

## ETHICAL FINANCE IN ITALY

Ethical finance in Italy: In search of a definition .....	1
Background to Ethical finance in Italy.....	3
A political and communicative context: the players.....	6
Ethical finance in Italy: the current outlook .....	9
Communal funds for ethical investments .....	9
SGR ETHICS .....	12
The players: traditional Banks.....	14
The players: The Ethical Bank .....	15
The players: Mutual Selfmanaged Cooperatives .....	20
Ethical finance for international development .....	24
Ethical finance for development: problems within the sector .....	29

### Ethical finance in Italy: In search of a definition

When defining Ethical Finance in Italy today, it is useful to refer to the work carried out by the Ethical Finance Association in order to define Ethical Finance in Italy. Founded in December 1994, the Association brings together people working within Ethical Finance in Italy, providing them with a physical space to discuss Ethical Finance. In 1998, the Association produced an “Ethical Finance Manifesto” stating the predominant requirements needed by Ethical Finance according to those within the sector. Below, are some of these requirements and some additional comments.

Ethical Finance or ethically orientated finance begins by asking questions and gaining answers about the consequences of economic actions; with particular reference to productive or financial consequences that effect human life, communal good and the natural environment in terms of human and economic development.

Beginning with such questions, ethically orientated finance distinguishes itself from traditional finance by initiating research into new ways of living economic situations. It offers a commitment to assigning a human, social, environmental and collective evaluation of money. Savings are invested following precise *socially and environmentally responsible criteria*, thus financing activities promoting human, social and environmental aspects and evaluating projects with a two-fold criteria: economic and social. This is carried out by various Ethical Finance personnel, who identify and work within specific economic sectors whereupon they introduce precise criteria based upon promoting human development and social/environmental responsibility.

Being a financial activity, Ethical Finance cannot be considered as a ‘donation’ or ‘charity’. Financial activities that set aside a part of their interests as a donation do not therefore fall within the parameters of Ethical Finance. Nor do profits which come from investments made in

traditional sectors and associations, despite the fact that, their outcomes may be invested in socially beneficial activities.

According to Messina, [2003] Ethical Finance doesn't have anything to do with "kindness", assigning profits to charity or, asking customers to do so. It does, however substantiate "awareness of being able to create a self sustainable system, which doesn't surpass social relationships and natural resources, respects future generations and which commits itself to improving the quality of life for everyone living on this planet." With this in mind, activities and products claiming to be ethical or responsible through their charitable profile are excluded from this mapping. According to the Ethical Finance Association, this type of activity is defined as "charitable" not "ethical" as it doesn't construct a self sustainable system.

With the aim of getting rid of current deformities within the economic system, Ethical Finance rejects, on principle, financial relations whose economic activities obstruct human development and contribute to violating fundamental human rights. Examples of such activities are the arms trade, products which seriously damage health and the environment, activities involving child labor and repressing civil liberties despite the fact that their money transfers can become financial resources for socially beneficial organizations.

Ethical finance is not a charity, but stems from a partnership between equally dignified people, who give life to economically vital and socially beneficial activities. *Economic efficiency is indeed considered as a part of ethical responsibility* towards those who invest their wealth. Its' beneficiaries therefore have an obligation to work with economic efficiency, thus enabling them to conserve investment values.

On the other hand, Ethical Finance *doesn't legitimise financial activities aimed only at increasing wealth*. In this way, gains based on interest rates are paid out to customers, which have to be considered as an efficient means of utilizing savings, a means to safeguard resources available to customers and enabling them to invest in essential projects. As a result, interest rates (varying from 0%) paid out as savings have to be maintained as low as possible and evaluated economically, socially and ethically. The principle of self determined interest rates is particularly in force for customers and it is the customer who, despite being outside the market, decides their own interest rate, choosing between the bank's fixed maximum interest rate and 0%.

Having stated, that *all forms of credit are a human right*, Ethical Finance rejects all forms of discrimination, so customers cannot be discriminated against on a basis of their sex, ethnicity, religion or their wealth, thus defending rights of the poor and marginalized. This form of discrimination is not however applied to guaranteed credit applications. This is different in the Ethical Finance sector, where such applications are validated by personal, categorical and communal guarantees, which permit even the poorest to access credit.

Along with guaranteeing anti-discriminatory loans, there are also issues of transparent savings, investments and general activities carried out by Ethical Finance brokers, whose role is to tactfully mediate between customers and credit beneficiaries. This exposes

investors' rights to know how financial institutions and decision-making processes operate regarding investments. This subsequently allows an investor to know how each financial body manages their money and where investments end up at any given time.

Another important connecting principle is *participation by both partners and customers in making essential Ethical Finance decisions* including those regarding project funding. Customers can therefore participate through certain mechanisms, such as expressing preferences into where funds go and participating in democratic decisions this promoting a democratic economy.

Considering this, Ethical Finance cannot be viewed as an activity that is implemented sporadically or partially, signifying a global and coherent agreement between managers upon basic

principles. If financially ethical activities were to only be partial then Ethical Finance brokers would have to explain, with transparency, the reasons behind their adopted limits and undergo

Positive criteria according to EIRIS, 1996 [from Tagliavi, 1996]

Environmental protection, recycling, low CO2 emission heating

Projects in the South

Helping the elderly

Health care

Commitment to personnel and good political practices

Companies aware of product quality

Investments in health and safety

Investments in education and professional training

Investments in leisure activities

Negative criteria

institutional 'monitoring', providing customers with reassured guarantees.

Having read this Manifesto, we need to exclude certain people and/or products, from this mapping; namely, those who consider 'Ethical' finance to mean greater transparency in controlling current accounts, respecting laws and implementing an ethical commission to generally monitor conditions. As AFE states, this approach is in line with a humanitarian or responsible definition but not in line with the Manifesto's 'ethics.'

## Background to Ethical Finance in Italy

The relationship between financial and ethical activities has been a long and difficult one in Italy. For a long time, the Catholic Church's doctrine had only legitimized charity and completely prohibited asking for interests on loans. According to Calvin, anyone who has money should consider it a gift from God and should therefore administer it following equity and just criteria.

This doctrine also influenced the traditional Catholic Church, which began to think about loans as both a means of escaping from need and poverty [Milan, pg. 53-55]. As a result, the 16th Century witnessed the first “pawnbrokers”, which responded to poor’ peoples’ cash needs. In 1600, a Neapolitan banker, L. Tonti was a forerunner of micro credit, creating a financial system called “Tontina”, forming the base of “tortines” financial institutions, which are still greatly diffused throughout francophone Africa today.

The first Savings Bank from a Catholic perspective began in 1700 and set out to safeguard savings of the poorest in society. The second half of the 19<sup>th</sup> Century witnessed the rise of Peoples’ Banks, whose clientele were predominantly urban, small businessmen and craftsmen with similar aims (even though their activities did not always correspond to their aims). In 1891 a new Catholic elite, who were teaching renewed social doctrines from the Church established the first Agricultural Banks. These were conceived as social cooperatives based upon responsibility, solidarity and unlimited liability and additionally upon peoples’ trust without having to look for social capital. In this way, financial activities were structured upon principles of cooperation and mutual aid which are today the foundations of Ethical Finance. Agricultural Banks were both Catholic (the first in Loreggia, Padua) and secular (Raffaisen Bank, Tirolo) and were the only banks to demonstrate “not taking, but giving” [Milan, p. 59] in a marginalized and economically isolated 19th Century Italy. Agricultural Banks still operate today (the majority of which have joined the Cooperative Credit Bank Federation) and it is as a result of their experiences and status that Ethical Banks began.

The first truly financially ethical experiences however, occurred in the seventies with the emergence of self managed cooperative savings. The first Mutual Self Managed Cooperative (MAG) appeared in Verona in 1978 and it is from this rich north-east area of Italy that the idea grew during the eighties and led to the opening of Mag2 in Milan, Mag4 in Turin, Autogest in Udine<sup>1</sup>, Mag 6 in Reggio Emilia, Ctm-Mag in Bolzano with its’ headquarters in Padua, Mag7 in Genoa, and Mag in Venice. Despite the fact that similar activities were applied in different regional areas, it is nevertheless thanks to the work carried out in the eighties by Intermag<sup>2</sup> that demonstrated their distinctiveness in different regions.

The Mutual Self Managed Cooperative is not a credit system, but demonstrates how to transform money from a standard, capitalist tool of exploitation to a factor which can bridge responsible customers and people emerging from traditional credit systems in socially viable projects. The way in which money is used is indeed decided on a basis of directly knowing people and projects who will benefit from credit. Such information replaces money guarantees which are usually requested for a loan.

<sup>1</sup>AUTOGEST is a purposely chosen name for the Mag in Udine as it is more comprehensive than other acronyms in the region.

<sup>2</sup>INTERMAG starts off as an umbrella group of all existing Mag’s, developing into a source of reference and new forms of collaboration. The Intermag Cooperative subsequently follows, which aims at becoming the national financial broker for physicists or lawyers, who do not have support from a local Mag.

Mutual Self Managed Cooperatives are small enterprises guided through solidarity and democratic money management: started up in the seventies to give hope to people with many ideas but little money. Associations and Cooperatives subsequently financed projects promoting culture, social solidarity and ecology as well as environmental sustainability.

1991 witnessed laws which seriously limited MAG activities, causing immediate and rapid changes in their constitution. These were Law No.197 against recycling dirty money that constricted financial institutions to give away at least 1 billion lire in social capital and a bank and credit document from 1993 that limited savings from individuals to banking companies and not to financial cooperatives.

Whilst Mag7 in Genoa stopped its activities, the others continued, transforming their working structures, thus motivating and promoting their work regionally as well as verifying a social response to their proposed alternative finance. At such a time of great instability, each cooperative acted under the same principles, albeit with a different structure: Mag2 in Milan and Mag6 in Reggio Emilia began gathering resources through social capital investments, thus creating possibilities to finance both enterprises and individuals, whilst the Mags in Venice and Udine merged creating the Solidarity Finance Union, that together with Ctm-Mag, now Etimos, and Mag 4 in Turin, gathered savings from member enterprises only, limiting them to set aside finances. Aware of their individual identities, MAGs still worked in a specialized way following specific paths which incorporated a communal idea.

In the first half of the nineties a series of concomitant factors decisively altered the Ethical Finance system in Italy. For a while, the Italian concept of “another” finance seemed to develop in three directions. First of all, certain no profit-making organizations tried to “contaminate” financial workers to promote new financial tools to support their activities. Simultaneously, bank and finance personnel elaborated proposals regarding associations and the no profit-making sector. Lastly, a part of the no profit making sector constructed and consolidated an alternative proposal to that found within traditional areas, starting from experiences and penalties gained in the eighties and nineties through Mutual Self Managed Cooperatives.

As previously emphasized, on one hand, the legal readjustment of financial materials, from 1991 to 1997, severely blocked the development of credit cooperatives; but on the other hand, the new Italian Third Sector began to gain economic relevance despite not being able to find suitable people in traditional banks to respond to economic needs, such as credit.

This unsatisfied question of capital concerning mutual availability witnessed a growing number of people withdrawing at least a part of their savings from traditional financial circuits and investing them in activities benefiting society and the environment. Given that the MAG system was not sufficient enough to fulfill this need, the Third Sector proposed an idea to start up a different bank inspired by MAG principles that could carry out Ethical Finance.

In December 1994, 22 no profit-making organizations formed an association called “Towards an Ethical Bank,” The most significant of these organizations are: Ctm-Mag, Mag Verona,

Mag Venice, Mag 2 Milan, Mag 4 Piemonte, Janus, ACLI, ARCI, Agesci, UISP, Cisl, Fiba-Cisl Brianza, Cooperativa Terzo Mondo (then CTM-Altromercato), Associazione Botteghe del Mondo, Mani Tese, Europe Conservation, Associazione per l'Agricoltura Biologica-Aiab, Consorzio Gino Matterelli-Cgm, Gruppo Abele, Emmaus Italia). In June 1995, this association became a cooperative under the same name "Towards an Ethical Bank" and thus brought together the necessary social capital (2 billion lire) to form a credit cooperative: The Agricultural Savings Bank.

Having formed the cooperative "Towards an Ethical Bank", the Association formed not only a future financial institute but also a cultural project regarding Ethical Finance. Subsequently the Association altered its name in 1996 to the Ethical Finance Association and pioneered the Ethical Finance Manifesto which was approved in Florence, in 1998. In line with principles inspired by the project, the Cooperative brought about capital savings through membership, particularly through its' founding members. The initiative soon gathered diffused consensus that encouraged broader horizons and greater objectives. The Cooperative "Towards an Ethical Bank" board of directors decided to form a Peoples' Bank towards the end of 1996 thus broadening the aim of collecting 2 billion lire in capital to 12.5 billion lire. This sum was reached half way through 1998. On the 30th May 1998 there was a meeting in Padua regarding the Cooperative's transformation into a Peoples' Ethical Bank. On the 21<sup>st</sup> November, the first meeting of the Peoples' Ethical Bank was held in Florence to approve its' budget, on the 22<sup>nd</sup> November it was authorized by Banca d'Italia and on the 21<sup>st</sup> December by the Court of Justice in Padua.

The Ethical Bank officially opened to the public at its' Padua branch on the 8<sup>th</sup> March 1998. On the 31<sup>st</sup> December 1998 it's social capital amounted to 17.3 billion lire and it already claimed 13,000 customers.

## Political and Communicative context: the players

The Sustainable Finance Forum is a non-profit making association, whose mission statement outlines promoting the culture of sustainable development by the Italian financial community. The Association's objectives are:

- to study the implications of financial activities concerning sustainable development;
- to diffuse information and knowledge;
- to work on innovative proposals regarding financial personnel, customers and authoritative politicians;
- to stimulate cultural growth and to improve professional skills of those working within the sector;
- to promote dialogues between people with different interests.

Such objectives are pursued by promoting and carrying out studies, research and surveys; organizing conferences, meetings, workshops, seminars, training courses and other cultural events; publishing books, reviews or articles; raising awareness campaign launches and participation;

creating and managing relations between institutions and organizations who are interested in fulfilling the Association's objectives.

Important Forum themes are:

- environmentally and socially responsible investments,
- the relationship between environmental risks and credit risks,
- environmental and social management systems and reporting,
- access to basic financial and credit services,
- microcredit.

The initiative primarily concerns financial institutions who have a multi-stakeholders' approach that demonstrates how participation is open to all: to individuals, companies or organizations, both from the public or private sector with or without profit making status, who nevertheless share the Forum's aims.

The Sustainable Finance Forum is the Italian representative in the European Forum for Sustainable and Responsible Investment (EuroSIF), a continental network supported by the European Commission. The other EuroSIF partners are:

- UK Social Investment Forum (United Kingdom) <http://www.uksif.org/>
- Forum Nachhaltige Geldanlagen (Germany, Austria, Switzerland) <http://forum-ng.de/>
- Vereniging van Beleggers voor Duurzame Ontwikkeling (Netherlands) <http://www.vbdo.nl/>
- Forum pour l'Investissement Responsable (France) <http://www.french-sif.org/>

#### FINANCIAL INSTITUTIONS AND THEIR ORGANIZATIONS

ABI - Associazione Bancaria Italiana (<http://www.abi.it>)

ACRI – Association of Savings Banks and The Bank Foundation (<http://www.acri.it>)

ASSOGESTIONI – Association of Managed Savings (<http://www.assogestioni.it>)

ANIA – National Association of Insurance Companies (<http://www.ania.it>)

Banca Intesa (<http://www.bancaintesa.it>)

Banca Popolare di Milano (<http://www.bpm.it>)

Federkasse (<http://www.federkasse.bcc.it>)

ING Investment Management Italia (<http://www.ingsgrweb.it>)

MPS Bancaverde (<http://www.bancaverde.it>)

San Paolo IMI (<http://www.sanpaolo.it>)

UniCredito Italiano (<http://www.unicredito.it>)

UNIPOL (<http://www.unipolonline.it>)

## RESEARCH INSTITUTES AND CONSULTING AGENCIES

Avanzi (<http://www.avanzi.org>)

Avanzi SRI Research (<http://www.avanzi-sri.org>)

E.Capital Partners (<http://www.e-cpartners.com>)

## ASSOCIATIONS AND NON-GOVERNMENTAL ORGANIZATIONS

Association of Environmental Business Economists (<http://www.ecoeconomisti.it>)

CISL – Italian Trade Union Federation (<http://www.cisl.it>)

Cittadinanzattiva (<http://www.cittadinanzattiva.it>)

Confconsumatori (<http://www.confconsumatori.com>)

Fondazione Choros (<http://www.choros.it>)

Sodalitas (<http://www.sodalitas.it>)

MLAL Progettomondo (<http://www.mlal.org>)

WWF Italia (<http://www.wwf.it>)

The Ethical Finance Association: started in 1996, the Association gathers experience from the “Towards an Ethical Bank” Association, founded in December 1994 as an initiative of 22 no profit-making organizations to create an Italian Ethical Bank. The most predominant of these organizations are: Ctm-Mag, Mag Verona, Mag Venice, Mag 2 Milan, Mag 4 Piemonte, Janus, ACLI, ARCI, Agesci, UISP, Cisl, Fiba-Cisl Brianza, Cooperativa Terzo Mondo (then CTM-Altromercato), Associazione Botteghe del Mondo, Mani Tese, Europe Conservation, Associazione per l'Agricoltura Biologica-Aiab, Consorzio Gino Matterelli-Cgm, Gruppo Abele, Emmaus Italia.

After forming the “Towards an Ethical bank” Cooperative, the Association is no longer concerned with making profits but developing cultural projects for Ethical Finance. In 1998, the Association becomes the founder of the Ethical Finance Manifesto and publishes a yearly Manual for Ethical and Solidarity Customers. In addition to its' informative and research activities on Ethical Finance, it also organizes an annual workshop, conferences, debates and initiatives.

The Cultural Foundation for Ethical Responsibility: The Cultural Foundation "The Ethical Bank" was formed in August 2003 with the aim of supporting activities (proposed by Local Union Members, The Ethical Committee and the Ethical Bank system) to reinforce principles of Ethical Finance outlined in Article 5 of The Ethical Bank Charter, which in addition to promoting Ethical Finance culturally, also raises awareness amongst finance personnel and citizens, initiating scientific research to further explore relationships between ethics and finance and ethics and economy from an interdisciplinary perspective, incorporating new scientific models that give values to Ethical Finance.

## Ethical Finance in Italy: the current outlook

The current aspect of Ethical Finance is a complex one, made up of various Ethical Finance activities throughout the world. The following tools are used today in carrying out Ethical Finance activities:

- Communal investment funds
- Pension funds
- Bank ethics
- Financial cooperatives
- Credit cooperatives
- Foundations and associations

It is evident that these are the same tools used by traditional finance although Ethical Finance objectives correspond with specific and unsatisfied needs within society.

## Communal Funds for Ethical Investments

**Communal Ethical Funds<sup>3</sup>** – As we have seen, the first ethical fund began in the United States in the twenties, forming the basis for modern Ethical Finance. Ethical funds aim at bringing together profit and ‘Ethical Finance’ thus correcting investment values that are assigned as tools to support human development in order to establish appropriate conditions for the future as well as dignified development for generations to come. In other words, it supports socio-economic initiatives which are inspired by principles pertaining to human and social development.

Communal investment funds which in turn permit economic activities such as investments are based on clearly established ethical values, as opposed to solely economic criteria, which do however allow economic evaluations to exclude certain businesses using negative criteria and favor others, using positive ones. This is referred to as *ethical rating*, a capable judgment made upon social and environmental criteria.

---

<sup>3</sup> A communal fund is an investment tool, which brings together financial resources from different people. An investor agrees to give their savings to a professional, usually a team of experts belonging to a management company. Individual savings are pooled together in a communal fund, creating a wealth separate to the one managed by the company. The asset managers look for the most profitable investments, choosing from actions, fixed income tools, liquid assets, adapting them geographically, into product sectors, capitalization of issuers.

As far as bonds or state securities are concerned, evaluations are essentially based upon civil liberties and political rights. Ethical ratings upon private company bonds are, however, evaluated according to their activities and what type of organization they are. Working within sectors means that it is possible to pick out certain negative criteria, such as arms production and trade or its' negative impact upon the environment, human health and dignity in general. Business evaluation, on the other hand, demonstrates certain criteria which measure all economic business relations (clients, suppliers, public administrators, personnel, local communities<sup>4</sup>), according to transparency, time improvements, research and respecting laws (national and international) or higher standards at an international level. Some negative criteria lead to direct exclusion from company bonds and or states which possess them, whilst other more 'qualitative' ones instigate paler evaluations based on a ranking.

Ethibel classifies ethical investments in four generations. This reflects an evolution from a restricted and genuine moral concept to one which describes social responsibility in broader terms.

- First generation ethical funds are exclusively based on negative criteria (no alcohol, no tobacco etc.) They are particularly popular in anglo-saxon cultures.
- The second generation of ethical funds also consider positive criteria but concentrate upon specific aspects of business activities (e.g. environmental politics) and/or examples limited to responsible practices (social sponsorship, publishing an environmental report, etc.)
- The third generation of ethical funds considers all areas of social responsibility (internal social politics, environmental politics, external social politics, economic politics); business analysis is however predominantly carried out upon the data provided by the businesses themselves;
- Ethibel has introduced a fourth generation of funds to expand upon the third. The third generation's approach is applied here and integrated with active communication with all stakeholders.

Ethibel decided to promote fourth generation funds. These funds invest in a society that respects all values and expectations pertaining to their stakeholders. Ethibel's research and evaluation methods allow them to chose companies who conform within the vast scope of social responsibility. Fourth generation funds are the only ones that can receive Ethibel's European certification of ethical quality.

In Italy today, Assogestioni<sup>5</sup> (a categorised association of Italian fund managers) acknowledges 29

<sup>4</sup> For more information, go to the Ethical Finance section of [www.soldionline.it](http://www.soldionline.it)

<sup>5</sup> From the 1st July 2003, **Assogestioni** certifies the following as ethical: "a fund, which based on its' **own** conceptual definition of ethics, has a politics of investment preventing gains from some group shares and/or gives precedence

different ethical funds, which it classifies with an E symbol. This acknowledgement is a significant step forward and is structured upon a definition outlining minimal criteria, which do not however incorporate the quality of ethical funds nor introduce a differentiation from a “fund generation.” Consequently, there is a need to distinguish between social responsibility funds (corresponding to certain criteria), ethical funds, (whose management reflects principles outlined in the Ethical Finance Manifesto) and other funds, such as those which are “charitable or humanitarian”, through which account managers, with the customers approval assign part of their invested share profits to identified associations and NGO’s (that can also be local, at times chosen by the customers themselves). Others, foresee a sum, which is given only once to cultural associations.

It is precisely in this last category that The Federation of NGO’s CIPSI presents its’ investment fund initiative “Ethical Banking” ([www.cipsi.it/risparmioetico](http://www.cipsi.it/risparmioetico)). The NGO’s initiative allocates a percentage of customers annual or monthly interests to CIPSI, in support of their specific international development.

The initiative began with CIPSI’s campaign in 1995 called “Ethical Banking: investing does good” which launched an Ethical Investment Fund on the market, managed by the NGO itself, bound to the RAS insurance group, particularly the Gestiras Coupon Fund (known today as Ras Cedola). Contributions are made to a Fund for CIPSI Solidarity Projects, administrated by a specific management committee. This fund has hitherto permitted 400 million beneficial contributions to support solidarity projects belonging to CIPSI associated NGO’s as well as guaranteeing more than 100 million loans to NGO’s (which are then repaid) in order to support small enterprises and cooperatives in the South. [[www.cipsi.it/risparmioetico](http://www.cipsi.it/risparmioetico) ]

Despite this initiative being outlined by certain common principles and despite being efficient in raising funds for solidarity and cooperative activities, it cannot be considered as Ethical Finance in the strictest sense and corresponds instead to that indicated in the Association of Ethical Finance Manifesto. The main difference is that the company/association in which funds are invested (and from which profits are made) are not subject to any selection based on ethical principles. Unlike Ethical Finance, these types of funds do not therefore demonstrate a critical perspective upon how money is spent or how economic relations are set up.

An ambiguous evaluation can also be carried out on “ethical” funds promoted by non ethical banks and /or financial brokers. In spite of there being an ethical or guarantee committee, a decision to include at least some companies within the fund is often taken by a consultancy agency, which often considers a so called ‘prevailing principle’: “This means that even if a company’s activities are 49% non ethical, the remaining 51% nevertheless will justify it as ethical.” [Milano, op. cit. p.73]. In 2001, part of the Banca Popolare Etica Bank called SRG Etica created an entirely ethical

---

to buy shares based on different criteria from maximum gains and/or favours an investment process structured upon different **principles** from those of maximum gains. This definition is **independent** from strategies applying exclusion/inclusion criteria. There are hitherto 28 ethically qualified funds, whose collective wealth amounts to 1.3 billion Euro. In the newspaper Sole 24 Ore, certification is indicated by a **black dot with a capital letter E** found between fund denomination and quota values.

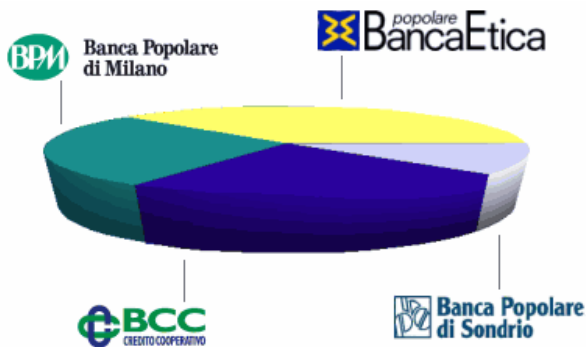
consultancy and advising agency<sup>6</sup> that would work on and expand positive and negative criteria regarding companies partaking in the stock market. SGR Etica is controlled by Ethibel, a Belgian company set up in 1992 which today constitutes an independent and specialized body.

## SGR ETHICS

Etica Sgr is a savings management company created to manage communal investment funds<sup>7</sup> and other social responsibility financial products. The company originated from an idea within the Banca Popolare Etica, in collaboration with the Banca Popolare di Milano, ICCREA Holding (Credit Cooperative Banks) and Banca Popolare di Sondrio, to promote and carry out communal investment funds and other financial products with a high profile of transparency and social responsibility.

Members of Etica Sgr are actively involved in programming and developing the company. The president of the Banca Popolare Etica (The Peoples' Ethic bank) Fabio Salviato, who is also on the Board of Directors of Etica Sgr, which is made up of the vice president of Banca Popolare di Milano, the president of Bipiemme Gestioni Sgr (asset manager for Etica Sgr) Marco Vitale, the general director of ICCREA Holding Luigi Dante, the general director of Banca Popolare di Sondrio Mario Alberto Pedranzini and the deputy director of Banca Etica (The Ethical Bank) Gabriele Giuglietti. The other members of the union are Alessandro Antoniazzi, a Counselor in Milan, Fabio Silva, national members' coordinator and the Banca Etica's advisor Giulio Tagliavini and the [director of Economics at The University of Parma](#).

Social capital amounts to 2.2 million Euro and is divided between its' members as follows:



Members	Shares
Banca Popolare Etica	38.07%
Banca Popolare di Milano	27.85%
ICCREA Holding	22.72%
Banca Popolare di Sondrio	11.36%

Etica Sgr sets out to communicate with the business world, promoting the best players and pioneers within social responsibility, involving stakeholders in research and publicizing critical shareholding initiatives.<sup>8</sup>

Etica Sgr funds are the first Italian social responsibility funds to be controlled externally and certified by an European quality standard. The Etica Sgr project covers all aspects pertaining to Social Responsible Investment, from asset management, stakeholder participation (who are

<sup>6</sup> Existing partners (Eiris in Great Britain, Kinder-Lyndenber and Domini and Calver Group in the USA, E.Capital Partners in Italia) are through and through profit making companies

<sup>7</sup> There is no minimum collateral in communal investment funds. Management companies set these. Sicav investment company with variable rates. It functions as a communal fund, but there are minimal performances. It depends on you leaving your money invested for a length of time. Deposit Bank: management companies cannot keep savings themselves, they have to deposit them in a bank bonds account that keeps them as insurance.

<sup>8</sup> A critical shareholder is one way for a company shareholder to exercise their right to influence a company's behaviour. This occurs through dialogue with the company as well as through formal proposals during committee meetings. Communal investment funds can exercise investors' rights to vote for actions that influence company choices. This allows them to represent wider quotas of social capital, therefore giving them much more incentive than individual shareholders.

predominantly organised members of Banca Popolare Etica), to micro credit support (with a devolution of 0.1% of the subscribed quota and management commission of The Guarantee Fund for micro credit projects in Italy). In 2003, 90,000 Euro were invested by those belonging to Etica sgr managed by Etimos, who decided upon micro credit allocation and organization in Italy in the following months.

The predominant partner belonging to Etica Sgr is Ethibel, a Belgian company that selects appropriate social responsibility investment bonds for Etica Sgr, based on socially responsible criteria. Ethibel was selected on merit of its' ten year experience in the field, its' non profit making origins (ethical finance, critical shareholders, cooperation) and as a result of its' independence from financial brokers. Today, Ethibel is still controlled by non profit making associations who contributed to its' founding. The presence of stakeholders in the Board of Directors and their involvement in research and evaluation make Ethibel an ideal partner for Etica Sgr.

Etica sgr promotes and administers funds as well as coordinating relationships between its' members and managers (BIPIEMME management), the ethical committee and Ethibel.

The Banca Popolare dell'emilia romagna also provides funds (having also produced an emergency card). Fund management has been allocated to BIPIEMME management sgr (Banca popolare di Milano) which invests in companies, bodies and countries selected by Ethibel. If countries, companies etc no longer respect Ethibel's criteria, it is BIPIEMME's responsibility to sell them within three months.

The Responsible Value funds perating to Etica Sgr are distinguished from other ethically certified 'Assogestioni' funds as they are the first and only Italian ethical funds to be externally certified by an European Ethibel ethical quality standard.

The Ethibel standard guarantees that our funds exclusively invest in an Ethibel selected company and country, applying strict social responsibility criteria.

The standard is checked monthly for detailed transactions and its' Responsible Values fund portfolio. If funds are invested in a company which has not been selected by Ethibel, the quality standard will be cancelled.

Nine months after the launch of these products, a complete pooling of three funds amounted to around 100 million Euro. Banca Etica had an on line and monthly updated list of financial bonds<sup>9</sup>.

In an interview held with Armando Carcaterra<sup>10</sup>, investments manager at Banca popolare Milano, he confirmed that the BPM ethical fund was going well, revealing that Ethibel didn't allow them to invest their bonds in Italy due to the fact that according to Ethibel's ranking, Italy was one of the 39

---

<sup>9</sup> Declaration given by Etica Sgr manager, Luca Mattiazzi, on 19.12.2003

<sup>10</sup> In 'Repubblica Affari e Finanza', 15th December 2003

listed countries. Italian shareholders which have been incorporated are Telecom, Tim and Merloni, and there are plans to introduce others once they have passed accurate tests.

Just after its' launch (updated on the 31.03.04), Etica Sgr is considered amongst those leading the Italian communal ethical investment fund market (amongst 29 funds which demonstrate the Assogestioni ethical standard). With a market quota equivalent to 5.76%, Etica Sgr is third behind Sanpaolo IMI AM (43.25%) and Unicredit (32.36%).

A detailed look at Etica Sgr funds:

## The Players: Traditional Banks

Cosis S.p.a. – was founded on 10th March 1995 by Ente Cassa di Risparmio di Roma and Banca di Roma. The Compagnia Sviluppo Imprese Sociali (Cosis S.p.a) defines itself as the first ethical merchant bank in Italy “whose objective is to support the creation, growth and development of social enterprises, especially in Southern Italy” ( see [www.cosis.it](http://www.cosis.it)). The following companies have also been involved: Stet, Società Autostrade, Toro Assicurazioni, Standa, Pirelli, Olivetti, Unipol, Benetton , la Fondazione Cassa di Risparmio di Puglia. Their conception of “Ethical Finance” is not in line with that articulated by the Ethical Finance Association and is understood as a “specialized finance which can therefore respond to specific needs expressed by social enterprises.” Following this, in 1996, Cosis signed an agreement with FondoSviluppo, belonging to ConfCooperative to manage a revolving fund to finance social enterprises belonging to Confcooperative. In 1997, together with Banca di Roma, Cosis launched an ethical security loan “Solidarity and work”, in 1998 it granted loans to individual members to capitalize cooperatives. In 1999, thanks to a project funded by the European Fund for Regional Development, Cosis managed project OASIS, offering services, loans and capitalization supporting social cooperatives active in the South of Italy, succeeding in subscribing risk capital to 90% of the benefiting companies.

FBCC (Federation of Credit Cooperative Banks) is a federation of small local banks that have always been active in rural and local development. The Federation has actively taken part in the Ethical Bank's constitution and development.

Amongst other initiatives, the Federation of Credit Cooperative Banks is a partner<sup>11</sup> of a project called “Campesina Microfinance” supported by the Codesarrollo Ethical Bank in Ecuador. The total commitment given from Italian Credit Cooperative Banks (CCB) is 700,000 dollars. Credit Cooperative Banks support the project by becoming donors, namely investing a minimum of 500 Euro in an un-guaranteed cash account, supplying finances at favourable conditions as well as

---

<sup>11</sup> Together with Cassa Padana, The CTM Altromercato Union, Banca Popolare Etica, Nomesis and Cuore Amico

participating in advice and training. Private investors are invited to give the same amount, 500 Euro in order to become a Codesarrollo donor.

In 2002 credit cooperative Banks launched an ethical investment fund together with WWF. Managed by Aureo Gestioni sgr, the fund was destined for companies who contribute to a politics of environmental sustainability, along with opening up access and management of the WWF. The type of management in this fund has three phases: respecting principles outlined by the fund; macro-economic analysis of countries considered for investment and an economic-financial analysis of the selected company. If a company fails to respect these criteria, the fund progressively reduces its quota until it sells it off unless the company does not change within six months.

An initiative from the Emiliano Romagnolo Credit Cooperative witnessed an account called 'Roots' in January 2003, which is a multi-service account aimed at immigrants in particular offering opportunities to gain mortgages, financial backing for enterprises and money transfers to various countries of origin.

### **The Raiffeisen Bank**

The Raiffesen Bank is a rural savings bank in the Trentino Alto Adige area of Italy. It developed an "Ethical Banking" programme, including branches in Lana and Merano. The Ethical Banking group promotes savings certificates and savings books that finance solidarity economy (for the South and local development), in line with a series of requisites based on transparency. The Lana Bank enables its' customers to invest in certified savings for development that finance a pre-financed programme belonging to the ATM Altromercato Union for producers and those working within organic agriculture in the South. Through this, it is possible to collect interests in pre-financed cooperative markets. The Marano Bank supports the Trilli and il Museo Donna social cooperatives through certified time deposits. Finally, through the 'Sun' account, Ethical Banking accounts for a devolution of interests by Coidesarrollo, the Equadorian microfinance institute.

### **The Banca Popolare di Milano**

The Banca Popolare di Milano and The Ethical Peoples' Bank have signed an agreed protocol to finance services pertaining to the social economy market. Until today, the Banca Popolare di Milano has been committed to promoting unions between its' members and shareholders of The Ethical Peoples' Bank and subscribing them with ethical savings products belonging to The Ethical Peoples' Bank, such as savings certificates and shares.

The Players: La Banca Etica (The Ethical Bank)

The Ethical Bank is not such because it finances non profit making sectors, but because it wants to

The headquarters is in Padua, branches are in Padua, Rome, Milan, Vicenza, Bologna, Treviso, Brescia, Florence (via ognissanti, tel 055 2657611 [ufficio.Firenze@bancaetica.com](mailto:ufficio.Firenze@bancaetica.com)). Financial promoters can be found in Modena, Turin, Bologna, Perugia, Verona, Trieste, Rome, Genoa, Rimini. Offices can also be found in Naples and Foggia. On the 30th June 2003 it's social capital was 15,000,000 Euro, with 20,738 members of which 17,770 are individuals and 2,968 enterprises. Savings amounted to 228,000,000 Euro and it has so far granted 1,073 loans.

be a new way of banking, starting from a strong sense of responsibility towards money and its' use. Based on fundamental criteria pertaining to The Ethical Bank, it naturally prioritizes credit concessions to those working within the Third Sector (cooperatives, associations, enterprises, groups, companies whose capital is monitored by non profit making associations) and those in

the following fields: social cooperation, international development, environmental research, culture and civil society. Companies who do not merit finance are those working in the following areas: products which are detrimental to health, environment, human dignity, arms and those linked to political activity.

The Ethical Bank carries out traditional banking<sup>12</sup> through its' traditional instruments, offering its' members and customers saving opportunities, such as current accounts, saving certificates, shares and savings books. The main difference between the Ethical Bank and a normal bank is that The Ethical Bank allows its' customers to participate in the bank's investment choices, which have social objectives and gives customers the possibility to self determine their interest rates, accepting lower interest rates and additionally providing updates on financial matters.

In addition, The Ethical Bank saves using methods of fair treatment and transparency: equal management costs for all, interest rates which are not tied to a customers' economic status, their country of origin or the savings amount.

The current accounts offered to entrepreneurs are: an AGILE ACCOUNT for everyday life offering benefits from all services (debit and credit cards, affinity card, pre-paid card, money transfers,

Shares Deposit Certificates allow customers to direct their savings in a particular sector (social cooperation, the environment, culture, civil society and international development) Gains, based on the investments' length have a tax that varies from 0.66% to 1.60% net. There are also dedicated deposit certificates whereupon the customer can decide which projects to invest in. These are part of deposits for the South certificates, that locate savings for 24 months. These are at risk of changing and unfavourable economic conditions (creditors' interest rates, commissions and service costs) as well as possible variations in the exchange rate if the deposits are in foreign currency. This is guaranteed by a limit of € 103,291,38 per customer, on the resulting availability of deposits and on the agreement between the bank and the deposit guarantee system.<sup>1</sup> The minimum amount is 5000 Euro and the effective net gain is 0.912%. The Banca Etica also offers a type of deposit certificate which supports initiatives proposed by the Etimos Union.<sup>1</sup> Etimos members can refuse a part of market interests to create a financial base that is granted through amiable interests. The minimum amount for these finances is 1,000 Euro, effective net gains vary according to duration (0.73 effective net).

<sup>12</sup> Savings in the Banca Etica, like all other banks, are guaranteed by the "Fondo Interbancario di Tutela dei Depositi e dal patrimonio", whilst Banca d'Italia is responsible for management and regulations.

cheques, payments in Italy and abroad, bill and tax payments, internet banking); PRO ACCOUNT, supplying all services needed for fair fund raising (associations which have undergone scandals in this area are prohibited access). Individuals can choose between an INCONTRO ACCOUNT, offering all main services (apart from those mentioned above, bill payments rent, bankers' draft); a SALVADANAIO ACCOUNT, suitable for people who make few transactions, where the customer can decide if their savings go to projects regarding social cooperation, environment, international development, culture or civil society.

Certified deposits (1,000 Euro minimum) allow savings to be held between 6 and 60 months. Through this type of investment, customers can choose the sector in which they want their savings to be invested. This is therefore a type of investment which allows individual savings to be deposited over a determined time.

Shares, where customers can keep their money for a minimum of three years are only available in certain periods throughout the year, the last being February 2004.

Issuing shares aims to raise resources to finance projects that have a medium to long duration. The minimum amount endorsed is 10,000 Euro. These shares have to be put into a bond deposit at The Ethical Bank or other specified banks. The net interest rate is approx. 1.57%.

Savings books are low cost savings strategies particularly suitable for customers who have reduced money transactions. It is a simple and low cost tool for reduced transactions and is indeed available only to a limited number of customers, thus used by those who can personally access a branch of The Ethical Bank. Children can also have a savings book, with gains of 0.47%.

The Ethical Bank also offers its' customers the possibility to invest their savings in funds called "Responsible Values" which exclusively invest in companies, super national bodies or firms and countries selected on a basis of social responsible criteria.

Both individuals<sup>13</sup> and enterprises can have access to finances from the Ethical Bank. The bank finances consumer credit for individuals, only covering the following costs: educative activities and training, activities involving medicine/surgery, socio-therapeutic courses, adoption and fostering, (alternative) energy saving home adjustments and adjusting architectural obstructions, increasing the family nucleus, assistance for the disabled, legal expenses in civil issues, protecting consumers and critical tourism. Associations, on the other hand, can ask for a first time buyers' mortgage and exclusively for real estate within the following registered categories: A2, A3, A4, A5, A6 and C6. Due it's status, the Ethical Bank does not cover mortgages for luxury real estate.

---

<sup>13</sup> In order to apply for a loan, a customer must belong to The Ethical Bank and have carried out at least five transactions in more than three months from the application date. The customer must also have a current account at The Ethical Bank and must also present either a 730 Module or CUD. In the case of producing unsatisfactory documents or failing to produce them, one must have annual savings that equal at least 500 Euro per month.

In evaluating financial requests, The Ethical Bank uses both criteria outlining economic repayments and those which judge the positive environmental and social impacts which the project can produce.

The first set of criteria is evaluated through an economic inquiry, which examines the customers' identity, the amount of overdraft requested, the reason and technical choice for the loan, the customers' foreseen revenue and subsequent coherence of financial commitments and consistency of guaranties. The evaluation is based on the customers bank statements (usually the last three statements) as well as their updated economic status. A financial balance is verified as is the customers' ability to earn and maintain positive cash flows. As a result, financial sustainability is established for the customer. Each single project is studied along with a financial action plan where possible. Banking strategies can also be used to support this analysis, such as access to a databank which can be private or that of the Banca d'Italia.

It is, however, the socio-environmental inquiry that gives The Ethical Bank a unique and particular make up within the financial market. Every 'alternative' financial broker works on their own

individual ethical inquiry, independent of the specified model and so an ethical enquiry establishes its' own reference values within the following areas: behaviour towards customers, behaviour towards competitors, behaviour towards personnel and locally established rapports.

The Ethical Bank is using an experimental method called V.A.R.I. (values, requirements and indicators), which began in the

The Ethical Bank's V.A.R.I. evaluation model is defined through 9 fundamental values which the customer must demonstrate respecting:

- Democratic Participation:* internal and external interaction procedures towards participation by all members on organisational decisions
- Transparency:* Constant economic and social accounts of the organisation and communication between all parties.
- Respecting Equal Rights:* equal opportunities for professional and human growth for all, without any form of discrimination.
- Respecting the environment:* carrying out activities, which conform to environmental sustainability that are constantly monitored by environmental management watchdogs and encouraged to produce eco-compatible products.
- Social quality:* Publicly acknowledged local organisation's promotion of social brands and certifying methods.
- Respecting working conditions:* Ability to monitor personnel's working conditions with respect to regulations and the companies ethical codes.
- Voluntary sector:* Evaluating the voluntary sector's contribution to training, awareness raising and decision making processes.
- Solidarity for the weak:* Disposition to oppose marginalisation of the weak in society.
- Local links:* Assessing local contexts through interactions with local social forces.

If the essential requirements corresponding to each of the nine fundamental values can be satisfied, respect is guaranteed. The V.A.R.I. questionnaire associates *indicators* to the *requirements* and their *values*, thus measuring a company's commitment to the above.

"Cooperative Towards an Ethical Bank" and has subsequently become a distinctive part of The Ethical Bank.

This model intends to contribute an evaluation to ethical finance, which is exclusively founded upon transmitting a customers' personal knowledge to a *standard* chart that quantifies positive and negative effects of financial situations.

**Association of Italian NGO's, Banca Etica and The Etimos Union: together to promote development and a growth in International Development.**

Banca Etica, the Association of Italian NGO's and the Etimos Union signed an agreement in May 2004 to carry out and develop international development projects in synergy. Through this agreement, Banca Etica commits itself to studying and creating financial itools in Italy and worldwide to support the work of NGO's belonging to the Italian Association of NGO's. In addition, Banca Etica issues dedicated deposit certificates to individual international cooperation projects. Banca Etica commits itself to evaluating granted finances for single NGO's pertaining to the Association as well as studying and activating micro credit tools where possibile, specifically for certified Fair Trade producers.

**Alliance between the Banca popolare Etica and Coop Italia to reinforce the Fair Trade producers' market in Italy and to financially support producers in developing countries.**

On the 3<sup>rd</sup> May, an agreement between the two above mentioned bodies, was established which foresees the Banca Etica financing Coop Italia's cooperative producers who provide raw materials for the Solidal Coop products, Coop's *private label* dedicated to Fair Trade. Solidal Coop represents over 50% of Fair Trade products under the Trans Fair certificate in Italy, amounting to 7.8 million Euro in 2003 (a 158% increase from 2002), with 20 different referring entities. This collaboration with Banca Etica is an efficient agreement that allows payments to cooperatives in the South that provide raw materials for Fair Trade products, a visibile sign of concrete support for developing an economically sustainable model, that remains coherent with Coop's historical values, celebrating it's 150<sup>th</sup> anniversary in 2004.

Types of credit essentially belong to traditional banking systems<sup>14</sup>; there are certain modifications carried out for each financial activity that

consider even the smallest needs of those who apply for loans.

At the end of 2003 The Ethical Bank declared to have financed activities totalling 150 million Euro. Out of this sum, 14% was given to international development, 5% to environmental protection, 31% to schemes improving the quality of life and 45% to social cooperation. 3.2% was given to micro credit activities and 1.8% to purchasing housing. The overdraft excess fee is not however applied to the finances and the passive interests are credited annually rather than every trimester so as to make nominal interests real.

**BANCA ETICA'S METHODS**

Banca Etica has an inique structure derived from uniting an economic and financial balance with its' associative status and its' preoccupation with aligning social and environmental issues with economic choices. The need to reconcile a just social budget with an efficient economical budget has resulted in Banca Etica adopting particular tools with which it can fulfil its' main principles of *transparency, participation and democracy*.

Another distinctive aspect of the ethical committee which is made up of people with a heightened, acknowledged moral profile, is to provide advise, care, consultancy until the bank uses its' financial tools correctly and in accordance to the Ethical Code. This Code is made up of criteria used in screening customers through an ethical inquiry, training those responsible for issuing certificates, criteria for drafting a social budget, rules for the association and promoting an ethical sensitivity between all bank personnel.

Individuals can become members of The Ethical Bank by subscribing to a minimum of five transactions (each one costing 51.64 Euro), where as non profit making associations have to carry out 10 transactions and public bodies and profit making associations: 30. This

subscription, which represents a customers' willingness to take a risk with the bank, by buying 'a part' of it, also allows customers' to become members and participate in meetings, including those with other local customers. Whatever the number of their transactions, members only have the right to one vote. In addition, no member can possess actions above 0.50% of social capital thus avoiding dangers of power concentration which would stand against the bank's principles.

Customers can use the bank by joining *Local Sections*, organised structures resembling Associations that are not however acknowledged as part of the Cultural Foundation for Ethical Responsibility but which are made up of all customers who live locally to their bank. Members facilitate participation and diffuse an Ethical Finance culture that responds to requests, needs and

<sup>14</sup> Taxes proposed by the Banca Etica have an ABI prime rate (the average rate Italian banks offer their best customers) overdrafts, deposits, contracts and the 3 month Euribor (the tax for banks to exchange money) for hypothetical finances. The Banca Etica considers all of these as "best customers" as they have an economically sustainable project and a positive social and environmental impact.

stimulus within the area as well as giving information upon the bank's activities. Local Sections permit customers to sign up and assist personal meetings between the customers and The Ethical Bank, they also support and develop The Ethical Bank's social activities, promote an ethical banking culture, carry out a constant and continuous analysis of the area with the aim of discovering new needs to which The Ethical bank can respond, verify which of The Ethical Bank's activities are supported by its customers and other bodies in the area and promote member participation during The Ethical Bank's assemblies and meetings.

There is a Local Coordination called Git that lasts for three years and looks after the sections. This coordination is made up of a minimum of 3 and maximum of 11 members, its' function being to coordinate local sections thus becoming the crucial link between customers and The Bank itself. Sometimes overdraft screening concerning financial projects are handed over to Git, who in turn guarantee them and value credit requests made to the bank.

Area coordination is made up of local coordinators, divided into four geographical areas: North-East Italy, North-West, Central and the South together with the Islands. Local coordinators make up a national Area Coordination, which in turn, nominates an area coordinator. Local sections and area coordination have to present a work plan based on the contents of this document to the bank's member's office with which it works.

## The Players: Self management Loans

Mag's are cooperatives who have a Member's Meeting, a Board of Directors and a Trade Union Committee. The chair of the Board of Directors also legally represents the cooperative.

Both the Board of Directors and the meeting are "open" to all those interested in participating, regardless if they are non directors or members. The meetings take place four times a year.

Members can be investors, financial members and contributing members, the first two being substantially more important than the latter, who have contributed a minimum to the cooperative (fixed at 25 Euro by law). To receive financing, one needs to become a member and adopt a spirit of self management loans.

The work carried out by Mag's is promoted *locally* at both a provincial and regional level towards groups and individuals who believe to be aware of certain themes. *Local areas* are an important aspect but are supported by an element of empathy that allow Mag's to finance other, distant activities, as in the South of Italy.

Finances are guaranteed by a guarantor, a person who is committed to cover part or all of the amount given by the Mag, but who does not substitute a financial figure. In some cases, the

guarantor belongs to a financial context, whereas at times it is an external figure (*guarantor*) who takes responsibility for the project whilst simultaneously promoting shared values.

*Money guarantees* are not requested however during credit request evaluations, but are substituted by *relationship guarantees*: data and criteria that the Mag uses in order to select projects to be financed, amongst which are *mutual knowledge and social and cultural trustworthiness*.

Both active and passive *interests rates* are calculated on a basis of Istat's inflation rate. The positive interest rate is equal to Istat's current annual interest rate in order to preserve the same rate as that of acquired quotas, applied to social loans. This is determined by Istat's rate that has increased in order to cover the Mag's management costs. All loans given to members by the Cooperative have an equal interest rate independent of the real contractual power within the market of those aiming to overthrow market logic of the survival of the fittest. Consequently, everyone pays the same interest rates regardless of their contractual power or guaranties offered. Existing assets are changed from the weak depending on the "generous" strong, to a "right to justice" for all.

**Mag (Verona):** The first Italian Mag in Italy began in 1978 as a mutual aid society based on a law from 1886. In 1982, the cooperative "Cooperativa Mag Servizi" opened to promote and support the set up and development of associated businesses through technical and professional consultancy. Mag also has a financial fund raising centre which it has taken over from ethical banking.

**MAG 2 Finance :** The cooperative was funded in 1980 to collect and use private capital through members' savings using savings' books. The money saved is addressed to little known cooperative and associative projects or those reserved for traditional financial circuits. 'Mag 2 Servizi', started up in 1982 as a mutual aid society aimed at providing consultancy to non profit making associations. In the following years, loans were also given to individuals who needed financial resources to develop ethical activities within social, environmental and solidarity sectors, which remain excluded from all other credit circuits due to a lack of guaranties.

After 1991 a law was passed that imposed financial cooperatives with a minimum capital equivalent to a billion lire, registering with the Italian Exchange Office (Ufficio Italiano Cambi) that prevented them from obtaining savings through social deposits that could reach capital of two billion lire. In 1994 MAG2 registered with the Italian Exchange Office, thus taking up it's work once again and becoming a cooperative called 'cooperativa servizi informag' offering services to cooperatives, associations and the Mag 2 finance (s.c.a.r.l.) cooperative.

Between 1995 and 1996 MAG2 developed micro credit. Through smaller credit, it financed not only cooperatives and associations but also individual, underprivileged people through contacts made by voluntary groups. Agemi S.p.a. was founded in 1999, a new enterprise that could provide services

to small businesses. They are currently examining possibilities to provide some form of ethical “venture capital” for small and medium enterprises.

Today, Mag2 has two billion Euro in subscribed social capital, 1058 members and distributes one billion, seven hundred million Euro in finances. It has financed 200 projects over 20 years.

In order to increase the cooperative’s social growth, spread knowledge and identify which business projects and ideas to finance, Mag 2 Finance makes use of a group of the cooperative’s members who work voluntarily in a specific area or sector so as to identify potential projects. It is possible to adhere to MAG 2 by subscribing to a minimum social capital quota (51,64 euro). The initial quota paid-in can be increased, even through a permanent money transfer. If a customer wishes to withdraw everything, they can only do so after the close of the trading year, although a free share can be arranged in the meantime.

In the case where money is asked for but the customer doesn’t want to withdraw, returns are fixed at a monthly rate or in one sum. Customers do not lose their money and can regain possession of them whenever they want.

Profits are redistributed to members once they have been established in a meeting. The annual member’s meeting can address a part of the operating income to increasing social capital without cost.

Mag 2 finances specific projects that are promoted by companies, associations or individuals involved in local development, creating or consolidating new employment opportunities, or those which request guaranteed deposits. The amount given to members cannot be more than 5% of social capital. The interest rate is fixed and the expenses which need to be covered are only those of the inquiry. An amortization plan is established on the basis of a member’s transactions.

Financial requests are screened by a pre-inquiry, an ethical inquiry after which Agemi s.p.a (consultancy firm) carries out a technical verification. Mag 2 does not only give out credit but also advice upon all that is needed to start up a new enterprise: assisting in development plans, entrepreneurial projects and inquiries into finances and overdrafts.

MAG 4 was formed by a group of cooperatives (Lo Pan Ner, Aosta- Della Rava and della Fava, Asti-Camminare insieme, Cuneo-Il Ponte di Giaveno) who believed in the financial objectives of Ethical Finance. It is possible for individuals and non profit making associations to participate in the cooperative through subscribing to social capital, for a minimum quota of 50 euro and maximum of 35,000 Euro. It’s also possible to chose where the investments go, namely: local non profit associations, supporting the CTM-AltroMercato Union (of which MAG 4 is a member) and development projects pertaining to the cooperative itself. MAG 4 also offers advise to non profit making associations: support in starting up a company, restructuring and reorganising and specified training (rights reform, controlled management).

Mag6 began in 1988 and today has 950 members between Emilia Romagna and Tuscany and over one and a half million Euro in capital. The founders stress how ethical (or ‘critical’) finance doesn’t mean an organisation in itself but a tool which can improve the quality of life through a network of

people who have just relations, share money, time, products and services and who are united in communal values. MAG 6's work is based on self management, meaning member participation in all decision making and management processes. MAG 6 keeps members money (the minimum payment is 25 Euro, the maximum 50,000 Euro) within a form of social capital participation and commits it to financing projects coherent with its' principles. With regards to a profit balance, social capital can be recompensed to a percentage that does not go beyond an Istat inflation index. The money saved is given to activities that promote society, applying an interest rate that is the same for all and calculated on a basis of the Istat inflation index, to which a sufficient sum is added to cover structural costs and to recompense social capital

Each proposal is rendered financially feasible on a basis of precise criteria such as social quality, trust between members, democracy, participation and the project's local impact. As a general criteria, only members who are known personally and who have the requisites of becoming Mag members are considered financially feasible members.

It is particularly worth mentioning an experiment which took place in Firenze Le Piagge, where a socio-ethical fund was set up to carry out micro credit activities but which is above all a network responding to social hardships.

#### The Piagge Ethical Fund.

The fund began in 1998 as a result of an initiative by Father Alessandro Santoro, to allow people living in Piagge or those working within the area to access a small credit rather than a bank that does not give loans without guarantees or high interests, thus elevating their most pressing problems. To achieve this, relationships were set up with MAG 4 and MAG 6. Today, a 7 person democratically elected committee can identify the most worthy projects of Mag 6 and Mag 4 funds. All loans are guaranteed personally by the Comunità di Base towards Mag 4 and Mag 6: the person applying for the loan has to present a personal guarantee of two well-known people who can vouch as guarantors for the whole loan amount.

Customers who are interested are asked to invest part of their money in an ethical fund and to leave it invested for a minimum of a year. After this period of time, an investment can be withdrawn in one lump sum or in part at a re-evaluated inflation rate that is the average recorded during the year the deposit is made.

People who are part of the fund are invited to participate actively in meeting to decide upon the loans proposed by the Commission, as to decide on the location of deposits.

The loans themselves or the activities to which they contribute are directed towards community ethical development or as aid to those in need.

**Mag Venezia:** started in 1992 and is a cooperative that has a social capital of 550,000 Euro and 400 members between savings invested by the Solidarity Finance Union, financial associations, NGO's, etc. committed to improving lifestyles.

Today's savings are

approx one million, one hundred Euro which Mag Venezia maintains through four types of savings books: Futuro, aimed at children and youth, Formicain in which customers are encouraged to save regularly (at least 25 Euro a month); Finalizzata which has a chosen project and Vincolato.

In addition to finance, the cooperatives also carry out training and educational activities upon ethical issues and the relationship between the North and South.

## Ethical Finance for International Development

In the course of this mapping, various instruments and initiatives of Ethical Finance for development have been examined. Ones of particular interest are the grants given by ‘Valori Responsabili’ (Responsible Values) funds and the “Risparmio Etico” (Ethical Savings) fund managed by Cipsi, an Ethical Banking initiative. We have focused here on people who are promoting Ethical Finance in the South, bringing together savings in the North with investments promoted in the South.

### The CTM Union

The CTM-Altromercato Union, the biggest European fair trade organization has, in addition to its main work, set up a possibility to collect members’ savings and invest them in fair trade. A customer can indeed become a member of one of the 35 CTM social cooperatives that collect savings and deposit them in the cooperatives social capital or by opening deposit books.

The Botteghe del Mondo (Fair Trade shops), in turn finance CTM’s work, thus outlining the objective of a responsible finance campaign called “Capitali Coraggiosi” (Courageous Capita), namely to increase social capital within the CTM union so as to guarantee independence from traditional bank circuits. The capital collected is not directly used for financing, as the CTM union is not a financial body, but carries out two types of project: the Banquito project, that sets out micro credit concessions for producers in the South and in the Botteghe Del Mondo and the “Made in Dignity” project, that contributes savings to pre-finance producers<sup>15</sup> in conformity with fair trade criteria.<sup>16</sup>

In June 2003, the amount pertaining to CTM Altromercato were equivalent to 5.6 million Euro in capital and 12 million Euro in savings, provided by 16.000 members of 35 fair trade shops. Special attention should be pointed out to two members (Coop. Chico Mendes and Mandacarù) who alone saved 5 million Euro.

The CTM union also supports financial activities developed by certain BDM members: Microcredit coop., Mag Piemonte and CGM Finance. Credito Sud, a financial broker, also needs mentioning as it incorporated Chico Mendes, Mandacarù and Microcredit coop. in its own social campaign. Towards the end of 2003 CTM AltroMercato and Credito Sud announced that they were planning Microfinanza Altromercato, a new player that would take on credit concessions and savings for farmers, traders and craftsmen and women.

---

<sup>15</sup> CTM’s pre finance is provided partly by the Ethical banking programme belonging to “cassa raffeisen lana”, that offers its’ customers the opportunity to invest in development deposit certificates that supports the CTM pre-finance programme (over 60 financed projects) with specialised credit.

<sup>16</sup> Cfr. Cap IV refers to pre finance that is not objectively a means of finance for development.

## The Etimos Union

Etimos is a union that collects savings and donations to support micro entrepreneurial activities and micro finance programmes in the South. Having began in 1989 as a result of CTM-Mag's self management loans, it has provided 32 million Euro in Italy and abroad in finances in the last 14 years. It is however, only since 1999 that its' resources have been dedicated exclusively to micro credit in the South, subsequently becoming the strength behind the Banca Popolare Etica Bank. Since then, over 60 activities in the South have been financed, reaching an overall amount of more than 8 million Euro and a delinquency rate of less than 3%. Today, Etimos works in South America, Central America, Africa and the Balkans setting up types of "informal" or popular economy, that differ from one context to another, but which nevertheless share certain characteristics.

On the 31/12/03 Etimos had 178 member organisations, of which 137 were Italian and 41 foreign. Etimos members stood at 178 on the 31/12/2003, a fall of 8% compared to 2002 and 35% compared to 2001, significantly due to the increase of Etimos' minimum social quota. This diminution has not however effected the overall social capital amount. Etimos' current member organisations work in Italy, Europe, South America and in Africa and are divided as follows: 124 ordinary members, 14 syndicate members, 31 members in Latin America, 7 members in Africa, 1 member in Albania and 1 member in Kosovo.

Today, Etimos has contacts with approx. 28 organisations in 16 countries: Brazil, Chile, Bolivia, Ecuador, Paraguay, Peru, El Salvador, Honduras, Nicaragua, Guatemala, Senegal, Mozambique, Benin, Republic of Guinea, Kosovo and Albania. In selecting which organisations are suitable to receive credit, Etimos considers a cooperative spirit working locally and stimulating participatory and solidarity economic models.

Etimos finances micro credit through an exclusive use of its' union members' savings: associations, NGO's funds and religious bodies, which directly activate savings' books given by the union.

Etimos does not depend on donations but promotes its' members to make alternative and aware choices.

As a cooperative union, Etimos can directly collect savings only through its' member organisations who can subscribe a social capital quota (the minimum being 258 Euro), thus contributing to Etimos' capitalization or by activating different savings books that start from 12 months. Etimos can also be supported by non members (individual or group), who simply have to certify a Micro credit (for the South) deposit to The Banca popolare Etica Bank or certify one of Etimos' partner organisation in the South through a Banca popolare Etica Bank or even by activating a savings' book with one of Etimos' members who offer this service.

A savings book that nominates an amount allows one to fix a self determined interest rate within an established range that can be fixed or free (6, 12, 24 months). Individuals can only open this book through Etimos members or by certifying deposits to the Etimos micro credit fund (1% gross tax, minimum sum 1,000 Euro, time period from 12 to 24 months) at the Ethical Bank. Etimos also offers

its' members and non members to become guarantors for the South, through savings and investments. This involves taking over partners' payments in emergency situations or when natural disasters prevent them from paying back their credit. In addition there are more and more micro finance organisations that ask Etimos for finances but who cannot meet the guarantees that the union requests. Consequently, Etimos invites individuals, both secular and religious associations to become guarantors for partners, even taking over their payments when there are proven emergency situations that prevent repayments. This is a true shared responsibility for customers, an ethical investment in which values are not only financial profits.

Shared responsibility and values have resulted in so called "solidarity twinnings" between customers. These stimulate direct relationships between various Etimos partner organisations and open up numerous and creative possibilities to gain contacts, exchanges and knowledge from all those who believe in developing communities in the South. Clearly, there is a true meaning of shared responsibility for customers, an ethical investment whose values go beyond financial profits even though the tax from missing repayments is below 3%.

It's possible to become a guarantor once you have a certified deposit and savings book to guarantee finances carried out by Etimos for a period that corresponds with the loan itself until it is paid back in full. Such an option exists for both those certified with Etimos micro credit as well as others certified through The Ethical Bank, which have a higher interest rate. In addition to Etimos projects, it is also possible to guarantee loans with The Ethical Bank. Such a transaction costs the equivalent of 1.5% of the guarantee value that has an effect on the beneficiaries. Etimos also accepts donations in its' account number 26 at The Ethical Bank, where one can indicate which project to support.

To become a member of the Etimos Union, one can subscribe a minimum social capital quota (equivalent to 258 Euro).

The procedure of becoming a member includes filling out a form and a subsequent candidate exam on behalf of the Board of Directors who have to give their approval. The social capital deposited to join is made up of a refundable deposit in case the customer withdraws. The deposited amount is proportional to the sum of the first granted finance depending on the following proportions: one quota every 15,000 Euro/USD of funds. All those who wish to access savings and credit services as well as programming, training and technical assistance need to be members. Some of its' members, called "di cartello", have a closer relationship with Etimos. These members are committed to capitalize the union, to invest financially in Etimos projects and to promote activities locally. These members are reassessed annually and can renew their member status.

The closest members to The Ethical Bank, which are part of the association are: ARCI, ACLI, NGO's such as Mani Tese, consumer associations and Transfair (fair trade company). Partners can also use Choros-Servizi's services. Choros-Servizi is a team of specialists who gather inheritance and know how of the Choros Foundation within programming, technical assistance and training.

Choros-Servizi carries out projects in partnership with others: assessing feasibility, analysing and evaluating social and environmental impacts of micro credit as well as supporting projects in Italy and in developing countries for local companies and NGO's regarding micro finance and micro-enterprises. It also provides updates on new methods through a service pack that accompanies financial transactions.

There are often agreements in cooperating on one or more projects between the union and its' members. This was the case with the campaign "Sin café no hay mañana" that supported small coffee producers belonging to 'Central de la Cooperativas Cafetaleras' in Honduras, a union from which Transfair buys coffee following fair trade criteria.

A minimum of 1,000 Euro (which is repaid once interests are refunded) is required for Etimos to create a guaranteed loans fund through The Ethical Bank. Funds are raised through a general public who are in a position to contribute, through specifically dedicated donations or through certified deposits destined for the Honduras project.

### **Credito Sud**

CreditoSud is a shares company that started up due to a willingness of a few individuals to give micro finance as a support for productivity in developing countries. To begin with, founding members' capital was used thus demonstrating their commitment to overcome any risks. Once, in September 1999 CreditoSud obtained authorisation from the Italian Exchange Office (Ufficio Italiano Cambi), it presented itself as a financial broker by issuing loan shares. At the same time, the social body of Credito Sud expanded, including shareholders of fair trade cooperatives *Chico Mendes* and *Mandacarù* and *Microcredit coop* amongst its' members. The emergence of such members, who were already part of the CTM-Altromercato union, demonstrates how Credito Sud has become a reference point for Micro finance in the South. At the end of 2002, credit amounted to approx. 1,300,000 Euro, made up of 11 financial bodies split between 2 categories of beneficiaries: fair trade producers (united in cooperatives or farmers' movements) and micro finance institutions. Potential projects are essentially proposed by European alternative banks, NGO's, non profit making associations or people working within fair trade. After specified on site assessment missions, projects which seem sufficiently fair and sustainable, with a long term vision are chosen. Establishing a good relationship during a first loan makes it easier to have another that could even become an investment in the institutions financial capital.

Generally, loans are given in stable currencies, the interest rate is 9.5% overall, the inquiry cost is a thousand dollars, plus a living allowance. Loans are granted with an expiry date between one and three years with repayment plans to be defined. Interest payments are usually six-monthly, whilst the required guarantees vary from case to case.

### **Some of the main CreditoSud partners**

**Edypme** Confianza- **Huncayo-** **Perù**  
 Confianza is a micofinance institution that is developing thanks to credit activities carried out by the NGO **SEPAR** with funding from the Banco InterAmericano de Desarrollo and the European Union in Valle del Mantaro, a central region of Peru. Since 1998 it has provided financial services to approx. 4,000 micro enterprises, with a specialised methodology reserved for agricultural loans. **Confianza** has an important role in guaranteeing those excluded from formal circuits with access to financial services. It has obtained worldwide financial support from the main alternative financial bodies. Credito Sud granted a loan of 100,000 dollars with the aim of increasing the micro credit portfolio and was granted an annual tax of 9.5%, a six-monthly repayment rate for three years, and a delinquency rate after the first guaranteed year. The guarantee was granted thanks to a credit note by Ada-Dexia for 50% of the entire sum, the other 50% was covered by the credit portfolio.

#### **EDYPME PROEMPRESA**

A micofinance institution is formed by initiatives pertaining to the NGO IDESI. A loan of 200,000 dollars was granted to boost the microcredit portfolio with a tax rate of 10.5%, with refunds after the second year for a total of four years. The guarantee was provided by IDESI's personal guarantee and Proempresa's transactions (belonging to Idesi).

#### **UCA CHONTAL –NICARAGUA**

An agricultural cooperative union that cultivates land taken from land owners during the sandista era, which today provide commercial and financial services for producers. Mani tese and Credito Sud carried out a joint loan of 43,000 dollars at 8.25% to buy animals for food stock. The loan is for 15 months and guaranteed partly by collateral, partly by Mani Tese.

#### **CONCRAB, Federazione delle Cooperative del movimento Sem Terra- Brasile**

The rapport was initiated by the NGO Fratelli dell'Uomo. In the Southern states (Paraná, Santa Catalina and RioGrande do Sul), along with the Sem Terra movement, Concrab sets up impressive agro-industrial machinery, with plants that can transform all agriculture in the region. The market is internal, only a small quantity of mate is exported through CTM. Thanks to its' political mobility, the movement has been able to obtain amiable state funding, that has been immediately used to capitalizzare cooperatives and increase individual families' production. The cooperatives are now in need of liquidity, vital to their expansion. The objective of Credit sud's granted loan (94,000 dollars) is therefore that of liquidity: an annual interest rate of 9%, with six-monthly payments and a four year deadline for repayment. The guarantee is on a building.

#### **Fondo Semilla, Folade-Costarica**

A second level association that groups together about 40 MFI's throughout Latin America. Folade set up Fondo Semilla as a compensation bank that can respond to its' customers' needs. Credito Sud's loan was granted at 100,000 dollars, responding to the portfolio's needs. It has an annual interest rate of 9.5% and six monthly repayments beginning after the second year. The guarantee is the fixed deposit and Fondo Semilla's credit portfolio. In addition to granting a loan, Credito Sud is also investing 25,000 dollars in Fondo Semilla's shares companies.

As far as retrieving financial resources are concerned, as already stated, Credito Sud grants loan shares: the first, granted in 2001 was for 510,000 Euro with a deadline at the end of 2003. It took a 5% gross interest rate and offered the possibility to cash a six monthly credit note. Today, there are two new shares issued that cannot be changed and which have a gross interest rate of 2.75%, six-monthly credit notes and a minimum of 5,000 Euro. The interest rate provided to customers is generally above the average for other ethical finance products. This is due to the company's intention to raise an " multiplying effect" that can attract new customers, thus obtaining new resources to invest in the South. Such investments are based on specific agreements: the customer is offered the possibility to refuse a part of the matured credit note allowing Credito Sud to reduce the interest rate requested by clients in the South.

The exchange difference effects the (MFI): who ultimately have to repay the loan, made possible thanks to high interest rates, even though it would nevertheless be better to lower the interest rates.

In addition, Credito Sud would like to participate more in its' member development through greater "risk taking": by pledging shares certificates and risk covers for example. It is important to remember that Credito Sud does not provide product insurance and so in the case of natural disasters producers still have to pay back loans.

### **Ethical Finance for Development: problems within the sector**

Ethical Finance in Italy only makes use of 1/3 or 1/2 of the resources accumulated through savings. From these invested resources only 10% are destined to micro credit in the South. Almost the entire amount of finances dedicated to "international development" do not finance micro credit activities but cover NGO deposits for projects in the South. This context is predominantly supervised by the Italian Exchange Office (Ufficio Italiano Cambi) that requires formal guarantees for each investment coming from a bank or financial cooperative. As we have already mentioned, it is difficult to find guarantees to small micro finance institutions.

A possible solution could be constructing local, associative capillary structures, such as "community savings" that pool together savings destined to directly finance the South, without brokers who have too many legal obligations.

Let us turn to the lack of Italian funds to support micro credit. There are, for example, many institutions that are propped up by traditional financial systems or foundations, Credito Sud is supported by a Swiss guarantee fund, whilst Etimos refers to organizations belonging to a union to become guarantees in themselves for loans granted to partners in the South. It is evident, that this approach is not sustainable for the majority of NGDO's who already have problems with their own accounts. Resources to implement training initiatives for beneficiaries in the South are also lacking, resulting in complaints from ethical finance personnel about a lack of synergy from NGO's regarding this sector.

Finally, there is the role of NGO's. Partnerships between financial institutions in the North and micro finance in the South are often established by an NGO from the North. Credito Sud, for example has financed producers or MFI over time who have had rapports with a certain NGO and who in some cases have contributed in creating or supporting their activities. In such cases, partnerships are formed between Northern financial institutions and producers/NGO's/MFI in the South even though contracts and finances do not directly involve an NGO, they do nevertheless carry out local monitoring.

NGO's often work in synergy with other bodies who finance MFI with regards to funding or supporting training and technical assistance or "donating" towards structural investments. To conclude, the financial system for development is becoming self sustainable to a greater extent and thus permits donations to remain positive actions in certain situations.