

987.8  
MLD/€

Automotive  
sector: turnover  
in 2024



88 %

6.2  
MLN.

912.9  
MLD/€

Social economy:  
turnover in 2011



8<sup>th</sup> Report on Ethical Finance in Europe

# CAPITAL FOR COMMON GOOD

ETHICAL BANKS AND THE SOCIAL  
ECONOMY FOR THE FUTURE OF EUROPE

A PUBLICATION BY



people  
employed in  
social  
associations

(total  
employment  
in the social  
sector in  
Europe  
amounts to  
11.5 million)

3.3  
MLN.



social associations  
(the total number of  
social enterprises in  
Europe exceeds  
4.3 million  
organisations)



people  
employed in  
cooperatives

2  
MLN.



people  
employed in  
foundations,  
social  
enterprises  
and other  
forms

6 %



cooperatives

3 %

foundations

3 %

other



## **ETHICAL BANKS AND LARGE EUROPEAN BANKS: THE FIGURES THAT EXPLAIN THE DIFFERENCES**

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## **EUROPEAN UNION: FROM GREEN FINANCE TO A WAR ECONOMY**

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# EXECUTIVE SUMMARY

In 2023, European ethical banks managed a total of €79 billion in assets, with loans accounting for almost 68% of assets – higher than large European banks (60.9%) and in line with retail banks. This focus on credit confirms their commitment to financing the real economy: households, businesses, and organisations. Credit quality remains high:

the non-performing loan ratio is 1.61% in ethical banks, compared to 1.89% in large banks, and return on assets is higher (0.75% versus 0.64%). In some cases, up to 93% of loans are granted to micro-enterprises, a level of attention rarely seen in the banking sector.

The contribution to

the social economy is fundamental. In Europe, this sector comprises over 4.3 million organisations: almost nine out of ten are associations, followed by cooperatives and foundations. This network makes a decisive contribution to social and territorial cohesion. Ethical banks channel more than 70% of their loans to these organisations, compared to 19% of large banks, demonstrating a clear choice in how they allocate resources.

**The picture that emerges is clear: ethical finance is solid, growing, and produces tangible impacts on the environment, society, and employment**

For the first time, the report also includes the BESGI analysis, which measures the environmental, social, and governance impacts of banks. This highlights indirect impacts, i.e. the effects generated by the financed activities. The data show that 72% of ethical banks' loans have a positive social or environmental impact, compared to 19% of large banks. These are voluntary choices, not mandated by legislation, demonstrating consistency and the ability to anticipate future standards.

The analysis also leads to specific recommendations. Supporting the social economy requires capital instruments appropriate to the size of social enterprises, simpler and more accessible public guarantees, and, above all, the direct involvement of social organisations in the design phase of policies and instruments.

Finally, the report examines the European political context. The proposal to include arms production among activities considered 'sustainable' risks undermining the credibility of the Union's financial policies. Ethical finance reaffirms that peace, social cohesion, and ecological transition must remain the cornerstones of sustainable finance.

The picture that emerges is clear: ethical finance is solid, growing, and produces tangible impacts on the environment, society, and employment. It is not a marginal phenomenon, but a stakeholder that Europe should heed if it wants to steer its choices toward cohesion, sustainability, and peace.



# INTRODUCTION

Capital for Common Good: this is the guiding theme of the 8th report on ethical finance in Europe. A title born from the reflection that capital, if directed towards people, businesses and communities, can become a lever for stronger and more inclusive finance. To support this thesis, the report weaves together three perspectives which, if considered separately,

would remain partial. The first concerns European ethical banks and their ability to combine capital strength, credit quality and social impact. The second broadens the scope, comparing these results with those of significant banks and the traditional system. The third focuses on the social economy, showing how this sector is not only the main counterpart but also the

preferred destination for ethical finance.

Almost seven out of ten euros were channelled into credit – a higher percentage than large European banks (60.9%) and in line with retail institutions. Despite this predominant focus on credit, which under European banking supervision rules is considered riskier, ethical banks remain financially sound: their Tier 1 capital averages 17.9%, broadly in line with that of large banks. The quality of lending is even more striking: non-performing loans account for just 1.61% of the total, compared with 1.89% for traditional institutions. Ethical banks also outperform in terms of profitability: for every €100 of assets, they generate an average profit of €0.75, compared with €0.64 for large European banks. These are not marginal exceptions, but evidence that a different model of intermediation – based on quality capital, credit directed

to households and businesses, and social and environmental assessments – is possible and already working.

These results should not be read in the abstract, but within the context of the social economy, the main field of action for ethical banks. Europe counts more than 4.3 million organisations – almost 3.8 million associations, 240,000 cooperatives and 143,000 foundations – employing over 11.5 million people and generating a total turnover of €913 billion. This sector not only contributes to social cohesion, but also ensures continuity and resilience, with business survival rates above 90% after five years. More than 70% of ethical banks' lending is directed here, compared with 19% for significant banks – and in some cases up to 93% of loans for micro-enterprises, often excluded from traditional credit. This link shows that the relationship between the social economy and ethical finance is not occasional but structural: the social economy provides the field of action, while ethical finance provides the instruments and support, strengthening businesses and enabling access to credit for those often excluded.

The paper outlines possible directions for European policy. More flexible public instruments are needed to support micro-enterprises and cooperatives, which are often penalised by access requirements with minimum thresholds disproportionate to their size. It is important to promote patient capital, able to accompany growth paths in the medium to long term rather than being exhausted in the short term. Alongside credit, a more systematic use of equity and quasi-equity instruments should be developed to strengthen businesses that require financial stability as well as loans. Finally, the governance of European policies should open up to the participation of ethical finance and the social economy, in order to build rules that are more consistent with the realities they aim to support.

The third part of the report analyses the European political framework. In just a few years, sustainability has gone from being a shared priority to a concept progressively emptied

**This year, we again began with an analysis of European ethical banks, because their figures help to shed light on the other in-depth sections of the report**



of substance: the 2025 Omnibus Package reduces its transparency and criteria, while the European Commission has launched an €800 billion rearmament plan, authorising new debt outside the constraints of the Stability Pact. This flexibility has not been granted to sectors such as climate, health and education. Even more concerning is the attempt to classify arms production among 'sustainable' activities, bending ESG standards to the logic of rearmament and undermining their credibility. In this scenario, finance risks becoming a factor of instability, fuelling conflicts rather than preventing them.

Read together, these three chapters confirm that finance is not neutral. It can be used to mobilise resources for peace, sustainability and cohesion – or to finance war, inequality and environmental degradation. The data show that the first path is not utopian: ethical banks and the social economy

are already following it, producing financial stability, quality employment and positive social and environmental impacts. As Fondazione Finanza Etica in Italy and Fundación Finanzas Éticas in Spain, as Gruppo Banca Etica and as part of the international ethical finance movement, we want to reaffirm one point: financial stability, social cohesion and peace are not alternative objectives, but dimensions of a common project. Affirming this project through visible actions, demonstrating that it is feasible, and expanding spaces for dialogue inside and outside European institutions are the challenges we face.

**Teresa Masciopinto**  
*President*  
*Fondazione Finanza Etica*



## **PART 1**

# **ETHICAL BANKS AND LARGE EUROPEAN BANKS: THE NUMBERS THAT EXPLAIN THE DIFFERENCES**

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# ETHICAL BANKS AND OTHER BANKS: DIFFERENCES AND SIMILARITIES

As in the previous year, we analysed ethical banks using the CAMEL model<sup>1</sup>.

We identified ethical banks among the members of the two representative associations: FEBEA<sup>2</sup> (European Federation of Ethical and Alternative Banks) and the Global Alliance for Banking on Values<sup>3</sup> (GABV).

Based on the CAMEL analysis, we then compared ethical banks with 'significant banks' which, due to their size or systemic importance<sup>4</sup>, are not supervised by the national central banks of their respective countries, but directly by the European Central Bank (ECB).

For both groups, we selected only those banks for which financial data for 2023 was available: 24 ethical banks and 107 significant banks. The data for ethical banks was collected manually or from the Scorecards provided by GABV<sup>5</sup>. Data on significant banks was drawn from ECB statistics. As will be shown, using ECB statistics and data provided by the EACB (European Association of Cooperative Banks), we also extended the comparison, for certain indicators, to other subgroups of European banks that are more similar to ethical banks than to significant banks.

## 1. A FIVE-HUMPED CAMEL

The CAMEL rating model, used by banking supervisory authorities to assess financial institutions, is based on five factors:

**Capital Adequacy (C).**

**Asset Quality (A).**

**Management (M).**

**Earnings (E).**

**Liquidity (L).**

### The first hump: Capital Adequacy

We begin with the first hump: the adequacy of a bank's own funds, which are essential for development and for covering potential future losses. We measured this using the **Tier 1 ratio**: the ratio between Tier 1 capital and risk-weighted assets (RWA).

**Tier 1 ratio = Tier 1 Capital/RWA**

Let us break down this ratio into its two components. The numerator is Tier 1 capital. This represents the **core capital base of every bank worldwide**<sup>6</sup>: the capital paid in by shareholders plus reserves accumulated over time, as well as profits not distributed to shareholders.

The denominator is RWA, a bank's risk-weighted assets. These are calculated by taking the assets (particularly loans to customers and securities) and multiplying them by a risk coefficient. The higher the riskiness of the asset, the higher the coefficient. Let us take an example, imagining a bank with total assets of €100. The funds the bank holds in cash or has invested in German government bonds carry a risk coefficient of zero. These are the safest assets and therefore do not contribute to the total of risk-weighted assets. For such assets, no own funds need to be set aside, as they do not pose a risk of future losses. By contrast, residential mortgages and business loans carry progressively higher risk coefficients, as shown in the following

<sup>1</sup> The CAMEL methodology is an analytical tool that makes it possible to assess the overall stability of a bank and to understand its business model, identifying the strengths and weaknesses of its management approach. In particular, the CAMEL model examines banks' results through a series of measures relating to capital adequacy, asset quality, operational and business structure, profitability and liquidity. The CAMEL assessment approach is one of the most widely used systems for evaluating the soundness of bank management and is frequently employed by international supervisory authorities.  
<https://finanzaetica.info/wp-content/uploads/2025/10/7-Report-web.pdf>

<sup>2</sup> <https://febea.org/>

<sup>3</sup> <https://www.gabv.org>

To make the text easier to read, from this point onwards we use the term *ethical banks* to refer both to the group of banks that identify with this definition and are members of FEBEA, and to those that describe themselves as *values-based banks* and are members of the GABV.

<sup>4</sup> <https://www.bankingsupervision.europa.eu/framework/supervised-banks/criteria/html/index.en.html>

<sup>5</sup> For the first time, data on ethical banks was also made available through GABV Scorecards, as part of an active collaboration with the network, enabling a broader comparison.

<sup>6</sup> <https://www.investopedia.com/terms/t/tier-1-capital-ratio.asp>



table. The higher the risk coefficient, the greater the RWA, for the same amount of assets on the balance sheet. In our example, out of €100 in total assets, the risky assets included in the denominator of the Tier 1 ratio amount to € 50.

Assets	Value (€)	Risk coefficient	RWA (€)
Cash	20	0%	0
German government bonds	10	0%	0
Residential mortgages	40	50%	20
Business loans	30	100%	30
<b>Total</b>	<b>100</b>		<b>50</b>

**The higher a bank's total risk-weighted assets (RWA), the more capital (Tier 1) it will need to cover any risks.**

International guidelines on banks' capital requirements, known as the Basel III Accords, which have been incorporated into European banking capital regulations, require banks to have a minimum Tier 1 ratio of 11%<sup>7</sup>. This percentage should allow for optimal risk management within the banking sector, making new crises such as that of 2007-2008 less likely.

After this lengthy introduction, it may be of interest to know the average Tier 1 ratio for ethical banks and significant banks. The figures are as follows:



What conclusions can be drawn? Both groups of banks comfortably meet the Basel III requirements. Ethical banks and significant banks have comparable Tier 1 ratios. Ethical banks, as we will see below, have higher-risk assets than significant banks, so they have higher denominators in the calculation of the Tier 1 ratio. The fact that, despite this, their Tier 1 ratio remains similar to that of significant banks indicates that ethical banks are particularly effective in raising and setting aside quality capital that is adequate to cover the risks they take.

**Ethical banks maintain a solid Tier 1 ratio, thanks to high-quality capital sufficient to cover the risks they assume**

For the first time, we have extended the comparison to other categories of banks, starting with a subgroup of **Significant Banks: Retail and Consumer Credit Lenders**. These are 13 significant banks which, according to the ECB's definition, "are focused on lending to retail customers (households and individuals), in many cases with a strong focus on residential mortgages or consumer credit, including car loans"<sup>8</sup>. This subgroup was chosen because ethical banks are also primarily oriented towards retail customers (i.e. non-professional private clients), making the comparison more meaningful.

We also considered 'less significant' banks (Less Significant Institutions, or LSIs, according to ECB terminology). These are small and medium-sized banks, subject to direct supervision by the competent national authorities (NCAs), under the general supervision of the ECB<sup>9</sup>. At the end of the fourth quarter of 2023, there were 1,931 of them<sup>10</sup>. In particular, we chose the 'retail' subgroup of 'less significant' banks, which also includes ethical banks. At the end of 2023, this subgroup comprised 1,152 banks<sup>11</sup>.

Finally, we considered **cooperative banks**, based on data published by the EACB (European Association of Cooperative Banks) and the ECB. Many European ethical banks are also cooperative banks, based on member participation in corporate governance and the 'one head, one vote' principle. An initial comparison with cooperative banks was already made in 2021, in the 4th Report<sup>12</sup>.

<sup>7</sup> Including the Conservation Buffer and the Countercyclical Buffer. See: <https://www.moodysanalytics.com/-/media/article/2013/2013-18-10-Basel-III-Capital-and-Liquidity-Standards-FAQ.pdf>

<sup>8</sup> [https://www.bankingsupervision.europa.eu/framework/statistics/shared/pdf/ssm.methodologicalnote\\_supervisorybankingstatistics202401.en.pdf](https://www.bankingsupervision.europa.eu/framework/statistics/shared/pdf/ssm.methodologicalnote_supervisorybankingstatistics202401.en.pdf)

<sup>9</sup> <https://www.bankingsupervision.europa.eu/framework/lsi/html/index.en.html>

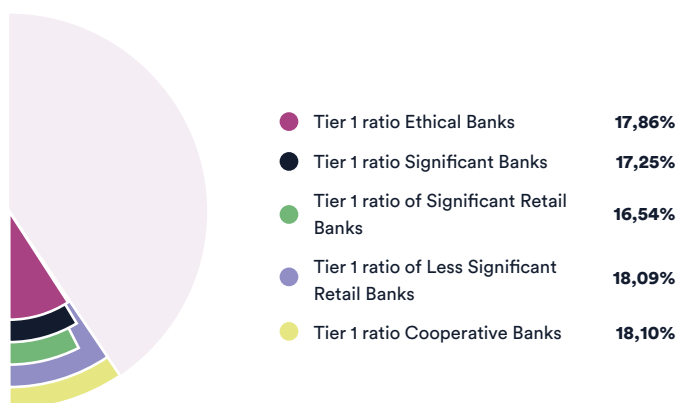
<sup>10</sup> For all ECB data, we referred to the fourth quarter of 2023.

<sup>11</sup> <https://data.ecb.europa.eu/publications/supervisory-banking-statistics/4065601>

<sup>12</sup> <https://finanzaetica.info/wp-content/uploads/2022/06/4th-Report-EN.pdf>



Extending the comparison to include subgroups of banks more similar to ethical banks, we obtained the following results:



The analysis shows that ethical banks maintain a high level of solidity in line with large significant banks and other less significant banks. The fact that the capital indicators

**Ethical banks are not a marginal exception: they have the same capital strength as large, cooperative and retail banks, thanks to a robust and inclusive model**

of ethical banks are comparable to those of significant banks and essentially identical to those of cooperatives and less significant retail banks is a sign of their robustness. In other words, ethical banks are not a marginal exception in the European banking landscape, but contribute to the stability of the

financial system in a similar way to other categories of institutions that share more similar business models, such as cooperative banks and smaller retail banks.

The capital strength of ethical banks is therefore not only the result of prudence, but also of the strength of a model which, despite its smaller size and its focus on supporting the most vulnerable economic groups, manages to guarantee robustness and stability.

## The second hump: Asset Quality

Let us move on to the second hump of the CAMEL: Asset quality. We measured this using two indicators: a) the ratio of RWA to total assets; b) the ratio of impaired loans to total loans (NPL ratio).

Let us start with the first indicator: **RWA/total assets**

As we saw earlier, RWAs are assets weighted by their level of risk. First, we put them in the denominator to understand whether Tier 1 capital was sufficient to cover

the risks of the assets. Here, however, we put them in the numerator and put total assets in the denominator. This allows us to understand how many risky assets there are as a percentage of total assets. The example discussed above shows that a risk-free asset carries a risk weighting of 0%. Conversely, an asset with a high level of risk for the bank may, for instance, carry a risk weighting of 100%. In this case, the ratio of RWA to total assets is 100%.

Consequently, the higher this indicator, the riskier the banks' assets are under supervisory regulations. The average ratio for the banks analysed gave the following results for the year 2023:



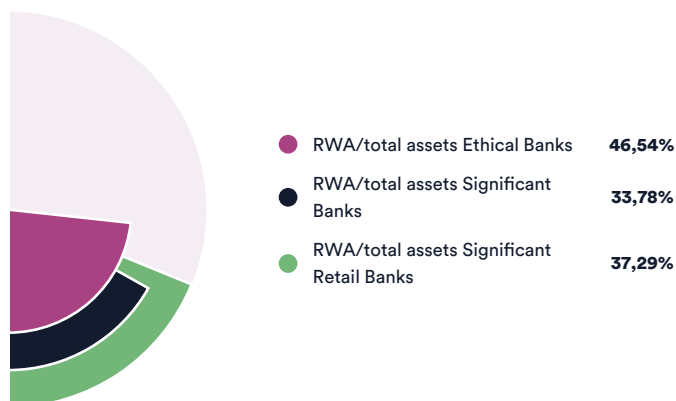
On average, ethical banks' assets are riskier than those of significant banks. The reason is straightforward and lies in the structural difference between the two types of banks. As we shall see later, ethical banks have a business model more focused on lending, which naturally entails significant risks for their balance sheets. On average, loans represent almost 68% of ethical banks' total assets, compared with only 57% for significant banks. This has a direct impact on the assessment of asset risk.

As noted in the previous simulation (based on Basel requirements), loans are assigned a very high risk weighting of up to 100%. Other types of assets have lower risk weights. Therefore, a bank that invests a large portion of its assets in government bonds, rather than extending loans to businesses or individuals, will have a very low asset risk. In particular, investments in government bonds rated AAA to AA- (e.g. Germany, France, United States) carry a risk weighting of zero.

**Consequently, a bank that extends fewer loans relative to total assets is generally less risky – according to the Basel principles – than one that extends more loans.**

We have therefore extended the comparison to Significant Retail Banks, although no data are available on the RWA of Less Significant Retail and Cooperative Banks.





As can be seen, Significant Retail Banks also have a higher proportion of risk-weighted assets (RWA) than the average for Significant Banks (37.29% versus 33.78%). This is because these banks extend more loans relative to total assets: 68.20%, a proportion comparable to that of ethical banks.

Why do Significant Retail Banks, which extend a slightly higher proportion of loans relative to total assets than ethical banks (68.20% vs 67.91%), nevertheless have a lower proportion of RWA (37.29% vs 46.54%)? It is not possible to provide a precise answer to this question due to the lack of sufficiently detailed data on the types of loans extended by individual banks. However, some assumptions can be made. According to ECB<sup>13</sup> statistics, the risks of loans to institutions are weighted at 24.23% by Significant Retail Banks, following the standardised approach (SA) of the Capital Requirements Regulation (CRR), the European

regulation on capital requirements<sup>14</sup>. Mortgage risks are weighted at 38.72%, while corporate loan risks carry a weighting of 87.55%. It can therefore be assumed that Significant Retail Banks extend proportionally more 'less risky' loans (secured loans, loans to institutions) than ethical banks.

In addition, Significant Banks may also use internal rating systems (Internal Ratings Based Approach), which weigh credit risks in a specific,

'tailor-made' manner, whereas the standardised approach applies more rigid weights. Internal rating systems allow Significant Banks to estimate lower risks than

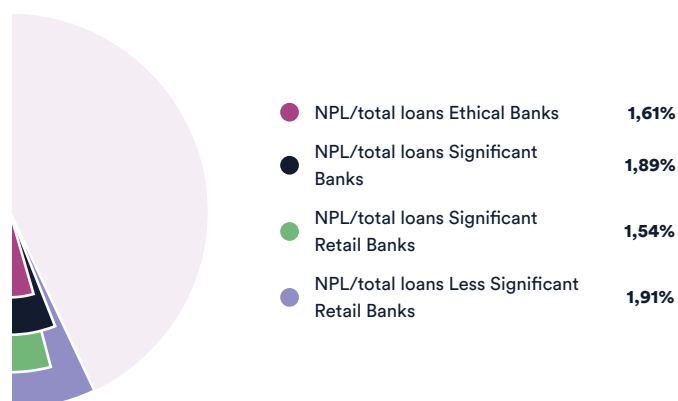
the standardised approach. For example, in the case of Significant Retail Banks, the estimated risks for corporate loans are weighted at an average of 54.46% (compared to an average of 87.56% under the standardised approach), while mortgage risks are weighted at 13.94% (compared to an average of 38.72% under the standardised approach). Ethical banks typically do not have the possibility of using internal rating systems to determine RWAs, as the Supervisory Authority requires conditions usually found only in larger banks for the validation of such models. The definition of credit risk for ethical banks (and for 'less significant' banks in general) is therefore more rigid and tied to the application of average weights, which are generally higher than the specific weightings applied by banks that use internal models.

Let us now turn to the second indicator of the second hump: the percentage of non-performing loans out of total loans, or the NPL ratio. Non-performing loans (NPLs) are bank loans that are subject to repayment delays, are in default, or are deemed unlikely to be repaid by the borrower<sup>15</sup>. The European Central Bank requires that the ratio of NPLs to total loans remain below 5%.

#### NPL ratio = NPLs/total loans

What is the amount of these impaired loans (as a percentage of total loans) for the two groups of banks analysed?

Here are the 2023 average values for the subgroups of banks for which data were available:



Ethical banks have a slightly lower average percentage of impaired loans out of total loans than Significant Banks and Less Significant Retail Banks (while it is broadly in line with that of Significant Retail Banks).

Therefore, although the assets of ethical banks are on average riskier, for the reasons outlined above, the percentage of impaired assets (loans) is in line with that of other banks. This may be due to two main reasons: 1) the

**Ethical banks appear 'riskier' in official calculations because they grant more direct loans to the real economy, whereas large banks use internal models that artificially reduce the level of risk**

<sup>13</sup> [https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics\\_fourth\\_quarter\\_2023\\_202404-71683cabe2.en.pdf](https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.supervisorybankingstatistics_fourth_quarter_2023_202404-71683cabe2.en.pdf)

<sup>14</sup> <https://www.eba.europa.eu/regulation-and-policy/single-rulebook/interactive-single-rulebook/12674>

<sup>15</sup> [https://finance.ec.europa.eu/banking/non-performing-loans-npls\\_en](https://finance.ec.europa.eu/banking/non-performing-loans-npls_en)

use of the standardised approach in risk calculation, which tends to overweight actual risks compared with the internal

**Ethical banks have a share of impaired loans in line with – and sometimes lower than – that of large banks, thanks to their direct relationship with customers and personalised restructuring strategies rather than large-scale disposals**

models used by significant banks; 2) the more direct relationship between ethical banks and their customers, which enables them to identify difficulties promptly and intervene before they develop into critical situations.

In the 7th Report<sup>16</sup>, we had already devoted a specific section to NPLs, highlighting that the 2022 figures were influenced by two Greek ethical banks with anomalous data (outliers): the average NPL ratio of ethical banks was 5.78%, which dropped to 3.24% when these

institutions were excluded, in line with the 3.53% recorded by significant banks. The Greek financial crisis had led to a particularly high level of non-performing loans in the country, even for significant banks (8.27% for Alpha Bank, 9.13% for National Bank of Greece, 6.09% for Piraeus Financial Holdings).

Another element highlighted at the time concerned the different strategies for managing NPLs: significant banks undertook large-scale sales and securitisations of impaired

loans (such as Alpha Bank's 'Galaxy' and 'Aurora' transactions), transferring them to specialised funds that aim to recover value quickly. Ethical banks, by contrast, make very limited use of such practices and tend, within the limits permitted by European rules, to manage NPLs by keeping them on their balance sheets and

**Ethical banks have assets considered riskier, but fewer non-performing loans: the relationship of trust with customers improves credit quality**

implementing tailored restructuring plans, as illustrated by the case of Bank of Karditsa.

In summary, ethical banks present an apparent paradox: they have assets that supervisory rules classify as riskier, but they manage to keep impaired loans at levels in line with – and in some cases better than – other banking groups. This shows that the ethical model is not only sound, but also transforms the relationship of trust and closeness with customers into better credit quality.

## The third hump: Management

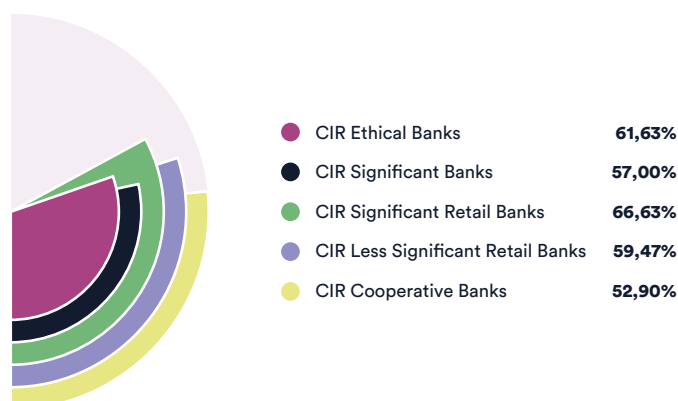
The third hump of our analytical CAMEL is the quality of management. We measured it using two different indicators: the cost-to-income ratio (CIR) and the business model, which we mentioned earlier.

Let us start with the cost-to-income ratio (CIR). This is the ratio between a bank's operating costs (administrative and personnel costs) and its operating income, i.e. what a bank earns from interest, commissions and financial margins.

Generally, the lower this ratio, the more efficiently the bank is managed, because - with the same costs - it manages to generate more revenue.

**Cost-to-income ratio (CIR) = Operating costs/operating income**

Analysis of the CIR for the groups of banks considered led to the following results:



As can be seen, significant banks manage to generate more revenue than ethical banks at the same cost, by a relatively small margin (almost 5 percentage points). The gap narrows to less than 2 percentage points when considering Less Significant Retail Banks, and reverses in favour of ethical banks when considering Significant Retail Banks (61.63% versus 66.63%). Cooperative banks are the most efficient, with a cost-to-income ratio of 52.9%.

In 2023, the cost-to-income ratio improved across all the groups of banks analysed, mainly thanks to the increase in revenues linked to the rise in interest rates decided by the ECB to counter inflation. The most credit-oriented banks (such as ethical banks,

**Ethical banks face higher costs due to socio-environmental assessments, but among retail banks they are more efficient than significant banks (61.6% versus 66.6%)**

<sup>16</sup> <https://finanzaetica.info/wp-content/uploads/2024/11/7-Report-web.pdf>



cooperative banks or retail banks in general) benefited more than others. As we noted in the 7th Report, it is normal for the CIR to be lower for banks that are less focused on lending (such as Significant Banks). Lending is labour-intensive and requires a great deal of administrative work. It is therefore much more costly than placing funds or securities with customers. In addition, ethical banks generally have more complex procedures for granting loans. Alongside the usual financial assessment, there is also a socio-environmental assessment, which can increase administrative and personnel costs.

This becomes clearer when the analysis of the ‘third hump’ (Management) is combined with a second indicator, which measures the share of loans in total assets.

### Total loans/total assets

As we have already noted and confirmed in all previous reports on ethical finance, this indicator reveals a fundamental characteristic of ethical banks: their strong focus on lending. The difference with significant banks is very clear.

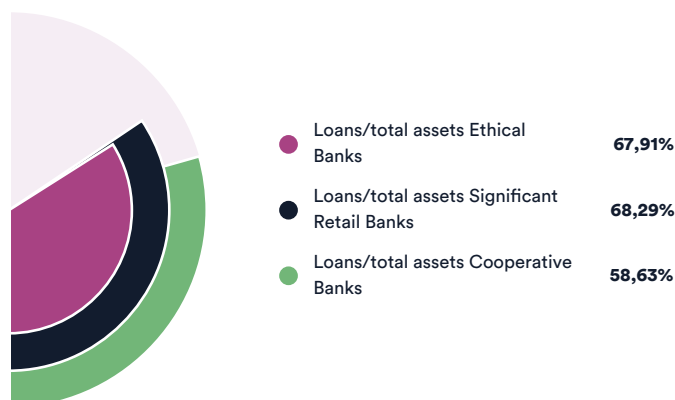


Compared with 2022, Significant Banks have significantly reduced the gap with ethical banks: from 17 to 7 percentage points. This was probably due to the reorientation of the larger

banks’ business model towards lending, which became much more profitable after the ECB’s interest rate increases. Ethical banks continue to grant more loans – as a percentage of total assets – than significant banks. This is also why their cost-to-income ratio is higher and in line with that of other banks that are more focused on

**Ethical banks devote 68% of their assets to loans, more than large banks (61%) and cooperatives (59%), confirming their strong propensity to lend.**

lending (rather than investing in securities). This is confirmed when extending the comparison to other subgroups of banks:



Significant Retail Banks have a CIR that is 5 points higher than ethical banks but grant more loans (as a percentage of total assets) than Significant Banks as a whole. With the same level of loans as a percentage of total assets, Ethical Banks are more efficient than Significant Retail Banks.

Cooperative banks have a relatively lower CIR but, in 2023, the share of loans in total assets was significantly lower than in the other two retail banking groups we considered (ethical banks and significant retail banks).

### The fourth hump: Earnings

The fourth hump of the CAMEL concerns banks’ profitability. As in previous reports, we have measured it in terms of ROE and ROA.

Let us start with ROE (Return on Equity). **ROE is a measure of profitability calculated by dividing net profit by shareholders’ equity.**

**ROE = net profit/equity**

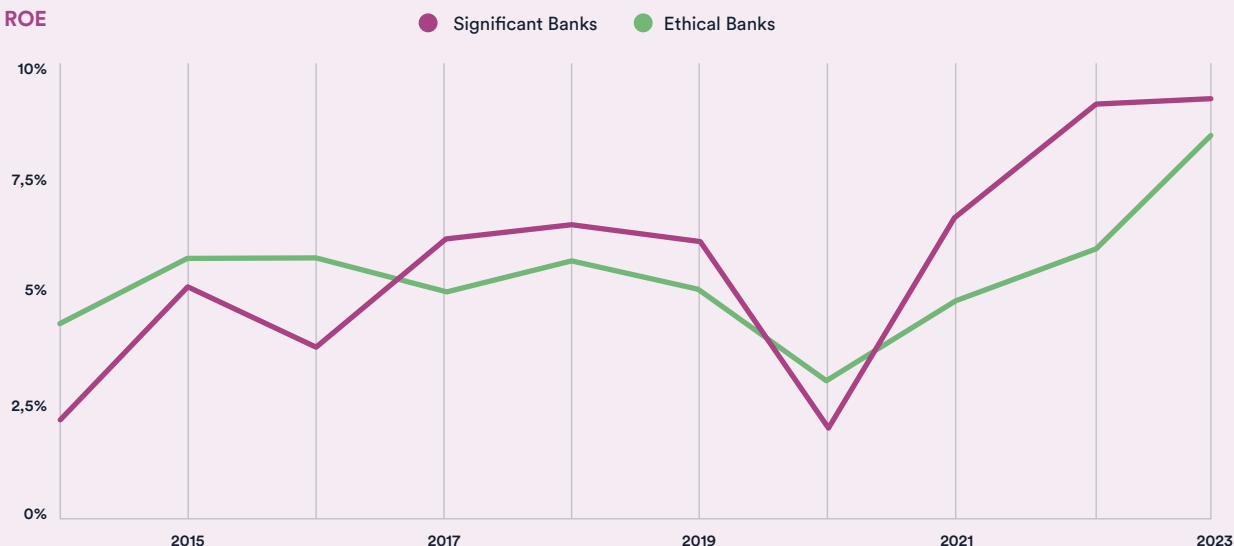
It measures the return on capital invested in a company at risk, and therefore the profitability of the investment made by shareholders. It indicates the percentage return obtained for every euro invested in a company as a shareholder.

Let us now examine how the banking groups considered in this analysis performed in 2023 in terms of ROE.



Year	Ethical Banks	Significant Banks	Δ (in pp)
2014	4.25%	2.16%	2.09
2015	5.74%	5.10%	0.64
2016	5.75%	3.76%	1.99
2017	5.05%	6.20%	-1.15
2018	5.68%	6.52%	-0.84
2019	5.05%	6.15%	-1.10
2020	2.97%	1.91%	1.06
2021	4.79%	6.68%	-1.89
2022	5.93%	9.18%	-3.25
2023	8.37%	9.32%	-0.95%

## ROE



In 2023, significant banks were on average slightly more profitable than ethical banks in terms of ROE (by approximately 1 percentage point).

As the table shows, over the past two years ethical banks have benefited more than significant banks from the ECB's rate hikes. Between 2021 and 2023, their ROE grew by 75%, compared with +40% for significant banks.

This result reflects the stronger credit orientation of ethical banks, which amplified the positive effects of higher interest rates.

The second indicator we used to analyse the fourth hump of CAMEL is ROA, i.e. the ratio between profits and a bank's total assets (cash liquidity, loans, securities investments, equity holdings, etc.):

**ROA = Net profit/total assets**

While ROE shows the return on shareholders' invested capital (the bank's own funds), ROA provides an indication of the

average return on all of a bank's assets, and therefore on all resources employed in its activities (not just the capital invested by shareholders).

In 2023, the ROA of ethical banks was on average higher than that of Significant Banks.





Year	Ethical Banks	Significant Banks	Δ (in pp)
2014	0.32%	0.12%	0.20
2015	0.52%	0.24%	0.28
2016	0.56%	0.27%	0.29
2017	0.53%	0.40%	0.13
2018	0.60%	0.52%	0.08
2019	0.53%	0.44%	0.09
2020	0.28%	0.14%	0.14
2021	0.40%	0.40%	0
2022	0.50%	0.65%	-0.15
2023	0.75%	0.64%	0.11

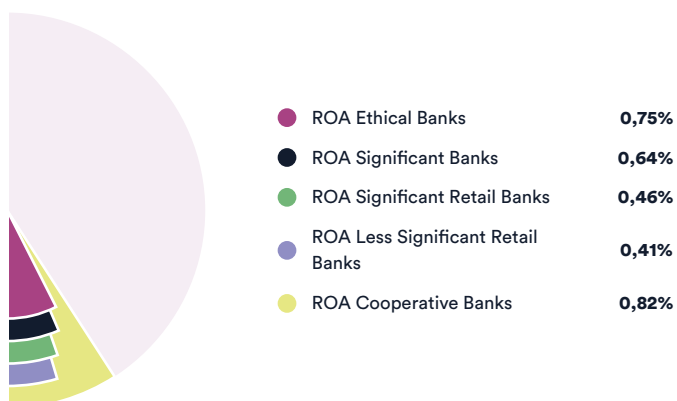


As can be seen from the table, in the ten years from 2014 to 2022, ROA – a measure of profitability unaffected by the higher capitalisation of ethical banks (see the 7th Report) – was consistently higher for ethical banks than for significant banks, except in 2021 (when it was the same),

and in 2022 (when it was slightly higher for significant banks).

Therefore, in terms of ROA, ethical banks have historically been slightly more profitable than significant banks. This trend is confirmed when comparing the ROA of Ethical Banks with that of the other groups of banks considered. The ROA of Ethical Banks is significantly higher than that of Significant Retail Banks and Less Significant Retail Banks, while slightly lower (-0.07 percentage points) than that of Cooperative Banks.

**From 2014 to 2022, the ROA of ethical banks was on average higher than that of large banks and significantly higher than that of other retail banks, while remaining close to that of cooperative banks**



## The fifth hump: Liquidity

The fifth and final hump of our analytical CAMEL is liquidity, measured as the ratio of loans granted to customers to funds collected from savers in the form of deposits. This is known as the LDR or loan-to-deposit ratio.

### **LDR = Total loans/total deposits**

The LDR is one way to assess a bank's liquidity by comparing total loans with total deposits over the same period, and it is expressed as a percentage.

If the ratio is too high, the bank may not have enough liquidity to meet unexpected withdrawal demands from depositors.

The indicator links the two main credit intermediation instruments, which can create liquidity pressures due to the differing average maturities of deposits and loans. Deposits are a funding source with a short average maturity, whereas loans are mostly granted with medium- to long-term maturities.

As shown in the table, over the analysed period 2014–2023, ethical banks consistently reported a strong liquidity position, with an average LDR of 82.4%. By contrast, significant banks recorded a higher LDR, averaging 112.6%. Since 2020, the LDR for significant banks has gradually decreased, stabilising just above 100%. Although there are no specific regulatory requirements for the LDR, the ideal range is generally considered to be between 80% and 90%<sup>17</sup>.

These figures highlight a structural difference between the two groups of banks, mainly explained by their methods of raising funds. If, in addition to deposits, banks make significant use of other funding sources – such as interbank markets, bond issues, or central bank loans – they may have additional funds available for lending beyond those raised through deposits. Since the denominator of the ratio does not include all possible funding sources, it can exceed 100%. This does not mean that banks with a higher LDR are more active in lending; rather, it highlights that these intermediaries have a more complex liability structure (funding sources). As highlighted above, a bank's commitment to lending is measured by the share of loans in total assets, whereas the LDR is a ratio used to assess liquidity risk by evaluating the balance between traditional funding and lending activities.

Ethical banks, with an average LDR of 82.4%, pursue a prudent policy of financing loans primarily through direct deposits. This indicates strong liquidity, lower dependence on wholesale markets, and a relatively low risk profile. Significant banks, while benefiting from economies of scale and greater funding capacity, exhibit higher leverage and stronger market dependence, making them more vulnerable to liquidity shocks. However, this trend has moderated in recent years, thanks to a gradual deleveraging process.

**With an LDR of 82%, ethical banks finance loans mainly with deposits, ensuring liquidity and reduced market dependence**

Year	Ethical Banks	Significant Banks
2014	79%	113%
2015	82%	123%
2016	83%	120%
2017	87%	117%
2018	88%	119%
2019	82%	116%
2020	76%	107%
2021	77%	104%
2022	81%	104%
2023	89%	103%
<b>Average</b>	<b>82.4%</b>	<b>112.6%</b>

<sup>17</sup> <https://www.investopedia.com/terms/l/loan-to-deposit-ratio.asp>



	CAPITAL ADEQUACY	ASSET QUALITY		MANAGEMENT		EARNINGS		LIQUIDITY
	Tier 1 Ratio	RWA	NPLs Ratio	Cost Income	Credit/attivi	ROE	ROA	LDR
Ethical Banks	17.86%	46.54%	1.61%	61.63%	67.91%	8.37%	0.75%	89.17%
Significant Banks	17.25%	33.78%	1.89%	57.00%	60.90%	9.32%	0.64%	103.00%
Significant Retail Banks	16.54%	37.29%	1.54%	66.63%	68.20%	6%	0.46%	85.81%
Less Significant Retail Banks	18.09%	-	1.91%	59.47%	-	4.24%	0.41%	93.92%
Cooperative Banks	18.10%	-	-	52.90%	58.63%	9.57%	0.82%	106.55%

Summary CAMEL comparison of ethical banks, significant banks, and other banking subgroups

## 2. CONCLUSIONS

Ethical banks differ from the group of significant European banks in one fundamental aspect that characterises their business model (including when compared with cooperative banks): the share of assets represented by loans is significantly higher in ethical banks. This confirms their commitment to providing direct financial support to households and businesses. Lending is the tool through which ethical banks act as genuine agents of transformation.

The strong focus of ethical banks on lending influences most of the other indicators measured (capitalisation, asset quality, management, profitability, liquidity).

Lending is also the main source of risk for a bank, which means that ethical banks have a higher level of risk-weighted assets relative to total assets, as well as higher capital provisions to cover potential losses from credit exposure. Considering their higher-quality capital components, ethical banks hold capital requirements significantly above the minimum levels set by regulation, demonstrating a level of strength and stability comparable

with the rest of the system.

However, this higher capitalisation penalises ethical banks in terms of return on equity (ROE) for shareholders and members. By contrast, in terms of return on assets (ROA), ethical banks perform better than significant banks.

**Ethical banks allocate a much higher proportion of their assets to lending, becoming true agents of transformation for households and businesses**

Their strong commitment to financing, combined with their credit practices – which often incorporate environmental and social assessments in addition to economic and

financial ones – can increase operating costs, with an impact on efficiency. The cost-to-income ratio of ethical banks is therefore less favourable than that of systemic banks as a whole, although broadly in line with other retail intermediaries.

However, the above efficiency indicator does not take account of loan deterioration. From this perspective, ethical banks perform better than significant banks and are comparable with significant retail intermediaries. When comparing the ratio of impaired loans to total loans, ethical banks perform better than less significant retail banks. This suggests that socio-environmental assessments are important not only for evaluating the impact of loans granted but also for controlling the quality of the loan portfolio.

In terms of liquidity risk, ethical banks also have a loan-to-deposit ratio that indicates a prudent approach and a strong reliance on deposits.

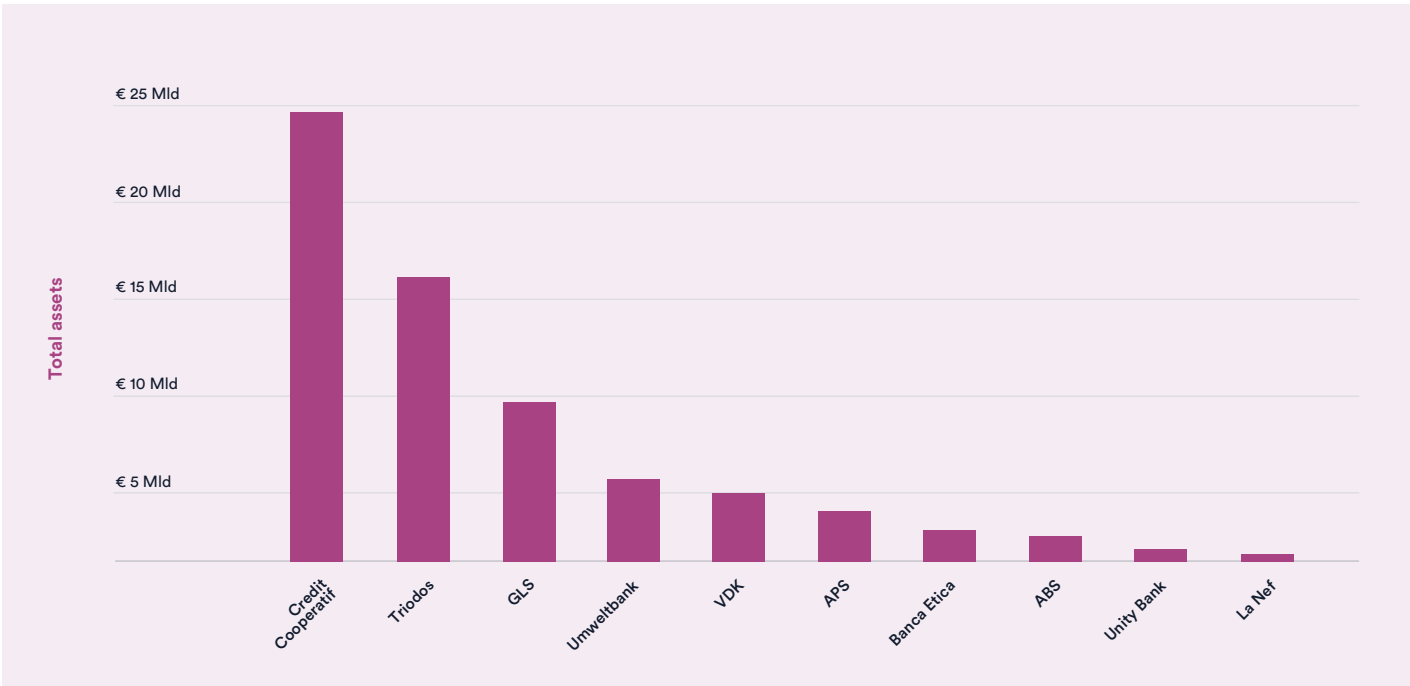
Overall, analysis of banks through the CAMEL model does not reveal significant differences in the economic, capital and financial performance of ethical banks compared with larger operators. Ethical banks therefore contribute, on a par with larger banks, to the stability of the financial system as a whole.

The differences that emerge from the analysis appear mainly attributable to the diversity of their business models. The figures for ethical banks are closer to those of retail-specialised banks, both large and small. In this context,

**They consolidate the stability of the financial system through high capital levels, strong credit quality, and prudent funding practices**

ethical banks contribute to the ‘biodiversity’ of the financial system, with distinctive features that distinguish them even

from cooperative banks, with which they typically share a governance model.



The ten largest European ethical banks by total assets

Aggregate data for European ethical banks

Assets	Loans	Deposits
79.0	59.5	61.6
billions of euros	billions of euros	billions of euros
-0.2%	+2.3%	+0.7%
Change compared to 2022	Change compared to 2022	Change compared to 2022

**Methodological note**  
For all indicators, the calculation methodology consists of taking the simple average of the individual indices calculated for each bank, applied across all years in the historical series.



# ENVIRONMENTAL, SOCIAL, GOVERNANCE: THE COMPARISON BETWEEN BANKS EXTENDS TO ESG CRITERIA

As mentioned in the introduction, this report compares ethical banks and significant banks for the first time based on ESG criteria. We do this using the BESGI (Banks' Environmental, Social, Governance and Indirect Impacts) score, developed by a research group from the Department of Economics and Business Sciences at the University of Florence<sup>18</sup>.

The BESGI model assesses how well banks maintain high standards across a broad set of social, environmental, and governance dimensions, considering both direct and indirect impacts. Direct impacts arise from corporate governance and the bank's interactions with the environment and society in which it operates. Indirect

impacts result from lending and investment choices.

The area of direct impacts is divided into the three classic ESG dimensions: environmental, social, and governance. The area of indirect impacts is divided into lending activities and investment activities. Each area includes several indicators, developed

based on academic literature and major international sustainability reporting guidelines, particularly the GRI - Global Reporting Standards.

Compared with traditional ESG rating models, BESGI differs in two key ways. Firstly, the indicators are selected specifically for the banking sector and its peculiarities.

Secondly, the methodology considers not only direct impacts – such as energy-saving measures in branches – but also indirect impacts, i.e. the effects generated by companies and projects receiving funding from the bank. This distinction is crucial: the banking system itself is not among the most polluting or socially problematic sectors. However, through their financing choices, banks can amplify or mitigate the environmental and social impacts of the recipients of credit or capital.

As a concrete example: it is not enough to check whether a bank has internal energy-saving policies; it is also important to verify whether loans are granted to companies that are attentive to their environmental performance.

The analysis was also carried out with the contribution of students from the Sustainable Finance and Responsible Investing course, part of the three-year degree in Sustainable Business for Societal Challenges at the University of Florence. This represents a first attempt to measure the ESG performance of ethical banks, while also assessing their transparency on sustainability issues and examining the differences compared with significant banks. We analysed 24 European ethical banks and 85 significant banks. The BESGI indicators were measured exclusively using data publicly available as of 31 December 2023. Only indicators for which comparable data were available for at least 50% of the banks in each group (ethical and significant) were considered. For this reason, of the 27 initial indicators, 20 were considered significant for comparison purposes, as shown in the table.

What do the data collected based on BESGI indicators tell us? Let us start with direct impacts, broken down into Environmental, Social, and Governance.

**Banks are not among the most polluting sectors, but their financing decisions can either amplify or mitigate environmental and social impacts**

<sup>18</sup> Bellucci M., Biggeri M., Ferrone L., Ielasi F., "Measuring banks' sustainability performances: the BESGI score", Environmental Impact Assessment Review, Vol. 102, July, DOI: 10.1016/j.eiar.2023.107216, 2023; Bellucci M., Biggeri M., Ferrone L., Gai L., Ielasi F., "Banks' ESG disclosure: a new scoring model", Finance Research Letters, Vol. 57, November, DOI: 10.1016/j.frl.2023.104199, 2023.

## DIRECT IMPACTS

### Environment

#### Input

Energy consumption per employee (GJ/capita)

Renewable energy as a percentage of energy consumed

#### Output

Direct emissions per employee in tCO<sub>2</sub>eq

Indirect emissions per employee in tCO<sub>2</sub>eq

Existence of a biodiversity policy

### Social

#### Internal

Employee turnover %

Percentage of non-male employees out of total employees

Presence of internal staff satisfaction surveys

#### External

ESG assessment of suppliers

### Governance

#### Transparency

Publication of an integrated or sustainability annual report

Publication of ESG risk information (Basel, Pillar III)

#### Corporate bodies

% of the least represented gender on the Board of Directors

Percentage of non-male executives out of total executives

Presence of ESG responsibility/delegation/committee within the board of directors

Presence of ESG responsibility/delegation/committee among executives

## INDIRECT IMPACTS

### Loans

% ESG loans

Presence of exclusion criteria

### Investments

Presence of exclusion criteria

## 1. DIRECT IMPACTS/ENVIRONMENTAL

As can be seen from the results of our surveys, shown in the table, ethical banks perform better on average in the environmental field for all the indicators considered.

**Ethical banks consume less than half the energy per employee and use almost 90% renewable energy**

They consume less than half the energy per employee, and approximately 90% of the energy they use comes from renewable sources (compared to 65.40% for significant banks).

In terms of output, ethical banks produce one-fifteenth of the direct CO<sub>2</sub> emissions (company vehicles,

heating with fossil fuels) of significant banks and about 3/5 of indirect emissions (electricity, emissions generated by loans and investments).

Policies to protect and restore biodiversity are present in similar percentages in both groups of banks, although with a higher proportion for ethical banks (78.95% versus 72%). Part of the results is certainly linked to more rigorous ESG policies and a greater focus on sustainability, which is reflected in the almost total use of renewable energy and a structural reduction in consumption and emissions. However, in our opinion, the scale effect should not be overlooked, particularly with regard to energy consumption and direct emissions per employee (e.g. due to air travel or the use of company cars): ethical banks are on average much smaller, with fewer branches and a leaner and more geographically concentrated organisation than significant banks.

## DIRECT IMPACTS/ENVIRONMENT

Input	Ethical Banks	Significant Banks
Energy consumption per employee (GJ/capita)	9.18	19.43
Renewable energy as a percentage of energy consumed	89.50	65.40
Output	Ethical Banks	Significant Banks
Direct emissions per employee in tCO <sub>2</sub> eq	0.59	9.06
Indirect emissions per employee in tCO <sub>2</sub> eq	1.76	2.98
Existence of a biodiversity policy	78.95%	72.00%

## 2. DIRECT IMPACTS/SOCIAL

Ethical banks also prove to be more sustainable on average than significant banks in terms of direct internal impacts (staff) in the social sphere. Staff turnover, i.e. the proportion of people who leave the bank within a year, is slightly lower (7.22% compared to 8.76%). On the other hand, the proportion of female employees out of the total workforce is significantly higher (56.12% compared to 47.11%).

When it comes to internal surveys measuring staff satisfaction (or workplace climate surveys), the situation is reversed. Almost all the significant banks in our sample carry them out (95.83%), while for ethical banks the percentage is more than eight percentage points lower. In this case, size matters: the only two ethical banks that

do not conduct such surveys have around 40 employees each. In such small structures, it is easier to achieve the same objectives without formal tools, because those responsible have direct relationships with all staff and can gather feedback informally.

Looking at external impacts, ethical banks show greater attention in the selection of suppliers:

100% of those analysed adopt ESG criteria in their assessment, compared to 88.61% of significant banks. This data highlights the consistency of ethical banks in transferring sustainability principles throughout their supply chain.

**100% of ethical banks evaluate suppliers using ESG criteria**

## DIRECT IMPACTS/SOCIAL

Internal	Ethical Banks	Significant Banks
Employee turnover	7.22%	8.76%
Non-male employees as a percentage of total employees	56.12%	47.11%
Presence of internal staff satisfaction surveys	87.50%	95.83%
External	Ethical Banks	Significant Banks
ESG assessment of suppliers	100%	88.61%

## 3. DIRECT IMPACTS/GOVERNANCE

Governance indicators, which describe the corporate governance model of banks, show overall similarities between ethical banks and significant banks. Many social and environmental aspects of governance are now regulated at European level, both by binding rules and by self-regulatory codes. It is therefore not surprising that almost all banks publish an integrated or sustainability annual report (100% of ethical banks, 96.43% of significant banks) and that ESG responsibility at senior management level is widespread in both groups.

However, there are two elements that distinguish ethical banks. The first concerns gender representation: on average, 40.17% of board members and almost half of senior managers are women, compared with 34.66% and 33.30% respectively in significant banks. In this case, ethical banks exceed the

**In ethical banks, 40% of board members and almost half of executives are women, exceeding regulatory thresholds**



minimum thresholds set by the codes of conduct, going beyond the regulatory requirements.

The second concerns the voluntary adoption of ESG governance practices, which also include disclosure of ESG risks to the market. Until 2024, detailed reporting requirements on these risks applied only to significant banks. However, by

2023, 63.16% of ethical banks were already publishing this information, even though they were not required to. This is an important signal, because it shows that the integration of ESG factors into governance and risk management was not merely a response

to a regulatory constraint for these banks, but a conscious choice based on the materiality of these risks. In other words, ethical banks have begun to move ahead of regulatory requirements, given the importance of proper monitoring and adequate disclosure of ESG risks. Regulatory requirements are now tending to harmonise, as set out in the latest update of the ‘Basel III plus’ regulatory package and in the Corporate Sustainability Reporting Directive, but ESG disclosure requirements will remain more stringent for significant banks than for less significant banks in the near future. However, a further increase in the indicator in question is also expected for the latter.

A clear difference between ethical banks and significant banks can be seen again when comparing indirect impacts, i.e. those generated by activities financed through loans or investments. The first indicator used to identify or at least obtain a proxy for this type of impact is the percentage of loans with a positive environmental or social impact (out of total loans). This category includes loans granted for the green economy (e.g. support for the circular economy, waste management, organic farming, urban regeneration, etc.) and for social purposes (e.g. loans to the third sector, for social inclusion and welfare initiatives, for social housing, international cooperation,

female entrepreneurship, innovation financing, microcredit to families and/or businesses, etc.). It is not surprising that, in relation to this indicator, the gap between the two types of banks is very wide, given that granting loans for social and environmental purposes is the very reason for the existence of many ethical banks. On average, 72.16% of loans granted by ethical banks are for environmental and social purposes, while this percentage is much lower for significant banks: 18.84%.

The gap is less wide, however, when it comes to the presence of exclusion criteria in lending and investment. In both cases, a four-part indicator was used, each with a score of 1: exclusion of armaments; exclusion of fossil fuels; exclusion of projects/ companies involved in human rights violations; carbon footprint reporting (of loans or investments). Ethical banks have average scores above 3 for both loans (3.42) and investments (3.50), meaning they consider at least three of the four criteria described in their exclusion policies: around 60% of the ethical banks analysed consider all four for loans (65% for investments). Meanwhile, significant banks have scores below (but close to) three. Therefore, they generally consider 2-3 exclusion criteria, but only about 34% consider all four. However, a limitation of the ‘exclusion criteria’ indicator (and reporting, in the case of carbon footprint) should be considered, as it only measures the presence of a policy, not the level of severity with which it is applied. This means that two banks with the same score may have very different approaches. For example, one bank may declare the exclusion of armaments by simply not financing the most controversial weapons (anti-personnel mines, cluster bombs, nuclear weapons), while another may extend the exclusion to the entire sector, also verifying its supply chain.

Already in 2023, 63% of ethical banks published ESG risks: a voluntary choice, not an obligation

72% of ethical bank loans go to environmental and social causes, compared to 19% for significant banks

DIRECT IMPACTS/GOVERNANCE

Transparency	Ethical Banks	Significant Banks
Publication of an integrated or sustainability annual report	100%	96.43%
Publication of ESG risk information (Basel, Pillar III)	63.16%	84.42%
Corporate bodies	Ethical Banks	Significant Banks
Less represented gender on the board of directors	40.17%	34.66%
Non-male executives as a percentage of total executives	48.93%	33.30%
Presence of ESG responsibility/delegation/ committee within the board of directors	94.44%	94.44%
Presence of ESG responsibility/delegation/committee among executives	100%	96.92%

## INDIRECT IMPACTS

Loans	Ethical Banks	Significant Banks
% ESG loans	72.16%	18.84%
Presence of exclusion criteria	3.49	2.89
Investments	Ethical Banks	Significant Banks
Presence of exclusion criteria	3.50	2.72

## 4. CONCLUSIONS

As we have seen, ethical banks generally perform better in terms of ESG, especially in terms of direct environmental impact and the allocation of loans and investments to social and environmental purposes: this means that they consume fewer resources, use renewable energy, reduce emissions and waste, and allocate most of their loans to social and environmental projects.

The differences are less marked in governance, partly because regulatory obligations and recommendations have led to greater

uniformity among all operators in this area. However, ethical banks maintain an advantage in certain areas, such as the presence of women in senior roles and the adoption of more widespread exclusion criteria.

It should be noted that some results also depend on the different size characteristics and the methodology used, which measures the presence of policies but not always their strictness.

Overall, the comparison confirms that the integration of ESG principles is more deeply rooted in the mission of ethical banks, while for significant banks, an approach driven primarily by regulation prevails.

# ETHICAL BANKS BETWEEN SOLIDITY AND IMPACT: EVIDENCE FROM CAMEL AND BESGI DATA

The analysis conducted using the CAMEL model and the BESGI methodology showed that ethical banks are able to combine economic and financial soundness with consistency in their ESG choices, despite differing in structural characteristics from large banks.

From a capital and management perspective, ethical banks operate with a model that is more focused on lending, often directed towards entities classified as ‘riskier’ by supervisory rules – micro-enterprises, cooperatives, vulnerable households. The data confirm a finding that has already emerged in previous editions of the report: despite this orientation, ethical banks maintain capital indicators, credit quality and operating profitability that are comparable to, and in some cases better than, those of larger banks. This demonstrates that their assessment model – grounded in social and environmental factors and in a closer relationship with customers – enables them to combine stability with attention to segments usually underserved by the traditional banking system.

In terms of ESG, the most striking differences emerge in direct environmental impacts and, above all, in indirect impacts linked to the activities financed. Ethical banks allocate a much higher proportion of loans and investments to social and environmental purposes and adopt more widespread exclusion criteria. In terms of governance, the gap between ethical banks and significant banks is less pronounced. In this area, European regulations – from CRR/CRD to the new sustainability reporting rules – have imposed common standards, leading to a gradual alignment among all operators. However, it should be remembered that many practices now required by law – from the publication of sustainability reports to the definition of ESG responsibilities at the top – were already widespread in the ethical finance

sector, where they originated as mission-driven choices rather than mere compliance requirements.

Overall, the data show that ethical banks are not a marginal niche, but an integral part of the European banking system, with specific business models consistent with their mission. When compared with other subgroups of retail banks, similarities emerge that confirm that their profile is not isolated, but fits within a plurality of approaches present in the European landscape.

Their focus on lending to cooperatives, micro-enterprises and non-profit organisations does not therefore indicate a retreat into residual segments, but rather a choice that connects them to an area of the economy which, although less served by the traditional banking system, plays an

increasing important role in employment and value creation (see Section 2, The European Framework). It is in this perspective that we can understand the link with the social economy, the subject of the next chapter: the same types of entities that ethical banks predominantly support are fully part of the social economy. Analysing this relationship allows us to understand how ethical finance and the social economy reinforce each other: the former provides credit and support instruments, while the latter is the field in which this approach finds concrete application and contributes to the development of economic and social sectors that are central to today’s Europe.

**Lending to cooperatives,  
micro-enterprises and  
non-profit organisations  
is a strategic choice  
towards an economy  
with growing  
employment and value**



## **PART 2**

# **THE SOCIAL ECONOMY IN EUROPE**

<b>The European Framework</b>	<b>27</b>
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<b>The current situation of the Social Economy</b>	<b>39</b>

# INTRODUCTION

## Cooperatives, mutual societies, associations, foundations, and social enterprises: this is the social economy according to the EU

When we talk about the social economy, we refer to the set of organisations – cooperatives, mutual societies, associations, foundations, etc. – that pursue objectives of general or collective interest, reinvest most of their

profits for the benefit of the community, and are based on democratic or participatory governance models. This is the definition adopted by the European institutions and explored in depth, among others, in the comparative study<sup>19</sup> conducted by Euricse for the European Commission, which analysed the socio-

economic outcomes of the social economy in the 27 member states. This is a sector that makes a significant contribution to social cohesion and European economic development,

but still faces obstacles in accessing adequate resources and financial instruments.

To explore these dynamics further, in January 2025 FEBEA launched a dedicated survey, the Social Impact Data Survey, targeting its 32 members, with a specific focus on the 22 that operate mainly in the provision of credit and financial instruments. The aim was to gain a better understanding of the link between ethical finance institutions and the social economy, and to assess the additional role played by public instruments – in particular the InvestEU guarantees – in strengthening this link.

The results were analysed through two complementary perspectives. On the one hand, from the perspective of ethical finance, which highlights the mission of operators, the ways in which they differ from the traditional market, and their relationship with European public mechanisms. On the other, from the perspective of the social economy, which highlights the organisational characteristics of the entities involved, their needs, and their ability to generate social and employment impacts.

<sup>19</sup> <https://euricse.eu/wp-content/uploads/2024/09/benchmarking-the-socio-economic-performance-of-the-EA0224285ENN-1.pdf> from which all the data, charts and maps presented in this section are drawn



# THE EUROPEAN FRAMEWORK

Two years after the European Council approved the Recommendation on developing framework conditions for the social economy (27 November 2023)<sup>20</sup>, the governments of the 27 member states of the European Union are finalising the revision (or in some cases the first adoption) of their strategic plans to promote the growth and recognition of **cooperatives and mutual societies, associations, foundations and social enterprises. This is the social economy, according to the European definition.**

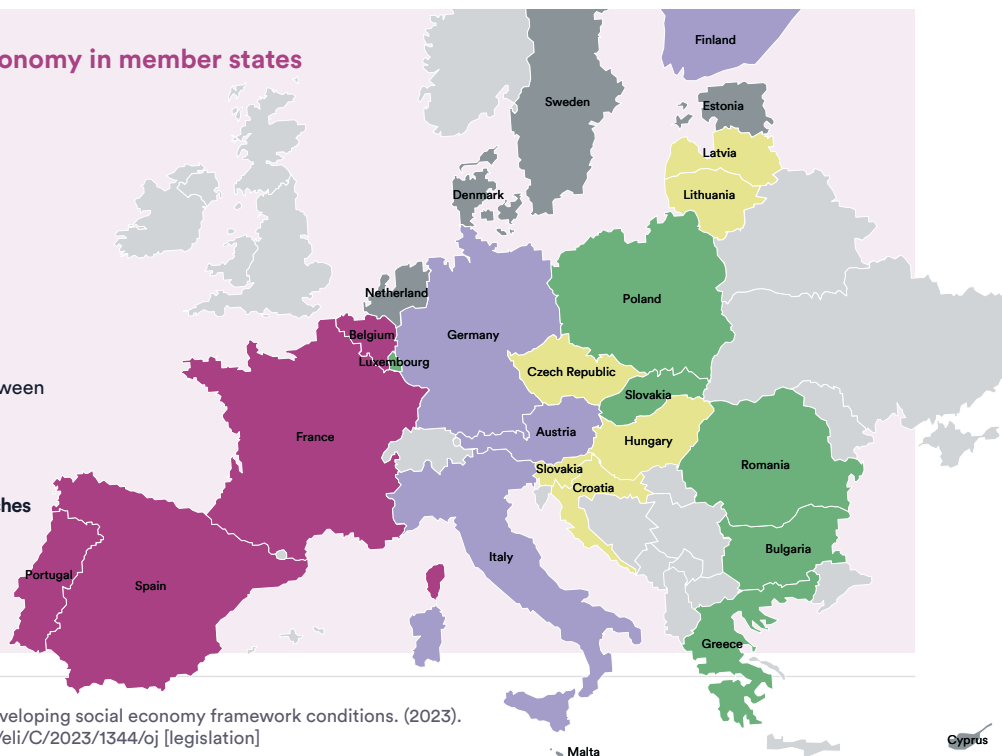
The Recommendation, unanimously adopted by all member states, represents the national-level transposition of the Action Plan for the Social Economy<sup>21</sup> adopted by the European Commission in 2021. Depending on national contexts and the level of development of dedicated public policies, each country has chosen to prioritise interventions that best meet the specific needs of entities operating in its territory. Indeed, the concept of the social economy used by the European institutions takes into account a wide diversity of legal and organisational forms, resulting in a plurality of legal regimes and administrative approaches.

## How the social economy is defined in the various EU countries

Definition	Countries where the definition is widely used
Social economy	Portugal, Spain
Solidarity economy	Partially France and Spain
Social and solidarity economy	France
Third sector	Italy
Non-profit sector	Austria, Germany, Poland, Hungary

## Levels of recognition of the social economy in member states

- **Long-standing recognition** (including self-recognition)
- **Growing recognition** thanks to specific policy actions by public decision-makers
- **Poor recognition**, partly due to the negative perception of cooperatives, compared to the significant recognition of traditional non-profit organisations
- **The concept of social economy is not commonly used.** There is a sharp divide between cooperatives (often viewed as organisations that exclusively promote the economic interests of their members) and associations
- **Predominance of other concepts and approaches in the political debate**, including social innovation, social entrepreneurship, corporate social responsibility and democratic enterprises



<sup>20</sup> Council Recommendation of 27 November 2023 on developing social economy framework conditions. (2023). Official Journal, C 1344, ELI: <https://eur-lex.europa.eu/eli/C/2023/1344/oj> [legislation]

<sup>21</sup> European Commission (2021). Building an economy that works for people: an action plan for the social economy. <https://ec.europa.eu/social/BlobServlet?docId=24986&langId=en>



Social economy organisations are present in all member states of the European Union; however, the level of recognition by policy makers, public opinion and the grassroots organisations themselves varies considerably from country to country, both in terms of formal inclusion within the sector and in terms of how these organisations perceive their own role.

The consequence of this pluralism is a definition of social economy expressed in substantive rather than formal terms: it encompasses all entities in which the primacy of the individual and of social and/or environmental objectives prevails over the pursuit of profit, where most profits are reinvested in activities benefiting members or users

(collective interest) or society as a whole (general interest), and which are governed by rules based on democratic principles (one person, one vote) or otherwise participatory. Furthermore, a fourth qualifying characteristic is autonomy from public authority. As can be seen, these four criteria

**In the EU, the social economy comprises 4.3 million organisations: 3.8 million associations, 240,000 cooperatives and 143,000 foundations**

are designed to be flexible enough to accommodate very different forms, but without diluting their identity to the point of making the definition itself meaningless.

With this scope defined, a recent study promoted by the European Commission<sup>22</sup> shows that the social economy within the European Union comprises more than 4.3 million organisations, including over 3.8 million associations, 240,000 cooperatives, and just under 143,000 foundations. In addition, depending on national or regional regulations, there are other legal forms with the characteristics described above, as well as, in some cases, limited liability companies that meet the criteria for recognition as social enterprises. In 2021, the total turnover of the social economy – in the 19 member states for which data was available – exceeded €912.9 billion, placing it not far behind established industrial

sectors such as the automotive industry (estimated at around €987.8 billion in 2024). From an employment perspective, at least 11.5 million people, or 6.3% of total EU employment, work in the social economy. Of these, over 6.2 million (54%) are employed in associations and 3.3 million (29%) in cooperatives, with a strong concentration in social, health, education, and cultural sectors. Here too, the comparison with the automotive sector is significant: the share of employment is very similar, but with the substantial difference that in the case of the social economy the trend is growing, while in the automotive industry it is in constant decline.

This picture shows that attention to the social economy is not a temporary or occasional phenomenon. Although recent European policy has focused on other areas in recent months – in particular competitiveness and defence, which we will discuss in the next chapter – the structural reasons

## THE FOUR CRITERIA OF THE SOCIAL ECONOMY

1

### Collective interest

Profits are reinvested in activities that benefit members or users.

2

### General interest

Activities produce benefits for society as a whole.

3

### One person, one vote

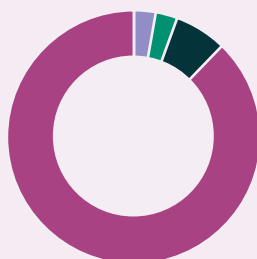
Decisions follow democratic or participatory rules.

4

### Autonomy

Organisations remain independent from public authorities

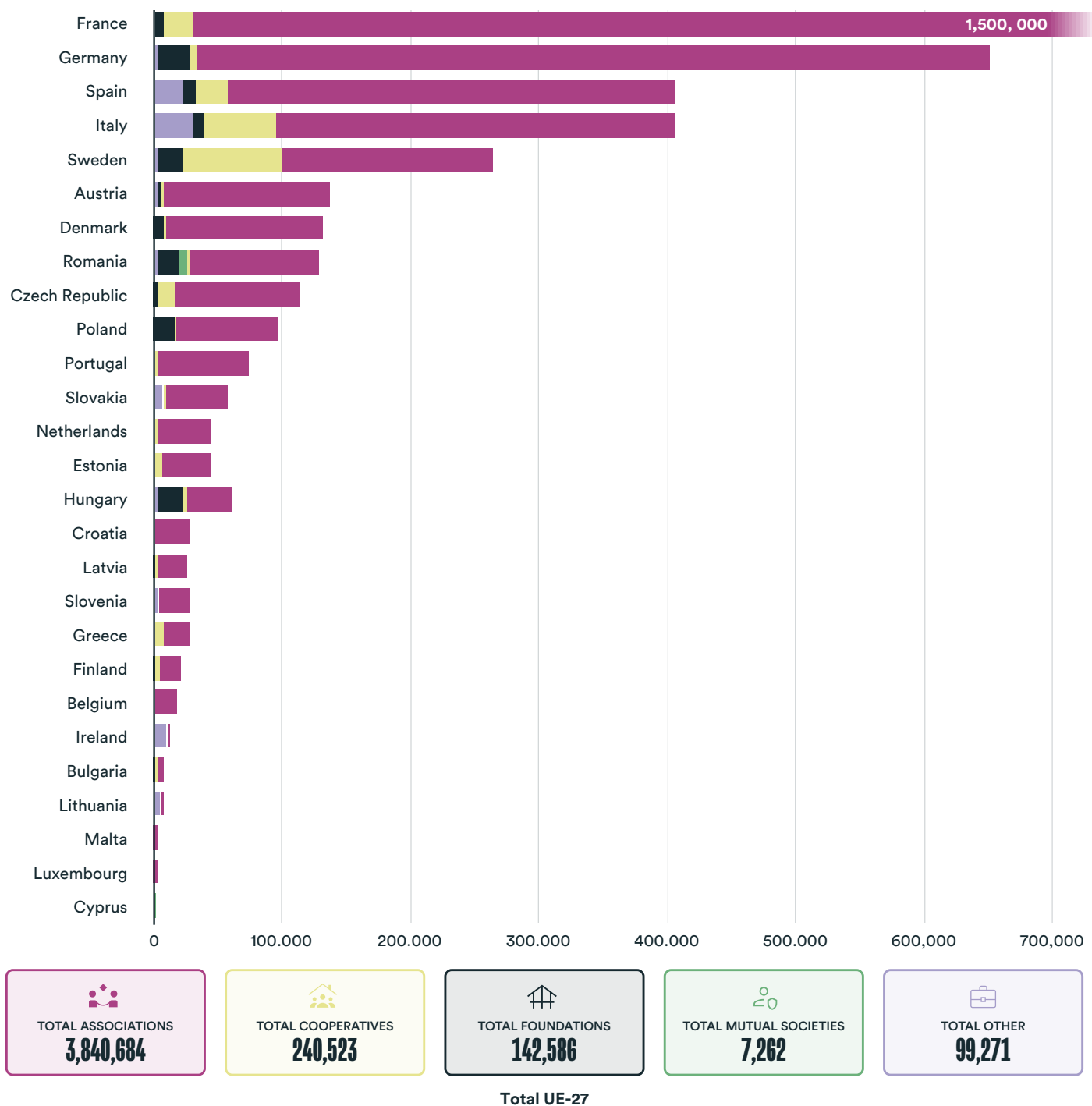
## THE SOCIAL ECONOMY IN EUROPE



### Total: 4.3 million organisations

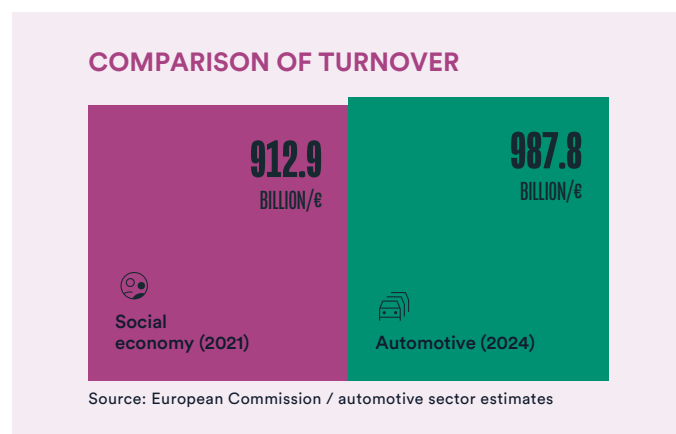
- 3.8 million associations (≈ 88%)
- 240,000 cooperatives (≈ 6%)
- 143,000 foundations (≈ 3%)
- other legal forms (≈ 3%)

<sup>22</sup> European Commission: European Innovation Council and SMEs Executive Agency, CIRIEC, Euricse, Spatial Foresight, Carini, C., Galera, G., Tallarini, G., Chaves Avila, R., Sak, B., & Schoenmaeckers, J. (2024). Benchmarking the socio-economic performance of the EU social economy : improving the socio-economic knowledge of the proximity and social economy ecosystem, Publications Office of the European Union. <https://data.europa.eu/doi/10.2826/880860>

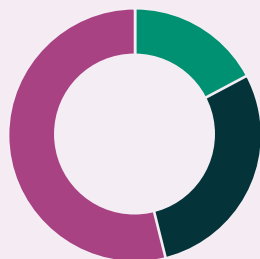


that make the social economy a determining factor in any development strategy for European countries require that attention and resources be devoted to it, as indicated in the Commission's Action Plan and the European Council's Recommendation.

Even in the context of a review of European cohesion policies – which, not without some debate, is accompanying the process of defining the multiannual financial framework (MFF) for the period 2028-2034 – the issue of conditions for promoting the development of the social economy in Europe is set to occupy a significant position on the agenda in the coming years. This is also



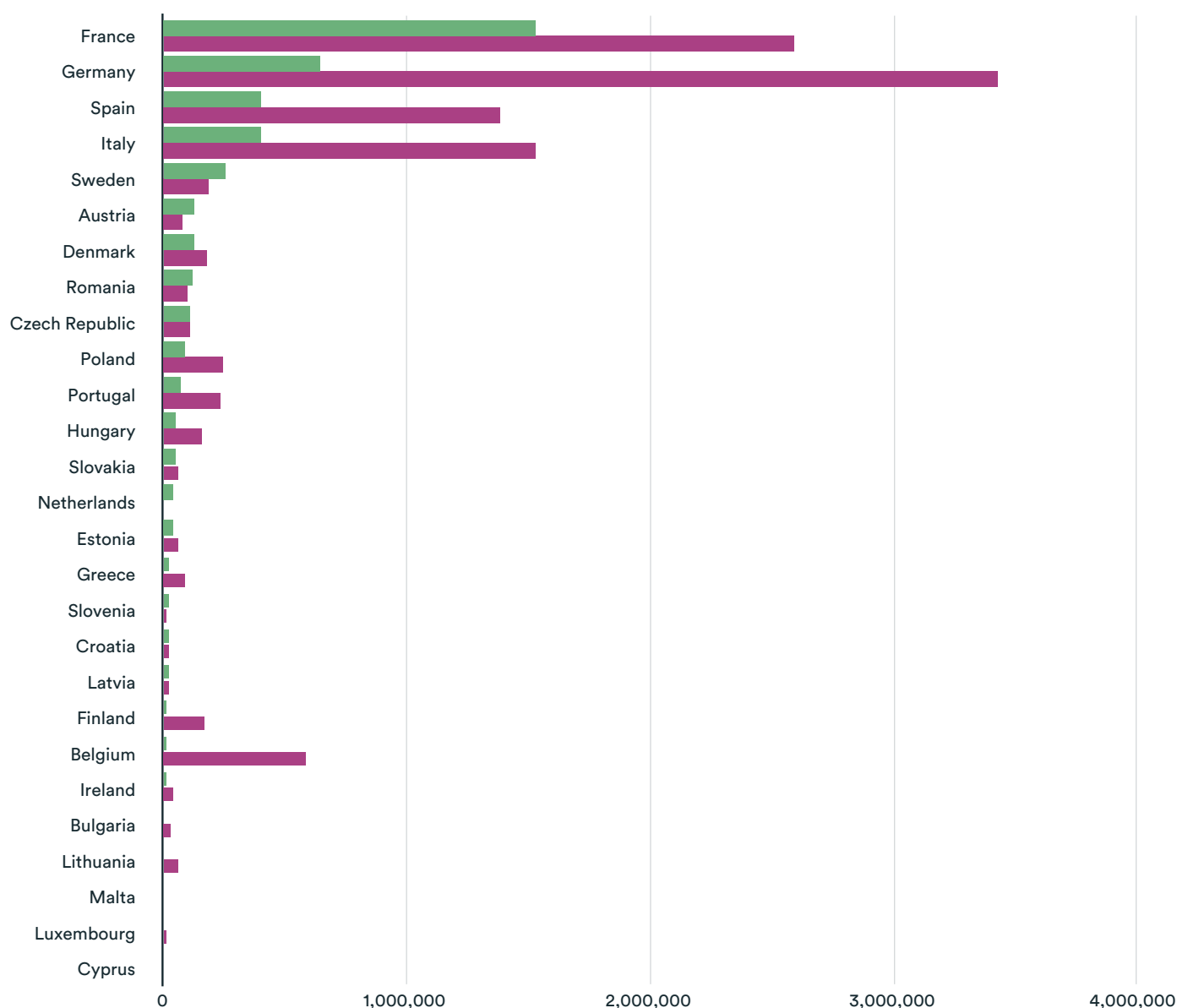
## EMPLOYMENT IN EUROPE



**Total: 11.5 million people**  
(6.3% of EU employment)

- 6.2 million in associations (54%)
- 3.3 million in cooperatives (29%)
- The remainder in foundations, local enterprises and other forms (17%)

Source: European Commission / automotive sector estimates



TOTAL INSTITUTIONS  
**4,330,326**



TOTAL EMPLOYEES  
**11,511,283**



TURNOVER (IN MILLIONS OF EURO)  
**912,870 M€**

Total UE-27



because the social economy not only encompasses a wide range of organisations – ranging from not-for-profit

## The social economy is strategic for European development, as recognised by the EU Action Plan and the Council Recommendation

business initiatives to purely non-profit and non-market-oriented associations – but is also a constantly expanding field in terms of its sectoral distribution. The presence of social economy organisations, both in entrepreneurial and associative forms, extends to sectors such as agri-food, housing,

retail, finance and insurance, social and health services and education, and artistic and creative activities. Other sectors are gradually being added as needs emerge that are not met by the state or traditional market.

## Social economy figures by legal form and sector

The social economy in Europe contributes as much to economic growth as it does to social progress, through lower unemployment, reduced poverty and, more generally, improved quality of life, particularly for the most vulnerable groups. Without fanfare, it has proven to be a driver of economic development, social inclusion and territorial resilience. Therefore, even an approach to competitiveness policies cannot ignore the fundamental importance of social cohesion and of those who work to defend and strengthen it.

The social economy extends from agri-food to social and health services and education, to art and culture, expanding with new needs



It is in light of this overall picture, therefore, that the survey results presented here should be interpreted. In particular, it examines aspects relating to **financial mechanisms and instruments**, which both the Action Plan and the European Recommendation identify as essential enabling factors for the development of the social economy.

Financing for social economy entities remains an area that still needs to be developed: not only in terms of the volume of resources allocated, but above all in terms of approaches and the ability to grasp the sector's specificities and characteristics. Attempts to apply the same financing logic used for conventional businesses to the social economy have rarely been successful.

**The social economy is rooted in a vision and in operational principles that must be understood and respected by those who act as partners or financial intermediaries.** It is therefore important that financing solutions and instruments are designed with their intended beneficiaries in mind, based on in-depth knowledge of them.

This is the ground on which anyone wishing to engage with social economy organisations must operate with analytical and interpretative skills – not merely to expand their market share, but out of a genuine sharing of values and goals.

## 1. HOW TO READ THIS SECTION

The two perspectives interact: the micro perspective, which looks at the direct beneficiaries – i.e. social economy organisations – and the meso perspective, which considers support intermediaries – such as ethical finance operators (FEBEA), public instruments and European funds – i.e. those who facilitate financing or resources. When the concepts and results from the two lenses converge, we highlight this as mutual reinforcement; when they emerge on different levels, we make this explicit, to provide a more nuanced understanding of the processes at work.

A recent example of the use of European instruments by an ethical bank is the agreement signed in 2024 between Banca Etica and the European Investment Bank.

### EIB-BANCA ETICA AGREEMENT (2024)

On 27 June 2024, Banca Etica signed a €30 million loan agreement<sup>23</sup> with the European Investment Bank (EIB) ('BE Loan for SMEs – Gender Equality and Refugees'). The agreement stipulates that at least 70% of the resources must be allocated to SMEs (and up to 30% to mid-caps) and that no less than 30% must be allocated to each of the following areas: support for refugees, gender equality and cohesion regions.

In the first year of implementation, €7.885 million (26% of the total) was disbursed, broken down as follows:

- €4.07 million for seven operations in favour of businesses and organisations involved in the reception of migrants and refugees;
- €815,000 for five operations related to the gender equality target;
- €3 million for eight operations in cohesion regions.

## 2. DESCRIPTION OF THE SURVEY

In January 2025, FEBEA launched a survey to explore the financing links between ethical finance institutions and social economy organisations, and to assess the added value of using public instruments (such as InvestEU guarantees) in the context of social economy financing. To this end, FEBEA developed and distributed a dedicated questionnaire – the Social Impact Data Survey – to all 32 members, with a specific focus on the 22 whose main mission is to provide financing services.

<sup>23</sup> The agreement provides for a two-year utilisation period, until June 2026, with longer repayment terms defined for each tranche.

There were two objectives:

- To gain a deeper understanding of the support that ethical finance institutions offer to social economy entities;
- To highlight the additionality and efficiency that ethical finance institutions bring when using public instruments to support the social economy.

The survey aims to collect data on members' support for the social economy and to understand how InvestEU guarantees help financial institutions achieve stronger social outcomes. The questionnaire is divided into five sections: portfolio composition, average loan size, portfolio evolution, financial instruments and innovation, and the social impact of InvestEU.

In addition to this survey, FEBEA conducted informal interviews during member meetings in June 2025<sup>24</sup>, asking some of the survey questions to members who had not yet responded.

10 completed questionnaires were collected from a total of 32 members. To supplement these responses, FEBEA conducted 10 additional interviews and triangulated the results with data from other surveys conducted during the same period. Specifically, FEBEA also drew on information from their annual Needs Analysis Survey (an 11-section questionnaire, the results of which are published every September) and the FEBEA Annual Report, which collects member information via desk research.

### 3. ANALYSIS FROM A SOCIAL ECONOMY PERSPECTIVE

*The analysis focuses on organisational characteristics, tools, and impacts.*

#### WHERE THE TWO PERSPECTIVES INTERSECT

- **Target served:** strong presence of micro-enterprises and entities typically considered unbankable by mainstream banks.
- **Prevailing instruments:** loans in the lead; growing demand for equity/quasi-equity and subordinated debt.
- **Expected/observed impact:** social inclusion, community development, quality employment.
- **Survival rate:** high and consistent values (different samples): >90% at 5 years (Euricse reading), ~93% in portfolios with InvestEU guarantees (FEBEA reading).
- **Competitive advantage:** relationship and personalisation as factors in bankability and risk management.

#### The dimensions

The fact-finding survey clearly identified a significant relationship between ethical banks and social economy organisations, and more generally with very small businesses, which are often considered unattractive to the traditional financial system. In general, with regard to the organisational size of customers, it appears that micro-enterprises – i.e. organisations with fewer than 10 employees or a turnover of up to €2 million – are the main target for ethical banks, both in terms of number and total financing.

On the other hand, these organisations often find ethical banks to be one of the few entities from which they can obtain financial support suitable for their growth and development mechanisms. For some of the responding ethical banks, 93% of their loan portfolio is allocated to micro-enterprises that do not have access to the traditional banking system.

This first aspect, concerning the privileged interaction between the ethical financial system and micro-enterprises, is itself a testament to the irreplaceable role played by ethical banks and how, looking ahead, this still has potential to be realised in a future where widespread small-scale entrepreneurship will likely remain one of the keys

to combining local development and employment. This result is consistent with the CAMEL analysis in Chapter 1, which shows that ethical banks, while concentrating their lending on riskier entities according to regulations (micro-enterprises, cooperatives, vulnerable families), maintain capital adequacy levels (Tier 1) comparable to those of large European banks.

#### Types

Among the organisations that are clients of ethical banks in their loan portfolios, those belonging to the social economy are primarily cooperatives, but also social enterprises, mutual societies, foundations and associations. Many of these organisations are distinguished by the explicitly social objective of their mission, serving vulnerable people or those facing various forms of social disadvantage: for example, enterprises that work with people with disabilities, promote the employment of those struggling to access the labour market, support the integration of migrants, or foster female employment.

**Ethical banks have a privileged relationship with the social economy and micro-enterprises. For some, 93% of loans go to micro-enterprises excluded from the traditional system**

<sup>24</sup> At the beginning of June 2025, FEBEA held two in-person sessions in Brussels, exclusively for members, to discuss ideas and opinions on the Federation's governance and strategy.



## Financial instruments

The most widely used instrument to provide financial support to social economy organisations appears to be **loans**, complemented to a lesser extent by other methods such as guarantees or equity investments. Rather than the provision of particularly innovative financial instruments, what social economy organisations value most is the ability of ethical financial institutions to personalise their services, providing ample opportunity for discussion and dialogue with clients. The **relational aspect** is therefore among the most sought-after and valued distinguishing features. Conversely, through their financial support for social economy entities, ethical credit institutions contribute to generating positive social impacts, particularly in the areas of social inclusion and community development. In this way,

interaction with this client segment contributes to the further development of the social mission of ethical banks, creating a mutually beneficial relationship.

This focus on relationships is also reflected in the CAMEL analysis: the higher operating costs of ethical banks (cost-to-income ratio) are

due to the intensity of credit relationships and socio-environmental assessments, factors that strengthen credit quality and client loyalty.

### The survival rate

The survey responses also highlighted that data collected by banks monitoring the survival rate of the organisations they support show that, **after five years** (data updated to 2024, including the pandemic period), **93% of the organisations were still active**. This demonstrates both the resilience of the organisations and the effectiveness

of financial support for their entrepreneurial development, decisively refuting the prejudice that social economy entities are riskier than average. It also confirms that **traditional indices used to monitor the bankability of ordinary companies are**

**insufficient to reveal the nature of these organisations as solvent and secure.**

**After five years, 93% of organisations supported by ethical banks are still active**

Here too, the link with the CAMEL data in Chapter 1 is clear: despite a portfolio of assets classified as higher risk, ethical banks show non-performing loan (NPL) rates equal to or lower than those of large banks.

### The role of InvestEU

As already noted, these characteristics of the social economy, as well as their potential in terms of future development, have begun to be increasingly understood at the public policy level. It is no coincidence that the European Union, in line with the above-mentioned pronouncements, has given specific attention to the social economy within its financial instruments. This was the case, for example, with the **InvestEU 2021-2027** programme, aimed at the long-term growth and development of sectors considered strategic and a priority<sup>25</sup>. Thanks to the guarantee of approximately €26 billion provided by the European Union, InvestEU has mobilised more than **€370 billion** in financing from private funds (companies, banks, investors) and public funds (national governments, regional funds, other EU programmes). In this context, the social economy has been recognised as playing an important and well-defined role, particularly in the area of **social infrastructure** and **skills development**, which is one of the programme's four areas of intervention.

The areas of health and long-term care, the integration of disadvantaged people into the labour market, training and education, and cultural and creative activities with social objectives have been recognised as cornerstones of European development strategies, of particular importance for the well-being of communities and individuals. In practice, as the current programming period draws to a close (and in view of the next one, which will take its place from 2028), what emerges from the analysis of the use of InvestEU resources is that, in the chapter dedicated to 'Social investment and skills', **it was social entrepreneurship that made the most use of the instruments available**, in terms of subsidised loans, loan guarantees, equity investments, and technical support and advice. This was particularly the case **for supporting new initiatives and new business models**, i.e. activities that most often encounter greater obstacles in accessing finance and, at the same time, have a greater social impact, including from an employment perspective.

**With InvestEU 2021-2027, the EU has mobilised over €370 billion, recognising the social economy's central role in health, training, employment, and culture**

<sup>25</sup> For an overview of InvestEU, please refer to the 5th Report, available here: [https://finanzaetica.info/wp-content/uploads/2022/09/QUINTORAPPORTO\\_EN-1.pdf](https://finanzaetica.info/wp-content/uploads/2022/09/QUINTORAPPORTO_EN-1.pdf)

The guarantees have therefore supported ethical finance institutions in risk management, offering stability and strengthening the resilience of the sector. To a lesser extent, they have also contributed to the expansion of credit volumes and product innovation in priority social sectors (health, training, job placement, culture), particularly for start-ups and social micro-enterprises.

### The relational dimension

Ethical banks have also contributed significantly to this result, benefiting from a deep alignment of values and approaches with social economy organisations. Regardless of the type of product offered, what stands out in the perception of the relationship between ethical credit institutions and social economy entities is that financial

support rests on a **shared vision of values and culture**.

This harmony is the most important – yet fragile – asset, which must be continuously nurtured and strengthened. What the survey indirectly highlights is the **strong awareness of this link**, as well as the

recognition that changes in social, cultural, and political contexts mean it cannot be taken for granted or assumed to be permanent.

### Forms of collaboration

The direct relational dimension is an essential aspect of the model of financial institutions that consider themselves an integral part of the social economy, and it is what most distinguishes ethical banks from other financial institutions. However, maintaining this competitive advantage requires **continuous care** and a strong **commitment to innovation**. A bank that wants to network with the social economy entities that are its customers must explore new forms of collaboration, from a **multi-stakeholder** perspective. For example, by trying to transfer within its own organisation some of the co-planning and co-design methods increasingly used in relations with the public administration.

Or by exploring forms of extended governance aimed at establishing a lasting link with the ecosystem of organisations that make up its clientele. The aim is to provide stable forums for discussion on issues and strategies relevant to the well-being of communities and territories.

## 4. ANALYSIS FROM THE PERSPECTIVE OF ETHICAL FINANCE.

### *Methodology, results, and reflections from the perspective of ethical finance institutions.*

The responses clearly show that ethical finance is not a single model, but rather a diverse field, bringing together actors differing in legal form, size and activities. Despite this heterogeneity, they all share a common mission: to support the ‘social fabric’ or ‘social pillar’ of Europe, as outlined in the European Pillar of Social Rights<sup>26</sup>.

In concrete terms, this support takes many forms. Ethical finance organisations provide resources for initiatives such as social housing, energy communities, worker-owned businesses (including worker buyouts), climate adaptation projects, international cooperation, the cooperative movement, local and micro-enterprise development, cultural initiatives, and migrant and refugee entrepreneurship. This broad, albeit non-exhaustive, range of interventions contributes to more just and inclusive societies, strengthens social protection, generates sustainable employment, and increases the resilience of economic and social systems. At the same time, it demonstrates that ethical finance represents a credible, value-oriented alternative to the dominant financial model.

Before examining the research findings, it is useful to reflect on how the social economy is perceived in relation to ethical finance, beyond regulatory definitions and academic debate. Ethical finance institutions and social economy actors are linked by common values and, in many cases,

originate from the same grassroots movements. Numerous ethical finance organisations were born<sup>27</sup> within the social and solidarity economy, while others emerged from civic or community initiatives and went on to become key financial actors in the sector. Although Europe has developed a relatively coherent policy framework for defining the social economy, in practice its conception remains strongly shaped by national contexts: in some countries, the central reference point is the cooperative system, while in others, social enterprises prevail. Beyond these differences, one common feature prevails: most ethical finance operators see themselves as an integral part of the social economy and its main financial supporters.

Ethical finance supports micro-enterprises and social economy organisations excluded from traditional credit, but more resources are needed in equity and quasi-equity to promote their growth

<sup>26</sup> The European Parliament, the Council, and the Commission proclaimed the European Pillar of Social Rights in 2017 at the Gothenburg Summit. The Pillar sets out 20 fundamental principles that serve as a compass for building a strong, fair, inclusive, and opportunity-rich social Europe in the 21st century. For more information, see here: [https://employment-social-affairs.ec.europa.eu/policies-and-activities/european-pillar-social-rights-building-fairer-and-more-inclusive-european-union\\_en](https://employment-social-affairs.ec.europa.eu/policies-and-activities/european-pillar-social-rights-building-fairer-and-more-inclusive-european-union_en).

<sup>27</sup> For more information on the history and characteristics of ethical banks, see the 5th Report: [https://finanzaetica.info/wp-content/uploads/2022/09/QUINTORAP-PORTO\\_EN-1.pdf](https://finanzaetica.info/wp-content/uploads/2022/09/QUINTORAP-PORTO_EN-1.pdf)

As explained above, the survey had two main objectives: to better understand how ethical finance institutions support social economy organisations, and to highlight the added value and efficiency they bring when using public instruments to support the social economy.

## Ethical finance and the social economy

To address the first objective, we collected data on loan portfolios, focusing on the types and sizes of the businesses supported. Interestingly, FEBEA members that are not banking institutions tend to focus on micro-enterprises, particularly those excluded from the traditional banking circuit<sup>28</sup>. Members with a banking licence, on the other hand, more often target medium-sized enterprises, which

may be excluded from conventional finance due to their sector, a perception of excessive risk or innovativeness, or because they do not meet standard evaluation criteria.

The responses also showed that most of the supported micro-enterprises operate mainly in favour of vulnerable groups, showing how ethical finance plays a

**InvestEU guarantees have strengthened stability and inclusion by supporting start-ups and micro-enterprises in the social economy with survival rates of around 93%**

key role in combating financial exclusion by supporting businesses neglected or rejected by the traditional market for various reasons.

Looking specifically at loan portfolios dedicated to social economy organisations, we found that ethical finance institutions support a wide range of actors, from cooperatives to associations to social enterprises, demonstrating a commitment to the entire ecosystem. As already highlighted, loans are the most widely used tool for providing financial support to social economy organisations. Alongside loans – though to a lesser extent – there are guarantees and equity investments. When asked about their financing needs, most institutions indicated a need for more equity and quasi-equity funding, as well as subordinated loans. This reflects the growing financing needs of the social economy sector, where many organisations typically need capital to grow and consolidate.

Several respondents pointed out the need for public funds to offer more favourable conditions than the market, given that ethical finance institutions often end up providing loans at market rates.

The survey also looked at the use of InvestEU guarantees, asking institutions about their loan portfolios for the social economy and micro-enterprises before and after applying these guarantees.

Many members reported an increase in portfolio size after InvestEU, while in some cases the level of activity remained stable. Overall, the feedback indicates that InvestEU guarantees have proved particularly useful as a risk management tool, providing stability and building confidence. In addition, these guarantees have made it possible to support social economy start-ups or micro-enterprises that would otherwise be excluded from credit. Their impact on expanding lending volumes, developing new financial products or creating tailor-made solutions for social economy actors is an area that could offer further scope for improvement in the future.

When asked about the main results achieved thanks to InvestEU guarantees, the most frequently cited aspects were community development and social inclusion. As regards the survival rates of enterprises supported through InvestEU guarantees, although not all members collect this data, those that do report a high rate of around 93%. Finally, many emphasised the need for public finance instruments to be designed with greater flexibility for smaller ethical finance providers, for example with smaller amounts, reduced bureaucracy, and proportionate reporting requirements.

## Some reflections

The results of this study confirm that ethical finance is not merely a marginal corrective to traditional banking, but a democratic financial infrastructure that actively supports and strengthens Europe's social fabric. An analysis of the loan portfolios of FEBEA members, both banking and non-banking, clearly shows that ethical finance intervenes precisely where conventional markets fail. In this way, it reintegrates finance into society, realigning financial flows with social values and community needs. This role is further demonstrated by the comprehensive support that ethical finance provides to the entire spectrum of social economy actors, a sign of deep integration within the social economy ecosystem.

Furthermore, ethical finance operators demonstrate strong additionality and efficiency in the use of public resources to support the social economy. Evidence shows that public funds, particularly European instruments, are not merely absorbed, but actively multiplied through the lending and investment activities of FEBEA members. It is important to emphasise that this multiplier effect does not depend exclusively on public support: FEBEA institutions also

<sup>28</sup> Within FEBEA, members that are not banking institutions (NBFIs) may take the form of (social) investment funds, financial cooperatives, organisational cooperatives, foundations or other non-banking entities. As with normal NBFIs, they cannot collect deposits but can only grant loans to organisations.



make consistent use of their own capital to promote social economy initiatives.

The fact that the survival rates of enterprises supported through InvestEU guarantees are higher than the European average highlights a more substantial point: social economy organisations are not passive beneficiaries of social spending, but strategic investments in economic and social resilience.

Furthermore, ethical finance institutions demonstrate that it is possible to combine financial rigour with personalised support, enabling enterprises to manage debt responsibly, strengthen their business models and pursue coherent growth strategies. This evidence challenges the traditional trade-off between purpose and performance, demonstrating that social and environmental objectives

can be fully aligned with a sound, reliable and forward-looking economic vision.

More generally, it is clear that ethical finance cannot develop on its own. When accompanied by public support, as in the case of InvestEU, it becomes more than a safety net for organisations excluded from conventional finance: it emerges as a force capable of guiding and transforming markets.

**Ethical finance is not a marginal corrective, but a democratic infrastructure which, with public support, becomes a force capable of guiding and transforming markets**

## MAIN FINDINGS OF THE SURVEY

Theme	Evidence from the social economy	Evidence from ethical finance	Summary
<b>Target</b>	Prevalence of micro-enterprises and social economy entities (cooperatives, social enterprises, mutual societies, foundations, associations).	Non-bank operators mainly support micro-enterprises excluded from the mainstream; licensed ethical banks also serve medium-sized enterprises considered risky or innovative.	Complementarity: broad ecosystem coverage and specialisation depending on the profile of the financial operator.
<b>Instruments</b>	Loans as the dominant instrument; high value placed on personalised relationships.	Loans as the main instrument; strong demand for equity, quasi-equity and subordinated loans.	Convergence: credit remains central, but more structural capital needs are emerging.
<b>InvestEU</b>	Resources channelled towards priority social sectors (health, training, employment integration, culture).	Useful above all for risk management; secondary impact on volumes and product innovation.	Two complementary dimensions: sectoral effects on the one hand, product dynamics on the other.
<b>Inclusion</b>	Focus on vulnerable groups and employment integration.	Strong focus on micro-enterprises serving vulnerable populations.	Full convergence: both perspectives show inclusive impact.
<b>Outcome</b>	High survival rates: over 90% at 5 years.	In portfolios with InvestEU guarantees: approximately 93% (where measured).	Consistent data: resilience and stability of the sector.
<b>Needs</b>	More personalisation and proximity.	More capital instruments (equity, quasi-equity) and more favourable credit conditions.	Need to integrate relational support with capital instruments.
<b>Policy</b>	Strengthen participatory governance and co-design.	Make public instruments more flexible and less bureaucratic, tailored to small operators.	Common recommendation: adapt policies to the actual ecosystem.

## 5. CONCLUSIONS

The survey confirms that the relationship between the social economy and ethical finance is not occasional but structural. The two perspectives highlight different but complementary aspects:

- On the social economy side, a broad landscape emerges, rooted in local areas and characterised by micro-enterprises and cooperatives which, although fragile in terms of access to traditional credit, show high survival

rates and make a stable contribution to social inclusion and local development;

- On the ethical finance side, the ability to reach precisely these realities excluded from the mainstream is confirmed, providing not only credit but also proximity, relationships and recognition of their social value. At the same time, ethical banks are identifying a growing need for more structural financial instruments (equity, quasi-equity, subordinated debt).

The role of public instruments such as InvestEU is already significant in providing risk guarantees and could be further strengthened to foster product innovation and volume expansion.

The relational element emerges as a distinctive feature and competitive advantage of ethical finance: not only a factor of bankability, but an essential condition for organisational

resilience.

In summary, ethical finance constitutes the financial infrastructure of reference for the social economy, while the social economy is the field in which ethical finance fully demonstrates its capacity for inclusion and impact. The policy implications are clear: make public instruments more flexible and proportionate, support forms of patient capital, and promote participatory governance

models. Only in this way will it be possible to consolidate an ecosystem that has long proven its contribution to social cohesion and Europe's economic sustainability. In this sense, the CAMEL analysis in Chapter 1 confirms that ethical banks, despite slightly lower ROE, have historically maintained higher ROA and prudent liquidity policies (loan-to-deposit ratio ranging between 82–89%). This demonstrates that commitment to the social economy does not compromise financial stability, but rather reinforces it.

**Ethical finance is the financial infrastructure of the social economy: it supports micro-enterprises and cooperatives excluded from credit and calls for more equity and flexible public instruments**

## FROM ANALYSIS TO RECOMMENDATIONS

From the two perspectives considered – ethical finance and the social economy – common priorities emerge. These result in concrete requests to the EU to make support instruments more accessible and effective.

### **More flexible and targeted public instruments.**

Experience with InvestEU shows that guarantees work, but they are not enough: they need to be accompanied by equity, quasi-equity and subordinated instruments, essential for supporting social start-ups and growth processes.

### **Proportionality and adequacy.**

Today, many EU measures have minimum thresholds that are too high. To avoid excluding cooperatives, associations and micro-enterprises, amounts and requirements must be tailored to their actual size.

### **Patient capital.**

Many organisations need medium- to long-term financing, not just immediate liquidity. Instruments with longer maturities allow for consolidation and resilience.

### **Participatory governance.**

Ethical banks and social economy networks are asking to be involved already at the stage of designing instruments, not only as final beneficiaries. This approach enhances effectiveness and reduces the gap between policy and practice.

# THE CURRENT SITUATION OF THE SOCIAL ECONOMY

The Social Economy European Summit, held in Murcia (Spain) during the week of 15 September 2025, was a strategic opportunity to assess the status of the social economy on the European Union's agenda. The event brought together over 650 participants from more than 20 countries, including representatives of more than 200 social economy organisations and enterprises, European Commissioner Roxana Mînzatu – responsible for the Social Economy at the European Commission, representatives of the European Parliament, presidents of the Intergroup on the Social Economy, representatives of the European Economic and Social Committee, delegates from national and regional governments of the EU, Mediterranean countries and various local authorities.

It was neither a formal appointment nor a celebratory exercise, but a significant occasion for exchange. At a time when social priorities are struggling to find space on the European agenda, the summit enabled European institutions, national and regional governments and the entire social economy ecosystem to find a common orientation, sharing short- and long-term objectives and identifying concrete actions to ensure that the social economy continues to be recognised as a vital component of the European project. The summit clearly demonstrated how the strength of this sector contributes to Europe's autonomy and democratic resilience.

## 1. THE SOCIAL ECONOMY ACTION PLAN (SEAP)

The social economy is what makes Europe unique: a way of understanding the economy that combines enterprise and solidarity, efficiency and social justice.

International organisations such as the OECD, UN and ILO, together with the European Commission, recognise its role as a driver of sustainable development, gender equality, social protection and local roots. It is an economic model that generates wealth and employment without separating it from collective wellbeing and human dignity.

The previous European Commission acknowledged its importance by adopting the Social Economy Action Plan (SEAP) in 2021, which sets out a roadmap until 2030 to

consolidate and disseminate this model. The plan provides for 63 actions structured around three pillars: improving the regulatory framework, expanding opportunities, and increasing visibility and awareness. The SEAP has offered coordination and a common platform for all European stakeholders. However, there remain significant differences between member states, and there is an urgent need to ensure the full implementation of the plan and the council recommendations on national frameworks for the social economy. Only in this way will it be possible to ensure legal and financial stability for operators, facilitate access to European funds, and make their contribution to the European Union's industrial and social policies more coherent.

During the summit, it emerged that most of the actions are already underway, but it will take time before results become visible on the ground. The new European Commission, however, appears to operate in a political and geopolitical context that is less receptive to social issues, as discussed in Section 3 of the report. The priorities of the social economy are thus at risk of being marginalised, and the economic and civic value of this sector underestimated. The recent decision by DG GROW to abolish its unit dedicated to the social economy and social entrepreneurship is a cause for concern. The next Multiannual Financial Framework

The European Commission's change of direction is also reflected in the ongoing negotiations on the Multiannual Financial Framework (MFF) 2028-2034. The new architecture of the funds – more centralised and less visible in the chapters dedicated to the social economy – risks reducing both its visibility and accessibility.

During the summit, four concrete proposals were made to reverse this trend:

1. Maintain a strong and independent European Regional Development Fund and European Social Fund Plus (ESF+);
2. Explicitly recognise the social economy as a priority in the MFF and national reform programmes;
3. Ensure an accessible fund architecture that allows for the full participation of social economy actors and SMEs;
4. Strengthen the InvestEU social investment and skills window to guarantee adequate and transparent funding.

Social Economy Europe, together with the Social Platform and the European Parliament, continues to strongly defend

the independence of the ESF+ as a necessary condition for safeguarding the experience accumulated over twenty years of European social policies. If this is not possible, it supports the campaign for a reform based on eight essential principles for a rethinking of the ESF+. Measures of this kind would enable the social economy – which today contributes over 8% of the EU's GDP – to continue to generate stable employment, social innovation and cohesion, reaffirming Europe's role as a laboratory for a sustainable and democratic economy.

## **2. RETHINKING EUROPE: UNITY AND DIRECTION**

The Murcia summit clearly illustrated the phase of uncertainty that Europe is currently experiencing. As Ursula von der Leyen pointed out in her latest State of the Union address, the European Union needs cohesion, shared values, and strategic autonomy, but current policies are struggling to translate these objectives into concrete choices. The growing priority given to military spending and industrial competitiveness – discussed in section 3 of the report – risks narrowing the space allocated to the local economy and social policies, calling into question some of the founding principles of the European Union.

### **What, ultimately, is the European Union fighting for?**

Strengthening the Social Economy Action Plan would mean investing in an economy capable of combining business and social utility, innovation and cohesion, development and democratic participation. As Juan Antonio Pedreño, President of Social Economy Europe, remarked: "Alone we are invisible, but together we are invincible." For this to happen, genuine cooperation between European institutions, national governments, businesses, universities and civil society is indispensable. Commissioner Mînzatu and

her Directorate-General play a strategic role in keeping the perspective of the social economy alive within the European Commission. MEPs must ensure that every European policy reflects its social dimension. National governments must integrate it into their economic strategies. The European Economic and Social Committee and the Committee of the Regions remain key partners in promoting its added value and monitoring policy coherence. Above all, however, the social economy needs to be recognised by European citizens as an integral part of their daily lives. This requires a renewed pact between research, businesses and local networks, capable of giving a voice and visibility to the more than 135 million people involved in the social economy and the 95 million members and workers of the European cooperative movement.

Raising awareness of the reality of this economy – which pursues social, environmental and democratic goals, often with fewer resources than the traditional economy – also means overturning a myth: that economic growth automatically leads to prosperity. Recent history shows the opposite: without justice and redistribution, wealth tends to concentrate, threatening the stability of our democracies. The social economy reminds Europe that prosperity does not arise from blind competition, but from strong, inclusive, and conscious communities. It is an economy that speaks of peace, democracy, and shared responsibility. It is not an abstract ideal, but a concrete practice that every day makes Europe fairer and closer to its people.

In this sense, the Murcia summit was not merely a point of arrival, but the beginning of a new chapter: a phase confirming the social economy as a strategic resource for the future of the European Union. By consolidating policy frameworks, making financing mechanisms accessible, and strengthening institutional recognition, Europe will be able to face its challenges with a more human approach – one that brings together sustainability, prosperity, and social cohesion.



**PART 3**

# **AN EVER MORE ARMED EUROPE**

**The overturning of the Green Agenda**

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# THE OVERTURNING OF THE GREEN AGENDA

## 1. SUSTAINABLE FINANCE IN EUROPE

What is happening in Europe with the social economy shows several similarities with sustainable finance. In both cases, we are talking about paths that began under excellent auspices, with strong commitments and various declarations establishing them as priorities for European institutions. In both cases, however, the initial momentum seems to have been lost. Within a few months, the focus on the social economy, sustainability and climate change has been replaced by new objectives: competitiveness and rearmament.

Ethical finance actors had warmly welcomed the decision by European institutions to define and regulate sustainable finance. The initial approach was also fully convincing.

Each economic activity was analysed along six axes, ranging from climate to biodiversity to water protection and beyond. In order to fall within the scope of sustainable finance, an activity had to demonstrate a positive impact in at least one area and not have any significantly negative

impacts (do no significant harm) in all the others. This is the so-called taxonomy, which lies at the heart of the EU's work on sustainable finance<sup>29</sup>.

To date, the European approach to sustainability has mainly focused on the environmental dimension, or more specifically on climate change. This approach is understandable, at least in the initial phase, for several reasons. Firstly, because

of the urgency of acting against climate change; secondly, because of the political consensus that has emerged on the issue; and last but not least, because it is relatively easier to identify quantitative indicators than, for example, in the social dimension (it is possible to objectively measure the percentage of renewable energy used by a company, while it is much more complex to provide an indicator of respect for human rights)<sup>30</sup>.

It would have been even more essential to define in a transparent and rigorous manner the parameters and criteria for an investment to be considered sustainable, so as to set a precedent for subsequent work on the social and governance dimensions of the traditional ESG approach.

Unfortunately, under the combined pressure of intense lobbying and certain governments<sup>31</sup>, the criteria have been progressively weakened over time and the definitions watered down. Already in 2023, gas and nuclear power, albeit with some limitations, were considered eligible activities under the taxonomy defining sustainable finance. The most worrying development, however, came in February 2025, when the European Commission published its proposal for a revision of the main directives related to sustainability, known as the Omnibus Package<sup>32</sup>. While the official intention was to 'simplify'<sup>33</sup> the directives, in practice the very guiding principles of sustainable finance have been significantly weakened, if not dismantled<sup>34</sup>.

If the Commission's proposal is confirmed, the result would be reduced corporate responsibility, less transparency on all

**With the Omnibus Package 2025, sustainable finance risks losing transparency, rigorous criteria, and credibility**

**In just a few months, the EU has shifted its focus from the social economy and sustainability to competitiveness and rearmament**

<sup>29</sup> We devoted an in-depth analysis to this topic in the 4th Report on Ethical Finance in Europe (2021), on the occasion of the entry into force of the first part of the European Regulation aimed at defining and regulating sustainable finance. <https://finanzaetica.info/wp-content/uploads/2022/06/4th-Report-EN.pdf>

<sup>30</sup> We analysed the issue of the so-called European social taxonomy in our 5th Report. [https://finanzaetica.info/wp-content/uploads/2022/09/QUINTORAPPORTO\\_EN-1.pdf](https://finanzaetica.info/wp-content/uploads/2022/09/QUINTORAPPORTO_EN-1.pdf)

<sup>31</sup> <https://influencemap.org/report/Lobbying-on-the-EU-Taxonomy-s-Green-Criteria-9fa94d19d713248426018f89410d2fbd>

<sup>32</sup> The Omnibus Package includes proposals to amend various sustainable finance instruments, including the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy and ESG rating rules. [https://finance.ec.europa.eu/news/omnibus-package-2025-04-01\\_en](https://finance.ec.europa.eu/news/omnibus-package-2025-04-01_en)

<sup>33</sup> "This initiative is part of the Commission's commitment to reduce administrative burdens by 25% for all businesses and 35% for SMEs", reads the dedicated page.

<sup>34</sup> Over 360 European organisations have denounced the 'disastrous Omnibus proposal', saying it would undermine European commitments on climate and human rights. The package reduces the amount and detail of information that companies must disclose on the environment and human rights, limits corporate liability for damage caused along supply chains, and relaxes sustainable finance rules. <https://concordeurope.org/resource/disastrous-omnibus-proposal-erodes-eus-corporate-accountability-commitments-and-slashes-human-rights-and-environmental-protections/>

sustainability-related data, and less information available to investors, savers and the public. This would undermine the very idea of sustainable finance and distance the European Union from its own climate and human rights objectives. There is a risk of depriving financial intermediaries of robust and comparable data, essential for structuring sustainable investment funds. The Omnibus proposal represents a major setback for the European Green Deal as a whole.

## 2. SUSTAINABLE FINANCE AND CLIMATE

These ups and downs have characterised not only the commitment of European institutions, but also that of the financial sector itself. After a long period in which, with few exceptions, the financial world denied or minimised its responsibilities, attitudes have changed over the last decade. A key milestone was the approval of the Paris Agreement during COP21 in 2015<sup>35</sup>, which set maximum global warming targets and called on not only governments but also the financial world to do its part. The financial sector's stance probably reached its peak at COP26 in Glasgow in 2021, when the Glasgow Financial Alliance for Net Zero (GFANZ) was formed. According to its promoters, this was one of the greatest achievements ever in the field of climate action. More than 450 of the world's largest banks and financial institutions committed to a path towards net zero, mobilising some \$130 trillion. Under the GFANZ umbrella, a number of specific networks have been created, from banking to insurance and others. Beyond GFANZ, in recent years almost all major financial companies have promoted guidelines on social and environmental responsibility. However, there remains a huge gap between these statements and concrete commitments, which are in most cases extremely limited. International research has shown that between 2016 and 2023 – i.e. in the seven years following the signing of the Paris Agreements – the world's 60 largest banking groups financed fossil fuels to the tune of \$6.9 trillion<sup>36</sup>. Forty-three of these 60 groups have joined some kind of net zero alliance.

How is it possible to declare such a commitment and continue to support the sectors with the greatest impact on the climate? Firstly, there is no shared definition of sustainability or corporate responsibility. Companies can often tailor definitions to improve their image and reputation while minimising the commitments they have

to make. The various net zero alliances do not impose binding obligations to reduce fossil fuel financing, nor do they provide for external monitoring<sup>37</sup>.

There are also a variety of strategies, if not outright accounting tricks. To give just one example, many banks still claim to be sustainable by measuring only their internal emissions and not the much higher emissions linked to the loans they grant. Thus, a bank could be considered sustainable because it uses low-energy light bulbs in its branches, even if it continues to finance the worst coal-fired power plants on the planet<sup>38</sup>.

Furthermore, in many cases, the opacity of the financial system can be exploited. A bank may not want to finance a coal mining project. The company managing the extraction creates a finance company in some tax haven. The bank finances this

anonymous company, whose environmental impact is virtually zero.

The finance company then transfers the money to the mining company, and that's it. In reality, we are talking about enormously complex operations, a veritable form of greenwashing<sup>39</sup>.

These few examples clarify the importance of establishing shared definitions, as the EU seemed to want to do, and the risk of adopting definitions of sustainability so weak as to be meaningless.

This problem has accelerated significantly over the last year. In November 2024, Trump won the US elections, while on the other side of the Atlantic the European Commission led by von der Leyen received the confidence of the European Parliament.

Trump's election greatly accelerated the pressure to abandon any mention of sustainability. Several US states lashed out against the commitment – however limited – of funds and financial companies, going so far as to call it 'divisive' if not 'un-American' because it would penalise the economy and employment. The most extreme case was in New Hampshire, where six Republican senators proposed a bill<sup>40</sup> that would have imposed up to 20 years in prison on any fund manager who introduced social or environmental analysis into their strategies.

**From 2016 to 2023,  
the 60 largest banking  
groups financed fossil  
fuels to the tune  
of \$6.9 trillion, while  
adhering to net zero  
alliances**

<sup>35</sup> The Conferences of the Parties, or COPs, are annual meetings of governments under the auspices of the UN to take stock of international commitments on climate change.

<sup>36</sup> Banking on Climate Chaos, Rainforest Action Network and others <https://www.bankingonclimatechaos.org/?bank=JPMorgan%20Chase%23fulldata-panel>

<sup>37</sup> Reclaim Finance, "Throwing fuel on the fire: GFANZ members provide billions in finance for fossil fuel expansion", 17/01/2023 -

<https://reclaimfinance.org/site/en/2023/01/17/throwing-fuel-on-the-fire-gfanz-members-provide-billions-in-finance-for-fossil-fuel-expansion/>

<sup>38</sup> For those familiar with emissions calculation methodologies, many banks only measure Scope 1 and Scope 2 emissions, but not Scope 3 emissions (for banks, mainly those related to the loans they grant). See also Chapter 1 of this report.

<sup>39</sup> Tax Justice Network, "How green laundering conceals the full scale of fossil fuel financing", 11/09/2024 - <https://taxjustice.net/2024/09/11/how-greenlaundering-conceals-the-full-scale-of-fossil-fuel-financing/>

<sup>40</sup> <https://bills.nhliberty.org/bills/2024/HB1267/revision/39778>

According to the promoters, the sole objective of a fund manager must be to maximise profits for members. Any other consideration would constitute a violation of their mandate. The bill was ultimately rejected, but its mere introduction gives an idea of the climate in the US. The wind has also changed in Europe. While the previous Commission promoted the Green Deal and placed sustainability at the centre of the political agenda – albeit with several limitations – with the formation of the new Commission, the EU’s watchword has become competitiveness. While official statements suggest that this approach should go hand in hand with sustainability, there is a real risk that the latter may be sacrificed to the new European priorities. The EU has done enough, if not

**In the US, sustainability is attacked as ‘un-American’, while in Europe it risks being hollowed out in favour of competitiveness**

too much, by imposing a whole series of limits and constraints on its production and financial systems that would put European companies at a disadvantage compared to their major global competitors.

On one side of the Atlantic, the term sustainability is therefore

being erased from the financial world. In Europe, it is formally kept alive, but with the real risk of being completely emptied of meaning. Among the various examples that could be cited in support of this thesis, two are particularly emblematic: the EU’s position on climate and its position on arms.

### 3. TAKING OWNERSHIP OF THE CLIMATE AGENDA

In many ways, the financial system’s main commitment seems directed at reconciling its image of sustainability with the continued financing of an economic system based on fossil fuels.

Perhaps even more damaging than the gigantic and unacceptable practice of greenwashing, finance is at the forefront of steering the international agenda towards an approach based solely on voluntary commitments. Binding agreements, it is argued, would be unnecessary because the market would reward the best companies.

Suffice it to say that in almost thirty years of COPs, the phase-out of fossil fuels has never been on the agenda. Or rather, the first time it was mentioned was at COP26 in Glasgow in 2021 – the same conference that saw the birth

of the infamous net zero alliances. And not from all fossil fuels, but only from the most impactful one: coal. While the negotiations originally referred to a ‘phase-out’, on the last day the text was changed to ‘phase-down’. A single word which – without any targets or deadlines – completely drains the entire process of meaning.

Yet legislative proposals do exist. Several organisations have drawn up an international treaty for the progressive phase-out of fossil fuels, the Fossil Fuel Non-Proliferation Treaty<sup>41</sup>.

Other measures could also be considered, such as banning the exploitation of new deposits, raising capital requirements for banks that finance fossil fuels, and a range of other regulatory instruments. The European Central Bank has begun to work on environmental and climate<sup>42</sup> risks, recognising that their impacts – including on banking and financial stability – are not being sufficiently taken into account by markets. The European Insurance and Occupational Pensions Authority (EIOPA) has also recently recommended increasing capital requirements for fossil fuel-related assets<sup>43</sup>.

Encouraging signals, but wholly inadequate compared to the course taken by the international community, which has effectively delegated a crucial issue such as climate change to the purely voluntary commitment of the financial system itself. This is an issue that concerns corporate responsibility as a whole. The ESG approach has been presented as an alternative to regulation, rather than as a complement to it.

### 4. ESCAPE FROM ESG

But even this purely voluntary approach has been called into question. In recent years, a new phase has begun: a rapid and abrupt reversal.

While various net zero alliances were formed after COP26 in Glasgow in 2021, between 2023 and 2024 there were

**In thirty years of COPs, there has never been a decision to phase out fossil fuels: in Glasgow in 2021, there was only talk of reducing their use**

**The international community has delegated the climate crisis to the voluntary commitment of finance, draining the ESG approach of meaning**

<sup>41</sup> The Fossil Fuel Non-Proliferation Treaty - <https://fossilfuel treaty.org>

<sup>42</sup> [https://www.ecb.europa.eu/ecb/climate/managing\\_mitigating\\_climate\\_risk/html/index.en.html](https://www.ecb.europa.eu/ecb/climate/managing_mitigating_climate_risk/html/index.en.html)

<sup>43</sup> [https://www.eiopa.europa.eu/publications/final-report-prudential-treatment-sustainability-risks-insurers\\_en](https://www.eiopa.europa.eu/publications/final-report-prudential-treatment-sustainability-risks-insurers_en)



several defections and reconsiderations. Some were linked to demands to introduce initial restrictions on fossil fuel financing or to publish transition plans. The Net Zero Insurance Alliance, a coalition of insurance companies, saw six of its eight founding members withdraw and ceased operations in 2024<sup>44</sup>. Similar defections also affected other alliances. The banking alliance, the Net Zero Banking Alliance (NZBA), saw the departure of the six largest US banks and five of the six Japanese banks.

While one might have thought that these departures would strengthen the alliance's objectives, it went in the opposite direction. In an attempt to prevent further defections, in early 2025 the NZBA voted to replace the fundamental requirement to align portfolios with the Paris Agreement targets with a generic mobilisation of capital for the energy transition.

**Between 2023 and 2024, many net zero alliances dissolved: the NZBA lost the major US and Japanese banks**

GFANZ itself no longer mentions net zero on its website, describing itself instead as 'an initiative focused on mobilising capital and removing barriers to investment in the global transition'<sup>45</sup>. Even the European Central Bank has criticised the financial sector's lack of

courage. A 2024 paper with the telling title 'Business as usual' states that "banks that have promoted climate commitments do not modify their loans or loan pricing differently from banks without climate commitments"<sup>46</sup>.

We have used climate change as an example. This is the area where scientific research is most advanced, where there is strong political pressure, and where quantitative indicators exist to measure impacts. Discretion and the lack of concrete results in the face of generic commitments to sustainability

are even worse in relation to the other ESG dimensions.

While in the climate and environmental field there is already a risk of draining the word 'sustainability' of meaning, the attempt to include even weapons within the scope of

**Today, even weapons risk being included within the scope of sustainable finance**

sustainable finance is, if anything, even more serious.

## 5. WEAPONS AND THE BIRTH OF SUSTAINABLE FINANCE

The debate on weapons is emblematic of the direction taken by the EU on sustainability. In many ways, it was precisely weapons that gave rise to the very idea of sustainable finance.

As early as the 18th century, some religious communities in the US decided to exclude from their investments the shares of companies involved in the slave trade or in certain other sectors. Alongside gambling and alcohol, the first and most significant exclusion was the production and trade of arms.

It is recognised that money is not neutral: once invested in certain activities, it will have impacts – positive or negative – not only in terms of returns and profits, but also for the environment and for society as a whole. This idea gradually gained ground, thanks also to initiatives on US campuses calling on universities not to invest in companies linked to the Vietnam War or to the South African apartheid regime. While for a long time the emphasis was on social issues, peace and human rights, in recent decades attention has shifted towards all non-economic impacts of economic activity, in line with the now familiar ESG approach. The complete exclusion of weapons has consistently been upheld over time, and has recently been strongly reaffirmed by the main alliances of ethical and alternative European banks such as FEBEA<sup>47</sup>, as well as by international values-based banking networks such as GABV<sup>48</sup>.

## 6. REARM EUROPE

Already in the 7th Report<sup>49</sup>, a chapter was entitled 'An increasingly armed Europe'.

The analysis highlighted the increase in military spending, particularly in EU countries that are members of NATO, and the continuing push towards greater militarisation, which drained essential resources from social policies and investments.

Over the last year, the situation has taken an even sharper turn. A key step

**With ReArm Europe, the European Commission is opening up €800 billion for rearmament, granted as debt outside the constraints of the Stability Pact, but denied to climate, health and education**

<sup>44</sup> In its place, the UN Environment Programme (UNEP) created the Forum for Insurance Transition to Net Zero (FIT). However, no US companies joined.

<sup>45</sup> GFANZ website - <https://www.gfanzero.com> visited on 11/04/2025

<sup>46</sup> ECB Working Paper Series, April 2024, "Business as usual: bank climate commitments, lending and engagement", Frankfurt, 2024 - <https://www.ecb.europa.eu/pub/pdf/scpwps/ecb.wp2921~603e225101.en.pdf?3854e151126bea0371149d197b37353>

<sup>47</sup> [https://febea.org/wp-content/uploads/2024/10/febea\\_charter\\_eng\\_1.pdf](https://febea.org/wp-content/uploads/2024/10/febea_charter_eng_1.pdf)

<sup>48</sup> <https://www.gabv.org/declarations/milan-declaration-a-statement-for-peace-2024/>

<sup>49</sup> <https://finanzaetica.info/wp-content/uploads/2024/11/7-Report-web.pdf>

was the publication of ReArm Europe, the €800 billion rearmament plan proposed by the European Commission. This includes €650 billion made possible by allowing Member States to exceed the 3% public deficit-to-GDP ratio, i.e. the threshold set by the Stability and Growth Pact. In other words, debt incurred by Member States and underwritten by the EU. The remaining €150 billion consists of European funds that Member States can access, again in the form of subsidised loans. The plan was approved under the emergency procedure provided for in Article 122 of the Treaty on the Functioning of the European Union (TFEU), thereby bypassing parliamentary scrutiny. In March 2025, it was decided to remove the overly explicit reference to rearmament from the title,

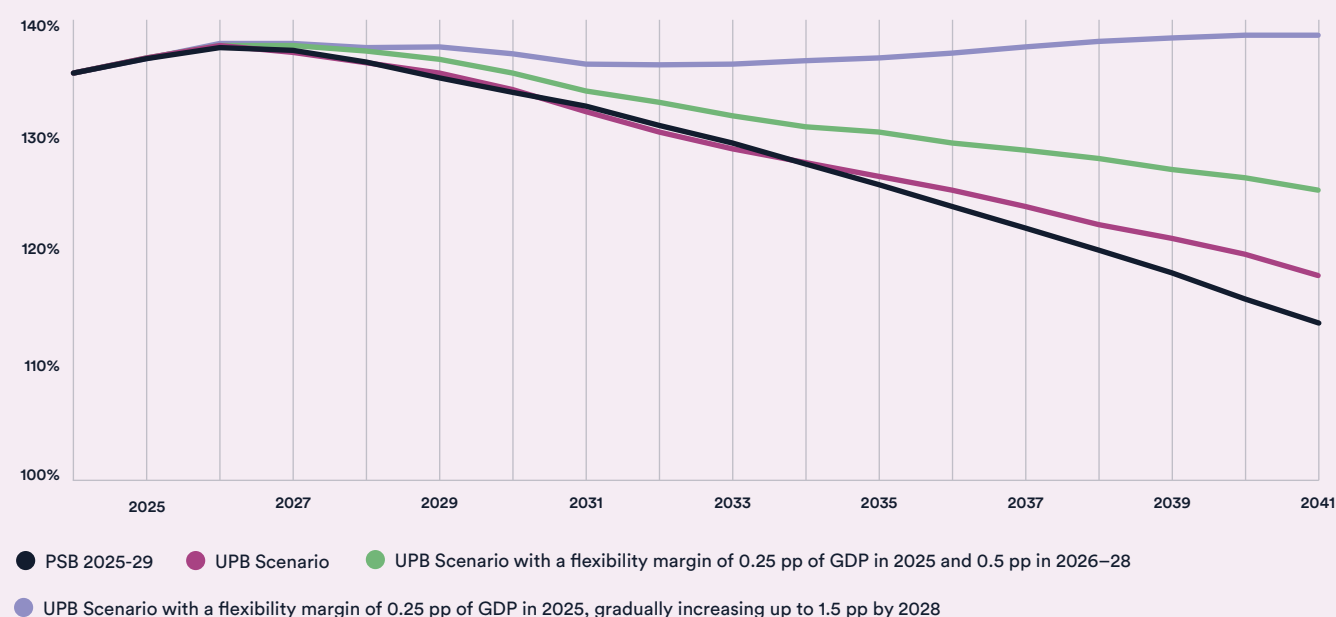
renaming the proposals Joint White Paper for European Defence Readiness 2030<sup>50</sup>. But the substance remains unchanged.

The criticisms are varied, concerning both the procedure (invoking the emergency procedure, which effectively excludes the European Parliament from the decision-making process) and the substance. Not only would new debt be created, but what is striking is the request that this debt not be counted in the parameters set out in the European Stability Pact. In practice, what has always been denied for investments to tackle climate change, jobs, health or education would instead be guaranteed – without democratic debate – for the production of weapons.

## THE IMPACT OF INCREASED MILITARY SPENDING ON ITALY'S PUBLIC DEBT

The significant impact of increased military spending on Italy's public debt is also confirmed by the institutions responsible for monitoring debt developments, and in particular the process of reducing excessive debt, which the EU has asked our country to prioritise. In a hearing on 17 April 2025, the chair of the Parliamentary Budget Office explicitly stated that "flexibility to increase defence spending would imply an increase in the debt-to-GDP ratio"<sup>51</sup>. The impact is shown in the figure below. The decisions taken today could lead to an increase in the debt-to-GDP ratio of around 25 points. An enormous increase.

### PUBLIC DEBT TRENDS (as a percentage of GDP)



Source: based on data from DFP 2025, PSB 2025-29, European Commission, Bank of Italy and Istat.

<sup>50</sup> [https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009\\_en?filename=White%20Paper.pdf](https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf)

<sup>51</sup> Hearing of the President of the Parliamentary Budget Office as part of the preliminary hearings for the examination of the 2025 Public Finance Document (Doc. CCXL, no.1), 17 April 2025

## 7. PUBLIC FINANCE AND PRIVATE FINANCE

If this is the situation on the public finance side, it is even worse when looking at private finance. The EU is stepping up its efforts to mobilise the capital and savings of European citizens and direct them towards the arms sector. In this respect, the path of the Savings and Investments Union is crucial.

This is a directive<sup>52</sup> under discussion in early 2025, and it is decisive for the future financial and productive structure of the EU. It is based on the idea that European companies make ‘too little’ use of financial channels compared to banks, and that citizens’ savings (estimated at EUR 10

trillion sitting in current accounts across the continent) should also be used to finance EU companies. The main mechanism for linking savings to financial markets is securitisation – that is, the process of turning a loan into a financial security. In recent months, the main push

to accelerate the approval of this directive has been tied to the need to find new channels of financing for the arms industry.

If the Savings and Investments Union directive is approved, European savers and workers – through investment funds, pension funds, and insurance companies – may find themselves holding financial securities in their portfolios that, via complex and opaque mechanisms such as securitisation, end up supporting the arms industry.

**With the new EU Directive, citizens’ savings could end up financing the arms industry – even without their knowledge**

### SECURITISATION

Understanding the mechanics of securitisation: a simplified example. Consider a bank that issues a series of mortgage loans. To recover the capital disbursed, it must wait for borrowers to repay the loans through instalments over a period that may span several decades. Securitisation enables the bank to create financial instruments whose value is derived from the stream of payments made by borrowers.

By selling them, it immediately recoups the loans disbursed, thus transferring both the wait for repayment –

and the uncertainty associated with it – to the purchasers of these securities. This process yields several benefits. The bank reduces its exposure to credit risk and releases capital, which it can then use to extend new loans. Furthermore, securitisation can broaden financing opportunities for businesses. A non-listed company – which cannot raise capital through traditional equity or bond issuance – can convert its receivables into financial securities, thereby gaining access to retail and institutional investor capital across Europe. However, the implications are not entirely positive. Recent history offers a cautionary tale. The mechanism described above was precisely what fuelled the subprime mortgage bubble. Banks extended loans to borrowers with little or no creditworthiness, confident that they could rapidly securitise these assets and offload the associated risk onto the financial markets. The ensuing financial collapse in 2008 led to a significant retrenchment in securitisation activity, particularly within the European Union.

## 8. ESG WEAPONS

Alongside this, what is of particular concern to the world of ethical finance is the increasingly explicit and insistent attempt to include weapons within the scope of sustainable finance. As noted in previous sections, since its inception, sustainable finance has adopted the exclusion of weapons among its criteria. Until just a few years ago, this was a cornerstone of every definition of sustainable finance, but today it is being heavily challenged. It is the Draghi Report<sup>53</sup> that opens a breach, arguing that: “Access to financing [for defence] is often hampered by financial institutions’ interpretation of the EU’s sustainable finance and environmental, social, and governance (ESG) frameworks”.

### Sustainability becomes ‘an obstacle’.

Unsurprisingly, the financial world has quickly followed this new course. Several banks and fund managers offering ‘sustainable’ or ‘ESG’ funds have relaxed or removed restrictions and exclusions relating to the arms sector. In April 2025, the giant Allianz Global Investors announced<sup>54</sup> that its sustainable funds could begin investing not only in the defence sector but also in nuclear weapons. Moving in this direction would almost certainly destroy the entire path – already severely weakened – towards sustainable finance, while undermining the very credibility of European institutions.

<sup>52</sup> [https://finance.ec.europa.eu/regulation-and-supervision/savings-and-investments-union\\_en](https://finance.ec.europa.eu/regulation-and-supervision/savings-and-investments-union_en)

<sup>53</sup> Mario Draghi’s report on the future of European competitiveness, September 2024. [https://commission.europa.eu/topics/eu-competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/eu-competitiveness/draghi-report_en) For a first analysis, see the dedicated section in the 7th Report 2024. <https://finanzaetica.info/wp-content/uploads/2025/10/7-Report-web.pdf>

<sup>54</sup> <https://www.responsible-investor.com/the-world-has-changed-allianz-gi-sustainable-investing-head-on-defence-rethink/>

It should be noted that excluding weapons from sustainable finance definitions does not prohibit their financing. A fund manager can continue to invest in weapons, but cannot do so while claiming to be sustainable. The reason is simple. If everything is sustainable, nothing is. Including weapons would completely strip the word ‘sustainability’ of its meaning<sup>55</sup>. If this were to happen, the only option for the millions of customers and savers who ask banks and financial managers to invest their money according to their principles would be to change the terminology and definitions. Completely abandoning the path of sustainable finance in Europe. Continuing to exclude weapons, simply using other words to say so. No decision is being made on whether to include weapons in sustainable

**Including weapons in ESG funds would render the word ‘sustainability’ meaningless and bend ethical and social finance to the logic of rearmament**

finance. What is being decided is whether the word ‘sustainability’ should still have any meaning, or whether we should abandon it and start calling things something else. What is happening is not ‘just’ sacrificing the social economy and sustainable finance on the altar of rearmament. Perhaps even more seriously, in order to channel all resources

– not only economic ones – into arms, sustainable finance legislation is being bent to fund rearmament. In this way, the few public funds and the vast amounts of private money that will remain in sustainable finance will actually finance arms companies, which are currently ‘pulling’ in terms of stock market values.

This attempt, at the height of paradox, may not bring the hoped-for funding to the sector. As noted in a Finance Watch position paper in September 2025<sup>56</sup>, the contribution in terms of direct financing would be extremely limited. Given that retail client funds invest almost exclusively in the secondary market (i.e., buying and selling already-issued shares and bonds), no ‘fresh money’ would come in. What sustainable finance does is influence the strategic decisions of financial managers, steering the economic and productive world in one direction or another. Including weapons in ESG funds “would simply transform defence into the next potential money-making machine for investors”.

## 9. THE FINANCIALISATION OF WAR

Beyond including weapons within the scope of sustainability, there is a particularly serious issue in relying

on private finance to support the defence sector. Even if such support were deemed necessary, it should be the states, i.e. public finance, that bear the responsibility, given the associated risks and implications.

The most worrying aspect of channelling private investment into armaments is the risk of a full-fledged financialisation of war. Is it conceivable to delegate decisions with potentially devastating consequences – such as which types of weapons to produce and in what quantities – to financial markets driven by profit? Is it conceivable to entrust private, speculative finance with raising the funds needed for military spending – an activity crucial to states and with enormous geopolitical and human rights implications?

An analysis by the Stockholm International Peace Research Institute (SIPRI) titled ‘Going private (equity): A new challenge to transparency in the arms industry’<sup>57</sup> highlights how the acquisition of arms manufacturers by private equity funds reduces transparency in the sector. This opacity can undermine oversight and accountability, both of which are essential for maintaining international stability.

Today there is a real risk of a full-fledged financialisation of war and defence, which could create mechanisms that fuel conflicts, as conflicts generate multiple business opportunities for certain actors.

This risk is plain for all to see. Reports of escalating wars and conflicts drive up the share prices of major arms manufacturers. Conversely, reports of the possible end of such conflicts trigger a significant decline.

According to a report by Mediobanca<sup>58</sup>, from early 2022 to October 2024, the share returns of international defence companies were +72.2%, far exceeding the global stock index (+20.1%). European companies performed even better, with a return of +128.1%, compared to +59.1% for US groups. All major European companies saw their share values rise to record levels. The Stoxx Aerospace & Defence index grew markedly faster than the global Stoxx 600 index.

All this amid the war in Ukraine and the emergence of several other conflicts. Yet news of a possible end to the war is enough to change matters radically. Italian financial daily *Il Sole24Ore* could not be more explicit, with its August 2025

**War becomes a business: between 2022 and 2024, defence stocks returned +72% globally and +128% in Europe, rising with conflicts and falling with news of peace**

<sup>55</sup> <https://www.reuters.com/sustainability/sustainable-finance-reporting/why-europe-must-not-allow-defence-investments-be-labelled-sustainable-2025-08-27/>

<sup>56</sup> [https://www.finance-watch.org/blog/why-defence-spending-shouldnt-be-labelled-sustainable/?utm\\_medium=email&\\_hsmt=379147529&utm\\_content=379147529&utm\\_source=hs\\_email](https://www.finance-watch.org/blog/why-defence-spending-shouldnt-be-labelled-sustainable/?utm_medium=email&_hsmt=379147529&utm_content=379147529&utm_source=hs_email)

<sup>57</sup> <https://www.sipri.org/commentary/blog/2023/going-private-equity-new-challenge-transparency-arms-industry>

<sup>58</sup> <https://www.areastudimediobanca.com/en/product/defence-report-defence-system-world-and-italy-2024-ed>



headline: ‘Leonardo at the bottom of the list, hopes for peace cool defence stocks’.<sup>59</sup>

Although newspaper headlines continue to emphasise terms such as ‘security’ or ‘defence’, the reality is quite different. The sector prospers not by preventing war or promoting deterrence, but in exactly the opposite way when wars and conflicts multiply, and reacts conversely when those conflicts are resolved.

## 10. CONCLUSIONS

In summary, on the one hand, the US blocks any discussion of corporate responsibility. The EU, on the other hand, formally upholds it, but empties it completely of meaning and content. At the same time, we are witnessing the withdrawal of the financial world’s commitment, starting with net zero alliances. While at first glance this seems like bad news for the environment and human rights, it is necessary to consider whether, and to what extent, the supposed commitment was merely greenwashing and failed to make any tangible contribution. If everything becomes sustainable, nothing is sustainable anymore. In this sense, the retreat of recent months could serve both to highlight the distance from those who are genuinely committed and to underline the fact that a voluntary

approach cannot be sufficient – and, above all, cannot replace regulation of the sector.

The ESG approach can play a role by providing greater information and transparency, but crucial decisions for the future of society and the planet cannot be left to the market or measured in terms of

profit. Greenwashing is particularly harmful because it casts doubt on the sincerity of all commitments and undermines the efforts of those acting in good faith.

It is telling that defections from the banking alliance for net zero have not only come from banks that refuse even a minimal commitment, but also from those that consider the alliance wholly inadequate. This is the case with two influential members of the Global Alliance for Banking on Values (GABV). GLS had already left in February 2023 due to the paucity of its content. Triodos decided to leave the NZBA in April 2025 because of “reduced climate ambition and increasingly less stringent requirements”<sup>60</sup>.

In just a few years, the financial world has shifted from denying its responsibilities on climate change, to adopting every possible strategy to appear attentive and sustainable without questioning

its own practices, to once again rejecting any commitment. Yet several analyses confirm that, even in purely financial terms, the cost of transitioning to a decarbonised economy is far lower the sooner action is taken. At the request of the European Commission, the various financial market supervisory authorities carried out a study confirming<sup>61</sup> that costs are far higher for banks, insurers and investors who delay the transition.

The way forward must be the regulation of the financial system. This was the underlying idea of the ESG commitment itself: to go beyond legal obligations, as a complement to regulation – but over time it came to be regarded as a substitute for it. What is needed instead is a form of sustainability based on transparent and binding criteria, promoted within a forward-looking and courageous regulatory framework.

At the same time, bottom-up reflection on the use of money must continue, supporting truly sustainable practices that take account of all the non-economic impacts of financial activity. In this sense, the watchword must be complete transparency: on the use of money, and on the methods and criteria for assessing and communicating social and environmental impact. Ethical finance remains at the forefront: both by demonstrating daily that responsible use of money is possible, and by ensuring that its voice reaches the institutions charged with regulating the sustainability framework.

**Ethical finance demonstrates every day that the responsible use of money is possible and brings this message to institutions**

**The withdrawal from ESG commitments shows that a voluntary approach is not enough: transparent and binding rules are needed**

### THE END OF ESG?

As this Report was going to press, the first European defence-sector ETF classified as an Article 8 product under the Sustainable Finance Disclosure Regulation (SFDR) was launched. The asset manager HANetf announced that its Future of European Defence fund meets the requirements to be considered a ‘sustainable investment product’. It is the first fund in the defence segment to fall within the category of products that “promote environmental or social characteristics”. This development illustrates the progressive dilution of the concept of financial sustainability, which has shifted from a selective criterion to an increasingly broad and indeterminate label. In a context where definitions now stretch to include areas once deemed incompatible, ethical finance continues to rely on rigorous standards of coherence, transparency and measurable impact.

<sup>59</sup> Il Sole24Ore, 19 August 2025 – Paolo Paronetto  
<https://en.ilssole24ore.com/art/leonardo-queue-peace-hopes-cool-defence-stocks-AHqeVaEC>

<sup>60</sup> <https://www.triodos.com/en/articles/2025/triodos-bank-leaves-nzba>

<sup>61</sup> <https://www.esma.europa.eu/press-news/esma-news/transition-risk-losses-alone-unlikely-threaten-eu-financial-stability-fit-55>

# CONCLUSIONS AND OUTLOOK

On 2 October 2025, Ruth Paserman, Director of Funds, Programmes and Implementation at the European Commission, Directorate-General for Employment, Social Affairs and Inclusion, opened her keynote speech at the 24th Conference of the European Federation of Ethical and Alternative Banks (FEBEA) with the following statement: “Ethical finance is not simply an alternative model.” In her speech, she emphasised that, thanks to its ongoing development and growing significance, ethical finance has established itself as a model fully suited to our times: a robust and indispensable framework for fostering justice and cohesion in Europe.

The emergence of ethical finance as a reference model is perhaps the principal conclusion that can be drawn from the various sections of this report. The different perspectives it encompasses – some more financial, others more strategic or political – demonstrate this with sufficient clarity. And, perhaps, it is also – particularly in light of the analyses presented in the final part – the most direct and effective way of highlighting the challenges that ethical finance faces today. Let us proceed in order.

## 1. A REPORT POINTING THE WAY FORWARD

The first edition of the Annual Report on Ethical Finance in Europe dates back to 2018 and was initiated by Banca Etica, a cooperative bank founded in Italy in the late 1990s, with a history marked by significant achievements that have earned it recognised prestige as a European benchmark in the field of ethical finance. In the following years, Banca Etica’s consolidation at the European level led to the development of the reports in collaboration with FEBEA, founded over twenty years ago to promote the development of ethical finance on the continent, with Banca Etica’s initial contribution. FEBEA was thus able to integrate its vision of the European landscape into the reports, which over time have been enriched by new actors and perspectives. The result is a narrative that goes beyond a simple annual

snapshot of the sector’s performance, resulting in a narrative recognisable even beyond the narrow confines of ethical finance.

Director Paserman’s words are fully confirmed in this narrative, which describes not only quantitative development – marked by steady growth in the medium term – but, even more importantly, qualitative development. Ethical finance is consolidating its position as an increasingly significant sector: a solid and reliable model that is now more necessary than ever in Europe.

This is evident throughout the pages of this report. Ethical finance institutions operate solidly in the markets and within European regulatory frameworks, offering products and services capable of responding to the conditions set by these contexts. These conditions, which ethical finance has repeatedly criticised, are often inconsistent with the nature of its activities, particularly with regard to social and environmental impact and risk management.

Alongside this presence in the market as financial entities – analysed rigorously in the report and, as will be seen, without any self-indulgence – the document also offers another perspective, uncommon in conventional economic reports. This is a perspective typical of ethical finance, which cannot be fully understood if viewed solely as an economic actor. Ethical finance institutions recognise themselves as social actors: they read reality, interact with society and show sensitivity to issues of justice that emerge over time. In this dialogue, they encounter the social economy, with which they share a path that goes far beyond the mere provision of financial services, as the report illustrates in detail. On this same path, ethical finance is also confronted with a Europe undergoing a new phase of rearmament, which involves a significant increase in investment in the military sector and risks undermining social cohesion and climate change policies. The report clearly documents ethical finance’s commitment to countering this risk: its resolve to maintain support for socially and environmentally impactful investments and to categorically exclude any investment in the arms sector.

## 2. ETHICAL FINANCE: NEITHER RHETORIC NOR OXYMORON. A SOLID – AND NECESSARY – FINANCIAL MODEL

As the report clearly shows, the financial model of ethical finance is solid and stable over time. However, the document also highlights another particularly important aspect, as it departs from the triumphalist – and often suspicious – tone that characterises many corporate reports. With transparency and realism, the report focuses on those elements which, while not undermining institutional stability, can at times limit access to periods of high profitability. Ethical banks are aware of this and deliberately choose not to pursue high-risk financial strategies, which in recent decades have been shown to have serious consequences for society. The analysis of the data contained in the report – from the structure of the financial statements to the types of credit, from the costs of assessing the social and environmental impact of applications to the maintenance of close ties with members and local communities – explains the behaviour of a sector that, as is clearly evident, does not pursue maximum profitability at any cost. Without ever compromising its stability, ethical finance pursues other ways of operating and relating to the market. Its benchmark for comparative assessment is very different: it aspires to be recognised as best-in-class for its social and environmental impact, not for the economic profitability of the investor – let alone the speculative investor.

It is a solid and credible proposition, especially for those who expect their money to generate social returns they regard as far more valuable than short-term economic gains. This interest is increasingly recognised by European institutions, which consider ethical finance a natural – and sometimes the only – ally with which to collaborate on the development of specific public policies. As former European Commissioner Nicolas Schmit remarked on the occasion of FEBEA's 20th anniversary: "We need you to implement our policies." He added an invitation that remains valid today: to reach out to citizens with our narrative – the story told in these reports.

## 3. ETHICAL FINANCE AND THE SOCIAL ECONOMY: A COMMON AGENDA

While recognising the great value of the contribution that ethical finance makes to the social economy, the two areas also share a structural and intentional affinity which, as the report highlights, gives their relationship a depth founded on mutual recognition and enrichment. This bond, as noted at the beginning of these conclusions, goes far beyond a simple functional relationship between supplier and client. Without denying the great value of ethical finance in providing adequate financial solutions for the social economy, the two areas also share a structural and intentional affinity which, as the report highlights, gives their relationship a depth founded on mutual recognition and enrichment. This relationship also makes it possible to

define a common agenda for political advocacy, the current priorities of which are detailed in the report, showing how ethical finance and the social economy act together on the regulatory framework, consumption patterns and public policies that shape the daily life of our societies, generating and transmitting a shared culture.

The existence of this common ground between ethical finance and the social economy also explains many of the data analysed in the report. Ethical finance's in-depth knowledge of the realities of the social economy is no coincidence: it stems from constant listening and genuine engagement with people and local communities. This proximity allows ethical finance to develop responses that are not generic, but rooted in local contexts – alive and capable of engaging with what is happening in each community and territory. Much of the excellent performance of the credit portfolios of ethical finance institutions can be explained precisely by this market knowledge, which – as has been repeatedly emphasised – is increasingly valued by numerous public and private actors in Europe.

## 4. LOOKING AHEAD TO THE NEXT REPORT

The report clearly shows its forward-looking approach, drawing attention to a situation that poses very concrete challenges and responsibilities for finance in general and ethical finance in particular. It does so with awareness, in the conviction that we are living through a period of profound change – both in terms of the stability achieved by ethical finance in Europe and in terms of the European and global context in which it (like society as a whole) will develop in the years to come. The third and final part of the report is devoted to some of the most alarming aspects of this context, offering insights into the urgency – repeatedly underlined – of a consolidated ethical finance model that represents far more than a simple alternative.

The world around us is changing rapidly, and we can clearly identify the major trends shaping our future: the climate crisis, digital transformation, demographic change and, perhaps above all, the fragility of democracy. These dynamics are already reshaping our societies, our markets, and our institutions. They are dynamics that challenge us all – and the financial system in particular. In this scenario, ethical finance cannot simply adapt. It must assume a leading role. And to do so, it must be prepared to question dominant narratives – especially those that risk undermining the very foundations of sustainability and peace.

During the 24th FEBEA Conference, held in October 2025 and dedicated to the future chapter of ethical finance, the need was stressed to strengthen our narratives and, at the same time, to question prevailing ones. One of these, which ethical finance considers urgent to confront, is the increasingly widespread assertion that 'there is no sustainability without security'. On the surface, this

statement may seem persuasive: who could object to the need for security and stability in a world beset by multiple crises? But behind its seemingly reassuring rhetoric lies a dangerous idea: that sustainability can be achieved through militarisation, surveillance, and the expansion of the security-industrial complex – that the road to a more just and sustainable future must pass through armed deterrence and geopolitical control.

For those who contributed to the drafting of this report, it was a duty to take a stand against this rhetoric. Ethical finance has for years firmly opposed this vision and affirmed its role as guardian of a non-violent space, now more than ever at risk. For some European ethical finance institutions, this conviction was one of their founding principles; today they feel the need to reaffirm it publicly. All reject the notion that sustainability should be subordinated to security defined in terms of military escalation. They reject the idea that peace can be built with weapons, or that ecological transition implies stronger borders and the exclusion of vulnerable people behind walls and barbed wire.

Ethical finance institutions do not fund the arms industry because they know that true security is not the absence of threats, but the presence of justice: the strength of communities, the health of ecosystems, the dignity of every human being. And they state this clearly: there can be no sustainability without peace, nor peace without equity, inclusion, and solidarity.

This report demonstrates that such a declaration is not only an ethical position, but also a strategic choice. It arises from the deep sense of mission of these institutions, but translates into concrete actions. Because the challenges we all face – climate change, inequality, the fragility of democracy – require cooperation, innovation and trust. They also require European institutions capable of listening and developing coherent policies.

That is why ethical finance calls on the European Union to adopt concrete support measures. Once its value has been recognised, it is necessary to implement actions that help consolidate a space that, as is increasingly acknowledged, is crucial to building justice and cohesion in Europe. With this in mind, FEBEA has put forward several proposals, including:

- The introduction of regulatory frameworks that recognise the specificity of the ethical finance business

model, with simplified capital requirements for smaller banks;

- Tax incentives for activities and investments with a positive social and environmental impact, granting them preferential treatment under EU tax regulations;
- Access to financing on sustainable terms, accompanied by more flexible instruments from European financial institutions;
- And, finally, the promotion of citizens' savings, for example through a European Social Savings Mechanism that allows part of private savings to be voluntarily allocated to safe, EU-guaranteed instruments dedicated to socially valuable initiatives.

The next report will continue to ask what kind of future ethical finance intends to build, and what legacy it wants to leave. It will once again be part of a collective narrative, a shared journey. Because the next chapter of ethical finance will not be written in spreadsheets or balance sheets, but in the lives it touches, the alliances it forges, and the values it upholds.

It is written in the stubborn choice of peace, even when the world insists that war is inevitable. It is written in the constant commitment to sustainability, even when others claim it must be sacrificed in the name of security. It is written in the deep conviction that finance can be a tool of liberation – not of domination. It is written in solidarity with the people of Gaza, in the firm rejection of the genocide unfolding as these pages are being written, and in the many concrete actions undertaken in their support by numerous ethical finance institutions.

In the next report, we will see a further step forward, in which ethical finance will be the co-author of a new story: a story in which finance is at the service of humanity, and not the other way round; a story in which ethical finance is not the exception, but the norm; a story in which the future is not feared, but embraced – with courage, compassion, and conviction.

**Pedro Manuel Sasia Santos**

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*FEBEA - European Federation of Ethical  
and Alternative Banks and Financiers*



8<sup>th</sup> Report on Ethical Finance in Europe

# CAPITAL FOR COMMON GOOD

ETHICAL BANKS AND THE SOCIAL  
ECONOMY FOR THE FUTURE OF EUROPE



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