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Introduction

Banca Etica is the first alternative bank in Italy, it was constituted (as a bank framework) in may 98 and it has been starting the banking activities in February 99.

The Banca Etica's topics :

- To give credit to organisations founded on values such as solidarity, helping the disadvantaged, the conservation and development of the environment and the promotion of enterprise linked to the respect of everybody's rights,

- Strong partnerships with several organisations such as third sector enterprises, local authorities, religious associations, environmental associations, trade unions, local committees,
- Strong member participation in the Bank activities, they are grouped in local volunteer association (GIT : *Gruppo Iniziativa Territoriale*) to organise promotional activities,
- Selection of the enterprises (or projects) by a set of social, environmental and economic criteria which guarantee their ethical behaviour.

It follows some examples of those specific features, in particular the role of the third sector for Banca Etica, the synergy that could be created with local authorities, the evaluation methodology to finance social enterprises, will be shown.

1 Welfare state crisis and the role of the Third Sector in Italy

One of the reasons that motivated the European Union to support the Third Sector is “linked to the existence of a set of unsatisfied needs. Neither the Government nor the Market seem to be able to give an answer and to provide those services towards an improvement of the quality of life, the culture, the free time.”(*Third System and employment*, working programme of European Commission for employment, industry and society, DGV, 1998)

A big debate about the definition of the Third Sector has been starting, but once again we can use the European definition saying that “the word Third Sector defines whole organisation that belongs neither to public nor to private sector”. (*Third System and employment*, working programme of European Commission for employment, industry and society, DGV, 1998)

The third sector’s organisations are co-operatives, associations, charities, foundations that provide goods and services, to develop an economic activity. Therefore, they differ from the traditional enterprises because of the lack of profit goals. Their private framework differentiate them also from the public sector.

The presence of unsatisfied needs and the opportunity to satisfy them through new forms of economic activities, give room to a wide growth of the Third Sector. Several experiences mixing social and economic goals have been emerging to satisfy an increasing social demand, and at the same time, they have been creating concrete employment opportunities.

The interest for the Third Sector is strong in the European Union activities. Several interesting programs -mainly concerning employment- reveal the importance of this sector in terms of employment and welfare creation (and also richness).

Recent analysis (Eurostat, 1996) confirm that the Third System enterprises are from 6% to 6.5% of the total number of European private enterprises, they employ 6,4 millions (5% of total employment) shared in 59% associations sector, 34% co-operatives sector, 7% mutual sector. Certainly the percentages differ from country to country, for example the Third System organisations providing social services amount to 29% in France, 23% in Germany and 25% in Italy. Moreover the number of associations is higher than that of co-operatives, the latter create higher employment (53% of the sector) and turnover (79% of the sector). Furthermore in the ‘80s employment produced by Third sector

organisations has grown faster than the whole economic system: 11% against 3,7% of the total employment in Germany, 15,8% against 4,2% in France and 39% against 7,4% in Italy.

Some data about the Italian Third Sector

- 418,000 employees = 1.8% total national employment
- 39% growth rate of employment for the Third Sector (general growth rate of employment 7.4%)
- 4,000,000 people engaged in social activities
- 16,000 conscientious objectors

- 52,000 social enterprises:
 - total turnover = 3,000,000 EUROS
 - 1.1% GDP
 - 52.7% public financing (30% contracts, 17.5% grants)
 - 46.7% private financing (about 32% selling goods and services)

2 Social demand and Social Investment supply: the birth of Banca Popolare Etica

2.1 Banca Etica: the first social bank in Italy

In 1994 a widespread movement involved in social co-operation and protection of the environment launched the Banca Etica project. The aim was to provide a tangible instrument to realise a new school of thought for finance and economics. Unions, social co-operatives, local authorities, associations and NGOs (all organisations with strong territorial roots and with a relevant social dimension) have been participating in this ambitious initiative. They started from the experiences of the Mutual Self Management initiatives (MAG) in Italy, and of the alternative banking system in the rest of the world.

In May 1998 the Cooperativa Verso la Banca Etica has reached the amount of social capital required from the Italian legal system to become a bank. Since the extraordinary meeting of the shareholders it has changed its statute and its legal framework: it has been transformed from a co-operative to a bank (specifically a Banca Popolare).

On 8 March 1999 Banca Etica, the first ethical bank in Italy, will be completely operative and open its door to the first customers.

Banca Etica is also member of INAISE and participate at Microcredit Summit activities, within Microcredit program carried out by World Bank.

The main products of Banca Etica (to get funds) will be ethical certificates of deposit and ethical bonds (in the long term others services may be offered such as a current or saving account, ATM services, etc.). It is also forecasted that the saver could chose the level of interest rate (and also renounce it) to allow a reduced interest payment for the enterprises financed.

Banca Etica will finance enterprises that develop activities in the following sectors:

- Social co-operation and activities
- International solidarity
- The environment
- Culture, civil society and sports

Some Banca Etica's figures

- 7,500,000 of capital stock
- 13,000 shareholders:

- 1,800 non-profit organisations
- 169 local authorities
- 17 banks
- 11,000 individuals

2.2 The Third Sector as a main market for Banca Etica

The Banca Etica market will be directed mainly to non-profit enterprises (also called social enterprises)¹. The social enterprise is an organisation able to join management plans with social intervention and concurring in the market with a good level of competition.

Italian juridical framework for Social Enterprises

Social Co-operative

For the law 381/91, the social co-operatives have as aim to pursue the general interest of the human community to the social integration by:

- cat. A) the management of social healthy and educational services
- cat. B) the providing of activities –agricultural, industrial, commercial and of services- to employ at least 30% of disadvantaged people

Association (ONLUS)

The recent reform act on the no-profit system rules the association status. Associations are defined as social voluntary corporation that does not have for profit goals. They have to pursue a no economic aim.(art.12-42 cod. civ.). They can be instituted for sport, culture, natural conservation, etc

Co-operative

Also the co-operatives can be considered within the Banca Etica's target of reference, this is because of their mutual goals.

The Italian legislation distinguish co-operatives from ordinary company, this distinction is based on the mutual principle that must be the main goal for co-operatives. For this definition the co-operative's activities

¹ The Italian case is particular: at the moment Banca Etica is mainly oriented to provide funding to non-profit sector. Nevertheless, as occur at European level, there are no constraints to extend the Banca Etica's activities also to Social Enterprises with a for-profit framework.

have to provide goods, services and employment directly to members of the organisation at more advantageous condition than those obtaining on the market.

Several kind of co-operatives are forecasted by the Italian law, they can be turn to production activity (agriculture, industry, handcrafting, etc.) or service activity.

Their main particularly is the obligation to not distribute profit over the legal interest rate. art. 1026 Civil code, law 31 January 1992, n.59

In fact, between State and market, there can be room for a new sector where the social enterprise can play a substantial role.

The social enterprise promotes a new organisation model able to satisfy the increasing social demand, this particularly in the social service sector and with the possibility to create employment.

Some features of a non-profit enterprise:

- For these enterprises profit is a constraint to respect and not a goal to maximise, the aim of a social enterprise is to maximise social utility. They achieve it by developing several activities such as providing employment opportunities for disadvantaged people, health care, environmental conservation, cultural initiatives, etc.
- the organisational structure is non hierarchical. They promote sharing of responsibilities and management among the employees, the involvement of the customers, and the stakeholders participation in general. Moreover the social enterprises can rely on a network of volunteers that promote and support the enterprise's activity.
- their production activity is based mainly on services and goods with a high social concern. The goods and services produced usually have a low added value, this is because there is a high labour cost due to the involvement of disadvantaged people in the workers group, furthermore there are less economies of scale.
- They have particular legal frameworks, this allows them to provide goods and services in a better way and sometimes to get funding and fiscal advantages.

3 A new model of Welfare Finance: some projects of collaboration between Banca Etica (BE) and Local Authorities (LA)

Among the partnerships that BE develops with several organisations (see pag.1), the opportunity to collaborate with LA is particularly interesting.

The policy of BE is oriented towards a welfare mix society where public sector must strictly collaborate with the third sector. In fact, the administrative decentralisation does not always guarantees participation, Banca Etica wants to promote horizontal (non hierarchical) subsidiary: that means full participation between citizens, social organisations and local authorities in the decision making process. In a framework of welfare state crisis, public and third sectors have a mutual interest to cooperate. Moreover, third sector is able to produce a high level of social welfare and to substitute the public administration in providing social services, mainly in a system of welfare state crisis.

Nevertheless there are some difficulties for the LA in relating with the third sector.

Firstly, the LA doesn't know the third sector exactly in term of dimension, structures, presence on the territory, etc. Secondly there is a lack of standard tools to evaluate the capacity/ability, social efficiency of the delivered social service. Thirdly there is not an appropriate legislation able to regulate the overall Third Sector.

Banca Etica can represent *le trait d'union* between Local Authorities and Third Sector. At the moment 6 Regions and 190 Municipalities are shareholders of Banca Etica and they have subscribed about 800.000 euros of capital stock.

In this context local authorities have become strategic partners for Banca Etica, this is important to build common actions for the Third Sector, several relationships and tools have already been planned.

Cash advance

Banca Etica will also finance social enterprises which will receive funding from public institutions (such as European Union, Italian Government, Regions, etc.). Because of bureaucratic reasons public support is often late and social enterprises risk the failure of their business plan. Banca Etica can provide credit with the guarantee of the Public Institution that a funding will be provided to the enterprise.

Partnership with Local Authorities to increase stock capital of Social Enterprises: “the Cooperative di Capitalizzazione”

Social Enterprises have the structural problem of undercapitalisation, in particular those promoting the involvement of disadvantaged people in their production process (type B co-operatives). The lack of stock capital is one of the principal causes of difficult access to credit.

The idea is to create a new organisation able to collect the needed capital. Local authorities, Banca Etica and others stakeholders will set up a co-operative of capitalisation (*cooperative di capitalizzazione*).

Local authorities will be the main shareholder of the co-operative.

The co-operative of capitalisation, with the support of Banca Etica, will carry out a territorial campaign to collect stock capital and donations² from members of social co-operatives, families of disadvantaged people, volunteer associations, trade unions, churches, individuals, etc.

B.E. will mainly provide consultancy and it will collect stock capital on behalf of co-operative of capitalisation.³

Regions will give economic and financial support to provinces and municipalities. These will use this funds to provide stock capital to the co-operatives of capitalisation..

The co-operatives of capitalisation will subscribe stock capital of social co-operatives. The co-operatives of capitalisation will have the aim to collect funds, to direct them towards social co-operatives, to create continuous connections with local authorities.

B.E. will provide short and medium term credits of an equal amount of stock capital provided by co-operatives of capitalisation.

Municipal bonds (BOC: Buoni Ordinari Comunali)

Municipal bonds represent a new municipal tool to collect funds from citizens and to direct it to public projects.

B.E. could orient local authorities to choose projects of common interest.

² During the 3 years of marketing campaign to collect stock capital B.E. created a strong network of “ethical finance friends”

³ Moreover, BE will support social co-operatives in business plan implementation, identify financial needs of social co-operatives, give credit, organise the campaign of capitalisation, etc.

In a contest of welfare state the Banca Etica consider that partnerships are more and more strategic. The process of privatisation must respect the most disadvantaged people. Banca Etica aims to go from welfare state to social organisations. Ethical Finance can play a significant role in those future scenarios.

4 New criteria for enterprise's assessment

The Banca Etica's way of selecting the enterprises worthy of funding is one of the features that makes it unique in the Italian banking context.

It is interesting to describe the principles employed by Banca Etica in the development of its investigation process.

The main goal of Banca Etica is to provide credit to economically reliable enterprises that demonstrate attention to the social utility they produce. In addition to standard economic proceedings, Banca Etica will analyse the consequences that several production activities can produce for human health, for public welfare and for the environment.

So the Banca Etica wants to have a deep and detailed evaluation about the economic, social and environmental reliability, planning a system of indexing and parameters that is as objective and clear as possible.

In fact this decision-making procedure is different from the standard investing procedure used by commercial banks. Commercial banks follow processes consisting strictly of economic and financial analysis and there is no focus on the environmental and social concerns.

Thus we can see that the Banca Etica staff needs new tools to investigate values that have not been examined so far by the banking system.

4.1 Social and Environmental Evaluation of Social Enterprises (the VARI model)

Banca Etica has created an innovative model to assess social enterprises, it is called VARI model (Values- Requisites Indicators).

The assessment of credit demand, from an ethical finance point of view, could be based on a relatively simple system. This would allow us to provide a tool that could be managed more easily both by the bank staff and the financial receiver.

This evaluation system represents an instrument able to identify - with good approximation - the effective social and economic value of the enterprise requiring credit.

The ethical assessment of social enterprises must be linked with the economic analysis: economic and ethical evaluation will constitute the overall investigation, and the ethical financing the ethical financing will depend on this result.

The VARI (Values Requisites and Indicators) method that we are presenting mainly refers to social-environmental aspects. This represents the Banca Etica's distinctive criterion.

It's certainly an innovative model and it introduces variables that have not been considered so far by banking staff. For this reason, at first glance, it could be interpreted in amore complex way than considering the economic evaluation only.

In reality it is a simple tool that allow the bank staff to have wider information on the investigated enterprises. It allows us to consider their whole project, the coherence with their mission, their structure and their long term soundness.

Moreover it is a formidable instrument for the achievement either of Banca Etica's social mission, or in general for the FISE⁴.

The valuation model VARI (Values Requisites Indicators) requires two essential preliminary steps: First, each financing request must be preceded by an application-form in which the enterprise is described in its essential lines (such as type of organisation, human resources framework, main activities, further economical information).

Moreover it is required to define the admission threshold (negative criteria) under which the ethical financing can't be given.

The Admissibility Threshold: Exclusion Criteria

To provide funding, Banca Etica will exclude all the enterprises that produce:

- Health damage (for example genetic manipulations)
- Environmental damage (polluting activity, nuclear energy production, intensive exploitation of the soil, underground and natural resources; animal experimentation; highly energy consumption activity)
- Lack of respect for the human dignity (abuse and discrimination of the workers; no guaranties on health and safety in the work place; sexual, religious, political discriminations; pornography, drugs, alcohol, tobacco, gambelling)
- Shipping industry
- Political relationship (direct or indirect links with dictatorship; economic activity for political interests or viceversa).

⁴ As defined in the report "financial Instruments of the Social Economy (FISE) in Europe and their impact on job creation, INAISE, Bruxelles,1997

Banca Etica will refuse to finance all the enterprises that begun activities that are in opposition with its scopes. For this reason the single enterprise or association will provide a self-certification document confirming the adherence to some minimum criteria and declaring that it has not been involved in negative activities (see box)

Secondly, after defining the admissibility threshold it will proceed to the valuation based on the VARI model. This model begins from the definition of 9 basic Values for Banca Etica, that the requiring subject must demonstrate respect to. For each value there are some essential Requisites that guarantee the respect of Values. For each Requisite a set of Indicators have been identified that let them know that the Requisites have been adhered to.

For example the **indicator** “*Number of women present on the board of directors*”, is one of the indicators that identifies the fulfillment of the essential **requisite** “*No sex discrimination*”. This requisite is one of those referring to the **value** “*Equal Opportunity*”, the respect of the requisite could mean the fulfillment of the value.

Another example is the **indicator** “*Periodical pollution control*” that refers to the **requisite** “*Respect of the environment*”, that is one of the requisites belonging to the **value** “*Eco-sustainability*”.

4.2 The evaluation quadrants: a “political problem”?

One of the most relevant problems of an investigation system is the attribution of the balance between economic and social-environmental valuation and, inside the VARI system, the weight must be given to single values and indicators.

In particular, is important to establish which quadrant the Social Enterprise is in (fig.1).

While quadrant I represents an optimal valuation (economic and social-environmental valuation are both positive), quadrant III represents a totally negative valuation, and thus the impossibility to provide the financing.

Quadrant II and IV constitute the real problematic knots. In fact, we are in the presence of a situation that is not totally positive or negative: in one case (quadrant II) there are a positive economic evaluation and a negative social-environmental one, in the another one (quadrant IV) the social-environmental valuation is positive while the economic one is negative.

In this two cases, it will be necessary to take actions to reward the “orientations” that lead from quadrants II and IV to quadrant I.

Figure I: Evaluation quadrant

