

FEBEA Charter

Since 1930 the banking business, which originally had a social involvement (pawn broking, Savings Banks, Cooperative or Mutual Banks, etc.) has been **losing its original ethical features**. This has made necessary the birth (through a bottom-up process) of a new generation of social banks and financial institutions, gathered under the name of “Ethical Finance”. These organisations have the **objective of achieving a positive impact on the collection and use of money**. They invest in activities such as social economy, organic farming, renewable energies, Fair Trade. They **respond more and more to the needs of those who are excluded from the financial system**, and to the needs of savers and investors who want to achieve a positive societal and environmental impact with their savings.

Thanks to ethical finance, the “banking institution” returns to a path stopped at the beginning of the twentieth century, and it **becomes again an instrument of development for the territory, the promotion of social inclusion, and of promotion of innovation for new social and environmental initiatives**. This path goes in the **opposite direction** with respect to the one chosen by commercial banks, which are increasingly oriented to use the financial leverage to accumulate increasing profits, contributing to the financialization of the economy and the financing of fossil-fuels and weapons industries and creating the conditions for a series of financial, environmental and humanitarian crises that continue even today to impact the lives of millions of citizens.

The ambitious aim of this CHARTER is to give a **definition of « Ethical Finance »** that does not consider only minimalist criteria, or negative ones (meaning the mere definition of what an ethical finance institution does not do, or the characteristics that it shouldn't have). On the contrary, we **propose positive and concrete criteria** that can describe the specificities and define the fundamental values of a financial institution willing to define itself as « ethical ». The criteria are here defined according to the experiences and characteristics of members of FEBEA (European Federation of Ethical and Alternative Banks and Financiers). Even if these organisations have different characteristics (legal form, sizes, management, etc..), we have looked for a **common definition**, in order to avoid the imprecision, confusion, and inaccuracy that often arise when discussing ethical finance.

We know that purely commercial banks and ethical finance organisations can be considered as the **two extremes of the spectrum** resulting from the criteria listed below, and in the between there might be several actors partially meeting the criteria. **FEBEA's main objective is “to develop ethical and solidarity-based finance”**, therefore we support all those entities seriously interested and committed to improving their performance in the criteria, aiming to adopt step by step an ethical finance approach.

a. Role of Ethical Finance

The role of an ethical finance institution is to **work for the common good** through a financial activity consisting in raising funds and **reallocating** them in the form of credits for cultural, social and environmental projects.

Through their activity, ethical finance organisations **promote social inclusion, sustainable development, development of social economy and social entrepreneurship**. Ethical Finance organisations are committed to actively **promote social equality and peace**, through their financial and advocacy activities.

They are committed to promote actions to **fight climate change and its impacts** on people and the environment. Ethical Finance organisations also have a role to **raise public awareness** on the role of money and the failure of the economy based on short-term and profit as the only objective.

b. Origin of Money

Ethical finance organisations accept money to refinance their investments, loans, grants or donations only from public institutions or corporates and individuals who provide already declared, fully taxed and **“clean” money**.

Ethical finance organisations with a banking license moreover use their right to issue additional bank money (by giving loans or buying securities) only for **financing activities which serve society, protect the environment and are linked to the real economy**.

An ethical finance organisation **does not accept “dirty” money**, that is money that comes from illegal activities, tax evasion, from criminal groups or mafia, armament industry, highly polluting industries, or undeclared money.

c. Destination of Money

The **purpose** of an ethical finance organisation's credit activity is to have at the same time a **positive impact at a social, environmental and economical level**. For this reason, an ethical finance organisation addresses the collected money to socio-economic activities aimed at social, environmental and cultural profit. This objective is achieved through the support – in particular through social economy organizations – of activities for human, social, environmental and economic promotion, also dedicated to the weaker sections of the population and to the most deprived areas, fostering social integration and employment.

In an ethical finance organisation, the **relationship with customers** often takes the form of partnership.

For an ethical finance organisation, the **values of the social and environmental impacts are essential and inseparable from the value of the economic impact**. In an ethical finance organisation, therefore, the economic assessment of projects is accompanied by social and environmental assessment based on a detailed list of criteria according to internationally recognized ethical rating standards. In an ethical finance organisation, the funding distributed to companies / institutions / organizations meets both economic and socio-environmental criteria. **It dedicates at least 20% of its credit portfolio to non-profit organizations or social economy entities.**

An ethical finance organisation **systematically evaluates the social and environmental impact of its activities** and of projects or institutions it finances, according to internationally recognized ethical standards. The thorough assessment of multiple aspects of each funded project and the close **relations with its clients** enables ethical finance organisations to have a very **low risk level in their portfolio**.

An ethical finance organisation **never finances** any project or activity developed in sectors with **negative impacts** (such as tobacco, gambling, weapons, nuclear energy, fossil fuels, pornographic productions or productions that exploit violence, exploitation of animals, collaboration with oppressive governments, human rights violations, etc..).

An ethical finance organisation pays special attention to the support of initiatives for **self-employment and / or entrepreneurship of migrants, women and youth, often through microcredit and microfinance**.

An ethical finance organisation endorses all these values both to **support its local/national territory**, and to operate abroad under the principle of **international solidarity**.

An ethical finance organisation **promotes innovation** in the sectors it finances, and adopts technological and digital tools that can facilitate it, monitoring their social impacts.

d. Criteria and Values for the use of money

The investments of an ethical finance organisation are managed **transparently** (some organisations give customers the opportunity to decide upon the assignment of part of their savings).

The business model is steered predominantly by traditional banking activities (collecting savings and granting of loans) and the **majority of the money levied must be used for credit activities**. The **amount loaned to a single customer** by an ethical finance organisation can be maximum 15% of its own funds.

In order to grant a loan an ethical finance organisation does not consider only collaterals/real guarantees, but it also **values personal or social guarantees** provided by the local networks where the funding is allocated. An ethical finance organisation **does not set up subsidiaries with financial or fiscal goals in countries with a high level of financial discretion**. On the contrary the presence of an ethical finance organisation in these countries is fundamental to the dissemination and support of transparent financial practices and processes.

An ethical finance organisation **does not accept undeclared money** and it does not help customers reduce their taxes resorting to **tax havens**.

An ethical finance organisation **does not speculate** (for clients or for itself) in short term operations, but it **supports the “long term” approach and the real economy**. Furthermore, it does not use derivatives and trading activities for credit purposes, but its profit comes mainly from interests charged on the loans.

An ethical finance organisation can be committed to apply autonomously a transaction tax on financial products provided to its customers.

e. Conditions for the management of the organisation

An ethical finance organisation puts credit at the service of people and the **exclusive research for profit is not its main objective**.

A fair profit is necessary to ensure the **economic viability** and sustainability of the organisation.

An ethical finance organisation may **set a limit to the remuneration of its equity**. The profits of an ethical finance organisation are mostly **reinvested in the social objectives** of the organisation itself.

An ethical finance organisation is **deeply rooted in the territory** in which it operates, and in its socio-economic networks. This allows the organisation to have full knowledge of its clients and their funded projects.

An ethical finance organisation is established in a form that allows for a **broad participation from its employees and shareholders or members**. It assures this core value of participation through well codified procedures and statutory instruments that enable members and employees (or their delegates) to directly influence the management strategies of the organisation. It adopts a governance system and an organizational model with a strong democratic and participatory orientation, characterized by widespread shareholding.

Beyond the value of participation, transparency is a fundamental value for an ethical finance organisation: transparency in the origin and in the use of money, in credit and business management. **Transparency must be ensured** specially towards customers. It provides public evidence, at least annually, also via the web, of the financing granted, taking into account the current regulations for the protection of the confidentiality of personal data.

An ethical finance organisation should adopt **equal opportunities and non-discrimination policies**. An ethical finance organisation adopts remuneration policies aimed at **limiting as much as possible the difference between the highest remuneration** and the average remuneration of the organisation, the ratio of which in any case cannot exceed the **value of 5**. It ensures transparency in the management of wages publishing its salary policy and salary grid.

An organisation that wants to be defined as ethical must meet the criteria listed above, and it **cannot have a non-ethical or mainstream banking corporation shareholder exercising the control over the organisation**.

