for the coming years. In one of the last materials in the dossier, we display the main contents of this strategic reflection process that began in March 2021. We have called it the "Kairos project", referring to "kairological time", that precise, appropriate moment, that time

that is distinguished precisely not by its measure, but by its **quality**. That moment when something important happens. At Febea we believe that something important can happen in the financial space, and that it is our responsibility to help make it happen. Something that allows recovering all the potential that truly sustainable finance contains as building agent of **fairer societies**. We have always believed in this, and that persuasion is the main driving force behind us. As you can see, that force can be perceived in each of the lines that make up the contents of this dossier. I hope you enjoy your reading.



# FEBEA TOLD BY ITS FOUR PRESIDENTS

By Valentina Neri

In its twenty years of history, FEBEA has gone through many changes. Four global crises (from September 11 to Covid-19, passing through the global financial crisis and the Greek one), a European Union that grows and strengthens, sustainability that finally rises to the top of the list of priorities for companies, institutions and citizens. In the midst of these and other revolutions, FEBEA's task has always been to support a more just, supportive, local economy. Keeping the bar straight to prevent the very concept of "ethical finance" from being watered down, losing strength and meaning. Who can tell this journey better than those who have experienced it firsthand? So let's give the floor to the four presidents who have followed one another over the years: Jean Paul Vigier (2001-2007), Karol Sachs (2007-2011), Fabio Salviato (2011-2017) and Pedro Sasia (from 2017 onwards).

## ***How was FEBEA born and with which objectives?***

**Jean Paul Vigier.** In 2000, when I proposed to Caisse populaire du Nord-Pas-de-Calais, Hefboom, Credal and Banca Etica to meet, I had in mind the experience of Finansol, in France, and the guarantee system created in Latin America to support solidarity banks. I thought that the European organizations of ethical and solidarity finance could join forces to equip themselves with common tools for their development. This idea was accepted. Given that the euro was about to become the single currency, it was necessary to confront the European authorities and, possibly, the European Central Bank. At the time, the establishment of a solidarity and ethical banking institution that would bring together future members was a utopian hypothesis. It was therefore opted for a Federation that became FEBEA.

FEBEA saw an increase in members in the early years, after which it was decided to limit the expansion of the network and instead focus on the very concept of ethical finance and the membership procedure. Why?

**Karol Sachs.** On the one hand, Credit Coopratif wanted FEBEA to be a partner of the European Commission. To do so, it was necessary to have members in half of the EU countries plus one: at the time, at least ten were needed, while today there must be about fifteen, because there is also Eastern Europe. On the other hand, from the beginning the partners were very heterogeneous. Credit Cooperatif is a very large institution, while BISE (later TISE, ed), Caisse Solidaire, La Néf, Hefboom, Banca Etica and Credal were much smaller than today.

**Jean Paul Vigier.** The diversity of members was such that it was necessary to get to know each other better and organize themselves before welcoming too many organizations.

**Karol Sachs.** There has always been a “stop & go” mechanism in the history of FEBEA. In the beginning, to exist it was necessary to be numerous but, the more one is, the more difficult it is to understand each other. FEBEA was born during the crisis of 11 September 2001, then there were those of 2008 and 2020. Each time we adapted and proposed new ways of functioning.

**Pedro Sasia.** With the growing interest in ethical finance and citizens’ dissatisfaction with the role of banks in crises, it was important to preserve the FEBEA space from the threats of “ethical washing”. Ethics sells today, and it is very common to manipulate this concept into a slogan with no content. This is why it is so important to preserve not only the definition of our space, but also a Federation governance model with clear and transparent structures and processes. A model that ensures that the principles, values and behaviors of members respond to a consistent and recognizable ethical finance model.

### **What were the most important tools introduced by FEBEA?**

**Jean Paul Vigier.** Initially the aim was to satisfy the needs of the members through a sort of mutualisation. In this spirit, the Guarantee Fund (Fonds Guarantee Solidaire) and SEFEA were created.

**Fabio Salviato.** Established in 2002, SEFEA is the federation’s operational tool. It is a sort of laboratory that gives life to these tools, in which each member takes on part of the management. On microcredit, the accreditation phase was important both at the European Investment Bank and at the European Investment Fund (EIF). We introduced several partners to the EIF, which provided microcredit funds to individual banks in Europe.

**Karol Sachs.** It was the example of FEBEA which caused micro-finance organizations to federate into two organizations, one in Central Europe and one in Eastern Europe.

**Pedro Sasia.** In recent years, FEBEA has focused more on strengthening the exchange between members who, by now, have sufficient structure and stability to develop new financial products and services. The Federation has played a very important role in contributing to the access of members to public support programs, in particular to European funds, as well as in exchanging information and success stories related to the programs themselves.

### **What has the global financial crisis meant for ethical banks?**

**Pedro Sasia.** We usually say that, at the time, it spared us half an hour of explaining the risks to the financial system that ethical finance has been highlighting for many years. The crisis has also served to make it clear that alternatives to the financial system cannot be proposed without adequate regulatory frameworks (with measures that in some cases must be global, such as those on tax havens or the Tobin Tax) and without showing the public the social consequences and environmental aspects of economic decisions made in private life.

### **Since 2014, FEBEA has been joined by members from Slovenia, Croatia, Greece, Romania. What interpretation can we give to this enlargement to the east?**

**Fabio Salviato.** In 2004, ten countries joined the Union at the same time, the economic and social gap was enormous and the international financial authorities needed to encourage their development. We have identified two sectors – clean agriculture and crafts – and, like FEBEA / SEFEA, we have set up CoopEst. In every country, from Lithuania to Bulgaria, CoopEst identified the reference banks and opened a credit line. A system that worked very well, against a very low risk.

**Pedro Sasia.** Many Eastern European countries have been developing ethical finance projects for several years now, and FEBEA has been and continues to be very close to them.

**Karol Sachs.** During the crisis, no mainstream bank could lend to Greece, ethical banks could.

### **What were the most significant moments in the evolution of FEBEA?**



**Jean Paul Vigier.** For me the three main moments were the creation of FEBEA, the implementation of the first instruments and above all the high interest it gathered since its inception. Starting from nothing, it was able to respond to a need and be recognized at European level. Despite the inevitable differences in culture and size, I have always appreciated everyone's desire to be together and move forward.

**Pedro Sasia.** The main goal was precisely the ability to delimit the space of ethical finance in Europe, build dialogue dynamics with European institutions and establish alliances with other relevant actors.

**Karol Sachs.** With FEBEA we have shown that another way is possible. The enlargement of the members also shows that we were responding to a need. A country without banks and without finance is a catastrophe (as is a country with too much finance), because it means that small entrepreneurs do not have access to credit.

**Fabio Salviato.** For me one of the most important moments was the call to the Elysée for CoopMed, an investment fund dedicated to the development of the social economy in the Mediterranean countries (Tunisia, Morocco, Palestine, Lebanon, Turkey). FEBEA has been recognized as an important partner for the Mediterranean region. We have also done our part for Africa with the FEFISOL fund in which the European Investment Bank has invested about ten million euros. Finally, also thanks to our pressing, the first provisions on the circular economy and impact finance were issued.

**Karol Sachs.** I would also mention the Europe Active initiative and the integration of the microcredit movement at FEBEA level.

**Pedro Sasia.** Another goal was to provide the Federation itself with a structure and sufficient resources to be able to develop a strategy of constant growth, with its own team of professionals and an office in Brussels that allows us to offer our members various services: an open channel with European institutions, participation in research projects, training initiatives.

**Karol Sachs.** FEBEA is exciting. In the 15 years of FEBEA I learned a lot, there were ideas everywhere.

**Ethical finance has moved from a niche to a leading role, especially in Europe. What has FEBEA done (and what will it do) to keep it credible?**

**Fabio Salviato.** At the beginning it was a niche looked upon with curiosity by European institutions and by the Bank of Italy, which noted the high employment intensity on investments combined with the low failure rate. There has been a progressive recognition and, I would say, also an important result. Until 2000 a social cooperative was considered non-bankable: we allowed this system to have access to credit, even by traditional banks. We are talking about a world that in Italy makes up 3% of GDP but was penalized at the time because, apart from big names like Acli, Arci or Caritas, it was made up only of micro-organizations. Over the years, a dialogue has also been created with the European Commission on circular economy, impact finance, social impact bonds and so on. At first they were ideas, today they are laws.

**Pedro Sasia.** Despite the growth of the Federation, the fundamental values and the cultural perimeter of ethical finance have remained intact, with a letter of principles and a procedure for the entry of new members capable of preserving it from the temptations of green or social washing so common in these times. Lately we have emphasized the need to incorporate, within definitions, criteria and taxonomies on sustainable finance, not only the environmental element but also content on the social impacts and governance of the financed entities.

**Fabio Salviato.** FEBEA must help unmask greenwashing. Today its role could be even more important because in the meantime there has been a pandemic that has changed our way of life and the orientation of businesses and the economic-financial world. Companies, whether small, medium or large, must become virtuous. The PNRR (National Recovery and Resilience Plan) is all oriented in this direction, the evaluation of the SDGs is a constant, in a few years the carbon tax will come into force.

### **At what point is the dialogue between ethical banks and European institutions?**

**Fabio Saviato.** If we have to say it all, it wasn't easy at first. You had to make yourself known. Being in Brussels, it then became automatic to participate in events and create networks, such as the one on microcredit. It must also be said that FEBEA brings together thirty small to medium-sized banks: our great added value does not lie in numbers, but in the fact that there is a European federation, that there are thirty ethical banks. This means that it is possible to do finance differently, do it well and do it profitably.

**Pedro Sasia.** Today the European institutions have a clear interest in ethical finance, given that the Next Generation Eu funds are aimed at projects of social and solidarity economy,

environmental protection, development cooperation, support for vulnerable groups ... vocation and knowledge (a culture, in short) that is not easy to find outside of ethical finance.

**Now the attention is focused on the post-Covid recovery and on several fronts it is asked that it be green and fair. Are we going in the right direction?**

**Jean Paul Vigier.** I believe that the orientation towards the financing of ecological change is inevitable. FEBEA and its members are expected to become a major player in this field. There is a clear coherence between social action in Europe, the development of poor countries and ecological action.

**Karol Sachs.** In terms of proclamations, we are on the right track. In practice it is much more difficult. Today the problem is to relaunch activities. We need policies for green, local, participatory solutions. But we must always consider the practical consequences of actions, without closing ourselves off in an ideological thought. For example, if you want to reduce air flights, what happens to the tourism sector and the countries that live from it?

**Pedro Sasia.** Even after the 2008 financial crisis, politicians spoke of a “re-foundation of capitalism”, “a profound cultural transformation in our societies” and so on. The effects, in practice, are far from what was proclaimed. We risk that something similar will happen again this time. Talking about “green and fair” is a good start, but behind it there must be concrete decisions, revision of priorities, consideration of social actors usually far from decision-making centers, greater public awareness for responsible consumption that rewards those who adopt strategies oriented towards an authentic social and environmental sustainability ...

**Fabio Salviato.** It is clear that the point of no return has been passed. It is not enough to plug the holes, we must change the management system of our businesses, companies or cities. The Italian entrepreneurs who have taken this path are 5%, and it is already something because before the pandemic it was 1%. The remaining 95% just want to maximize the investment, whatever the cost. At this speed, we will never reach the goals for 2050. The European institutions have given a great impetus but the will of the business world is also needed. Unfortunately, our civil society does not yet have a great environmental awareness; on the social front, on the other hand, we are, with one volunteer for every ten inhabitants. The Federation can act as a stimulus, indicating the direction to follow. We have already changed a piece of history, with culture and example.

**Pedro Sasia.** The commitment to authentic transformation, as FEBEA assumes, requires not only concrete financial proposals, but also cultural work and the political will to regenerate social spaces so that this transformation is possible.

### **What is your vision on the future of ethical finance?**

**Jean Paul Vigier.** Ethical and solidarity finance is a still modest but real response to the economic changes taking place in the world. It allows savers to maintain control of their ethical choices in financial matters and therefore to participate in the development of new economic scenarios, giving meaning to their investments.

**Pedro Sasia.** In the short term, there are many opportunities for the development of ethical finance. On the one hand, some legislative and regulatory frameworks are gradually being consolidated, which recognize it as a socially valuable space, to be protected. There is also a growing interest in alternative financial models to those offered by large global operators. The institutionalization of ethical finance, with FEBEA, suggests a period of strengthening, with differentiated identity and high credibility. In any case, this process is strongly conditioned by the regulatory frameworks that can be developed at the regional level. Despite the multiple references to the need to preserve biodiversity in the financial ecosystem in Europe, the “one fits all” criterion continues to be used, which does not recognize the particularities of ethical finance and penalizes them in many respects.

**Fabio Salviato.** My expectation is that institutions, organizations, businesses, finance will be able to understand, and do their own, what ethical finance in Europe has managed to do. It is about changing a huge market: training is needed, finance capable of supporting change and a policy that accompanies this difficult but exciting time. This is the decisive decade. It is the decade in which the human being can recover from the excessive exploitation of the planet and allow future generations to live a peaceful and dignified life.

**Karol Sachs.** Transforming the global economy is very difficult. We need to advance and innovate, not punish. Ethical finance in this process has two objectives: to finance the small and local, according to people’s needs and environmental criteria; finance what traditional banks fail to finance, innovation.

# FEBEA'S HISTORY

By Aurora Prospero and Claudia Vago

FEBEA celebrates its 20 years of activity this year, starting from its foundation in 2001. The infographic below shows some of the most significant steps in the life of the Federation: the first years, under the guidance of **Jean Paul Vigier**, were focused on the creation of common tools and the expansion of the membership (from 6 to 25 members in 6 years). The first years also saw a **change in the strategic objectives**: the operational difficulties encountered in the attempt to create a European ethical bank led the Federation to focus on new objectives to **strengthen the members**.

The following years, under the presidency of **Karol Sachs**, saw the development of collaborative activities between the members such as **thematic working groups** and **joint strategic investments**. During these years, the “Europe Active” initiative, the collective reflection on the definition of Ethical Finance – also in response to the 2008 financial crisis – and the publication of the **Atlas on good practices on job inclusion** were developed.

Starting from 2011, with the presidency of **Fabio Salviato**, the Federation began to equip itself with a **more defined structure** through the collaboration of the members. The **collaboration with European institutions**, in particular the European Investment Fund and the European Commission, for the implementation of the EaSI program through social finance tools, **is progressively strengthened**. FEBEA is selected for the **GECEs**, the European Commission’s expert group for the social economy. **Research activities** are also activated on the management of impacts and on the operating model of Ethical Finance institutions (REAB report).

Under the Presidency of **Pedro M. Sasia**, starting from 2017, a restructuring process was started, leading the Federation to equip itself with its own **dedicated staff and an operational headquarters in Brussels**. Project activities with partners and universities in Europe are strengthened, and FEBEA becomes a member of Social Economy Europe, to represent the main funders of the social economy in Europe. Advocacy and communication activities are relaunched with publications dedicated to the measures activated by the

members in response to the pandemic and to the position on **the European agenda on Sustainable Finance**. At the operational level, the membership procedure is reviewed and **a process of collective reflection** is launched with the members (“Kairos”), leading to the drafting of the **new strategic plan 2022 – 2025**.



# THE EVOLUTION OF ETHICAL FINANCE IN EUROPE

By Sara Garcia Martin

The publication in 2017 of the first Report on Ethical and Sustainable Finance in Europe had two objectives, expressed in the publication itself. On the one hand, **to show that so-called ethical finance was not something strange in the European context** and, on the other, **to show that it was not an activity associated with charity and with anecdotal benefits**, but that whoever invests in it can obtain returns and at the same time contribute to improving the environment and society.

## Ethical banks in Europe are no longer a small niche

The results of that first report surprised even the promoters of the same: rather than finding a set of symbolic and insignificant initiatives, the data reported that **the total assets of the 26 ethical and sustainable banks analyzed was 39.8 billion euros**. Adding to this amount the amount invested in socially responsible funds, selected based on a series of sustainability criteria, as well as the total microcredits granted in Europe, the green bonds and social impact bonds, **the set of finance activities ethical and sustainable in Europe, in 2016, amounted to 715,000 million euros, almost 5% of the Gross Domestic Product of the European Union**.

The following published reports, including the fourth, presented in 2021, endorse year after year the conclusions of the first publication: **European ethical banks are different from the so-called conventional ones**, not only because of the social and environmental criteria they adopt, the values they apply in the management and their participatory government, **but also because of their particular patrimonial structure**. Proportionally, they grant more credits and offer more checking accounts and deposits, they operate closer to people with small savings and are less involved in the **activities of the financial markets**. In addition, they generate higher returns, less volatile results over time and better resist crises.

# The contribution of ethical finance in the era of the pandemic

The latter has been especially significant during the last year and a half, when the pandemic caused by COVID19 has hit all sectors hard. In this context, collected in the fourth Report, ethical and solidarity finance organizations have mobilized to respond to the crisis, facilitating the continuity of all financed projects and putting a special effort on those in a more critical situation. Thus, financial entities of ethical finance belonging to FEBEA such as La Nef, France Active, TISE or Banca Etica, adopted measures such as moratoriums in the payment of credits, granting of new loans for refinancing, launching relaunch campaigns, attracting of savings to support companies, etc.

This response is not surprising given that one of the main conclusions of the reports has always been the same: ethical banks demonstrate greater support for the real economy. In this sense, in 2018, the granting of credit represented, on average, almost 76.11% of the total assets of European ethical and sustainable banks, but only 39.80% of the conventional European banking system. In other words, **ethical European banks invest 3 out of every 4 euros on their balance sheet in companies and self employed professionals**, while the remaining euro is invested in ethical investment funds.

## Support to the real economy

On the contrary, **conventional banks only allocate 40% of the resources they obtain to credit, allocating the rest to financial speculation**. And all this, without losing economic performance, as documented in the fourth Report: in the 2009-2019 period, ethical and sustainable banks earned twice that of the European banking system as a whole, with an average annual profitability of 5, 31% versus 2.37%, respectively.

These data support **the growing trajectory of ethical finance in Europe in recent years**. Since the 70s, when the first ethical and sustainable bank, the GLS-Bank (Germany), was created in Europe, **around thirty ethical credit institutions have been created in Europe** sharing a vision of money as an instrument to grow social projects, cultural and environmental from a perspective of transformation that starts from their own functioning. For example, governance systems are especially relevant in ethical banking entities. **In this sense, the cooperative organization is a constant in the history of ethical finance**, allowing the development of principles intrinsic to ethical banking as democratic control (“one person, one vote”, regardless of the number of social shares owned), participation and collaboration. It is no coincidence that almost all of the 10 European ethical and sustainable banks with the largest assets are cooperative societies (with few exceptions such as Triodos

Bank, Umweltbank or ABS). **Equally important in its operation are aspects such as the regulation policies of the maximum and minimum remuneration** (a unique case in the European banking system), tax behavior, human and labor rights of the companies in which it is invested, transparency in publishing the investment portfolio, etc.

Although **there is currently no precise and binding definition at the European level, the Italian law on ethical finance, approved in 2016, has been an important step** in the evolution of the debate. In no other European country is there a standard that clearly describes the characteristics that distinguish ethical banks from conventional banking entities. Despite the fact that Italian law is still awaiting development, the definition of ethical banking that is carried out in it goes far beyond the definition of sustainable finance that is currently being carried out in the European Union. The **European Commission launched a sustainable finance plan in 2019 that, initially, reduced sustainability to the environmental component**, promoting the creation of a classification system (green taxonomy) and harmonization at EU level of criteria for determining whether an economic activity is considered environmentally sustainable.

This being an important first step, the lack of financing for social needs, aggravated by the COVID19 pandemic, the need to invest in a just transition or the demand of investors for investment products with a social orientation have led the European Union **to also develop a social taxonomy**, in which it is currently working, that allows, on the one hand, to avoid actions of greenwashing and, on the other, to address fundamental aspects to define sustainable finance such as fiscal transparency, labor rights etc. This social classification would try to determine, similarly to the green taxonomy, which activities are considered socially sustainable.

## The advocacy work of FEBEA

From the ethical finance sector, special emphasis is being placed on pointing out that it is necessary that this social classification also includes an analysis of the forms of government and participation, incorporating, for example, aspects related to remuneration policies and regulations of maximum and minimum remuneration.

Although both at European and international level the role of financial pressure groups (financial lobbies) is very strong, **it is necessary to highlight the important work of international networks and entities linked to ethical finance. Undoubtedly, the advocacy work of FEBEA**, in recent years, as a benchmark entity for ethical finance in Europe has allowed joint participation and the transfer of a vision of sustainable finance that goes far beyond the environmental perspective, highlighting that the drive for sustainability

should embrace the entire organization and its culture, and underlining the need to focus sustainable finance on the issue of social finance.

Undoubtedly, the path of ethical finance in Europe in recent years has experienced an increase in interest and knowledge that allows us **to predict a greater weight of the sector in the next decade. The challenges, however, are not minimal.** It is necessary to consolidate at the European level the vision that ethical finance is more than sustainable at an environmental level, providing our vision to avoid that lax regulations at the European level allow ecological and social washing by companies and financial institutions. But it is also essential to continue working so that ethical finance continues to support companies and people in a real way, efficiently and being faithful in the ways of operating to the principles that define the work of an ethical bank.

# ETHICAL FINANCE: MUCH MORE THAN SUSTAINABLE

By Andrea Baranes

The Action Plan for Sustainable Finance has been launched a few years ago by the European institutions. The **first regulations** entered into force, in particular regarding the environmental part of the classic acronym ESG, and the work on social and governance was set up. A more than welcome initiative, also because it implicitly recognizes the **enormous negative impacts** that finance has today on the environment and society as a whole, but also the **positive role it could and should play** in channeling financial resources where they are most useful and necessary.

The EU has, among the main objectives, to **reorient the flows of private capital, manage the risks** deriving from climate change, **promote long-term objectives**. All this through a classification of sustainable activities (**taxonomy**); the introduction of standards for **green bonds**; guidelines on **publishing information on climate impacts**; and still others in terms of **reporting and transparency** on environmental matters.

Among the most important aspects there is certainly the need to set **shared parameters** to establish which investments can be defined as sustainable. **A fundamental step forward** compared to the current situation, in which, on the contrary, every bank or manager can declare itself “sustainable” using arbitrary criteria.

An ambitious plan, therefore, which however at the moment presents several **critical aspects**, or at least several points on which the European institutions will have to pay the utmost attention, if they want to achieve the aforementioned objectives. In particular, the current approach appears in many ways distant from the principles that have always guided the action of the ethical and alternative banks, adhering to Febea.

## The main differences between Ethical Finance and Sustainable Finance

The first difference concerns the very **same principles** that guide financial activity. The European direction does not call into question the maximization of profit as the only goal. Sustainability therefore risks becoming a mere competitive factor, if not a **marketing** factor. Ethical finance overturns this approach: it pursues economic profits, but because they are functional to the **underlying objective** which is to maximize the benefits for society and the planet.

The definitions of sustainable finance do not refer to what are probably the **worst impacts of the financial system**: instability, crisis, very short-term objectives, unscrupulous use of tax havens and speculative instruments.

## Ethical Finance cannot be applied on just one product

The EU currently focuses almost exclusively on the single financial product. Thus many banks or managers could “**put on the shelf**” some products to respond to a market request or **clean up their image**, while the rest of the activities continue to have strongly negative impacts. Ethical finance is based on the coherence of all activities.

The previous discussion also concerns the **behavior of the funds manager** as a whole. At the moment, European legislation does not impose anything regarding its governance. On the contrary, ethical finance is based on fully **transparent models**, favoring the participation of shareholders and customers, placing stringent limits on the relationship between maximum and minimum pay.

## Sustainability should not be just environmental

As mentioned, the EU started from the environmental component, while the ones on social and governance are still at the beginning. If this choice can be understandable, both due to the urgency to act immediately and to the relative greater simplicity of reporting, **sustainability must be understood at 360°**.

Also on the environmental part, then, strong doubts remain, first of all because of the **lobbies** that try to weaken the criteria of the taxonomy to include activities such as nuclear, gas or the exploitation of forests among those to be considered sustainable. On the contrary, we are convinced that **stringent and rigorous criteria** are needed.

The one just mentioned is just the umpteenth example of the very strong lobbying of the financial world to influence the rules for their own advantage. Ethical finance, on the other hand, is at the forefront to ask for a system of rules not for its own benefit, but **for the**

**community as a whole** (from the tax on financial transactions to the separation between commercial and investment banks and others).

Ethical finance sets itself the goal of a transformation of the economic and financial system.

Ethical finance sets itself the goal of a **transformation of the economic and financial system**. One example is the critical shareholding activity to change the behavior of large companies, as well as participation in **networks** and campaigns for social and environmental justice.

Last but not least, the EU's Sustainable Finance Initiative is an important step forward in shifting financial flows towards activities with a positive impact on the environment. Having said that, a technical regulation cannot reap the richness of **the path** undertaken for decades by ethical finance in Italy and in the world.

We want to **participate in the path** towards sustainable finance and try as much as possible to influence it to strengthen its vision and definitions. At the same time, we want to clarify how ethical finance is **something else**. A set of people, **relationships, visions** and principles that guide all our activities. It is this path that finance should undertake today to move towards real sustainability and to transform itself, whether we think of climate or social impacts, from one of the main problems into **part of the solution**.



# ETHICAL FINANCE EXPERIENCES: CITIZENS MONEY AT THE SERVICE OF SOCIETY

by Sara Garcia Martin

Ethical Finance organizations emerged some 40 years ago in Europe promoted by citizens' movements that were committed to regain control over the use of their savings and money, to channel it towards the common good. In this sense, the objective of ethical finance is to achieve a positive impact on the collection and use of money, working for the common good and guaranteeing access to credit for cultural, social and environmental projects. But how is this social impact generated? What type of sectors are financed? With which actors does ethical finance work?

## Rooted in the territory

Ethical finance entities tend to be deeply rooted in the territory in which they work and in its socioeconomic networks, establishing strong ties with other actors in the social economy such as local associations, social economy companies, entities linked to labor and social insertion, international cooperation entities, etc. For this reason, the set of actions that are financed have to do with projects related to environmental issues (renewable energies, organic farming, energy communities, etc.) and social, understanding social from a broad point of view that includes, for example, not only companies and projects that promote the labor insertion of disadvantaged groups, such as special employment centers, but also initiatives that promote a better society and that include projects with the will to create better jobs, better democratic conditions, artistic projects that promote social values, etc. .

During FEBEA's 20-year history, the ethical finance entities that have joined the Federation (until reaching the current 33 entities that make up the network) offer experiences of financing, collaboration and support that clearly highlight the values that they inspire the work of ethical finance, leading the way towards a financial system that promotes social equity, responds to environmental urgencies and contributes to a better society.



## The Ethical Finance experience in the Thessaly region

The Thessaly region (northeast Greece) is an area with a strong agricultural production, with mountainous areas and valleys, rich in natural resources for energy production. The region has great potential in the biomass supply chain through the agricultural, forestry and wood processing industries that can easily support the adoption of bioenergy technologies. In 2010, the ESEK citizen energy cooperative was created in the area, whose main objective was to promote renewable energies in the region. In 2019, the energy cooperative became an energy community, with more than 400 members, including municipalities, SMEs and local associations and also the Cooperative Bank of Karditsa (Greece), a member of FEBEA and one of the ethical finance entities operating in Europe. The main activity of this Energy Community is related to the management of a biomass plant for the production of solid biofuels to generate energy for heating (or cooling) purposes. The Cooperative Bank of Karditsa is not only a member of the Community but it has financed 100% the creation of the biomass plant and financially supports its operation.

## The social impacts of renewable energy

Community energy production has significant potential for Europe, so supporting renewable energy cooperatives means facilitating the energy transition. But beyond that respect for the local environment and the environment, the financial support for this project by the Karditsa Cooperative Bank implies a wide range of social impacts. For example, in the case of ESEK, partnerships with local authorities allow this energy community to expand the supply chain with plant biomass from municipal waste (branches and crowns of city trees). Similarly, community projects can provide flexibility and, when connected to the main power grid, increase the reliability and resilience of the entire system. The participation of residents and local authorities in the projects through the energy communities implies the creation of local investments that, in turn, offer added value to the community since an important part of the performance is maintained and distributed in the local economy. This example of ethical finance involvement takes on special importance given the widespread energy poverty situation and the problem of energy costs in general in Greece.

## Banca Etica and Centro Moda Polesano di Stienta

This link with the economy and the local community can also be clearly seen in the support provided by Banca Popolare Etica (Italy) to the cooperative Centro Moda Polesano di Stienta, in the province of Rovigo (northeast Italy), an industrial zone linked to the textile sector. The great difficulties of the female haute couture sector and the generalized economic

crisis of the 2010s forced the local fashion cooperative CAPA to close, leaving 43 working women in the area out of the labor market. In 2018, 22 of those former workers invested their own unemployment benefit to re-create the cooperative, saving not only their own jobs but also creating 11 new ones. The entire process of creating the new cooperative by these workers was carried out with the support of several local actors, including Banca Popolare Etica, which believed in the project and provided a line of credit to guarantee liquidity to the company. This support not only meant saving the jobs of the women entrepreneurs who started the cooperative, but also means supporting the creation of new job opportunities for other women in the area, interconnections created by the cooperative with training schools, revitalization of the local economy, in short, benefit for the territory, in terms of employment, economy and production, with a markedly gender character.

## Ethical finance's commitment to social and solidarity economy

The commitment to financial support to cooperatives, companies and entities linked to the social and solidarity economy is very present within ethical finance entities, as is the case of the support of the credit cooperative CREDAL (Belgium) to the Belgian association Bras dessus Bras dessous. The association arose from a solidarity initiative that sought to reduce the isolation and loneliness of the elderly and give them back the opportunity to participate in society. CREDAL not only contributed its experience to the entity, but also, given the increasing activity of the association in different parts of Belgium, the financial entity granted the association several advance grants so that the organization could continue developing its work. This support means that the project can not only meet the objective of working for the well-being and development of the elderly, breaking loneliness and isolation, but also reinforcing the social dynamics of the neighborhoods where the activity takes place and creating a intergenerational and multicultural social fabric that promotes exchange and sharing.

## Beyond economic support

In all the cases mentioned, the support of the financial institutions goes beyond the financial contribution. Entities whose mission is to accompany, monitor and promote entrepreneurial initiatives linked to the social and solidarity economy also participate within FEBEA. In fact, FEBEA is working in Romania to create the first financial instrument dedicated to the social economy, through the AFIN project, funded by the European Union, with the participation of several FEBEA members in the exchange of knowledge. This is the case of the recently incorporated Social Finance Association (SFA), from Romania, which develops a series of educational events for social entrepreneurs in Romania addressing key aspects such as the

needs of the social enterprise sector, its maturity, the types of loans available, the difficulties of entrepreneurs and their relationship with banks or the hiring process. Its support to entrepreneurial organizations and individuals helps to attract financial support for these projects. It is also the case of CRESAÇOR- Cooperativa Regional de Economía Solidaria, whose mission is to promote the solidarity economy and local and community development in the Azores Region (Portugal). This second-degree cooperative, which includes a network of 26 associations and social economy entities in the territory, provides technical support and specialized accompaniment to all entrepreneurs who participate in the Azores Bank Microcredit Support Measure microcredit program, promoted by the Regional Government of the Azores. CRESAÇOR analyzes all the applications of the program, deciding the approval of those initiatives that will obtain a microcredit. This small financing facilitates financial and social inclusion, as well as local development, providing well-being to people, which leads to an improvement in the quality of life of the local community.

## Microcredit for social inclusion

The microcredit tool is also used internationally by some ethical finance entities that seek financial inclusion by supporting local projects and offering financial services adapted to populations excluded from traditional financial circuits. The French entity SIDI- Solidarité Internationale Pour le Développement et l'Investissement, decided, in the mid-90s, to reorient itself towards supporting microfinance institutions (MFIs), offering them financial collaboration, but also reinforced support to consolidate their technical and improve its governance. Along these lines, in 2011, together with other European investment entities, it created the European Solidarity Financing Fund for Africa (FEFISOL), which has allowed it to increase its support to the rural African world. This Fund offers financial services and technical assistance to African microfinance institutions, mainly rural, and to cooperatives or agricultural companies. Technical support reinforces the financial offer proposed by the fund. FEFISOL loans allow companies to grow their business, while technical knowledge helps them ensure this growth by improving their efficiency.

All these initiatives serve to show how the money of citizens, through ethical finance entities such as those that are part of FEBEA, is put at the service of the common good, supporting social economy projects, creating partnerships and collaboration networks with administrations and local actors, guaranteeing local development while supporting international solidarity.

# 20 YEARS IS NOTHING, WHEN IT COMES TO ETHICAL FINANCE

By Daniel Sorrosal

For those of us – like myself- who think in Spanish, the idea that twenty years of something have passed inevitably leads us to the song Volver by Carlos Gardel. This beautiful tango reminds us with melancholy that twenty years are nothing in the passing of time.

However, in the case of ethical finance the last twenty years have given much of themselves. This dossier demonstrates how a concept that, although it already existed in practice 20 years ago, has been taking shape, and has attracted new organizations in different countries. Ethical finance has been developed in a specific and recognizable way of doing finance that not only contributes to improving our society and the environment, but also produces good financial results. To the extent that today traditional banking, at least in its communication, tries to associate part of the principles of ethical finance with its image.

## FEBEA: a place to exchange ideas and practices

In its institutional development, ethical finance has been endowed with a common instrument of exchange and representation, FEBEA, the Federation. And in retrospect, I think this has been one of the great successes of those visionaries who began to do finance with the common good in mind. And that they decided, almost from the beginning, to partner with their counterparts in other European countries. The Federation has allowed ethical funders to exchange ideas, experiment and develop common launch financing instruments. Furthermore, FEBEA has contributed to defining and explaining both the scope of action and the *raison d'être* of its members.

## The dialogue with the European institutions and the access to European instruments

The common FEBEA project has also allowed ethical funders to maintain a constant dialogue with the European institutions. This dialogue began by seeking the recognition of the

European institutions of the contribution of ethical finance to society, the economy and the environment. Over time, this dialogue has grown into a more complex relationship. Today FEBEA participates in multiple discussions at the European level, ranging from aspects of banking regulation, to the definition of social and environmental sustainability, to the implementation of policies to support employment and business creation and, more recently, to development. of the social economy.

On the other hand, the relationship with Europe has allowed FEBEA members to access European financial instruments – essentially guarantee programs – that enhance the development of their financing activities. This important participation in the use of European financial instruments has transformed the members of FEBEA into the main references at European level in the field of social finance.

## In these 20 years FEBEA could explain what ethical finance is

These twenty years have allowed FEBEA to explain to the world what ethical finance is and what it is for. They have also shown that ethical finance can be very useful as an instrument for the implementation of public policies – of inclusion, employment, social innovation and sustainability. And they have transformed an almost utopian vision of finance and a miniscule activity within the financial world into the reference to be emulated by the banking sector – if not in deeds, at least in words – as a way to build a sustainable and inclusive future for generations to come.

In the unpredictable world in which we live, and in the midst of a pandemic of which we still do not see the end, it is difficult to project into the next twenty years. But if I dare to imagine here how the next decade can be. And right now, the outlook for ethical finance is more than positive at the European level.

## The future of ethical finance

On the one hand, there is a growing interest, on the part of the European institutions, in the positive role that finance can have in the development of a much more sustainable economy and a more just and inclusive society. And that puts ethical funders at the forefront of what finance can bring to society. The European sustainable finance agenda, green taxonomy and social taxonomy are examples of Europe's interest in other types of finance and instruments to encourage the financial world to get involved in the challenge of sustainability and social inclusion. In this context, the members of FEBEA not only have a lot to contribute, since they have been pioneers in these areas, but they also have almost unique experience and savoir faire. Our challenge in the next decade is going to be to value our finance model, which is in

fact far ahead of what Europe is only beginning to imagine. And explain how it can be useful again in the development of European policies for sustainability, economic growth and social inclusion, such as the “Green Deal”, the “Next Generation Fund” or “Invest EU”.

## The development of social economy

In addition to the sustainability agenda, the European Union will develop in the next decade a comprehensive plan for the development of the social economy. And this plan directly affects us ethical funders. Because we are the main funders of the social economy today and we have also specialized over time in responding effectively to the needs of this sector. For this reason, all the legislative, financing and promotion measures for the social economy that the European Union is going to implement in the coming years to develop the social economy represent a huge opportunity for ethical funders. First, because they promote an economic model that is also ours and that puts people ahead of benefits, that promotes the reinvestment of these in favor of the social and environmental mission and a participatory and democratic management model of organizations. And second, because the more the social economy grows, the more ethical finance can grow, financing this growth.

## There's a need for a finance that does not create or accelerate economic crisis

Finally, European society, which is currently experiencing its fourth economic crisis in 20 years, is increasingly receptive to the role that finance has in creating and accelerating these crises. With each new crisis, a significant number of citizens rethink their priorities, their way of consuming, their role as actors in society. And this leads them to question what happens to their money and what traditional financial institutions use it for. The many citizens who are concerned about the climate crisis, about the effects of the pandemic on the economy, about the short-term and extractive model of our companies, also do so about how banks and investors behave. This represents an enormous opportunity for ethical funders to attract more and more savers, investors and clients, who promote their growth as credit institutions and as agents of positive change. The challenge for FEBEA and our members must be to respond to a growing demand with new savings, investment and financing services.

## The challenges for FEBEA

For all this, FEBEA has already begun to work together with its members in what we have called the Kairos Plan, a participatory process in which we have involved our members in the design of FEBEA's future strategy. A strategy that prepares us to face all these challenges

and that allows us to transform the tailwind that comes from Europe and our own societies into tools to grow ethical finance in Europe.

The word *kairos*, means in Greek, the right moment to do something. Ethical funders probably found ourselves more than ever at that *kairos* moment. It is our responsibility to take action and accelerate our growth in the next decade.

Ethical Finance must continue to build a more social and inclusive economy, a more just and supportive society and a more sustainable future for our children.

I hope that, in the future, when we take stock, we can again contradict Carlos Gardel and celebrate how much they will have given in the next twenty years.



# HEALTH CRISIS: A CHALLENGE FOR ETHICAL FINANCE

By Marie-Christine Vergiat

For several months now, we have been living in a time of COVID19 and the **health crisis** that this disease has triggered across the planet.

The world economy was virtually paralyzed for several months, revealing the **dependence** of the so-called developed countries on the production of goods, including essentials, as we saw with the example of the masks. Many businesses, large and small, owe their survival to the help of public authorities.

It is impossible not to draw a parallel with 2008 and not to wonder whether this time around, those who govern us, and many others, will be able to learn the lessons of what is happening.

Let's remember! In 2008, states released so much money to save the banks that many of us argued that it was time to curb the gigantism of financial organizations and bring them back into the real economy. What was it really? Admittedly, the regulations have been slightly tightened and some controls tightened, but for the most part everything has started all over again as before. Worse, the giants even continued to grow encouraged by the public authorities.

At this time, it is too early to take stock of the economic (and social) consequences of the health crisis first and foremost because we are clearly not at the end of the tunnel. Nevertheless, we can start to lay some groundwork.

## Did we learn anything from the previous crisis?

In some areas, a few elements can be highlighted. Thus, there is no doubt that the health crisis has given a boost to the **digital revolution**, for example, for better or for worse. Teleworking is a perfect illustration of this. There are those who can adapt and for whom it is a chance, those for whom it is an additional constraint and those who cannot do it because of



their training, insufficient adaptability or quite simply because their profession does not lend itself to it.

But are we heading towards a profound change in society, nothing is less certain, especially if we see the ability of the richest in the world to reconstitute their fortune, or even to exceed the amount before the crisis, like in 2008.

Citizens are increasingly aware of the devastating increase in economic and social inequalities as well as climatic and environmental issues. **Their demand for social and environmental responsibility** is more and more glaring and it is not certain that they will be satisfied with new products that are well wrapped and labeled as green or social-washing. These are real alternatives that our fellow citizens crave. And this is undoubtedly where ethical finance should be able to do well.

## The role of ethical finance

Ethical finance, like all players in the social and solidarity economy, must be at the heart of future transformations. It must set an **example**, demonstrate innovation to support new forms of economic, social and technological development.

“Making society differently” is no longer the prerogative of a few gentle utopians, the actors who devote all their energy to it are more and more numerous. But we still have to change the scale. **Ethical finance must be at their side**, on the front line.

There is potential in particular at the European Commission with, for the first time, a European Commissioner, Nicolas Schmit, **who firmly supports the social economy** and advocates a better partnership with its financial players such as banks and cooperative and ethical financiers. The same goes for the **UN** with the working group (UNTFSSSE) chaired by the director of the ILO's business department, which considers that the SSE has a driving role to play in meeting the challenges of the world of tomorrow.

So the challenges are many, new perspectives are opened. Ethical finance must know how to take advantage of this opportunity to trigger the accelerator.