

Ethical Finance in England

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Ethical Finance in England- Background

For a long time, ethical finance in England was considered a synonym for socially responsible investments (SRI's). It began to arise towards the end of the 60's and the start of the 70's, stemming from a group initiative that wanted to set up this type of activity based on an American model. In 1973, Charles Jacob, an administrator at a Methodist Church, prepared a request for the first ethical investment fund, which was initially rejected by the Department of Affairs and not accepted till a few years later. In 1981, the **Ecology Building Society** started to finance house sales that had an ecological stance. In 1983 Friends Provident offered to administer an ethical fund using investment criteria outlined by a separate committee, which caused the launch of the following funds: the Stewardship Unit Trust, Stewardship Life Fund and the Stewardship Individual Pension Fund in June 1984, as well the joint venture **Friends Provident Stewardship**. In answer to the growing concerns about the environment and sustainable development, "green" investment funds emerged in 1988 and witnessed the start up of the **Merlin Ecology Fund** (now the **Jupiter Ecology Fund**), which led many other environmental funds.

Today, in England, there are approx. 60 different social and ethical investment funds to choose from. If at the start of the 80's many financial workers in the *City* considered ethical investments as obscure, by the middle of 2000 investment funds according to ethical selection programmes amounted to approx. 2.8 billion pounds (sterling)¹, with increasing numbers of interested financial brokers.

In 1983, when there was a need for a communal research source upon various company activities, **EIRIS was set up (Ethical Investment Research Service)**. Furthermore, ethical banks received a great input in the nineties when the Co-operative Bank developed its own ethical politics. Specialist groups developed financial organisations such as Industrial Common Ownership which in turn produced "*socially directed investments*", with a high repayment rate and low if not zero interest rate.

In 1991 the **Social Investment Forum UK** was formed out of two important figures through the broad field of ethical and socially responsible investments with the aim to collaborate and share know how and to construct a communal programme.

In 1997, a group of University lectures launched a campaign to encourage ethical and environmental investments for their pension funds, *the Universities Superannuation Scheme* (USS). After initial proposals regarding the pensions, a law was passed on the 3rd July 2000 declaring that all pension funds and TFR's had to be formally considered in order to develop their politics upon social, ethical and environmental issues.

Since August 2001 sales in ethical investment funds reached 4 billion pounds: ethical pension funds

¹ 1 euro= 0.787564 pounds (sterling)

contain more than one third of all British shares. An inquiry carried out by the Investment Forum in October 2000 on 171 of the 500 occupational and pension funds revealed that 59% of the funds (that represent about 79% of available finances) had tried to incorporate SRI's in their investment strategies, usually for specific management requests.

In 2000, the Universities Superannuation Scheme announced its new politics upon Sustainability and Responsible Investments. The same year Shared Interest, the largest organisation specialised in Finance for Development, dedicated nearly 20 billion Sterling to Fair Trade.

Ethical Finance in England: a legal context

In March 1998, the Ministry of Trade and Industry sent out a fundamental revision of company law, producing a final report entitled the "Modern Company Law for a Competitive Economy" published in July 2001. This can be viewed at: www.dti.gov.uk/cld/review.htm. Socially responsible funds and consultancy firms were interested in this change as it concerned above all their revisions to rules and regulations concerning the environment and society.

In April 2000, The Ministry of Finance set up a task force for fair investments, to study best ways of promoting future savings. The commission's recommendations were to install a credit tax to encourage private communal investments, thus creating fair investment funds and more support for charities and financial institutions that had a communal focus (development banks, loan funds, micro credit funds and fair investment funds).

In July 2000 an act was passed in Great Britain stating that pension fund managers had to explicitly declare social, environmental and ethical considerations that underlined their investment strategies in their Declaration of Investment Principles² The most interesting act in this field, however is Act No.1849 *The Occupational Pensions Schemes* that was passed in 1999 concerning pension funds, that sanctioned how investments could be carried out with social, environmental and ethical principles. This act followed on from one passed in 1995, which had already established other issues that trustees had to declare in their Declaration of Investment Principles:

- a) The area in which social, ethical or environmental considerations are made when selecting, maintaining and carrying out investments;
- b) Fund manager's politics in relation to exercising rights (including the right to vote) concerning investments.

The first regulation proposes quotes and principles, whilst the second and third respectively rectify occupational pension programmes and investments from 1996 and occupational pension programmes (transfers, takeovers and bankruptcy) from 1997. The second and third regulation rectify laws concerning dispositions, programmes and investments of small pension funds and mortgages, which have restrictions upon investments relative to work employees that are not applicable (in particular relation to small programmes and workers' loans).

The second regulation (point 4) introduces, a declaration to integrate social, environmental and

² www.legislation.hmsso.gov.uk/si/si1999/19991849.htm

ethical considerations in relation to decisions concerning investment programmes regarding any policy the trustees propose according to their rights.

Following this, in 2002 the Finance Act was passed, that promoted fiscal advantages to encourage private community investments through "Community Investment Tax Relief" (CITR), which was set up for individuals, to encourage fair investments towards their own community and to support local development of underprivileged communities. The CITR is a tax reduction that is established with citizens at 5% of the amount of their investments in the Community Development Finance Institution (CDFI) which they benefit from on an annual basis over 5 years. In order to access the CDFI agreements, associations have to provide a predominant (direct or in direct) financial principle to companies who work with the underprivileged.

In March 2003, twenty CDFI's received an agreement totalling 88 million pounds through to 2006.

It is interesting to observe within the Declaration of Investment Principles that on the 1st of February 2004 there is a paragraph dedicated to socially responsible investments: the authoritative body has considered the way in which social, environmental and ethical factors have to be considered within the administrative process of the investment portfolio regarding actively managed investments, simultaneously seeking to obtain repayments that have the best interest rates for both those who contribute to and benefit from the fund. The authoritative body has determined that direct contacts with companies in which to invest, represent the most effective tool through which the politics of these companies can be influenced, simultaneously gaining compatible financial returns that have financial objectives regarding long term funds. The authoritative body hopes to promote performance and does not therefore want disinvestments in these companies exclusively as a result of social, environmental and ethical issues.

Many companies specialised in research, supply and commercial consultancy regarding socially responsible investments have entered the market: some are new, whilst others have set up divisions dedicated to this sector. In addition to EIRIS, PIRC and the Association of British Insurers, there are also the following organisations: Ethical and Environmental Screening Services (EESS); Global Risk Management Services (GRMS); Innovest Strategic Value Advisers; the Manifest Voting Agency; National Association of Pension Funds, Voting Issues Service and Safety and Environmental Risk Management (SERM). Many investment institutions have set up an internal team working on SRI's or have taken on analysts to carry out initial analysis on SRI's.

Ethical Finance in England: a political and communicative context

Ethical Exchange

Ethical Exchange is a website set up to promote ethical business in an independent and impartial way and to assist people to follow up ethical issues. Its objective, therefore is to allow people to acquire ethical products, to support campaigns and to take on an active role in their community. An increasing number of organisations are realising the need to carry out their work in an ethical

way, therefore rejecting trade with those organisations that do not respect human rights, that do not support the arms trade or who do not consider the social and environmental impacts of their work. It's approach may change according to different businesses, but each organisation that accesses this site declares their active ethical politics. Ethical Exchange promotes the following ethical principles:

- Equal rights for all;
- Positive social impact;
- Environmental care;
- mutuality and democracy.

One of their objectives is also to encourage organisations to work in a more ethical way.

Ethical Investment Association (EIA)

EIA is a nationwide body of independent financial advisers (IFAs), which aims to facilitate the promotion of ethical investment by its members and to set standards in the ethical investment industry. Members agree to abide by a code of conduct and to engage in a continued programme of training and development in the field of ethical investment.

UK Social Investment Forum: UKSIF

UKSIF is a group of 250 members, including institutional fund managers, financial advisers, SRI research providers, consultants, trade unions, banks, building societies, community development finance institutions, NGOs and individuals interested in SRI. The UK Social Investment Forum is one of the members of the UK network for SRI's. UKSIF believes that social, environmental and ethical issues have to be included amongst investment selection criteria, so that individuals can reflect upon their investment values. The Forum began in 1991 to bring together various national "issues" regarding SRI's and to act as a reference point and voice for the industry.

Just Pensions is a programme of the [UK Social Investment Forum \(UKSIF\)](#) - the UK's membership network for [socially responsible investment \(SRI\)](#). *Just Pensions* aims to educate and influence UK pension funds and other institutional investors about the importance of international development issues in their practice of SRI.

In addition to its education and awareness raising activities, *Just Pensions* co-ordinates in-depth research to assess current practice and works to address the blocks to the growth of SRI generally and pro-poor SRI in particular. *Just Pensions* also provides SRI toolkits for trustees, and engages with stakeholders on SRI best practice. Together with UKSIF and Eurosif, *Just Pensions* aims to

Ethical Finance in England: the actors

Ethical Investment Funds

Selected communal investment funds that have social, environmental and ethical principles have been available in the United Kingdom since the first fund was launched in 1984. Whilst some funds have focused on sustainable and environmental criteria, the majority refer to a wider perspective of SRI criteria.

Today, in England there is a broad area of funds that are defined as ethical investment funds, also

known as **Screened investments**:

Pooled retail screened funds: communal investment funds, company investments, personal pension funds, insurance funds and other products available.

Private investor screened shareholdings: a number of investors, who use consultancy firms or their own exchange agents to apply their own capital selection criteria or acquired shares.

Pooled institutional screened funds: available communal funds for institutional investors (local authority pension funds, company pensions, charity investments), that use ethical criteria to select their investments. We are referring to separate portfolios which a manager makes available, also known as *Institutional investor screened segregated portfolios*

In addition to these, there are also investments referred to as “*investments with positive commitment politics*”: a portfolio where share holders or managers have a commitment to those companies that seek to improve their work and social, environmental and ethical politics, a practice that has significantly increased in recent years. The commitment range of each individual shareholder or administrator of each fund can vary from a manager who focuses attention on environmental issues within certain companies to a political cooperation with a substantial commitment where objective key issues are identified by those managers who work in close contact with a series of companies over a long period of time and try to convince them to adopt better practices. The following types of investments have a political commitment and can be identified as follows:

Pooled retail funds with an active engagement policy: are communal investment funds, investment companies, pension funds, life insurance and other products available through these markets that work with actively committed politics.

- a) **Private investor shareholdings with an active engagement policy**: Funds which have a number of investors who lobby companies that have shares.

I fondi di investimento etici presenti in Gran Bretagna al 1 Gennaio 2004:

SOCIETA' E FONDI COMUNI DI INVESTIMENTO: Abbey National Ethical; AEGON Ethical A; AEGON Ethical Income Inc; Allchurches Amity A Artemis MMgr Ethical Income; AXA Ethical B; CF Banner Real Life; CF Berkeley Social Responsibility; CF Ethical Incombe; CIS Environmental; Credit Suisse Fellowship; Family Assurance Charities Ethical; Framlington Health; Friends Provident Stewardship Growth Inc; Friends Provident Stewardship Income Inc; Friends Provident Stewardship International; Friends Provident UK Ethical (ISIS); FT All Share UK; Gerrard Ethical; Halifax Ethical A; Henderson Ethical A; Insight Inv Evergreen Ret; Insight Inv Eur Ethical Ret; Jupiter Ecology; Jupiter Environmental; Opps; Legal & General Ethical; Norwich Union Sustainable Future Absolute Growth; Norwich Union Sustainable Future Corporate Bond; Norwich Union Sustainable Future European Growth; Norwich Union Sustainable Future Global Growth; Norwich Union Sustainable Future UK Growth; Norwich Union Sustainable Future Managed; Norwich UK Ethical; NPI Global Care Growth; Rathbone Ethical Bond; Scottish Widows Ethical; Scottish Widows Environmental Investor A; St.James's Ethical Incombe; Standard Life UK Ethical; Teachers Sovereign Ethical.

FONDI PENSIONE: Abbey Life Ethical; Abbey National Ethical; Aberdeen Ethical World; AEGON Ethical; AEGON Ethical Incombe; Allchurches Amity; Artemis MM Ethical; Axa Ethical Trust; CF Banner Real Life; CF Berkley Social Responsibility; CF Ethical; CIS Environmental; Clerical Medical PP Evergreen Fund; CS Fellowship Retail; Eagle Star Environmental Opps 1; Family Charities Ethical; Friends Provident Stewardship Growth; Gan/CS Fellowship; Halifax Lf Ethical; JRA Ethical; Lincoln Green; NPI Global Care Equità; NPI Global Care Managed; Scottish Equitable Ethical; Scottish Life UK Ethical; Scottish Widows Environmental; Skandia Life Ethical Portaloio; Standard Life Ethical; Winterthur/CS.

- b) **Pooled institutional funds with an active engagement policy**.

communal
institutional
investment funds
such as local
authority pension
funds, company
pensions, or
investments in
charities who
collaborate with
companies through

their shares.

- c) *Institutional investor segregated portfolios with an active engagement policy.* These are separate portfolios for institutional investors such as local authority pension funds, company pensions, local authority funds or charity investments that work with companies.

3) **Cause-based investments** Investments based on a cause or motivation are those supported by projects or personal reasons, such as projects for local renewal or support for projects in developing countries: an example are funds distributed through **Shared Interest**.

Socially responsible funds are distributed through specialised, independent brokers such as those members of the United Kingdom Social Investment Forum (UKSIF) and Ethical Investment Association (www.ethicalinvestment.org.uk), who associate themselves with commercial supply, research and consultancy. In addition, there are certain investment banks and some intermediate brokers who have begun to include SRI's as part of their delivery package to clients. A survey carried out in October 2001 demonstrated the value of responsible investment funds in England to be 120 billion pounds, whilst the sum was 52 billion pounds in December 1999. A large part of this growth has come from pension funds. The total of socially responsible funds that can be bought in detail is 4 billion pounds, according to EIRIS statistics in October 2001 (www.eiris.org).

Given the great variety of ethical funds in England, there is no surprise at the number of consultancy firms specialised in the ethical investment sector. The most authoritative is **EIRIS (Ethical Investment Research Service)**, founded in 1983 by a group of churches and charities who wanted to turn their principles into practice. Their aim is to carry out research on companies in such a way as to provide investors with sufficiently correct information so that they can decide where to invest their money. Today, more than 75% of SRI funds and at least 70 institutions, funds and other investment organisations use EIRIS's research services, which carry out independent enquiries into 2,600 companies in Great Britain, Europe, North America, Asia and certain regions in the Pacific, regarding around 40 different sectors or areas of interest, including animal testing, the arms trade, environmental performance and the Third World.

In 2003, Eiris published its second Guide to responsible banking, in which it evaluates banks and other financial institutions based on the following criteria: the existence of loan politics towards the South, the existence of credit politics; the lack or presence of trade relations in countries where there are violations of human rights, the political fight against social and financial exclusion, environmental politics, equal opportunities politics and solidarity development politics.

Another specialised consultant is **Ethical financial Ltd**, a co-member of Socially Responsible Investment Ltd, funded in 1989 whose objective is to promote awareness and knowledge upon ethical investments to individuals, companies and charities. Within the field of ethical and socially responsible investments, Ethical Financial represents one of the most important actors.

Another specialised independent ethical financial consultant is **GAEIA**. Founded in 1993 by Brigid Benson, GAEIA proposes to contribute "sustainable businesses", promoting social justice together with environmental responsibility. GAEIA examines ethical and environmental funds and informs its clients about ethical banks and financial credit institutions, upon alternative and innovative

investments that can have a short term financial payback but which also present longer term advantages in certain projects, regarding the community and environment. The products offered include pension programmes for shareholders, individuals, company services, corporate finance services that are covered by shareholders.

Positive criteria used by Gaeia offer a good level of security, pollution checks, energy conservation, recycling equipment, equal opportunity politics, whilst negative criteria refer to the arms trade, nuclear energy production; oppressive regimes, the tobacco industry, anti-trade union activities, animal testing, forced labour and Third World debt. GAEIA distinguishes itself from the others as it is not part of any other insurance or financial campaign, it doesn't manage any fund, it is free to use any of the available companies for independent financial consultancy just as other specialist funds, according to that which is better for the client, it offers advice upon effective costs of all transactions, even upon the most modest investors, perhaps not generating large profits, but leaving clients free to decide where to invest their capital and their savings. GAEIA is a founding member of the Ethical Investment Association and takes part in the Social Investment Forum UK.

Ethical Investment Co-operative Limited (<http://www.ethicalmoney.org>) was established as a co-operative. It is a democratically run organisation which draws advisers from across the country to share experience, skills and resources to help promote ethical investment in the UK. The advisers in the co-op have extensive experience in all aspects of financial planning, especially ethical investment. Our clients range from concerned individuals to charities, trade unions, small businesses and NGO's.

The role of the E.I.C. is to provide its clients with quality ethical financial planning through personal consultancy. Its services include: investment for income or growth, regular savings, family and personal retirement plans, managing and reviewing existing investments protection, mortgages, tax planning and charitable gift strategies.

Ethical Banks

The perspective on Ethical Finance in England is complex due to the high number of institutions that have decided, in recent years to apply ethical criteria to their own business philosophy. There are two predominant Ethical Finance banks: **Triodos Bank**, an ethical bank that started in Holland but also has branches in England and Belgium and the **Co-operative Bank**. There are a number of different bodies which work with these two banks such as consultancy firms, credit institutions that propose more ethical investments to their clients, providing them with all necessary information upon projects, funds and investments regarding their services.

THE CO-OPERATIVE BANK: The Co-operative Bank began more than one hundred and twenty-five years ago as the Loan and Deposit Department of the Co-operative Wholesale Society (CWS) and went on to become the main bank to co-operative societies all over the country. Today, it continues in its aim to provide quality financial services to the UK Co-operative Movement. The Co-operative

Group is the largest shares cooperative in the world with sales reaching 7.8 billion pounds in 2002 and today has more than 70,000 operators worldwide, working in various sectors: shops, supermarkets, travel agents, banks insurance companies and businesses.

All aspects of the bank's loans are potentially directed at the bank's individual capital shareholder. The Co-operative Bank has approx 2.23 million personal and business clients (2001) and more than 2,500 privileged shareholders who receive a fixed annual dividend.

The Co-operative Bank is the only "commercial" and for profit bank that is transparent to its customers, demonstrating to them what it does with their money. It seeks to satisfy its customers, who want to invest without contradicting their values and principles. In a recent inquiry, the Co-operative Bank was classified as a commercial bank with the highest number of satisfied customers (8 percent points more than the average). In these years, the bank has gained an excellent reputation for the quality and innovation of its personal financial services.

Since 1992 the Cooperative Bank has developed its own political ethics, based on a series of customer consultations, where clients were invited to reflect upon their own ethical principles and to express their concerns regarding various investment sectors.

The results showed that 98% of the Cooperative Bank's customers wish to respect the Universal Declaration of Human Rights and therefore do not want their money invested in governments or businesses who violate these rights in any way.

This has led the Cooperative Bank to demonstrate its sensitivity in various issues. In 1996, the bank financed a campaign against the use of landmines and in 2002 it did not invest in either the arms trade, oppressive regimes nor in the production of torture weapons used to violate human rights. An important choice in a country that is fourth in producing arms for trade.

In addition to this, the campaign decided to sustain the ILO convention on workers' rights. As a consequence, the bank undertook a responsible position with regards to promoting Fair Trade (as requested by 97% of its clients) and the need to guarantee workers' rights in developing countries (as requested by 96% of its clients). Irresponsible practices are not therefore supported in developing countries' markets (93%)³, tobacco producers (81%) nor does it invest in currency speculation (79%). In order to respect these principles, in 2002 the bank did not finance: toy and stationary production as suppliers in developing countries did not guarantee adequate work conditions, exploiting child labour.

The Bank does not, in addition invest in GM bodies on a basis of their unchecked impact on the environment, negative impacts in developing countries ("Terminator" technologies) and lack of acknowledging indigenous knowledge. In accordance to its *Ecological Mission Statement*, the *Cooperative Bank* does not invest in shares that actively contribute to global climate change (70%), chemical production that harms the environment (88%) and the extraction of unsustainable natural resources (94%).

On the contrary, the Bank supports companies who focus on recycling and sustainability 98%, energy efficiency and renewable energy 98%, natural sustainable products, amongst which there

³ i numeri in parentesi si riferiscono alla percentuale dei clienti della Banca che condivide le politiche etiche da essa attuate.

are wooden and organic products 97% and research into ecological sustainability 97%.

The bank has developed numerous initiatives and partnerships to provide necessary support and funds for those organisations (such as Greenpeace) who work to improve the environment. As far as animal protection is concerned, the Bank does not invest in those companies that test on animals (88%), intensive farming methods, sports that mistreat animals and the fur trade. It supports all those initiatives that develop alternative methods of animal testing (88%) and farming that promotes animal well being (95%).

With regards to its principles in 2002 the bank rejected many investment opportunities that conflicted with their stance on ecology. It did not, for example, invest in oil multinationals that search for, extract and refine petrol; it also refused to invest in the production of chemicals as subsequent waste and pollution levels were unacceptable.

Finally, the Bank supports companies working within the Third Sector, especially cooperatives, credit unions and communal financial initiatives. It does not, however make clear which initiatives it uses for investments, least of all, to the public.

Triodos uk: Unlike the Cooperative Bank, Triodos UK, the british section of the Triodos group, has a different perspective from its counterpart. Its mission is to provide bank and financial services according to what organisations and those working in the Third Sector need. Triodos UK offers both current and deposit accounts (at a competitive interest, with easy access and low costs) for customers, allowing them to support certain organisations: [Dana Partnership Reserve Account](#), [Just Housing Treasurers Reserve Account](#), [Organic Reserve Account](#), [Quaker Social Housing Treasurers Account](#), [Social Venture Current Account](#) which are managed by a partnership between Friends of the Earth, Churches National Housing Coalition, The Soil Association, Friends of the Western Buddhist Order, Quaker Housing Trust.

For example, the [Just Housing Treasurers Reserve Account](#), is open only to organisations that can deposit and stably maintain a minimum of 5,000 Sterling, the aim here is to gather money to invest in improving the lives of the homeless, in partnership with the Churches National Housing Coalition. Funds are therefore used to provide housing. The account can be chosen through instant or monthly access and also has a chequebook. Interests are paid every three months and are calculated on a daily basis.

With regards to the Quaker Housing Trust, funds deposited in these accounts are aimed at improving homeless' lives in partnership with Quaker Housing Trust. The fund has the same dynamics as the other: it is possible to donate all of one's interests to the Quaker Housing Trust.

Customers, who do not particularly wish to support these type of organisations can chose a more generic account, called "Charity Saver" that assures customers with a high interest and uses deposited funds to give loans to "charities", on a basis of a detailed and updated project list that details all those organisations that work with the Triodos Bank. The account allows customers to donate an interest quota percentage dedicated to a specific cause.

Services for organisations: current accounts, loans, finances

Triodos Bank has always financed organisations and groups who respect social, environmental and cultural values, which is different from the Cooperative Bank, not only does it not finance environmentally harmful organisations but it exclusively finances those which make a real positive difference, who bring well being to the community, respect the environment, individual freedom and skills.

The staff at the Triodos Bank use their skills and their judgements in evaluating each loan application, analysing the social and environmental values of each project such as financial performance. This means that Triodos supports a wide variety of initiatives in various sectors, throughout Great Britain and Ireland, reflecting the growing strength and diversity within social economy. Here is a list of some possible organisations to invest in through Triodos:

- Amnesty International Saver
- Brixton Cycles
- Cafédirect
- Ecotricity-Ecotech Wind Park Ltd
- Ecotricity- Somerton Wind Park
- Golden Lane Housing
- Lewes New School
- Moel Maelogen
- Ruskin Mill
- Soil Association Organic Saver
- The Organic Centre
- WDM Trust Saver

West Hembury Farm

There are two accounts dedicated especially to charities: a current and deposit account.

The Charity Current Account, only open to charities offers general services to the community, allowing them to gain higher interests. There is no minimum sum required to open the account, there is a chequebook and the possibility to automatically debit the account, use it abroad and to gain an overdraft.

Another account that is available to charities and companies in general is the Value and Simple Reserve Accounts, aimed at those organisations that have reserves which they can invest, allowing Triodos Bank to finance ethical projects. This account also has instant access or 33 day notice.

All accounts can have an automatic payment service, telephone banking and can receive foreign currency payments and receipts and giro credit, etc. via fax.

With regards to loans granted to charities, general politics at Triodos foresees granting between £20,000 and £10 million, with a loan of up to 25 years. There are also short and medium period loans of 10 years, competitive interests and flexible repayments. Finances can be granted through a loan

within the Charity Current Account, which is usually used for projects that are supported by a large group of supporters who want to invest in savings accounts that correspond with a project. Naturally, financial projects have to have a clear social, environmental and cultural objective. Triodos assures that its financed projects have transparency thanks to an updated list. To finance a Triodos project, a qualitative and financial assessment is carried out, similarly to what could be done from other banks.

Interest rates and tariffs

Tariff of charges for borrowers

<i>Arrangement fees</i>	minimum 1% of agreed loan
<i>By negotiation</i>	£15
<i>Audit fee</i>	no charge
Full investigation at the request of customer's auditors, with appropriate consents	
<i>Audit fee</i>	no charge
Account balance only	
<i>Administration fees</i>	minimum £10/month
(In-house facility to pay client's invoices - strictly by negotiation) based on amount per transaction	
<i>Security fees</i>	Variable
Solicitor's invoice for arranging security - the borrower is responsible for all legal fees, disbursements and valuer's fees incurred in perfecting the security	
<i>Rescheduling fees</i>	minimum 0.5%
Where loan repayments are rescheduled by mutual consent, by negotiation	
Management charges	£30/hour
The Bank reserves the right to make charges for management time expended in pursuing any amounts which are not paid when they fall due	
Electronic Funds Transfers within the UK	normally £25
<i>'Bounced cheques'</i>	£10
Where clients' cheques are re-presented	
Copy statement	no charge
Copy of your records under the Data Protection Act	£5
Triodos Bank reserves the right to alter charges with a minimum of one month's notice	

Tariff of charges for depositors

Triodos Bank does not currently charge fees for normal deposits, withdrawals, account statements or tax certificates. We pass on any charges raised in the banking system in carrying out transactions you have requested.

Stopped cheques	£10 per cheque
Cheques issued by Triodos Bank: we do not normally stop cheques we issue on your behalf. Where you request it:	£8 per cheque
Cheques issued by you	
Special clearance for cheques	£12.50
Where you ask us to present a cheque for special clearance	
Audit statements	No charge
Account balance only	
Copy statement or interim statements	No charge
Copy of your records under the Data Protection Act	£5
tessa and isa transfer charges	£20
Where you ask us to transfer your tessa or isa account to another bank	
Electronic funds transfers within the uk (chaps)	£25
Our charges for payments abroad	£18 per transfer
Please note that fees may also be charged by the bank receiving the funds	£15 per transfer
Urgent transfers	£12 per draft
Standard transfers	£9 per transfer
Foreign drafts	
Budget transfer rate: for amounts up to £2,000 to Belgium, Canada, Finland, France, Germany, Italy, The Netherlands, Norway, Spain, Sweden, Switzerland & USA	
Cheques (cheque book accounts only) when free annual limit exceeded	60p per cheque
Cash withdrawal facility (cheque book accounts only)	Please contact us for details
Bankers draft	£10
Unpaid cheques returned	£5
Errors	

If the total amount of the items being paid into your account is added up wrongly on the paying-in slip (bank giro credit), we will correct it and pay the right amount into your account. We will tell you we have done this, unless the error is less than £10.

Triodos Bank reserves the right to alter charges with a minimum of one month's notice

Standard tariff for Social Venture Current Accounts

Account charges	£
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Each cheque you draw	0.60
Each regular payment out of your account by direct debit, standing order or automated payment (bacs)	0.30
Each non-automated payment into your account such as a batch of cheques or a bank giro credit	0.60
Each direct debit, standing order or automated payment (bacs) into your account	0.30
Charges are applied	Monthly
Bulk cash deposits	Negotiable
Cheques and other payments including direct debits and standing orders into your account which are returned unpaid ('bounced')	Free
Cheques and other payments including direct debits and standing orders which you make or authorise and we return unpaid ('bounced')	15.00
Charges for other services	
Duplicate statement	Free
When we stop one of your cheques on your instructions	8.00
Letter we send to you regarding unauthorised borrowing	25.00
Special clearance cheques (where you ask for cheques to be cleared in a shorter time than usual)	12.50
Bankers reference you request (also known as a status enquiry)	8.00
Foreign transfers:	
Urgent Telegraphic Transfer	18.00
Standard Telegraphic Transfer	15.00
Draft	12.00
chaps transfer	25.00
Sterling banker's draft	10.00
Audit letter	15.00
Setting up cash withdrawal facility	
At branches of Royal Bank of Scotland (rbs)	Free
Another bank	Negotiable
Copy of your records (according to the Data Protection Act)	5.00
Interest	
On credit balances	Nil
Unauthorised borrowing rate	rbs base rate plus 20%
Agreed temporary borrowing rate	rbs base rate plus 10%
Standard tariff for Charity Current Accounts	
Account charges	£
Each cheque you draw	0.40
Each regular payment out of your account by direct debit, standing order or automated payment (bacs)	0.20
Each non-automated payment into your account such as a batch of cheques or a bank giro credit	0.40
Each direct debit, standing order or automated payment (bacs) into your account	0.20
Charges are applied	Monthly
Bulk cash deposits	Negotiable
Cheques and other payments including direct debits and standing orders into your account which are returned unpaid ('bounced')	Free
Cheques and other payments including direct debits and standing orders which you make or authorise and we return unpaid ('bounced')	15.00
Charges for other services	
Duplicate statement	Free
When we stop one of your cheques on your instructions	8.00
Letter we send to you regarding unauthorised borrowing	25.00
Special clearance cheques (where you ask for cheques to be cleared in a shorter time than usual)	12.50
Bankers reference you request (also known as a status enquiry)	8.00
Foreign transfers:	
Urgent Telegraphic Transfer	18.00
Standard Telegraphic Transfer	15.00
Draft under £200 equivalent	22.00
Draft over £200 equivalent	26.00
chaps transfer	25.00
Sterling banker's draft	10.00
Audit letter	15.00
Setting up cash withdrawal facility	
At branches of Royal Bank of Scotland or NatWest Bank	Free
Another bank	Negotiable
Copy of your records (according to the Data Protection Act)	5.00

On credit balances

See separate sheet for latest rates
rbs base rate plus 20%
rbs base rate plus 10%
Negotiable

Unauthorised borrowing rate
Agreed temporary borrowing rate
On Agreed overdraft

Triodos Bank changed its interest rates for credit balances on 01 June 2004.

Rates effective from **01 June 2004**

Figures in bold represent Annual Equivalent Rates (AER)

The middle figures are Gross

Figures in italics are Old Gross (valid until 31/05/04)

Social Venture Current Account

This account does not attract interest on credit balances.

Charity Current Account

	AER Gross <i>Old gross</i>	AER Gross <i>Old gross</i>	AER Gross <i>Old gross</i>	AER Gross <i>Old gross</i>
Balance	£5,000+	£25,000+	£100,000+	£250,000+
	1.00%	1.76%	2.27%	2.78%
Easy access	1.00% <i>0.75%</i>	1.75% <i>1.50%</i>	2.25% <i>2.00%</i>	2.75% <i>2.50%</i>
Value Reserve Account				
	AER Gross <i>Old gross</i>	AER Gross <i>Old gross</i>	AER Gross <i>Old gross</i>	AER Gross <i>Old gross</i>
Balance	£2,000+	£5,000+	£25,000+	£100,000+
	1.50%	1.76%	2.52%	2.52%
Easy access	1.50% <i>1.25%</i>	1.75% <i>1.50%</i>	2.50% <i>2.25%</i>	2.50% <i>2.25%</i>
	2.26%	2.77%	3.03%	3.28%
33 days notice	2.25% <i>2.00%</i>	2.75% <i>2.50%</i>	3.00% <i>2.75%</i>	3.25% <i>3.25%</i>

Triodos Bank offers finances to organisations through different formulas:

Community Treasure Chest: Triodos Bank uses funds (3 million Sterling) raised through the Triodos Community Investor Account quota, an account designed for individual customers and granted in collaboration with Small Business Service-Department of Trade and Industry (DTI), to grant loans to charities and companies who work with the underprivileged: loans can be granted for a maximum of £250,000 with adequate guarantees.

Overdrafts: are permitted on current accounts, the terms of which are annually reviewed.

Commercial mortgages: granted to organisations who want to buy property.

Loans: are granted even on a basis of unconventional guarantees.

Charities are nevertheless often unable to provide guarantees that a conventional bank requires and for this reason Triodos has developed new guarantees that charities can provide as opposed to the traditional ones through a borrowing community and community of guarantor.

Some charities cannot afford to take out loans but can have donors or supporters that can make up a Triodos Bank Borrowing Community, regularly donating in such a way as to payback the organisation's loan: this is an excellent way to achieve small sums, that can be repaid even in 4 years. Gift Aid can usually be applied to the sum given by the borrowing community, thus amplifying the effect. The Community of guarantors substantiates when certain individual charity

supporters provide personal guarantees to support the loans requested. These types of guarantees cover loans up to 2,000 Sterling.

Unity Trust Bank

The Unity Trust Bank is a socially responsible bank that has cornered a part of the bank industry, that no other bank has. Each year, Unity invests its funds, time and experts in a variety of organisations concentrated on the local community.

Founded in 1984 by trade unionists and a cooperative movement to provide a bank service to the unionists. The Unity Trust Bank has a unique business approach and offers products and services that are focused on real necessities and needs of the trade unionists. As a bank it proposes a series of flexible and simplifies financial services, including deposits and current accounts that are tailored to individual requests.

The Unity Trust Bank provides bank services to charities, voluntary organisations, credit unions but also to commercial banks. Here are some details of its services.

Bank products and services for charities and voluntary organisations: as a specialised bank for charities, voluntary organisations and social companies, the Unity Trust Bank provides banking solutions that are adapt to organisations that want to concentrate on perusing their objectives.

The Unity Trust Bank offers charities and voluntary organisations advantages based on a current account that has incentives such as a chequebook, etc. There are no commission costs when credit and deals are for an amount of more than 250,000 Sterling.

The Ideal Cash Account is a current account with a tiered interest rate, ideal for those organisations that need instant access but have another credit balance. The Ideal Deposit Account is ideal for organisations that have a money surplus and need immediate access.

The Ideal Reserve account is ideal for those organisations that want to obtain an interest rate that is extremely competitive over a medium and long period.

The Unity Trust Bank has developed a fund programme called “*Rent to Buy*” which is tailored for charities and the voluntary sector. The fund programme “Rent to buy” supplies up to 100% of required finances to buy property through a simple combination of tradition hypothesis covered by a capital bank quota. The programme is simple to carry out.

The Unity Trust Bank has also developed a series of insurance services for charities: the Charity Assured Insurance- Aon Limited, assures adequate insurance protection against personal liability, however big the activity. The insurance provider for the Unity Trust Bank is Aon Limited.

For small charities and voluntary organisations, the Unity Trust Bank has studied Charity Assured Essentials, a liability based policy programmed to cover effective costs and assure essential protection. The policy includes public liability with a indemnity limit of 5,000,000 Sterling; employers’ liability with an indemnity limit of 10,000,000 Sterling; personal accident and legal expenses.

The Charity Assured Choice is a flexible insurance company that allows flexibility to chose an insurance cover that meet the needs of the individuals. This insurance company is divided in three: the first provides an insurance choice identical to the one offered by the Charity Assured Essentials

insurance policy. The second presents a series of additional insurance options, whilst the third offers additional insurance for detailed purchases.

The Charity Assured options is a policy tailored for bigger organisations, in as far as it offers an insurance packet based on individual needs. Charity Assured also offers other products that are programmed in accordance with the voluntary sector and charities such as: the Charity Assured Minibus Scheme, professional indemnity and Trustees indemnity.

Bank services for the credit union: Given its origins, the Unity Trust Bank claims social and equity inclusion amongst its principles. It is one of the most important credit unions and has the following services:

Ideal current accounts that offer charities, voluntary organisations and credit unions incentives such as a cheque book, permanent dispositions, direct records and regular programming without commission expenses as long as the account remains in credit. The only costs to pay are those for additional services, such as cancelling a cheque. This type of account is only available to clients who have investments above 250,000 Sterling. Tiered interest bearing cheque accounts are ideal for those organisations that need instant access to large amounts of money with a competitive interest rate and the convenience of a working account. A 40p charge is applied to every registered transaction. Gross interests are credited four times a year in March, June, September and December.

There are also Tiered interest bearing deposit accounts for organisations that need to have instant access to money at any given time. Notice does not need to be given to withdraw. The gross interest is credited every four months in March, June, September and December.

In addition to these accounts, the Unity Trust Bank also has a Tiered interest bearing deposit account, ideal for those organisations that hope to gain an extremely competitive interest rate over a medium long period. In order to make a withdrawal, 35 days notice need to be given. Gross interest is credited every four months in March, June, September and December.

Developing credit unions is essential to the Unity Trust Bank which has always claimed to demonstrate its commitment and loyalty to credit unions, creating a specialised deposit account, called the Credit Union Development Fund, where credit cooperatives can accelerate transaction growth, whilst simultaneously gaining interests on their own funds. The aim of the fund, is to help new as well as existing credit unions, covering their promotional and commercial costs. Credit cooperatives are encouraged to deposit the cash surplus into a **high** interest bearing deposit account with Unity. This account needs 30 days withdrawal notice and gains interest twice a year. In addition to the interests gained, Unity pays an amount equal to 0.25% of the total combined in a separate subsidy fund. Credit cooperatives can also apply a guarantee no higher than 500 Sterling to cover marketing and advertising costs.

Bank services for corporate banking: Unity Trust Bank offers a specialist service for a particular kind of commercial customer. As major bankers to charities, trades unions and the not-for-profit sector we have the background, approach to business and sound principles and ideals that provide the edge to our corporate banking services.

Overdrafts can be a way of corporate financing, per incontrare le necessità dei singoli. In addition to this, the Unity Trust Bank also offers the Employee Share Ownership Plan. The bank provides a complete consultancy and administration service.

Credit Union

Credit Unions are mutual financial organisations, part of the “ social investment scene” and are promoted through communities, cooperatives and by trade union movements. Credit Unions are set up to provide alternative, inclusive and democratic banking to local communities that share a bond on the basis of territory or religion. Credit Unions can be found throughout the world. The international Credit Union movement is made up of more than 100 million people in over ninety countries, counting 36,000 Credit Unions. Their original aim of a local alternative to strategically combating poverty is also tied to supporting local community development and *capacity building*

Uno studio importante sulle Cooperative di Credito in Inghilterra ha identificato dei criteri essenziali per lo sviluppo e il successo delle cooperative di credito:

- Un grande e diversificato bond comune (che include i risparmiatori così come coloro che cercano credito)
- Un capitale di partenza sufficiente per rendere le cooperative pienamente autonome
- locali accessibili e visibili
- Uno staff pagato che fornisca servizi efficienti
- Sponsorizzazione da parte di attori credibili o un'organizzazione all'interno della comunità (es.: autorità locali, associazioni, organizzazioni locali)
- Un capacità di guida imprenditoriale ed idealista

Nel 1999 un gruppo di esperti del Tesoro chiamato “Credit Union for the Future”auspicava lo sviluppo e l’espansione delle Cooperative di Credito fino a servire più di 2 milioni di persone in Inghilterra. Ciò sarebbe stato possibile attraverso un miglioramento della legislazione, un’appropriata regolazione ed un servizio organizzativo che mettesse le cooperative nelle condizioni di poter servire un’ampia gamma di servizi per i loro membri. Sfortunatamente, i propositi per un Central Services Organisation per le Cooperative di Credito è stato superato da altre iniziative governative. Comunque le proposte contenute nel rapporto del gruppo di esperti su una appropriata struttura legislativa sono diventate effettive dal 2 Luglio 2002. Le cooperative di credito, infatti, hanno una base appropriata e una struttura in grado di farle crescere.

skills. One of the Credit Unions’ objectives is indeed to educate its members how to use money corectly. Credit Unions are managed by their own members and respond to their well-being. They are based on an English Building Society system, which is applied to the financial sector. To become a Credit Union member, one needs to establish a “*common*

bond” with the other members. Credit Union members share their savings, which together make up a communal fund that grants loans. A Credit Union divides its money between its customers and pays back their money through an annual dividend. Money invested by members are lent to other members, who pay interest on their loans. The “common bond” helps to create trust and cooperation between members and maintains all the money within the saving community. This helps to assist a well established community as the loans are low cost (less then 1% a month) and emphasize cooperation, negotiation and money administration. A Credit Union has to be able to provide its members with a better service: they have low transaction costs; have several subsidies and tax exemptions. Profits are given directly to its members and not to third party share holders; there are loans; there are communal shares that produce a kind of “customer fidelity”; credit unions thus provide a local and reliable service. By the nature of its structure, a Credit Union represents a socially responsible way to save and apply for loans. Many English Credit Unions use

the Cooperative Bank to deposit their money, benefiting from their generous interest rates and lack of any charges for this transaction. What is important is the cooperative's community and local aspect. Maintaining money within its community and recycling money between its members, Credit Unions follow ethical criteria. Money remains local instead of being invested far away, often in unethical projects. Credit Unions support small scale loans based on needs. Credit Unions have to nevertheless be efficient in attracting a sufficient number of customers so as to have enough capital to respond to its members loan requests and to cover its transaction costs. They have focus on giving their customers good interests on their savings. Credit Unions' main income comes from interests gathered on its members' loans. Credit Unions are administered and generally managed by a voluntary board of directors. All shareholders are also Credit Union members and are elected by all the members at an Annual General Meeting. All Credit Union members have a right to vote without taking into consideration their savings' amount.

Savings invested in a Credit Union are "protected" by a Supervisory Committee that makes sure the Credit Union functions in a secure and responsible way with respect to its members money. An accountant carries out an annual inspection on the Credit Union's affairs, thus fulfilling a law that maintains an insurance politics that protects against fraud and theft. For this reason, Credit Unions are regulated and authorised by the Financial Service Authority (FSA), which also regulates Banks, Buliding Societies and all financial service providers in England. Credit Unions have to address an anual financial report to the FSA, which has the power to apply restrictions upon the Credit Unions' affairs if they believe customers savings to be at risk. In addition to this, Credit Union members who have savings are protected by a Financial Service and a Compensation Scheme. FSCS is a security network for customers and financial networks. If a Credit Union bankrupts, FSCS provides 100% cover for the first £2,000 of savings and 90% cover of the following £33,000. This is the same level of cover that banks and building societies provide to their customers.

Another important aspect of the Credit Unions is that they can contribute fully and successfully in the fight against financial exclusion. A well established Credit Union can significantly contribute to financial exclusion and can provide good savings and loans for everybody. The Government has identified financial exclusion as one of the most important aspects of the deprivation cycle. Credit Unions provide: a solution based on self-help rather than state donations; communal property and community based solutions; a way of guaranteeing money remains within the local community. Credit Unions help people to understand the importance of regular savings and use shared savings to provide a low cost credit resource: this is particularly useful for those who have difficulties in applying for loans that have commercial interest rates. In addition, many Credit Unions provide payments on letter of credit, so as to allow those people who do not have a bank account to have access to credit. Credit Unions also offer free life insurance and cover insurance for their customers' loans.

Building Societies

The Ecology Building society

The Ecology Building was founded in 1981 and is mutual organisation that uses money from its customers to grant credit for environmental projects. It is therefore active in “ecological savings”. Committed to principles based on mutuality and independence, it seeks to insure, that those who apply for membership, share their same ecological and environmental values. Whoever opens an account with the Ecology Building Society becomes a member and is guaranteed a good return on their savings.

Products on offer are: ECO 60 account, Earthwise Cash Mini ISA, ECO-Istant account, Ordinary Share Account and accounts for charities and corporate bodies, namely: Charity Deposit Accounts and Corporate Deposit Accounts.

Ethical Property Company

The Ethical Property Company is a unique initiative in ethical investment. The company buys properties and develops them as centres, bringing charities, co-operatives, community and campaign groups together, where they can share skills and ideas. Groups in The Ethical Property Company's centres benefit from reasonable rents, flexible tenancy terms and office space and facilities designed to meet their needs. Anyone can buy shares in the company. There are currently over 1200 shareholders, some investing as little as £300, and own and manage 10 centres, that house nearly 100 tenant organisations. Over the last two years the Company has paid its shareholders an annual dividend of 3 pence per share and the share price has increased from £1.00 on 1st January 2000 to £1.06 as of July 2003. Shareholders can sell their shares through a matched bargain market operated by Triodos Bank. A second share issue for £4.2 million was launched in September 2002 and reached full subscription at the end of January 2003.

Industrial Common Ownership Finance Ltd (ICOF)

ICOF is a financial organisation founded in 1973 out of a series of informal meetings to promote carry out investments in social economy. ICOF rejects any activities, loans, investments or otherwise if they do not have ethical practices. ICOF does not loan for example to organisations, which trade with oppressive regimes, that are connected with the arms trade, nuclear weapons or are cruel to animals.

ICOF extends this politics to its investment practices with positive criteria: in particular it grants credit to all those companies that are committed to working in certain sectors such as safeguarding the environment and re-evaluating habitable areas.

Public Banks

Local Investment Fund (LIF)

Local Investment Fund was set up in 1995 by the then DETR (now the Office of the Deputy Prime

There are currently 8 Community Loan Funds:
In the North East: The Community Loan Fund (CLF) for the North East was established by the Local Investment Fund. The founding sponsors of this Fund provided initial capital of £400,000 which is available for community enterprises in the North East Region. Loans are from £15,000 to £50,000.

North West: The Community Loan Fund for the North West is sponsored by The Co-operative Bank, BNFL, AMEC, Granada, Business in the Community, CIS, Cheshire Building Society. The Fund makes loans from £15,000 to £80,000 to not-for-profit organisations with a viable plan for a community enterprise which helps with economic regeneration or social inclusion.

South East: questo CLF è stato istituito nel 1999 e concede prestiti da 15.000 a 100.000 sterline. È finanziato dal Rolls Royce, Bank of England, Imerys, Wester Power Distribution. I prestiti sono concessi ad associazioni e settori del volontariato che lavorano nell'area del sud est dell'Inghilterra. I progetti spaziano, dall'assistenza all'infanzia fino all'apertura di un internet caffè ecc. ecc.. Mweyside: è fondo regionale aperto nel 1998 con i fondi dell'ERDF a Brussell. I prestiti di questo fondo variano dalle 15.000 alle 75.000 sterline; esso è sponsorizzato da Riverside Housing Association e la LHT.

Midland ovest (ACLF): Advantages Community Loan Fund che fornisce prestiti finanziari a imprese "not for profit" per un ammontare che varia dalle 15.000 alle 85.000 sterline, ed è sponsorizzato dalla Unity Trust Bank, Business in the Community e Advantage West Midland;

Midland est :è un CLF per l'est Midland ed è una organizzazione di associazioni che forniscono prestiti finanziari ad organizzazioni "not for profit" che sono economicamente attuabili ma che sono impossibilitate ad ottenere prestiti dai canali tradizionali della finanza. Questo fondo fornisce prestiti tra 15.000 e 100.000 sterline ed è sostenuto dall'East Midland Development Agency, the Derbyshire e LHA: Leicester Housing Association.

Minister), Business in the Community and the private sector, with the aim of granting loans to "*community enterprises*", overcoming the funding gap often experienced by social enterprise. LIF tries to give loans of between 25,000 and 250,000 Sterling to projects and organisations across England. The LIF "plan" is part of the Regional Community Loan Funds in each region of England. These regional funds are focused on local communities in each region, with the aim of constructing a strong bond between funds, clients and sponsors, giving loans of between 15,000 and 100,000 Sterling. Since 1995 the Local Investment Fund has achieved great results, it has offered loans totalling in excess of £6 million. From this money, almost 40 million Sterling had been leveraged into community regeneration. In its nine years, the LIF has created or maintained 2016 jobs and 3984 training places. It has also rescued or built 65 buildings and out of the loans granted a strong percentage have been repaid early or re-financed through mainstream banking

finance. An important initiative belonging to the LIF was the set up of the **Adventure Capital Fund** in December 2002 in collaboration with three governmental departments, many regional development agencies and leaders in the field of social and economic regeneration. Its aim is to offer new types of investments over a long period to local companies working with the community or in areas where it more difficult or impossible to apply traditional market forces. The aim is to fill the investment gap that faces community enterprise organisations, and without which their potential to grow is always going to be held back. Only local not for profit and democratic businesses, that work directly within a community (inner city locality, market town, rural district etc) or with community of interest (such as an organisation working with a local refugee community, etc) can apply. Organisations that want to use the Adventure Capital Fund have to work with children or youth in reducing crime, drug prevention, creating employment initiatives or professional training. What is more, they have to have projects that aim to develop deprived neighbourhoods, or disadvantaged groups engaged in crime reduction; build social capital between neighbourhood organisations involved in reducing anti-social behaviour and combating drug abuse, providing community services in line with the investment priorities.

The Fund will invest in local companies that are not able to raise sufficient finances at an acceptable price to enable them to deliver their projects, or to increase their capacity to deliver new or additional services to their beneficiaries or clients. The Fund will be looking to a double return from its investments, i.e. financial as well as social returns, but also the potential for organisational growth and sustainability. These investments will be tailored made for each individual.

Clients have to try, as much as possible to develop long term sustainability of their work and have to state in detail the expected results of each project and when they will be monitored during the investment period. Investments are subject to an external evaluation programme, that aims to develop the concept "Social Return on Investment". There are three types of investment application:

Major investments for Asset development, including purchase of buildings or land, refurbishment costs, or other forms of asset development. Amounts available £50k to £400k.

Seed Capital for costs of pre-launch and start-up expenses, product development, or investment in systems/equipment needed to run better business operations. Amounts available £15k to £50k.

Working Capital to help organisations strengthen their cashflow during gaps in grant/revenue funding or to finance stock, debtors etc. Amounts available £15k to £50k.

Community enterprises can apply for one or more of these types of investment. They are assisted by professionals who have specialised experience in local companies, in order to improve and develop their business, such as proposing the financed project. Technical support will be focused on: organisational development, management models, financial performance, earnings and social impact. The level and length of support vary according to the needs and circumstances of each organisation.

Phoenix Funds: were created following the " Enterprise and Social Exclusion " Report of November 1999. These funds have a backing of 30 million Sterling and aim to encourage business spirit within underprivileged sectors, improving credit access to existing or developing companies. The Government provides for them through capital support, financial resources and guarantees for loans of approx. 40 Community Development Finance Institutions. Phoenix Funds also has a network of volunteer Business associates called the Business Volunteer Mentoring Association (BVMA), that supports young entrepreneurs, a Community Development Venture Fund (CDVF), that aims at investing in liability capital of small and medium disadvantaged companies and City Growth Strategies (CGS).

Bridges Community Development Venture Funds: In May 2002, the Bridges Community Development Venture Funds were launched. They were the first American community funds. With 40 million Sterling and financed 50% by both the private and public sector, their objective is to stimulate local development in underprivileged communities.

Community Development Finance Institutions – CDFI

These associations do not invest on a basis of financial considerations or guarantees, but with regards to the impact which the financing could have upon the community.

There are different types of CDFI's: credit unions, community development loan funds, micro-finance funds, social banks, community development venture capital.

The New Economics Foundation (NEF) estimates that funds available for community development in 2000 were little under 142 million Euros. Social banks have a net capital of 698 million Euro, whilst credit unions 341 million Euros.

Ethical Finance for Development: Shared Interest

Shared Interest is a co-operative lending society which began in 1990 and is owned and controlled by its 8,000 members who have invested more than 20 million Sterling. Shared Interest started out from a need to create an international financial system, that would be suitable for social initiatives and work, bringing together many organisations who work in the same field. It is a business cooperative that offers its contribution to the fight against poverty in the world by providing fair and just financial services, using savings to support Fair Trade. Shared Interest works with Fair Trade business all over the world, both with producers and buyers, providing credit to enable producers to be paid in advance and help Fair Trade to develop. One of Shared Interest's objectives is to improve the lives of underprivileged producers, seeking to encourage the most suitable financial services, that also entail a large risk. From this perspective, the bank finances Fair Trade providing loans and working with producers and consumer organisations committed to Fair Trade principles; promoting collaboration between the North and South, enabling British investors to be involved positive shares that address funds towards credit beneficiaries, who work in the poorest areas of the world; listening and promoting voices and perspectives from the South; reinforcing Fair Trade so that it continues to represent a just model of trade.

Shared Interest works in close collaboration with IFAT, the International Fair Trade Association and seeks to create opportunities for economically disadvantaged producers focusing on transparency and responsibility, on capacity building, promoting Fair Trade and workers' rights.

The cooperative is a trading company with limited responsibility under the Industrial and Provident Society Act, 1965. As in previous years, Shared Interest includes the term "social bank" as part of its accounting politics. Net profits after shared capital interests are not distributed between shareholders, but between customers as repayments or are otherwise used for educational purposes or given to charity. Shared Interest has an ethical investment politics with regards to the company's deposits in cash. These have to be separate from Shared Interest's deposits in social banks, that are, in addition directly part of the company. During the year, Shared Interest keeps its general funds in a Cooperative Bank fund and with the Newcastle and Nationwide Building Societies.

The company's management is made up of Board of Directors, responsible for the direction and management of the Society. Members elect the Directors at the AGM. The Directors report to members each year and answer members' questions. There is also a Council, a body which serves to represent the membership. The Council has the power to question the Directors and management and if it sees fit, to address the membership independently. To ensure the Council is a representative body it is comprised of members who have been randomly selected for nomination

and members who volunteer for the role. Members, who have an equal voice and equal vote elect the Council at the AGM. When a producer in the Third World receives an order, he/she often receives a payment only when a product has been sold, waiting more than three months before payment whilst the producer needs finances before in order to work and distribute goods. To fill this gap, the producer would need to access credit although this is extremely difficult with traditional banks. This is where Shared Interest steps in, to fill the gap and finance Fair Trade. Through its relationships with Fair Trade producers, buyers and producers throughout the world can realistically evaluate their loan risk unlike any other commercial bank. Granting loans to the poorest, to cooperatives and womens' organisations, Shared Interest investors have to be ready to share in the liability and uncertainty of small scale producers in poor countries. Presenting itself as a cooperative that works within a legal structure, Shared Interest is careful to demonstrate responsibility and transparency that supersedes that of traditional financial organisations. Members are reached through a newsletter, regional meetings and by reading the Council's documents. Regional volunteers play an important role in promoting Shared Interest's work and maintaining internal communication. Money can be invested in a share account or in targeted bonds, such as those used for micro credit loans. The funds needed for micro credit loans are raised and handed over to the Dutch bank Oikocredit, which is specialised in financing micro credit.

During its first 10 years, Shared Interest has demonstrated a regular growth and had 8,194 members in 2003, less than the previous year, although there has been an increase in capital, reaching 91,398 Sterling. 120 new members invested 260,378 Sterling into the company, whilst 278 members pulled out. The average available balance at the end of the year was 2,168 Sterling. Social capital has grown from 0.5%, 17.7 million Sterling to 17.8 the following year. The average number of people employed at Shared Interest in 2003, (including the Council) was 15 people full-time (in comparison to 13 in 2002) and 3 part-time. Current members continue to support the company, investing new funds. Shared Interests' money reserves are held in European social banks such as the Cooperative Bank and are occasionally invested in building society cooperatives. Money is lent on a basis of established relationships with producers and buyers throughout the world. Shared Interest has adopted a specific approach with which it administers its funds, in such a way that 20% of its share account value is maintained as a cash reserve that enables extensive loans. In 2001, the Committee set up a profit that ensures there are no loses from loans granted to producers' organisations, credit costs are refunded to those who have financed a Shared Interest loan for the producers.

The refund is equivalent to risk premium which refers to the balance interests of producers' daily credit facilitations (generally 4% annually). Given that there is a the prevision that most of the credit is no exigible with regards to loans given to producers, no refund or reduction is proposed for this financial year.

Clearing House

Clearing House is a recent initiative pertaining to Shared Interest, which is increasingly gaining more members throughout the world. It not only offers favourable loans compared to those issued by traditional banks, but also extends credit and has e-banking. Clearing House also consolidates relationships between Fair Trade buyers and producers, acting as a bridge between the two. The following demonstrates how an individual goods order is financed.

- 1) a Clearing House buyer orders from a producer.
- 2) Shared Interest gives the producer a deposit of 50% of the order value, thus benefiting the buyer.
- 3) If the producer is a Clearing House member then he/she can obtain a higher sum (30% of the order value) as "export

credit”, which covers the order. If the buyer cannot give a deposit, the producer can “borrow” up to 80% of the order value.
 4) once the goods are made and packaged, the producer sends them to the buyer.
 5) final payment to the producer comes from Shared Interest, following indications given by the buyer on the net value of each “export credit” and upon the producers’ accumulated interest on his/her order.
 6) buyers then have a break during which they can sell their goods. Following this, the buyer can then repay Shared Interest the entire goods value plus interests gained in the interim credit period.

The Clearing House system allows the bank to establish buyers’ orders and to pay producers, thus benefiting buyers as well. Clearing House is open to both buyers and producers belonging to IFAT as well as producers registered with FLO (Fairtrade Labeling Organisation), who have fulfilled the banks’ credit criteria. Once the organisation (producers or buyers) is accepted as a member of the Clearing House, it is given an account which has a credit limit.

Clearing House Transactions

In 2003, Clearing House granted 358 producers with loans, also benefiting the buyers who work with them. Only 16% of these producers however were Clearing House members. The majority of payments were carried out through an international banking system, addressed to the producers. Many payments were made to European and North American organisations. Amongst those buyers organisations that refer to Shared Interest Clearing House, it is worth mentioning **CTM Altromercato**, **Equoland Soc.Coop** and **Liberomondo**.

Loan Terms: Over the last year, in 2003, Shared Interest financed more than 76 Fair Trade organizations, an increase on the 59 that were financed in 2002, working with ten more producer organisations, including organisations in the Phillipines, Ghana and Zimbabwe. In the same year, work began with seven new producer organisations, four of which are European. The loan portfolio has increased from 3.4 million Sterling to 17.3 million Sterling equivalent to 97% of social capital. The peak amount drawn for the year was 9 million in July 2003. Shared Interest grants producers with loans over long periods. Organisations with which it works, generally have to have traded in the last three years, although those which have traded for less time can be financed through an Emerging Producers Scheme. Buyers’ organisations are subject to an official credit control. The company also carries out other inspections and controls, with regards to individual organisations and requested incentives.

Producers’ organisations often need the tools and support to help them improve their Fair Trade work efficiency. As a result, Shared Interest has developed a loan product to help producers improve. Loans generally vary between 1,000 Sterling and 20,000 Sterling and can be used to acquire machinery, office equipment, stocks of raw materials, vehicles or other tools that can help businesses to function more efficiently. Loan repayments are automatically deducted from payments for orders flowing through the Clearing House over a five year period. In 2003, 140,000 Sterling was granted in loans to seven producer organizations that are members of Clearing House. Shared Interest also provides credit assistance to buyers over an extended period, at times up to five months, which replicates the normal commercial terms of the selling cycle. This allows buyers to sell products before having to pay Shared Interest, without damaging the producers in any way. Shared Interest also provides buyers with loans to acquire stock necessary for opening a Fair Trade shop.

On 30th September 2003, 17.3 million Sterling, approx. 97% of social capital, was granted in loans. Short term, commercial credit was predominantly granted. In the past, Shared was specialised in financing producers and handcraft products, but the sector has grown and now predominantly trades in food. As a result, Shared Interest is committed to forming close contacts within this sector. The majority of producers who work with these products are certified with the FLO and have a internationally recognised mark. At the FLO forum held in September 2003, which was hosted by

the Fairtrade Foundation in London, Shared Interest carried out a workshop together with the Triodos Bank. This workshop focused on financial services for Fair Trade food producers.

Many of Shared Interest's payments are made to cooperative coffee producers and offer small groups of coffee producers support in having direct credit through associations such as the Equal Exchange Inc. At the moment, Shared Interest limits the amount given to this sector due to the risks associated with the volatile and unpredictable price of coffee on the world market. Fair Trade coffee producers benefit from a fair price, usually higher than the depressed market price.

In 2003, Shared Interest issued Microcredit Bonds at a sum of 667,900 Sterling. These funds are addressed to micro credit institutions in poor countries throughout the world through the Dutch partner: Oikocredit. On the 30th September 2003, Shared Interest lent 4.7 million Sterling to Oikocredit for this very purpose.