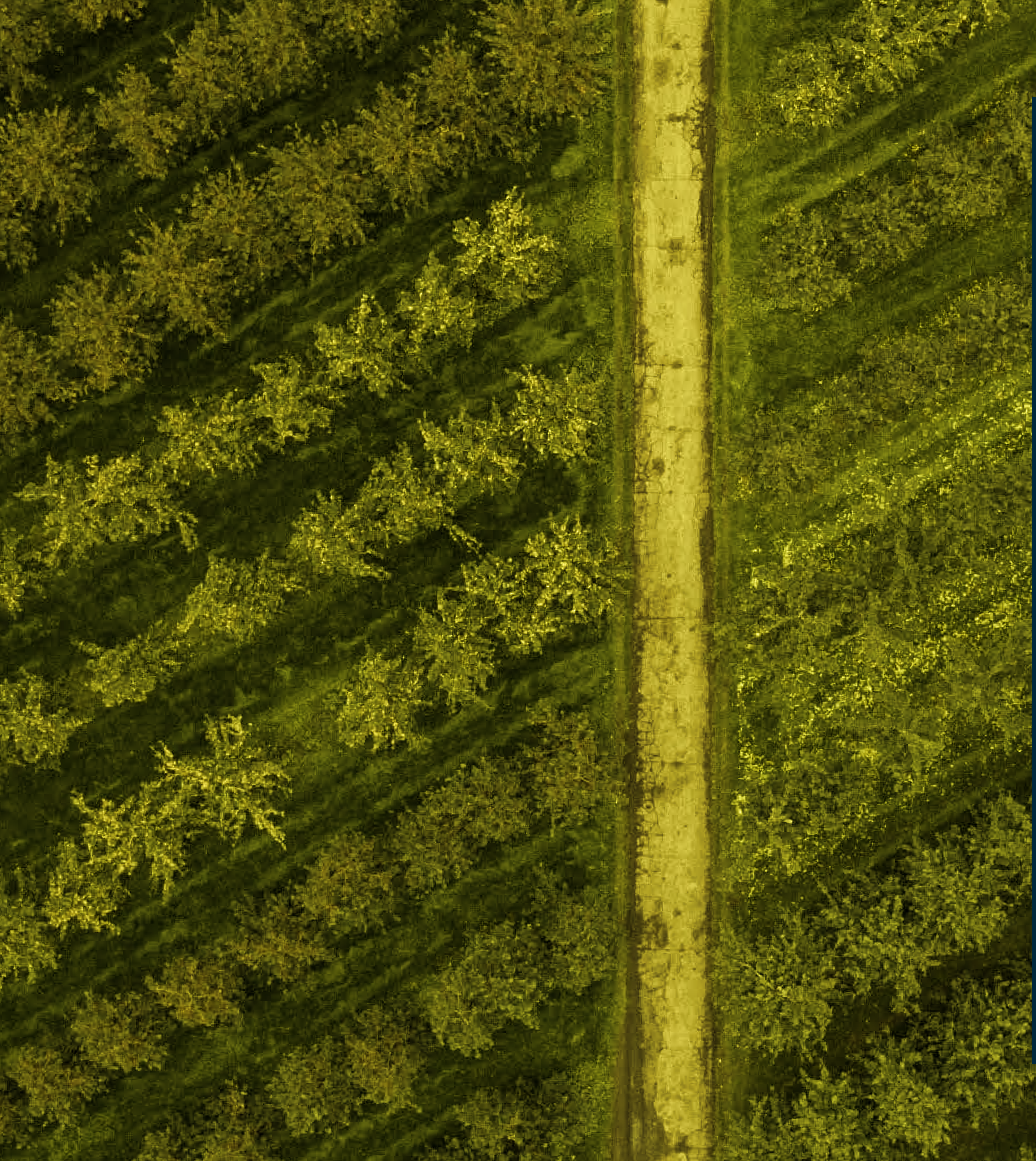

FIFTH REPORT

Ethical finance in Europe

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febea

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

This definition is drawn from the famous report “Our Common Future,” also known as the “Brundtland Report,” after Gro Harlem Brundtland, the chairwoman of the World Commission on Environment and Development set up by the UN in 1983.
Since 1987, when the report was published, this definition of “sustainability” has been the most widely recognized and used. Thirty-five years later, we find ourselves commenting on the European Commission’s choice to include - albeit with some restrictions and distinctions - gas and nuclear power among the “sustainable” activities.
Recall that, for some years now, the EU has been working on framing and defining sustainable finance: a job that entails examining each productive activity and its impacts in different areas, from climate to biodiversity, to the water cycle and many others.
This work has yielded a taxonomy of eligible assets and activities for financial managers who want to offer “sustainable finance” products in accordance with EU definitions.
The problem is that governments and lobbies have come into play in recent months, seeking to move the goalposts and loosen the restrictions to include more and more activities among those that are “sustainable,” based on economic or geopolitical needs rather than scientific criteria. As a result, as mentioned, gas and nuclear were eventually included among the eligible activities in early 2022.
This is why it is appropriate to go back to definitions. Let us forget for a moment the unsolved problem of waste management at nuclear power plants, or even the risks associated with the safety of the power plants themselves. Even then, a substantial problem remains: the supply of uranium on Earth is finite. What we use today in nuclear power plants will not be available for future generations. If in 50 or 100 years we were to make innovations in medicine, interstellar travel, or any other field, that require uranium, using it today to meet our needs would compromise the ability of future generations to meet theirs. Word for word, the definition of unsustainability.
All this relates to the environmental part of the taxonomy, the one that is supposed to be the cornerstone of the EU plan. The work recently begun on the social and governance dimensions, following the traditional ESG approach to sustainability, seems even more disappointing, at least judging by the approach taken thus far.
A few years ago, the universe of ethical finance warmly welcomed the start of the EU’s work on sustainable finance. First, because of the implicit recognition that much of the current financial system is unsustainable. Second, for the need to have clear and shared definitions of what constitutes “sustainable finance.” Finally, because of the EU’s explicit goal of wanting to redirect capital flows towards a different economic system that can respond to the environmental and climate change challenges as well as the social challenges we face.
At the same time, from the very beginning, we insisted on the obvious limitations of the EU approach and published with FEBEA, the network of European ethical and alternative banks, a document in which we highlighted several points that needed to be improved and reconsidered in order to attain a truly sustainable finance [https://febea.org/febea-position-paper-on-the-eu-sustainable-finance-strategy/].
Today the issue is, unfortunately, quite different. It is no longer a matter of different approaches or criticism of specific aspects to be improved. The framework adopted by the EU today risks completely disempowering the word sustainability. It is diametrically opposed to the definitions of the term that have been shared for decades on an international scale and by Europe itself.
Remember that banning gas or nuclear energy, as well as other activities, is not in question here. The point is that if a bank or manager wants to offer a “sustainable finance” product, then some activities must not be included.
The strength, the aggressiveness, with which some European governments and lobbies have moved to have evidently unsustainable activities included in this list, from a certain point of view, is perhaps the only element of hope. Indeed, such aggressiveness highlights how important it is today to fall within a “true” definition of sustainability, that is, the one demanded by savers and bank customers who are increasingly mindful of how their money is used. The problem, however, is that this growing attention and push from below risks being thwarted, if not misled, by a path that has very little sustainability. This thinking is at the heart of the ethical finance movement, which therefore finds itself compelled to claim its significantly stronger approach to sustainability: not only sustainable products, but sustainable finance practitioners; an ethical finance, and its financial instruments, accessible to everyone; a strong focus on the real economy and just fiscal policies, instead of speculative instruments and practices. However, the problem is not solved by merely clarifying that ethical finance is much more than “EU-labelled sustainable finance products.” This is a huge problem for a planet that cannot afford greenwashing operations, especially when endorsed by institutions, in the face of the need and urgency for immediate action against climate change and for sustainable development goals.

Andrea Baranes and Ugo Biggeri

FIRST PART

Banking systems in comparison

As opposed to the past, the term “ethical banking” has now entered common parlance. However, there is often superficial knowledge involved, perhaps because of a too-quick association with something that is generically good, just, clean - at a time then when the great financial crisis has undermined the reputation of the banking system - or, in a more political reading, with a critical and radical view of the banking system.
It is, therefore, no coincidence that, often, as described in this chapter, other adjectives such as alternative, responsible, sustainable, and solidarity, are added to the term ethical to describe these “different” banks. In this brief introduction, it is not my intention to analyse which adjective is most appropriate, but rather to try to be a part of those unique, almost magical, moments in which the process that led to the birth of these banks was started. To understand what was “going on in the minds” of those people who embarked on such a journey, and especially in what context these people found the motivation to get together and carry out their project.

Here, then, is the first possible factor: **collegiality**. Therefore, not a super-expert, a genius, a nerd (we would say today) who single-handedly finds the formula for the super bank and the start-up bank, but rather people who feel the need to cooperate in order to start processes of change that bring human beings and their relationships back to the centre of the picture.

The second possible factor: **sharing the responsibility to change** situations, dynamics, and **practices that are deemed wrong**, focusing on the roots of “injustice.” Therefore, this is not a generic criticism of how finance is disconnected from the real world, but a commitment to offering effective and sustainable alternatives so that people can adopt behaviours and make decisions consistent with their values.
The third possible element is values. But what values? No person or organisation does not have core values. Unfortunately, however, we often witness value schizophrenia: we tend to use different scales of values depending on the context in which we find ourselves; such as, for example, using ethical/moral values in a social and relational context, or market values in the case of economic activities. These pioneers probably wanted to break this vicious circle, proposing a concept of value that would tie economic value together with social and environmental value. They were aware that, by changing the criteria for evaluating the final outcomes, all this would inevitably change the processes of production, but also redistribution of this value.

The use of a social-environmental assessment to grant loans or to make an investment, as well as governance based on real stakeholder involvement, are now indicators of those insights. Thanks to my knowledge of some ethical banks’ histories, I have taken the liberty of extrapolating some elements that I hope can help explain the alchemy that made their birth possible, albeit recognizing the complexity of the processes that manage to hold together the social drives and drives for change, typical of many movements, with the capacity of individuals and organisations to provide concrete responses to these needs.Having done so by holding together the associational dimension linked to the dream (social renewal) with the corporate dimension (economic responsibility) represents not only an echo of the past but a stimulus, for those receiving the baton today, to implement these insights effectively.

Marco Piccolo, President of Fondazione Finanza Etica and Vice-President of Fundación Finanzas Éticas

1.1 ETHICAL AND VALUE-BASED BANKS: *DIFFERENT* ORIGINS, COMMON GOALS.

In this Report, unlike previous ones, we have decided to refer to the banks we take as reference, members of the GABV, Febea, and INAISE networks, as “ethical and value-based banks,” and no longer as “ethical and sustainable banks.” This term must be understood in a broad sense, so as to include banks that define themselves as “ethical,” but also value-based banks with different legal and governance practices, but with common inspiring principles and goals. This overlap has become necessary, given that the term “sustainable,” used in previous reports, has now taken on the meaning given to it by the European Commission and it is exclusively associated with financial products.

The term “ethical finance” is not universally accepted and is relatively recent. Other terms, only partly overlapping, are “social banking,” responsible banking,” “banking on values,” etc..[1] In Europe, there are three ethical finance organisations, Gabv[2], Febea[3], and Inaise[4], which serve as different points of reference for the varied world of European ethical and value-based finance. These three organisations have significant common traits, but also significant differences regarding their perspective concerning global finance or proposals for change.

For instance, Gabv, both in its position paper and in its “Principles of Values-Based Banking,” never uses the term “ethical banks,” but rather “value-based banking” only, unlike Febea, which speaks exclusively of “ethical banks.”
The constituent elements are highlighted in the following Table[5], which is based on the charters of the three networks. A comparative analysis substantially reveals three common themes: credit, use of resources, and consistency, in particular with respect to the type of credit or financing provided, which are always evaluated using social or environmental criteria. We can find common views with regard/respect to the attention to efficiency, sustainable business, and resilience. On the other hand, the themes of governance and democratic participation show different nuances, ranging from simply advocating for transparency to promoting active shareholding.

On more political issues, however- such as credit considered as a human right, fiscal justice (e.g. the hypothesis of a financial transactions tax), and political stances against controversial practices (such as derivatives or tax havens)- we find explicit positions, in particular stated by Banca Etica Group and FEBEA.

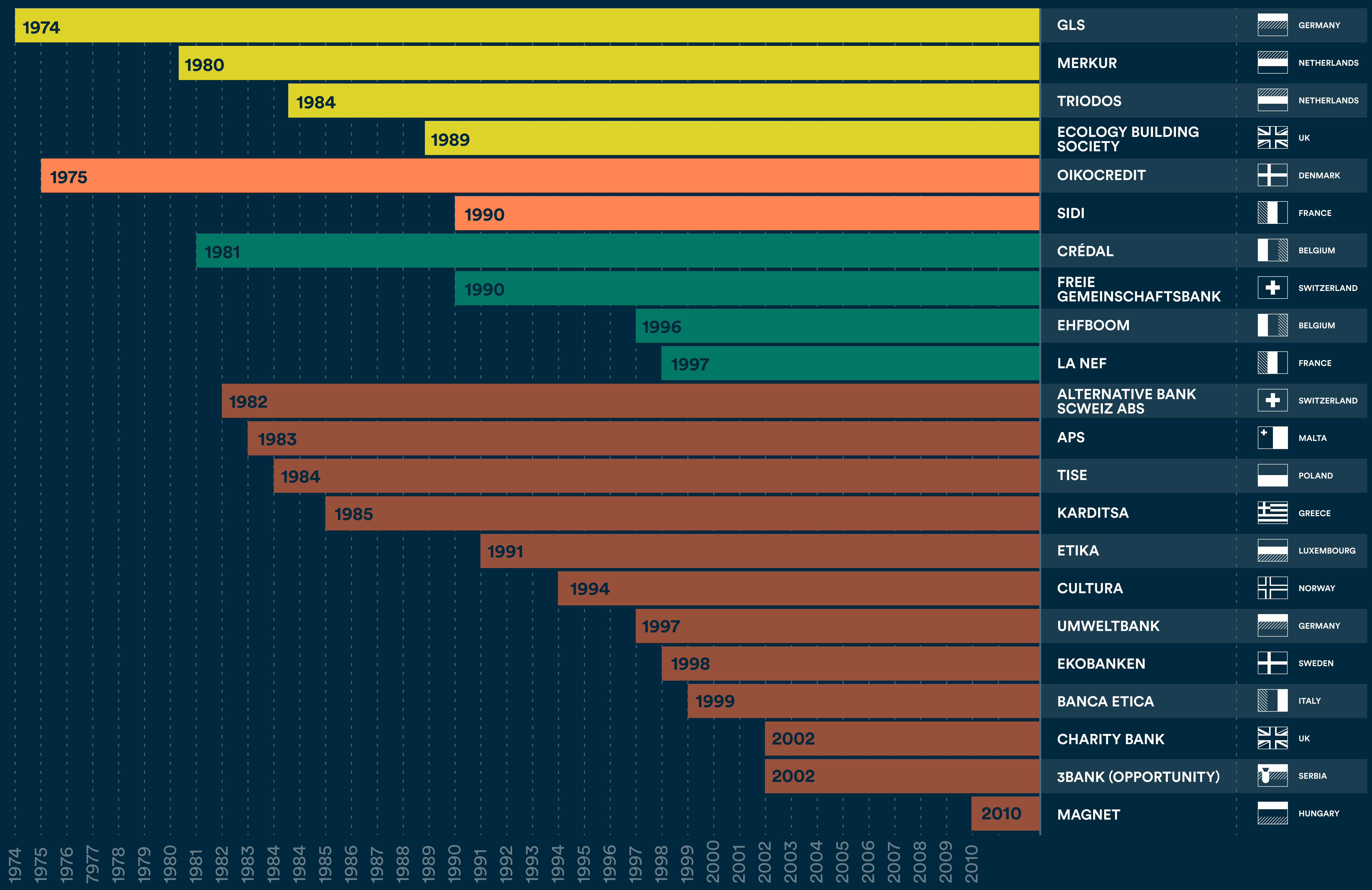
Value-based banks have developed in Europe since the 1970s. Today, there are about thirty so-called “ethical and value-based banks.” What they all have in common is their daily effort to use money as a means of providing credit for international cooperation, environmental protection, culture, art, and social integration. Almost all of them disclose their financing, and give clients the opportunity to choose the field, or a specific project they intend to support with their savings.

1 Biggeri U., Ferri G., Ielasi F., Finanza etica, Il Mulino Bologna 2031, p.72.
2 The Global Alliance for Banking on Values - GABV is an independent network of banks and banking cooperatives that share the mission of putting finance at the service of sustainable economic development that respects human rights and the environment.
3 Febea (European Federation of Ethical and Alternative Banks) is a non-profit association under Belgian law, founded in 2001, with the aim of promoting and developing ethical and alternative finance in Europe
4 INAISE (International Association of Investors in the Social Economy) is an international network, founded in Barcelona in 1989, whose aim is to finance social and environmental projects.
5 Biggeri U., Ferri G., Ielasi F., Finanza etica, Il Mulino Bologna 2031, p.83.

FOCUS AREA	INAISE 1989	FEBEA 2002	GABV 2012	BANCA ETICA 1998 AND 2017
PRINCIPLE-SETTING ITEMS	1. Transparency	1. Role of an ethical bank	1. Triple bottom line approach	1. Justice
	2. Trust	2. Source of money	2. Rooting in communities by serving the real economy	2. Responsability
	3. Justice	3. Money allocation	3. Long-term customer relations	3. Economic Democracy
	4. Excellence	4. Standards and values when using money	4. Self-sufficiency, long-term vision and resilience to external shocks	4. Efficacy and efficiency
	5. Sustainability	5. Banking Conditions	5. Transparent and inclusive governance	5. Consistency
	6. Cooperation		6. All these principles related to the culture of banking	
	7. Democracy			
	8. Territoriality			
CREDITS	Transparency	Transparency	Economic, social and environmental standards	Responsibility in choice
		Economic, social and environmental standards		Transparency
RESOURCE USE	Excellence	Long-term vision	Long-term vision	Efficacy
			Resilience	Efficiency
DEMOCRACY	Participation and collective action	Broad participation in governance	Broad participation in governance	Broad participation in governance
				Credit as a right
GOALS	Justice	Working for the common good	Working for the common good	Justice
		Ensuring the right to credit		
LOCAL ACTION	Territoriality	Rooting in local community	Rooting in local community	Active members on the ground

Table taken from: U.Biggeri, G.Ferri, F. Ielasi, *Finanza etica*, Il Mulino, Bologna, 2021

Ethical and value-based banking at its roots



ANTHROPOSOPHICAL

RELIGIOUS

ENVIRONMENTAL

SOCIAL/POLITICAL

INDEX

The first ethical bank to be founded in Europe was GLS-Bank. It was founded in 1974, Bochum, in Germany's Ruhr region, as a part of the anthroposophical movement, inspired by the ideas of Austrian philosopher Rudolf Steiner.
Following the example of GLS-Bank, five other banks of steinerian inspiration were established in Europe: the Dutch Triodos Bank, in 1980; the Danish Merkur, in 1982; the Swiss Freie Gemeinschaftsbank, in 1984; the Norwegian Cultura, in 1997; and the Swedish Ekobanken, in 1998. Additionally, the French solidarity finance cooperative La Nef, founded in 1988, should be added to this list.
In addition to the large family of the Steinerian banks, a number of green banks have developed, following the model of Ökobank in Frankfurt (which was founded in 1988 and merged into GLS Bank in 2003). They not only finance wind, solar energy and organic farming, indeed they also promote economic democracy, equal opportunities, and social housing.

The ideal successor to Ökobank and, until a few years ago, its Swiss alter-ego, is ABS, Alternative Bank Schweiz, founded in 1990 in Olten. In recent years, the environmentalist orientation of the bank has been increasingly combined with social objectives: women's entrepreneurship, development cooperation, and, above all, the right to housing, social and multi-family housing, and bioarchitecture.

Among European ethical banks, Banca Etica is one of the latest arrivals. Its foundation in 1999 was the result of a unique path, which was completely different from the one followed by ethical banks in northern Europe. They brought together the MAGs (mutue auto gestione, cooperative enterprises), fairtrade shop networks, and pacifist, Catholic, environmentalist, as well as trade union movements. Banca Etica is aligned with the ethical banks of social and cooperative inspiration. In recent years, the Swiss ABS and the French cooperative La Nef have gradually joined this group.

In this first chapter, we make a portrait of today's European ethical finance. We interviewed the representatives of six ethical banks of different inspirations (anthroposophical, environmental, and cooperative-social) on three issues:

- **What remains of their original values;**
- **What distinguishes them, today, from conventional banks; and**
- **How their governance and member participation is organized.**

For all the banks interviewed, references to the founding values continue to be very present, even if in a different way than at the beginning. Innovations and diversity with respect to conventional banks increasingly take the form of processes rather than products.
Measuring the social and environmental impact of loans and investments, and their respective contributions to change, together with a continuous review of internal processes appears to be their new common goal. Ethical finance is, thus, increasingly becoming part of internal practices and procedures, and is less and less associated with product innovations, which are made more difficult by increasingly strict banking regulations.

1.2 SIX INTERVIEWS WITH SOME OF THE MAIN FIGURES OF EUROPEAN ETHICAL AND VALUE-BASED FINANCE

ABS: “Social and environmental housing at the forefront.”

Alternative Bank Schweiz (Alternative Bank Switzerland) was established to offer an alternative within one of the most secretive banking systems in the world, the Swiss one. It specialises in real estate loans and impact funds.

Interview with Michael Diaz
Investment manager and member of the ABS Management Board (until February 2022)

How was ABS established?
We are a grassroots bank founded in 1990 on the initiative of several NGOs, including WWF and Public Eye (formerly Berne Declaration), which promotes more equitable relations between Switzerland and poor countries. The founders wanted to instill a drop of transparency in the sea of Swiss banking secrecy, providing an alternative to those who did not want their savings to finance oppressive regimes. Great attention was also paid to environmental issues, such as opposition to nuclear power.

What remains today of those values?
The core values are still the same today. We wanted to create an alternative in the Swiss banking system, and we have succeeded. We continue to publish the full list of the loans we grant, with the names of the beneficiaries, the amounts granted, etc.
Clients must sign a waiver, expressly waiving their rights to banking secrecy, as guaranteed by Swiss law.

What has changed instead?
Since 2007 we have started to offer investments in mutual funds and other funds; this has been the main change. Before, we only offered classic banking activities: collecting savings and granting loans. Investments have led to an increase in commission income from the fund sales, which now accounts for 30% of our total income; 70%, however, continues to be generated by the classic banking business, i.e., interest margin.

What distinguishes your bank from conventional banks?
Our model is entirely focused on transparency and sustainability. We have introduced limits to top management compensation and adopted negative and positive selection criteria for all the products that we offer. Furthermore, 50% of our fees comes from impact investing. We finance companies through “Impact Funds,” with particular attention to microfinance, organic farming, renewables, and health. We also have an “innovation fund” that invests in start-ups.

Do you differ from conventional banks primarily in processes or also in products?
I think the difference continues to be seen in our products as well. We are the only bank that has this type of impact funding. We have also introduced innovative lending. For example, we do not provide mortgages to people who build homes in undeveloped areas. Furthermore, with regard to mortgages, we have created “environmental mortgages,” with interest rate discounts if certain environmental criteria are met.

A large portion of your loans is in the housing sector. Why is that?
There is a great need for affordable housing in Switzerland, where prices are very high. Even for a person like me, with a good salary, it is very difficult to buy a house. We need to address that need. Historically, we are supported by a network of associations that are very active in this field, which allows us to intervene effectively.
Moreover, real estate credits allow us to grant loans for very large amounts, around 10-15 million CHF[6] as a single credit. In this way, it is possible for the bank to make considerable savings during the preliminary investigation phase.

How does your governance work? Are you a cooperative?
No, we are not. ABS is a corporation with about 8,100 shareholders, made up largely of small shareholders. One of the biggest shareholders is NEST, an ethical-environmentalist pension fund. Generally, shareholders are customers of the bank; there are no special offers for them, but they are paid a 0.25% dividend. It is important to note that large shareholders do not have controlling power: the voting rights attached to the shares may reach 5% of the capital at most. Thus, there are no dominant positions among shareholders.

How are your shareholders represented?
It is the Board of Directors (BoD) that proposes its own renewal, based on one list. Representatives from the fields of social housing, organic farming, impact funds, healthcare, etc. are represented on our Board

6 1 CFH is equal to approximately 0.98€.

of Directors. Our meetings are attended by 300-400 people. Until now, we have not promoted any policy of involvement of the shareholder base; the annual meeting is the only opportunity for our shareholders to comment on the management of the bank.

ABS' FIGURES IN 2020

Total assets	1,98 billion euros
Loans	1,4 billion euros
Deposits	1,7 billion euros
Net income	1,5 million euros

Banca Etica: "Values have been integrated within all internal processes"

Banca Etica has a unique governance system among European ethical banks. Its values are now recognizable in all its internal processes.

Interview with Ugo Biggeri
Chairman of Etica Sgr-Banca Etica Group (Chairman of Banca Etica until 2019)

How was Banca Etica established?
Banca Etica was founded in 1999, at the initiative of a number of organisations such as *mutue auto gestione* (Mag, cooperative enterprises), fair trade store networks, and social and environmentalist associations. All of Banca Etica's activities have always been inspired by the principles of ethical finance, intended to be a transparent tool for managing savings, aimed at the development of a civil, fair, and responsible economy.

What remains today of the bank's original values?
A lot. What surprises me, after 25 years, is that the social aspect is still so predominant. Cultural and social criteria for selecting loans are still more important than the environmental aspects, precisely because of the bank's social roots. However, I don't think this is entirely a good thing, because the environment should have greater importance among the selection criteria.

What distinguishes your bank from conventional banks?
What sets us apart, and I think this can be applied to other ethical banks as well, is the "process logic." It is not so much the products that make the difference, but a different way of operating. Today, more than in the past, this is also reflected in internal controls: the management of social and environmental impacts has become a key point that is analysed and monitored in internal audits; something that, conversely, does not happen in conventional banks.

Can you tell us more about this aspect?
We have an Impact Appetite Framework (IAF)[7] that, similar to the Risk Appetite Framework (RAF), allows all key indicators to be classified and targets to be associated with each indicator, defining levels of "early warning" (alert), which can generate a request for action by senior management. Just as the RAF imposes certain capital requirements, the IAF requires both that environmental and social impacts to be measured against 25 indicators, and that they be reported. Reporting may trigger specific actions by the management. This process is embedded in the bank's management system and its theory of change: how much do we contribute to change through our banking activity? An additional tool is the Partnership for Carbon Accounting Financials (PCAF) criteria for reporting the carbon footprint of loans and investments. These criteria have been pioneered by all GABV member banks (see Part II of this report).

7 Impact propensity profile, which is used to assess the achievement of social and environmental impact objectives. It is the sustainability-related version of the risk appetite profile (Risk Appetite Framework), which banks (both ethical and conventional) adopt to communicate and monitor acceptable levels of risk.

Are you different because of your products as well?
From the point of view of savings products, there are no major differences with traditional banks. Of course, there are bonds dedicated to specific projects, and there is the 1% of Etica Sgr (the asset management company of the Banca Etica Group, Editor's Note) destined for microcredit. The differences, however, are more profound with regard to loans: if a client proposes an innovative project that is not yet sufficiently developed, Banca Etica helps to better structure his project. As for savings, the real difference is that, in ethical finance, you know where your money is going. Both of these aspects are not found in conventional banks.

How does Banca Etica's governance work?
We are unique among ethical banks. We involve the shareholders at a local level: shareholders are organised into local groups and interact with the bank's operations. Such governance has advantages and disadvantages, of course. The main advantage is that a stable shareholder base is strongly involved, which solidifies the bank's objectives. Moreover, in this way, the bank contributes to fostering a culture within the world of ethical finance. Banca Etica provides training and promotes discussion about the role of banks and finance. The GITs[8] (Gruppi di Iniziativa Territoriale, territorial initiative groups) are home to discussions, debates, and financial training. This certainly entails more vitality, but also more work to be done: the elections of the Board of Directors are a great opportunity for debate, but they put great stress on our bank.

BANCA ETICA'S FIGURES IN 2020

Total assets	2,72 billion euros
Loans	1,1 billion euros
Deposits	2,04 billion euros
Net income	6,4 million euros

8 The term "itinerant banker" derives from "tontiners," i.e. people who, even in a structured manner, move between African villages offering a system for collecting daily savings, offering the possibility of having loans (see U.Biggeri, G.Ferri, F.Ielasi, Finanza etica, il Mulino, Bologna, 2021).

Umweltbank: "We are listed on the stock exchange. Sustainability and profit are not at odds"

Umweltbank was established thanks to the intuition of a bank manager. It is listed on the stock exchange, and it mainly finances projects in the fields of renewable energy and social and sustainable housing.

Interview with Oliver Patzsch
Manager of investor relations, and Nadine Bold, responsible for sustainability at Umweltbank.

How was Umweltbank established?
Umweltbank was founded in 1994 by Horst Popp, a bank manager. Popp wanted to create a green bank with a sustainable business model. From the very beginning, the bank wanted to demonstrate that sustainability and profit are not at odds. With us, clients earn just as much, if not more, as with conventional banks, all the while their money is used entirely to support projects with high environmental and social value. Since 2018, GLS Bank is our main shareholder, with a 15% stake (it took over the shares sold by the founder, who exited the scene, *Editor's Note*), but nothing has changed in our operations. GLS has never interfered with our business model.

What has changed in your core values today?
Nothing has really changed from our origin. Our banking business is focused on ecology, renewable energy, and sustainable and social housing. However, the concept of sustainability has changed over the past 25 years. Projects that were considered sustainable at the end of the 1990s may not be sustainable today, and vice versa. For example, in the 1990s, we would not have taken into consideration hydrogen.

What distinguishes your bank from conventional banks?
First, the fact that 100% of our loans are green, meaning that all our credit recipients are selected based on strict environmental criteria. Furthermore, we do not provide bonuses for our employees, only fixed salaries. This is so we don't create perverse incentives for our employees to sell certain products to receive a bonus, for example.

Umweltbank only finances projects, rather than day-to-day business operations: solar parks, sustainable building and housing, kindergartens, retirement homes, etc. We are a second-tier bank. We don't offer bank accounts or ATMs. We only provide savings and investment opportunities, loans, and project financing.

Do you only differentiate yourselves in the processes, or also in the products?
There is no substantial difference in our products compared to those of conventional banks from a technical point of view. Our specificity is in our processes and criteria for selecting projects.
We have an environmental committee in an advisory capacity. It holds three meetings a year and updates the criteria for granting loans. It also makes considerations and evaluations of the companies in which our mutual fund invests.

How do you manage environmental processes?
We hold an EU Eco-Management and Audit Scheme (EMAS) certification. Based on this scheme, we set specific goals for ourselves – with precise deadlines – in the environmental field.
Like many other banks that are part of GABV, we also calculate the CO2 emissions associated with our loans and investments, following the PCAF model. Since we mainly finance renewable energy projects, the environmental impact of our banking activity as a whole is positive: this means that we have a negative carbon footprint, because our emissions are more than offset by the clean energy produced by the facilities that we finance.

How does your governance work?
We are a quoted company. About 60% of our shareholders are also customers of the bank. Many employees are also shareholders because we have a dedicated share ownership plan for them.
Our shareholder-customers are not offered better conditions for our products compared to non-shareholder customers. If you are a shareholder, you get dividends, and, if you sell your shares, you may earn capital gains. Around 350 people attend our shareholder meetings.

How do you interact with customers and shareholders?
We are constantly motivated by our customers. And we motivate them in many ways, such as through questionnaires. To make an example, we recently asked what they considered the most important issue to be. On that occasion, the majority asked us to focus on Sustainable Development Goal[9] IV, the one related to education.
We have also been talking with students to understand their housing

9 These goals consist of 17 points, which the UN identified in 2015, with the goal of completion in 2030

needs, in relation to our work in financing student residences. Furthermore, we have recently introduced the "Umwelt-talks," through which customers have the opportunity to refer directly to the bank's CEO.

UMWELTBANK'S FIGURES IN 2020

Total assets	4,94 billion euros
Loans	2,86 billion euros
Deposits	2,83 billion euros
Net income	26,5 million euros

GLS Bank: "We measure our impacts transparently and with clear targets"

GLS Bank was established as a part of the steinerian movement. Anthroposophy still inspires the bank today, but day-to-day operations have changed profoundly. Measuring impacts is of primary importance.

Interview with Jan Köpper
Head of Impact Transparency & Sustainability
at GLS Gemeinschaftsbank

How was GLS Bank established and what remains of the bank's original values?
GLS Bank was founded in 1974 by a group of people inspired by the ideas of the Austrian philosopher Rudolf Steiner, the father of anthroposophy and the steinerian movement. There is still a steinerian atmosphere in the bank today. It is clear that there are spiritual roots, and that there is a focus on the human being. Anthroposophical ideas are also reflected in the three qualities associated with money: credit, donation, and consumption. We give new employees 15 days of specific training on the values of the bank. Even though daily operations have changed a great deal over the years, the guiding principles have remained the same. We are geared toward financing basic human needs. For us, profit should never become an imperative.

What distinguishes your bank from conventional banks?
Certainly, our perspective, and the fields that we support: social housing, biodynamic and organic agriculture, renewable energy, education, culture, etc. In addition to the fact that we think that money, as a tool for change, is never neutral, but is always related to something else.

Is your specificity still reflected in particular products or services?
The special products and services that we originally offered, such as credit communities (*Leihgemeinschaften*) or surety communities (*Bürgengemeinschaften*) still exist but have become marginal. There is still a tendency, however, to finance and take risks on projects that are a bit out of the ordinary, and not just focus on "cash cows," such as renewable energy financing.

Therefore, do you mainly differentiate yourselves with regard to processes?
Yes, we do. Like other ethical banks, we publish the full list of all our loans, and we use exclusionary criteria for loans and investments. We also use positive criteria, particularly with regard to the so-called "impact transparency." In practice, we measure our bank's impact on society and the environment in relation to the "visions of the future" that we have for each field. What do we want to achieve in a given field? To what degree are we succeeding? For each credit we grant, we assess how much it is helping to achieve our vision for the future in a particular field. Concerning organic agriculture, for example, how much impact are we having (with a single loan, or with all our loans) on value creation within a particular region? Or else, with regard to renewable energy, how much can citizens participate in decentralised energy production projects? We set ourselves medium- to long-term goals in specific fields of activity with extremely specific indicators. And we measure them constantly.

How does your governance work?
We are a cooperative bank, therefore the principle of "one head, one vote" applies. Every member can make a proposal at our annual meetings. Each year, we carry "shareholder-meeting trips" after February – between the public disclosure of the financial statements and the Shareholders Meeting. We travel to our branches and meet our shareholders, who are all invited. Each year, a different issue is discussed. All our shareholders participate in their personal capacity, they are not organised into regional groups. Several of them have been shareholders for many years, but there is a new wave of young people in their 30s and 40s. "Steinerians" now represent the old guard while the new generation consists of people who have an alternative vision of society, without necessarily having a steinerian background. Many are fighting for environmental causes, are part of alternative economic movements, are driven by a desire for justice, or simply come to respond to a gut feeling.

Who sits on your Board of Directors?
Our historical allies sit on the Board: businesses, foundations, and organisations. The Board submits a single list for its own renewal, and we do not have competing lists. We are not really inclusive with respect to minorities: only employee shareholders are sort of a minority on the Board. This is something we should improve upon.

GLS BANK'S FIGURES IN 2020

Total assets	8,03 billion euros
Loans	6,73 billion euros
Deposits	6,62 billion euros
Net income	6,4 million euros

Triodos Bank: "Carbon neutrality by 2035. Impact comes before profit"

Triodos means "three ways" in Greek. Today, the bank still uses a three-pronged approach to make decisions on loans and investments. Priority is given to change and to rooting projects in society.

Interview with Marcel Proos
External Communications Manager at Triodos Bank

Triodos Bank was established in 1980 within the steinerian movement. How much of the anthroposophical core values can still be found in your day-to-day practice?
Today, Triodos Bank is not an anthroposophical bank. At the same time, however, we acknowledge that anthroposophy was an important source of inspiration for the founders, and that it can still be, absolutely, an important source of inspiration today.
The founders were closely connected to anthroposophy and the Christian Community. Anthroposophy provided them with important insights into the ownership structure of Triodos, the role of money and of a bank with social renewal, the conscious management of money, and the use of the different qualities of money to achieve a positive impact on society, all still being important goals for our bank.

What distinguishes your bank from conventional banks?
Triodos is a Greek word that means "three ways." The bank uses a three-pronged approach to make lending and investment decisions. The first aspect that we consider is: "How can this project contribute to positive social, environmental, and cultural change?" Then comes the question, "Is it feasible?" And, thirdly, "Is this idea rooted in society, is it supported by the people related to the organisation requesting the loan?" If our judgement is correct, profit - both financial and social - should follow almost automatically.
Therefore, what sets us apart is our focus on the positive impact of our activities, beyond the financial return. In addition, Triodos Bank has very strict exclusion criteria. There are a number of sectors in which we choose not to invest. On the other hand, we adopt positive criteria when choosing projects in our three investment foci: energy and climate; agriculture, nature and biodiversity; and social inclusion.

What goals and processes, in particular, characterise your bank?
We are firmly committed to achieving carbon neutrality of all our activities as soon as possible, by 2035 at the latest. Our net-zero greenhouse gas emissions targets are among the most ambitious in the banking and finance industry. We want to significantly reduce the emissions generated by all of Triodos' loans and investments, using an approach based on scientific goals, and aligning our portfolios with a maximum global temperature increase of 1.5 degrees Celsius. We were one of the first banks in the world to measure the CO2 impact of our credit and investment portfolio using the PCAF method. In 2021, we did so for the second year in a row.

Is your specificity also reflected in particular products or services?
Yes, it does. In 2012, for instance, we launched our first green mortgages, offering our customers a comprehensive energy assessment and a sliding scale of interest rate discounts, based on the energy rating of their houses. The more energy-efficient a house is, the lower the interest rate paid on the mortgage.
Even today, we relate interest rates to the energy classes of houses and

offer an interest-free loan of up to 25 thousand euros for sustainable renovations. This is a unique case in the market.

How does your governance work?

The entire share capital of Triodos Bank has been entrusted to the Independent Foundation for the Administration of Triodos Bank Shares (Stichting Administratiekantoor Aandelen Triodos Bank, SAAT). In order to fund the shares, SAAT issues depository receipts. These depository receipts may be subscribed by retail and institutional investors. Depository receipt holders benefit from the economic rights associated with the shares, such as the right to dividends, but not the ability to exercise any control over the bank. Voting and control rights are entirely conferred to SAAT. SAAT was established expressly to ensure that Triodos Bank remains true to its mission, to independence, and to the interest of depository receipt holders. The Foundation independently exercises the voting rights associated with the shares it owns. In doing so, SAAT is guided by the interests of the depository receipt holders and the interests of the bank, as well as the bank mission.

TRIODOS BANK'S FIGURES IN 2020

Total assets	13,89 billion euros
Loans	9,21 billion euros
Deposits	11,75 billion euros
Net income	27,20 million euros

La Nef: "We build an 'archipelago' to escape technocracy"

La Nef has steinerian origins, but today it is more oriented towards the cooperative universe. It has a participatory governance model, and dreams of a future more open to an ethical financial ecosystem, not necessarily made up of banks.

Interview with Bernard Horenbeek
Chairman of La Nef

La Nef was founded in 1978 as a Steiner-inspired ethical finance cooperative. What remains today of the bank's original values?

Today La Nef refers more to the cooperative world, to environmentalism, and to social cooperation. We are no longer so tied to anthroposophy. I also think that we should add cultural inspiration to these areas, because there cannot be sustainability without culture. Very often, we do not have answers to the big environmental and social problems, and we need the help of cultural insights. We must experiment.

You've been working in the world of ethical finance for almost 15 years, first at Credal, and now at La Nef. What do you think has changed throughout this period?

A premise must be made to understand how ethical banking has changed over the past 10-15 years. The 2008 financial crisis hit the banking system hard, with the exception of ethical banks, which were not affected by the crisis. However, the problem is that governments have tightened regulation of the entire banking system in response to the crisis. This regulatory inflation, this avalanche of new laws, has ended up stifling small banks (including ethical banks) more than large groups. Because of the need to adapt to the new laws, ethical banks have also become more technocratic and, by necessity, have gradually moved closer to traditional banks.

So, do you think that the specificity of ethical banks has been lost along the way?

Yes, it has. For reasons beyond their control, since it is not possible to escape regulation, ethical banks have lost some of their original spirit. Ethical banks, however, should by their nature escape rigid definitions. They should be focused on the projects that they finance, rather than on controls and regulations.

What distinguishes La Nef from conventional banks?

First, transparency. All the credits that we grant are published, and we do not act without first understanding the impact of our choices on society and the environment. Innovation, at La Nef, is more about processes than products. We are different from other banks first and foremost in our processes.

For instance, we have come up with Zeste, a crowdfunding platform which is different from other platforms because of the way it is managed, rather than the product itself. When I was at Credal, we had a lot more innovation in our products.

All of this is because Credal is not a bank and, therefore, was not subject to such strict regulations.

With La Nef, we now want to build an "archipelago" where the bank is an island communicating with other "islands" which are not banks. In doing so, by out-sourcing, we can develop other products, and other forms of financing, such as microcredit.

What other processes set you apart?
The further support for the projects we finance, for example. We are partners with our clients, more than just financiers. We want the projects to develop and grow; and we want the goals to be achieved. In 2022, we started carrying out a carbon impact analysis of our loans. We are not yet at an advanced level, because we have conducted an analysis by funded sectors and not by individual projects, but it is a first step. We will try to improve in the coming years, by fully incorporating climate goals into our funding policies.

What kind of governance do you have?
We are a cooperative, willing to always use democratic decision-making processes. Our Board of Directors includes representatives from the world of organic farming, social and solidarity cooperation. I think that the Boards of Directors of ethical banks should be composed of people who represent the variety of the projects they support and their values. Unfortunately, politics has progressively submitted finance to the authorities, and therefore, Boards of Directors have been filled with experts. But we cannot hand over finance to technocrats!Our shareholders are organised into four regional groups, which organise communications with the bank's management. Our head office is in Lyon. We also have an office in Paris. We cover the territory with our financial promoters, called "itinerant bankers,"[7] as they do in Banca Etica.

LA NEF'S FIGURES IN 2020

Total assets	725 million euros
Loans	407 million euros
Deposits	674 million euros
Loss	791.000 euros

2.1 ETHICAL AND VALUE-BASED BANKS WERE RESILIENT EVEN THROUGH THE FIRST YEAR OF THE PANDEMIC

In this report, for the fifth consecutive year, we compared the capital structure and financial performance of European ethical and value-based banks with those of all banks operating in the euro area, based on data provided by the European Central Bank.
Last year's sample, including all European members of the Global Alliance for Banking on Values (Gabv), two members of the International Association of Investors in the Social Economy (Inaise), and seven members of the European Federation of Ethical and Alternative Bank and FInanciers (Febea)[10], was included in the analysis. Only institutions that carry out banking activities (collection of savings, granting loans, and investments) mainly focused on social and environmental issues, and that have released their financial statements for at least seven of the last ten years, were included.

Ethical and value-based banks aim to collect and use savers' money in a way that has a positive impact on society and the environment. They finance organic farming, renewable energy, the nonprofit sector, and fair trade. They address the needs of those who do not have access to loans, and of customers and investors who are interested in the way that their savings are used.

Thanks to ethical and value-based banks, the banking system "resumes a path interrupted at the beginning of the twentieth century, to return to being an instrument of development for local communities and for new social and environmental initiatives". This is a path that goes "in the opposite direction with respect to the one chosen by commercial banks, increasingly oriented to use the financial leverage just to accumulate profits, contributing to the financialization of the economy and creating the conditions for a series of financial crises that continue even today to impact the lives of millions of citizens[11]."

Our rationale for comparing ethical and conventional banks has not changed: we wanted to understand whether ethical and value-based banks, which finance social, environmental, and cultural projects, are also solid from an economic-financial point of view and are able to withstand comparison with other banks. This year, the comparison was particularly interesting, because, for the first time, the available data also included 2020, the first and most difficult year of the Covid-19 pandemic.

The Results of Our Researc

Loans/Total Assets	2020	2019	2015	2010
European ethical and value-based banks	72,98%	76,44%	76,07%	76,08%
European banks	36,96%	38,74%	37,86%	38,19%

Graph 1 - Loans as a % of total assets (simple averages calculated on total aggregate data)

10 Which are not, at the same time, members of Gabv.
11 Please see Febea, Ethical Finance, https://febea.org/ethical-finance/

BANKS	CHANGE IN ASSETS 2020/2019	CHANGE IN LOANS 2020/2019	CHANGE IN DEPOSITS 2020/2019	CHANGE IN ASSETS 2019/2018	CHANGE IN LOANS 2019/2018	CHANGE IN DEPOSITS 2019/2018
Credit Cooperatif	13%	9%	22%	3%	4%	6%
Triodos	15%	12%	10%	11%	12%	12%
GLS Bank	20%	18%	19%	18%	19%	19%
Umweltbank	21%	8%	7%	11%	5%	8%
Banca Etica	28%	10%	17%	12%	8%	12%
APS Bank	12%	16%	10%	15%	16%	17%
ABS	12%	3%	13%	10%	12%	9%
Oikocredit	-5%	-27%	19%	1%	3%	-11%

Table 1 - Change in assets, loans and deposits in 2020 compared to 2019 for the top eight European ethical and value-based banks, listed in order of size (from largest to smallest).

First of all, we have compared the proportion of loans to total assets for ethical and value-based banks, and for "European banks" in aggregate, which corresponds to the European banking system as a whole. As shown in Graph 1, lending is still the main activity carried out by ethical and value-based banks, although they experienced a 3.46% decrease relative to total assets in 2020 compared to 2019 (72.98% vs 76.44%). On the other hand, the decrease for "European banks" was 1.78% (36.96% vs 38.74%). Analysing the data for each ethical and value-based bank, we identified a trend that appears to be common for several of these banks: in 2020, some of the leading ethical and value-based banks experienced a significant increase in customer deposits but failed to increase loans to the same extent. Thus, while there was a general, significant increase in assets (the denominator of the ratio shown in Graph 1), the volume of loans (the numerator of the ratio) did not increase as significantly.

As shown in Table 1, in four of the top eight European ethical and value-based banks (highlighted), customer deposits increased by double digits in 2020, while loans increased significantly less. For this comparison, we chose the eight largest ethical and value-based banks by asset volume, those that exceed the €1 billion threshold and that, because of their size, have a more significant influence on final aggregate results.

The overall result (Loans/Total Assets ratio) is mainly influenced by Crédit Coopératif, which alone accounts for approximately 38% of the assets of all European ethical banks. Crédit Coopératif saw an extraordinary increase in deposits in 2020 (+22%), while loans increased by only 9%. As stated in the press release presenting the French bank's financial statements, deposits through savings accounts reached their highest level ever in 2020, while liquidity collected through demand

deposits showed "exceptional dynamism" (+25% vs. 9% in 2019)[12].
Assets of all of the largest ethical and value-based banks (except for Oikocredit) grew significantly during the first year of the pandemic. The most significant growth was recorded by Banca Etica (+28%). With the exception of APS and Oikocredit, the asset growth at the top eight ethical and value-based banks was higher (in some cases much higher) in 2020 than in 2019.
At the aggregate level, European ethical and value-based banks' assets grew by 15.24% in 2020 compared to 2019, compared to +8.6% for the aggregate of "European banks."

Even in a difficult year such as 2020, ethical and value-based banks continued to be more devoted to traditional banking activities (e.g. collection of savings and granting of loans) and the real economy than the European banking sector as a whole, which, instead, appears to have been more focused on other types of activities (e.g. investments in securities, financial services, holdings in companies) oriented towards the financial economy. The growth in loans over the 2010-2020 period (+9.79% compounded average growth rate[13]) shows that the ethical and value-based banks' propensity to lend continues to be much more significant than that of conventional banks (+0.57% over the same period).

Deposits as a % of Total Liabilities

Deposits/Total Liabilities	2020	2019	2015	2010
European ethical and value-based banks	73,29%	73,29%	73,56%	69,32%
European banks	40,96%	40,83%	37,86%	33,49%

Graph 2 – Deposits as a % of total liabilities (simple averages calculated on total aggregate data)

The difference between the two groups of banks further substantiated by the ratio of deposits to total liabilities.
As shown in Graph 2, ethical and value-based banks continued to raise money (which they then mainly lent out as loans) mainly through customer deposits (73.29% of total liabilities for ethical and value-based banks in 2020, unchanged from 2019). European banks maintained the same trajectory as in previous years, with only 40.96% of liabilities being deposits (compared to 40.83% in 2019, i.e. more than 30 percentage points lower than ethical banks).

Net Equity as a % of Total Liabilities

Net Equity/Total Liabilities	2020	2015	2010
European ethical and value-based banks	9,25%	10,65%	11,25%
European banks	7,29%	7,97%	6,35%

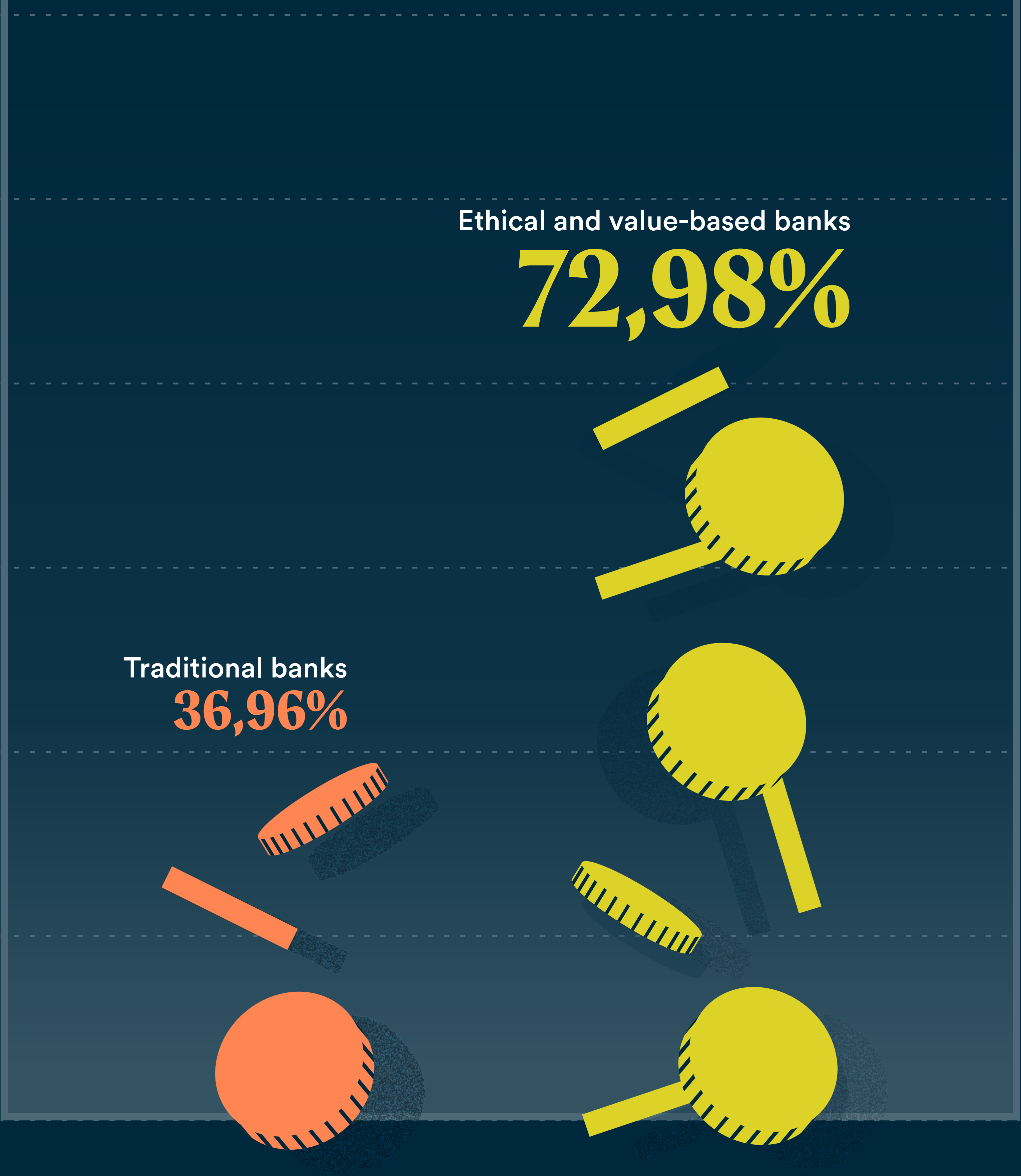
Graph 3 – Net equity as a % of total liabilities (simple averages calculated on total aggregate data)

Due to the pandemic, in 2020, capital strength, measured as the ratio of net equity to total liabilities[14], declined for both ethical and conventional banks. For ethical and value-based banks, the ratio fell from 10.43% in 2019 to 9.25% in 2020 while for conventional banks, it fell from 7.88% to 7.29% over the same period. Ethical and value-based banks still registered a 2.26% increase in total net worth in 2020 compared to 2019. As previously mentioned, however, the extraordinary increase in deposits in 2020 compared to 2019 increased the denominator of the ratio (total liabilities) much more than the numerator (net worth), causing the ratio to fall. While net worth increased by 2.26%, deposits (which represent the main liability item on the balance sheet)

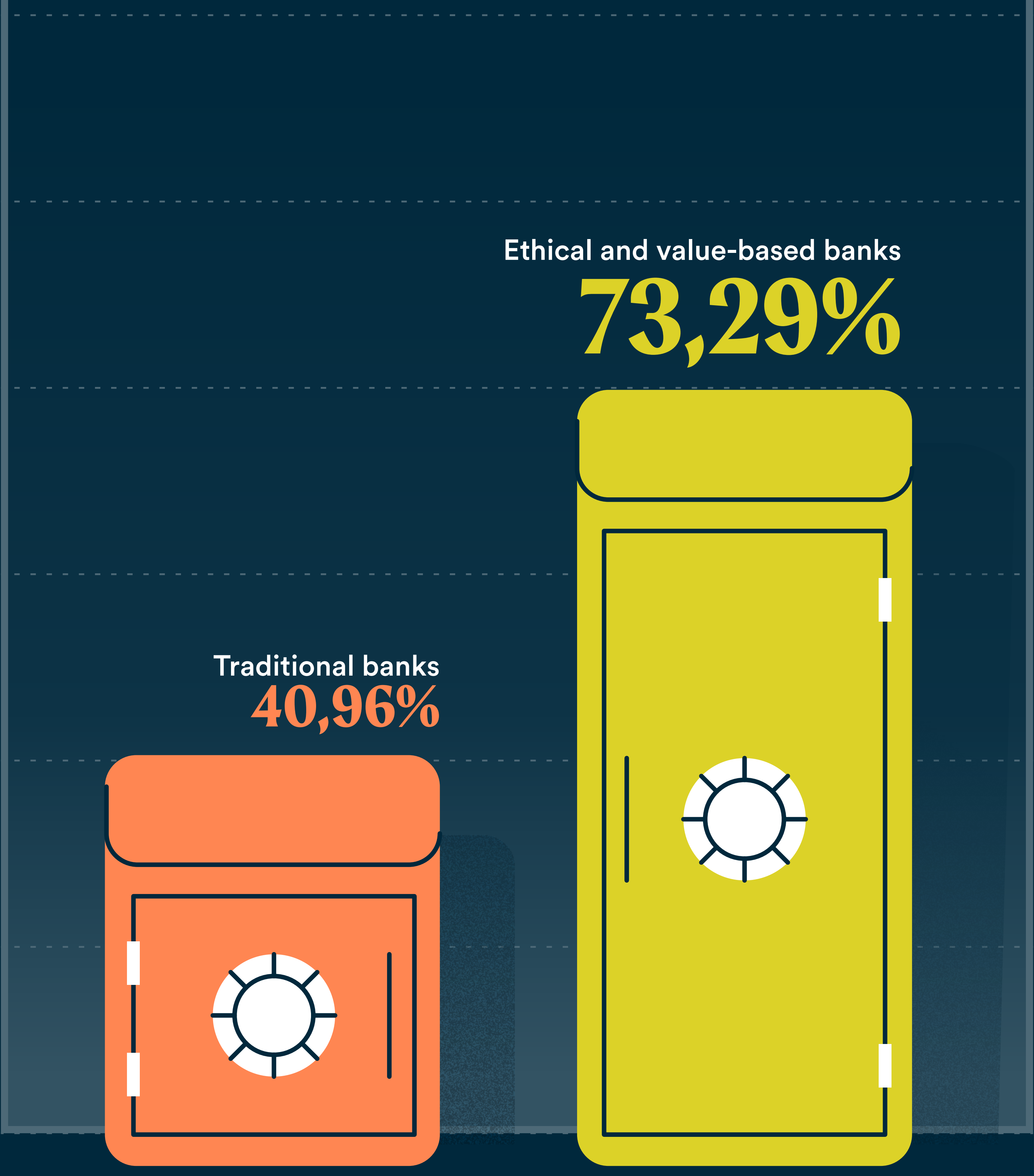
12 https://www.credit-cooperatif.coop/content/download/26888/224318/CP-CCOOP-resultats-financiers-31122020-25mars.pdf
13 Compounded Average Growth Rate (CAGR) represents the average percentage growth of a value over a specified period of time.
14 In order to compare the capital strength of ethical and value-based banks with that of systemic banks, we chose to only refer to the ratio of equity to total liabilities, and not to the so-called "Tier 1 Ratio" (ratio of Tier 1 Capital to risk-weighted assets), which is now the most widely used parameter to assess a bank's financial soundness. This choice was motivated by the fact that, under the rules and regulation issued after the 2007/2008 crisis, systemic banks were required to have high levels of Tier 1 Capital, setting aside additional capital "buffers" compared to non-systemic banks. This makes the comparison with ethical and value-based banks based on Tier 1 capital of little significance. The indicator we used has a descriptive purpose only, and is not a substitute for the official data released by central banks and financial market Authorities on the soundness of banks, nor is it intended to question the same data.

Ethical banks, engine of the real economy

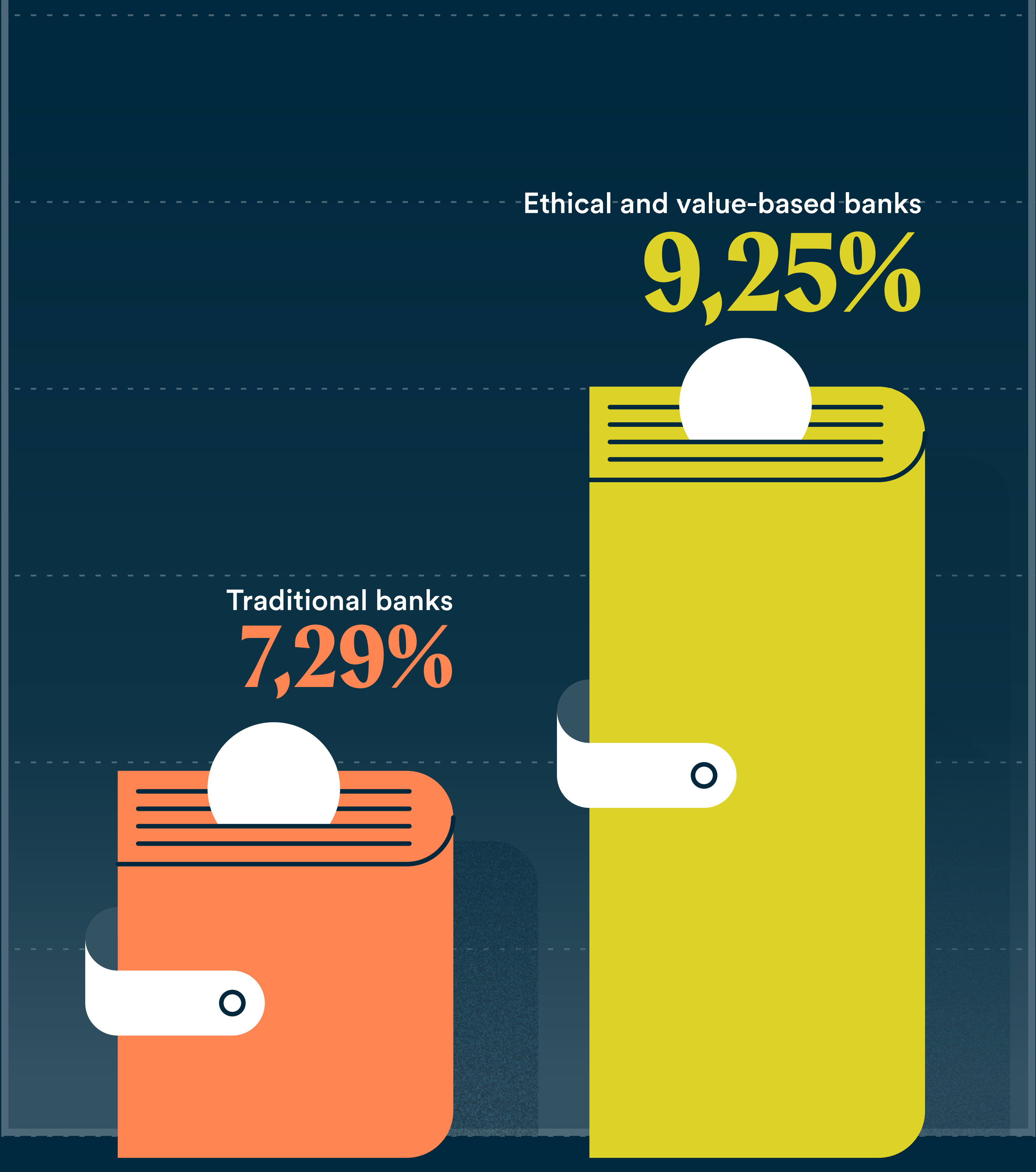
LOANS
(Calculated as a % of total assets)



DEPOSITS
(Calculated as a % of total assets)



NET ASSETS
(Calculated as a % of total assets)



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grew by a total of 15.56%, leading to an overall increase in liabilities of 15.24% from 2019 to 2020.
The same trend, albeit to a lesser degree, was noted for conventional banks. In 2020, total liabilities of the European banking system as a whole, grew by 8.59% compared to 2019, while total net equity only increased by 0.45%.
For both ethical and conventional banks, the trend in deposits in 2020 was most likely influenced by the pandemic. The pandemic created an "uncertainty effect," leading to a general reduction in consumption because of the lockdown and a corresponding growth in savings, which increased the volume of bank deposits, a trend that affected ethical and value-based banks to a much greater extent.

Regarding income analysis, we compared the European ethical and value-based banks' ROA (Return on Assets) and ROE (Return on Equity) balance sheet ratios with the same indices, calculated for the European banking system as a whole.

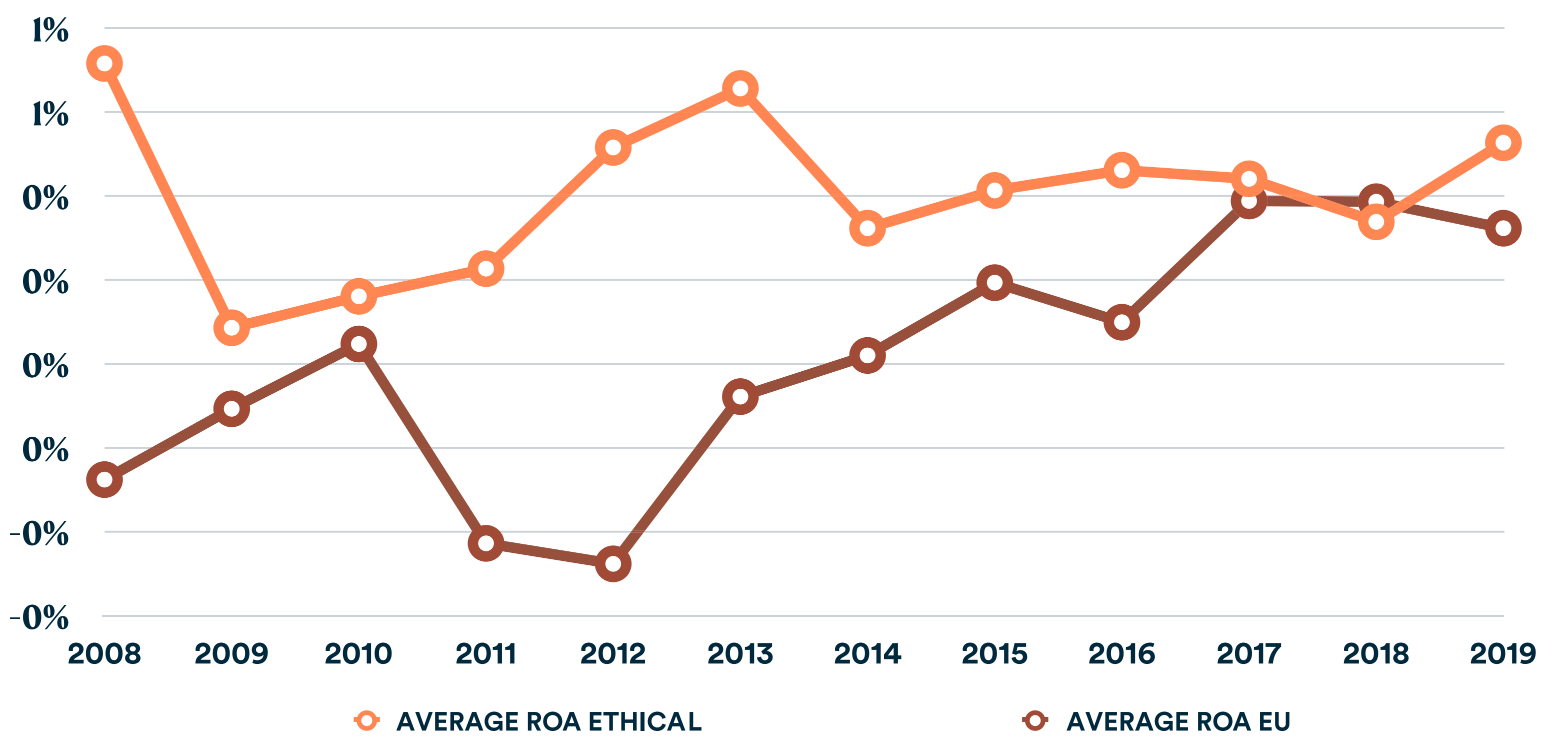
Return on Assets (ROA) is the ratio of net income to total assets and is a measure of the profitability of a company's operations.

ROA - RETURN ON ASSETS

	5 years (2015-2020)	
	Average	*Standard Deviation*
European ethical and value-based banks	0,40%	0,13%
European banks	0,30%	0,12%
	10 years (2010-2020)	
	Average	*Standard Deviation*
European ethical and value-based banks	0,40%	0,13%
European banks	0,17%	0,20%

Table 2 - ROA. Comparison between ethical and value-based banks and European banks.
(Weighted averages for ethical and value-based banks are calculated from the average performance of individual banks, in order to ensure greater representativeness. The figures for European banks are provided by the ECB as the ROA for the system as a whole).

As shown in Table 2, over the past ten years, ethical and value-based banks have consistently performed better than the European banking system as a whole in terms of ROA (on average, 0.40% compared to 0.17%), with relatively low volatility, measured by the standard deviation calculated on the average value of each year (0.13%), and, in any case, lower than that of the European banking system (0.20%). There was a decline for both groups in 2020, which was more significant for ethical and value-based banks (-69% vs. -65%). The trend of recent years, that has seen the profitability values of the two groups gradually coming closer together, continued: in 2020, the two values were almost equal to each other, although ethical and value-based banks were still slightly more profitable in terms of ROA.



Graph 4. ROA. Comparison between ethical and value-based banks and European banks.

ROA analysis over the past 10 years (2010-2020) shows that European ethical and sustainable banks maintained stable and positive profitability, albeit with a decline in 2020.
European banks suffered more severely from the repercussions of the 2007-2008 financial crisis, but recovered vigorously from 2014 onwards, only to experience a decline in 2020, very similar to that experienced by ethical and value-based banks. As can be seen, over the last four years (2017-2020), ROA settled at very similar levels for the two groups examined.

Return on Equity (ROE) is the ratio of net income to equity, and is a measure of a company's accounting performance.

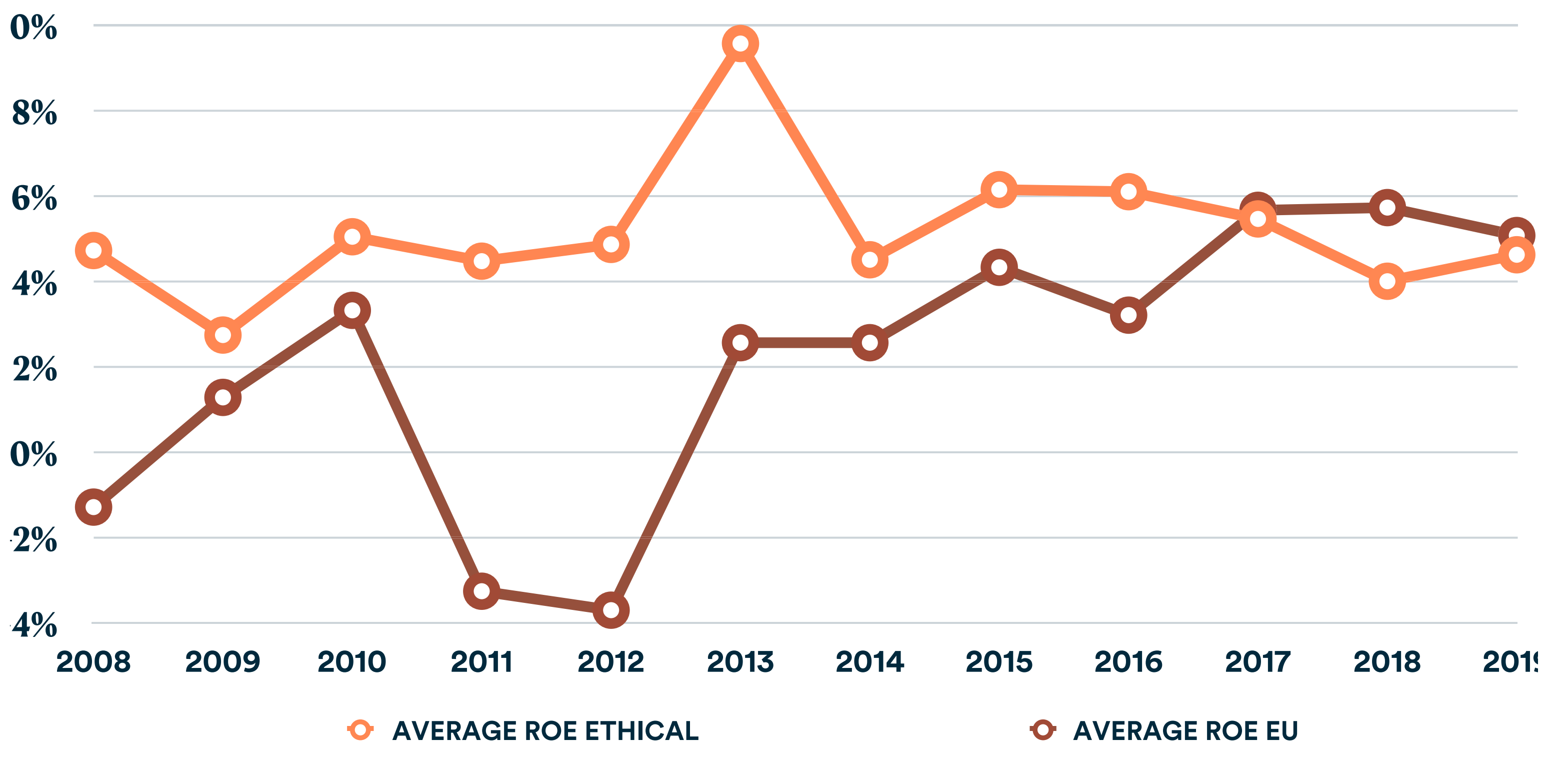
ROE - RETURN ON EQUITY

	5 years (2015-2020)	
	Average	*Standard Deviation*
European ethical and value-based banks	4,84%	1,40%
European banks	4,35%	1,51%

	10 anni (2010-2020)	
	Average	*Standard Deviation*
European ethical and value-based banks	5,24%	1,76%
European banks	2,43%	3,23%

Table 3 - ROE. Comparison between ethical and value-based banks and European banks.
(Weighted averages for ethical and value-based banks are calculated from the average performance of individual banks, in order to ensure greater representativeness. The figures for European banks are provided by the ECB as the ROE for the system as a whole).

As shown in Table 3, in terms of ROE, over the 2010-2020 period, the average profitability of ethical and value-based banks was better than that of the European banking system (5.24% as opposed to 2.43%), with significantly lower volatility, and, thus, levels of risk (1.76% vs. 3.23%). As shown in Graph 5, they both experienced a decline in ROE in 2020. Ethical and value-based banks, however, were more resilient. Their ROE fell by 45%, as opposed to the -62% experienced by the European banking system on average. Over the past six years (2014-2020), the average ROE figures of the two groups of banks have come significantly closer, although the European banking system has had higher volatility.



Graph 5. ROE. Comparison between ethical and value-based banks, and European banks.

As highlighted above with regard to ROA, over the past four years (2017-2020), ROE of the two groups of banks has also settled at very similar levels, even throughout the first year of the pandemic (2020).

Ethical and value-based banks continue to grow

Finally, we examined the growth trends of the indicators we selected for the two groups of banks (assets, loans, deposits, and net equity). Our analysis found that, over the past decade, ethical and value-based banks have grown much more compared to the European banking system as a whole (Table 4), with a significant increase in all of the examined indicators. Notably, the extraordinary growth in loans and deposits has continued for ethical and value-based banks, albeit with a slight decline in loans and equity compared to past years, due to the effects of the pandemic. The noteworthy growth in deposits for European banks over the past 5 years (4.42%) has not been followed, however, by a concomitant increase in loans (2.11%).

Growth*	5 years (2015-2020)	10 years (2010-2020)
Total Assets		
European ethical and value-based banks	10,37%	10,23%
European banks	2,78%	0,90%
Loans		
European ethical and value-based banks	9,46%	9,79%
European banks	2,11%	0,57%
Deposits		
European ethical and value-based banks	10,29%	10,87%
European banks	4,42%	2,95%
Net equity		
European ethical and value-based banks	7,33%	8,12%
European banks	0,95%	2,30%

Table 4 – Growth in assets, loans, deposits, and net equity (homogeneous sample for ethical and value-based banks) *(We calculated growth based on the total values for both aggregates). * Compound Annual Growth Rate (CAGR) represents the average percentage growth of a value over a period of time.*

Conclusions

The comparison between European ethical and value-based banks and the European banking system as a whole, updated with 2020 data, essentially confirmed the results already highlighted in our fourth report, which only analysed data up to 2019. Once again, ethical and value-based banks proved to be much more focused on providing services for the real economy compared to traditional banks. In addition, they were more profitable on average, in terms of both ROA and ROE. The first year of the Covid-19 pandemic saw profitability fall for both ethical and value-based banks and the European banking system as a whole, although the decline was less severe for ethical and value-based banks, at least in terms of ROE. Both groups of banks examined, increased their assets during 2020 compared to 2019. However, the increase for ethical and value-based banks was much more significant, at +15.24% compared to +8.6%.

Overall, the European banking system proved to be resilient in 2020. In stark contrast to the 2008 global financial crisis, banks "helped cushion the economic impact of the pandemic rather than exacerbate it," stated European Central Bank (ECB) Vice-President Luis de Guindos[15]. "Bank capital and liquidity positions were much stronger at the onset of the pandemic than they were in 2008, bolstered by the post-GFC (global financial crisis, Editor's note) regulatory reforms."
In this regard, however, it is worth mentioning that, since the 2008 crisis, "one dollar for every three products on Earth has been allocated, in various forms, to the bailout of the world banking system." According to official data from the European Commission, between the outbreak of the crisis and 2018, EU member states committed 1.4 trillion euros just to recapitalize banks in crisis and cover their losses - a figure that is nearly equivalent to 10 years of entire EU budgets. Furthermore, the sum of the guarantees and the interventions allocated to support the liquidity of the banking system (up to 2018) amounted to approximately 3.6 trillion euros, a figure that is greater than Germany's GDP (3.329 trillion in 2020), Europe's largest economy.

Thus, the banking system was able to absorb the 2020 losses without major shocks, especially in credit flows to the real economy.
This was also made possible thanks to the robust and extraordinary interventions made on a global level, by institutions, in order to ensure liquidity within the financial system. In February 2020, the People's Bank of China (China's Central Bank) made a total of approximately 400 billion euros available. The Federal Reserve (the U.S. Central Bank) cut interest rates and launched a new program worth 700 billion to purchase government securities and mortgage-backed securities. Meanwhile, the ECB intervened with more cost-effective, long-term bank refinancing operations to provide liquidity to the credit system. The ECB also expanded its financial asset purchase programs, providing an additional 120 billion euros until the end of 2020. A new program worth 1.35 trillion euros was also launched during the pandemic emergency, with the goal of purchasing securities issued both by governments and companies.

In Italy, the "Cura Italia" decree offered businesses and organisations the possibility of suspending mortgages and lease payments, with the option of only paying the principal amount. Similar measures were also adopted in other countries and helped to support lending dynamics[16].

Yet, in this context, ethical and value-based banks still suffered less during the first year of the pandemic in terms of profitability, and grew more, in terms of assets, deposits, and loans, than the European banking system as a whole (as shown in Table 5).
For both ethical and conventional banks, the trends in deposits in 2020 appear to have been positively affected by the pandemic, due to a general reduction in consumption and an increase in savings, which, in turn, increased the volume of banks' deposits. However, this trend seems to have benefited ethical and value-based banks much more than the European banking system as a whole.

Growth from 2019 to 2020	European Ethical and Value-based Banks	European Banks
Assets	15,24%	8,6%
Deposits	15,56%	8,69%
Loans	4,27%	3,45%

Table 5 - Growth in assets, deposits, and loans from 2019 to 2020 for European ethical and value-based banks and the European banking system as a whole.

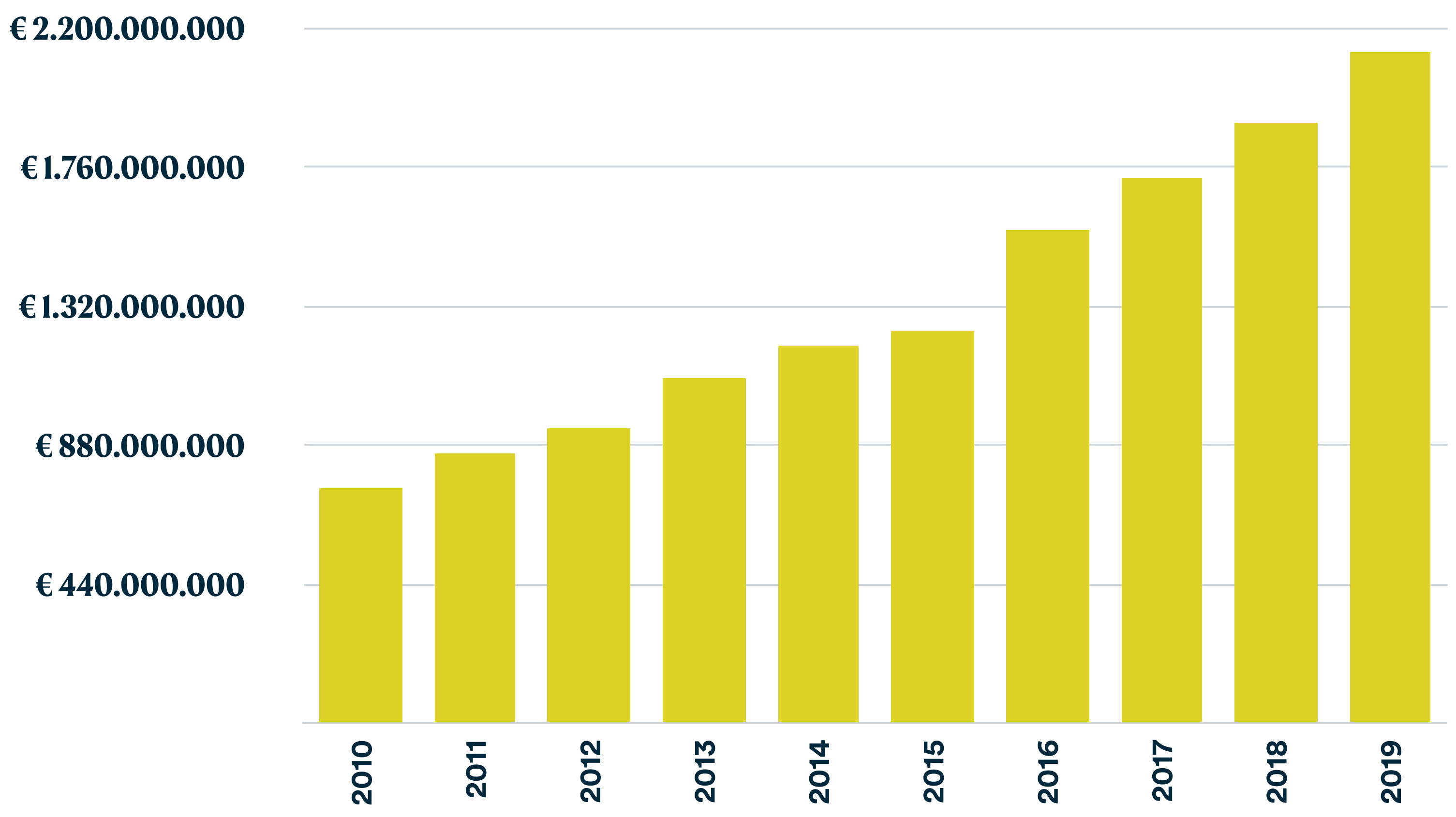
15 https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210628_1~a91b7b3d4a.en.html
16 Please see Banca Etica, Bilancio Integrato 2020, pagg. 31-32; 94. https://www.bancaetica.it/app/uploads/2022/01/Bilancio_Integrato_2020.pdf

Banca Etica Compared to European Ethical and Value-based Banks

The growth rate of Banca Popolare Etica has continued on its positive trend. The data show major growth in all indicators, especially total assets, deposits, and net income. As shown in Table 5, the amounts raised by Banca Etica through deposits have grown by an average of 16.46% per year over the past ten years, compared to the 7.70% growth of European ethical and value-based banks. From 2015 to 2020, Banca Etica's profits grew by an average of 53.23%, while European ethical and value-based banks experienced a decrease (-15.77%), a considerable disparity. Banca Etica's results were also better for all other considered indicators.

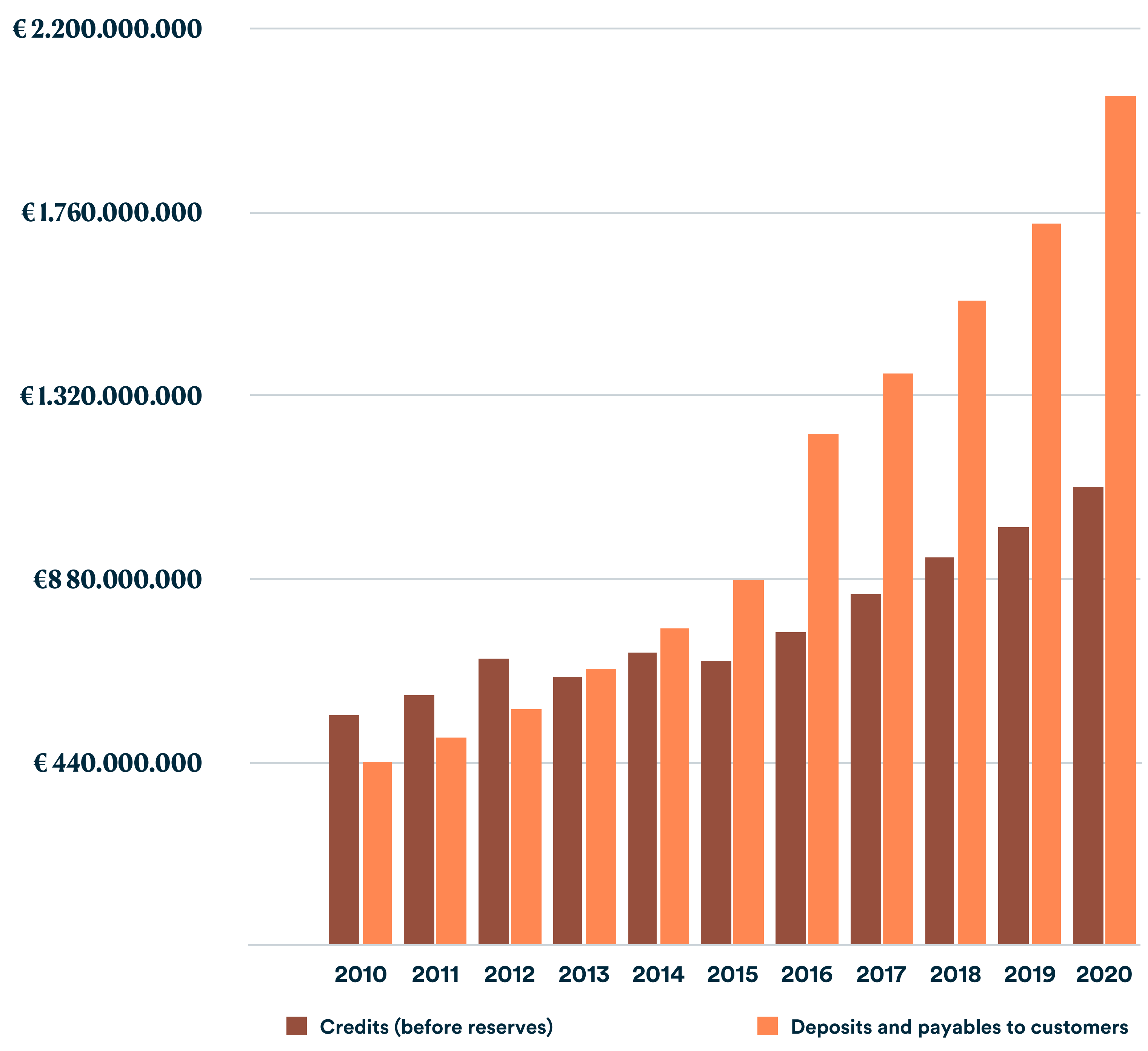
Growth*	5 years (2015-2020)	10 years (2010-2020)
Total Assets		
Banca Popolare Etica	16,95%	13,81%
European ethical and value-based banks	10,37%	10,23%
Loans		
Banca Popolare Etica	10,10%	7,11%
European ethical and value-based banks	9,46%	9,79%
Deposits		
Banca Popolare Etica	18,34%	16,46%
European ethical and value-based banks	4,07%	7,70%
Net Profit		
Banca Popolare Etica	53,23%	21,45%
European ethical and value-based banks	-15,77%	-3,54%

Table 6 - Growth in assets, loans, deposits, net equity, and net income. Comparison between Banca Etica and European Ethical and Value-based Banks. ***Growth calculated on total aggregate values. *compounded annual growth rate (CAGR)***

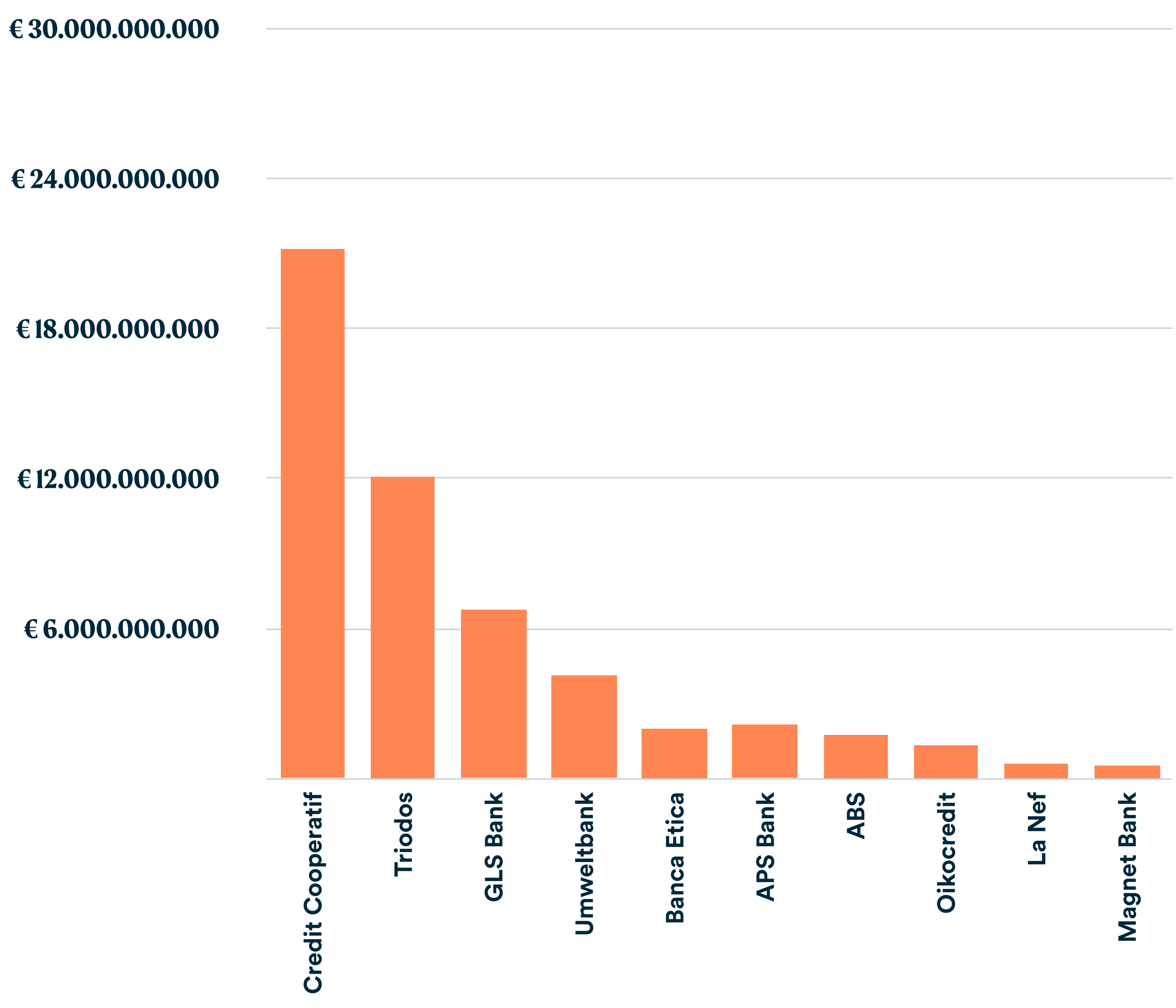


Graph 5 - Growth in Banca Etica's assets from 2010 to 2020. All figures are expressed in euros

As shown in Graph 6, Banca Etica's assets (and, thus, the size of its balance sheet) continue to grow. Significantly, growth did not stop in the first year of the pandemic. On the contrary, between 2019 and 2020, asset growth was at its highest level in a decade (+28%), while the previous record was +25% between 2015 and 2016.



Graph 6 - Growth in Banca Etica's deposits and loans from 2010 to 2020.



Graph 7 - The ten largest European ethical and value-based banks by asset volume

All figures are expressed in euros

Growth in deposits continued steadily and significantly, as seen in Graph 7. In absolute terms, deposits grew by 459.12% from 2010 to 2020. Loans have consistently increased from 2015 onwards. In absolute terms, they grew by 198.75% from 2010 to 2020.

Aggregate Figures for European Ethical and Value-based Banks (2020)17

Assets: 63.97 billion euros (+15,24% compared to 2019)
Loans: 46.61 billion euros (+4,27% compared to 2019)
Deposits: 46.66 billion euros (+15,56% compared to 2019)

17 The 2020 data was based on the balance sheets of the 23 ethical and value-based banks examined in the report, to which 2020 data from Coop57 (Spain), Femu Qui (Corsica, France), Etika (Luxembourg), Ucit (UK), Sidi (France) and Sifa (France), which do not carry out banking activities in the strict sense of the word, but grant loans in the same way as ethical and value-based banks do, were added.

Appendix I. The Sample of European Ethical and Value-based Banks

European Ethical and value-based Banks
Alternative Bank Schweiz (Switzerland)
APS Bank (Malta)
Banca Popolare Etica (Italy)
Caisse Solidaire (France) - until 2018
Caixa de Pollença (Spain)
Charity Bank (GB)
Cooperative Bank of Karditsa (Greece)
Credal (Belgium)
Cultura Bank (Norway)
Ecology Building Society (GB)
Ekobanken (Sweden)
Freie Gemeinschaftsbank (Switzerland)
Folkesparekassen (Denmark)
GLS Bank (Germany)
Group Crédit Coopératif (France)
Hefboom (Belgium)
La Nef (France)
Magnet Bank (Hungary)
Merkur Cooperative Bank (Denmark)
Oikocredit (Netherlands)
Opportunity Bank Serbia (Serbia)
Tise (Poland)
Triodos Bank (Netherlands)
UmweltBank (Germany)

Appendix II.
Summary data on the main quantities analyzed

COMPARISON OF AVERAGES ON TOTAL VALUES	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
net equity/liabilities ETHICAL AND VALUE-BASED BANKS	69.32%	69.14%	74.70%	76.95%	71.43%	73.56%	72.20%	72.36%	71.31%	73.09%	73.29%
net equity/liabilities EUROPEAN BANKS	33.49%	32.77%	33.87%	36.57%	36.43%	37.86%	38.69%	40.24%	40.96%	40.91%	40.96%
credits/active ETHICAL BANKS	76.08%	76.18%	75.68%	73.54%	72.25%	76.07%	74.20%	76.94%	76.05%	76.29%	72.98%
credits/active EUROPEAN BANKS	38.19%	36.89%	37.44%	38.70%	37.62%	38.19%	38.33%	39.36%	39.80%	38.80%	36.96%

Methodological notes

All 15 European banks that are members of GABV (Global Alliance for Banking on Values), 14 members of Febea (of which seven are also members of GABV), and two members of Inaise, were included in the sample of "European Ethical and Value-based Banks." Only institutions that carry out banking activities (collection of savings, loans, and investments) mainly focused on social and environmental issues, and that have released online (or sent to us) their financial statements for at least seven of the last ten years, are included. The historical datasets of the banks that are members of GABV were sent to us by GABV.

A hybrid methodology was used to try to portray the unique aspects of the available data as closely as possible: ethical and value-based banks' ROA and ROE were calculated as the mean of the average values for each banks, whereas for the aggregate "European banks," we used the mean of the total values for all banks, since data on individual banks were not available. Simple averages, calculated on the overall aggregate data, were used to calculate the ratios of the various balance sheet items (loans/total assets; deposits/total liabilities) for both ethical and European banks. Generally speaking, in processing data and calculating indices, we followed the same methodology used by GABV in their *Real Economy - Real Returns: The Business Case for Values-based Banking (2017) report*.

Acknowledgments

The collection and systematic organisation of all data on ethical and conventional banks, as well as the calculation of balance sheet ratios and growth trends, were carried out by Leone Di Stefano. We would like to thank Adriana Kocornik-Mina from Gabv for kindly providing the data on the ethical and value-based banks that are members of the Global Alliance for Banking on Values.

SECOND PART

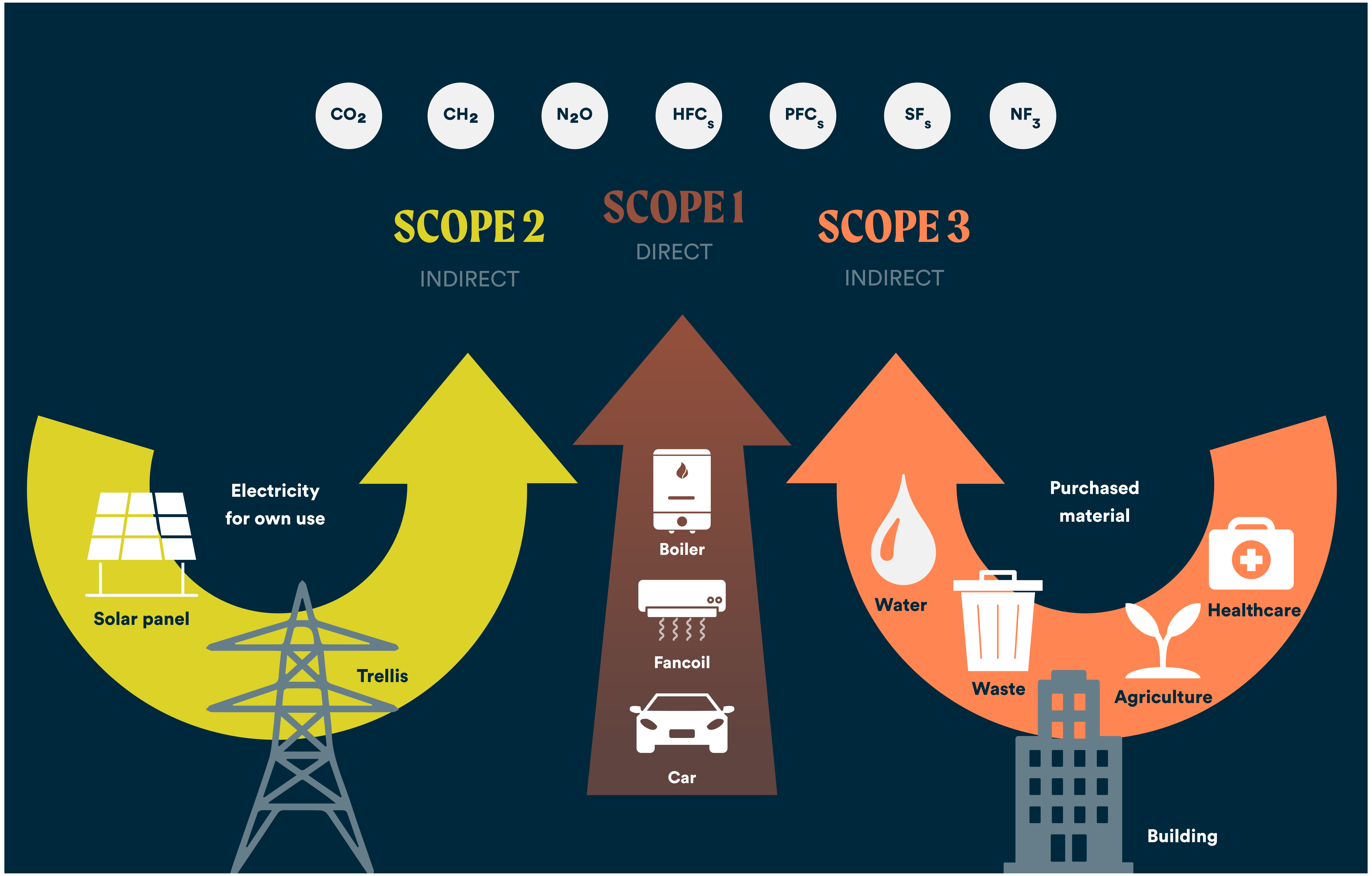
Finance and climate

FINANCE AND CLIMATE: ETHICAL BANKS LEAD THE "COPERNICAN" BALANCE SHEET REVOLUTION

Until a few years ago, conventional banks' sustainability reports would outline their environmental achievements by considering two types of greenhouse gas emissions only:

"Scope 1" emissions which are directly produced by the heating systems of their offices heating and company-owned vehicles; and "Scope 2" emissions from offices' electricity consumption.

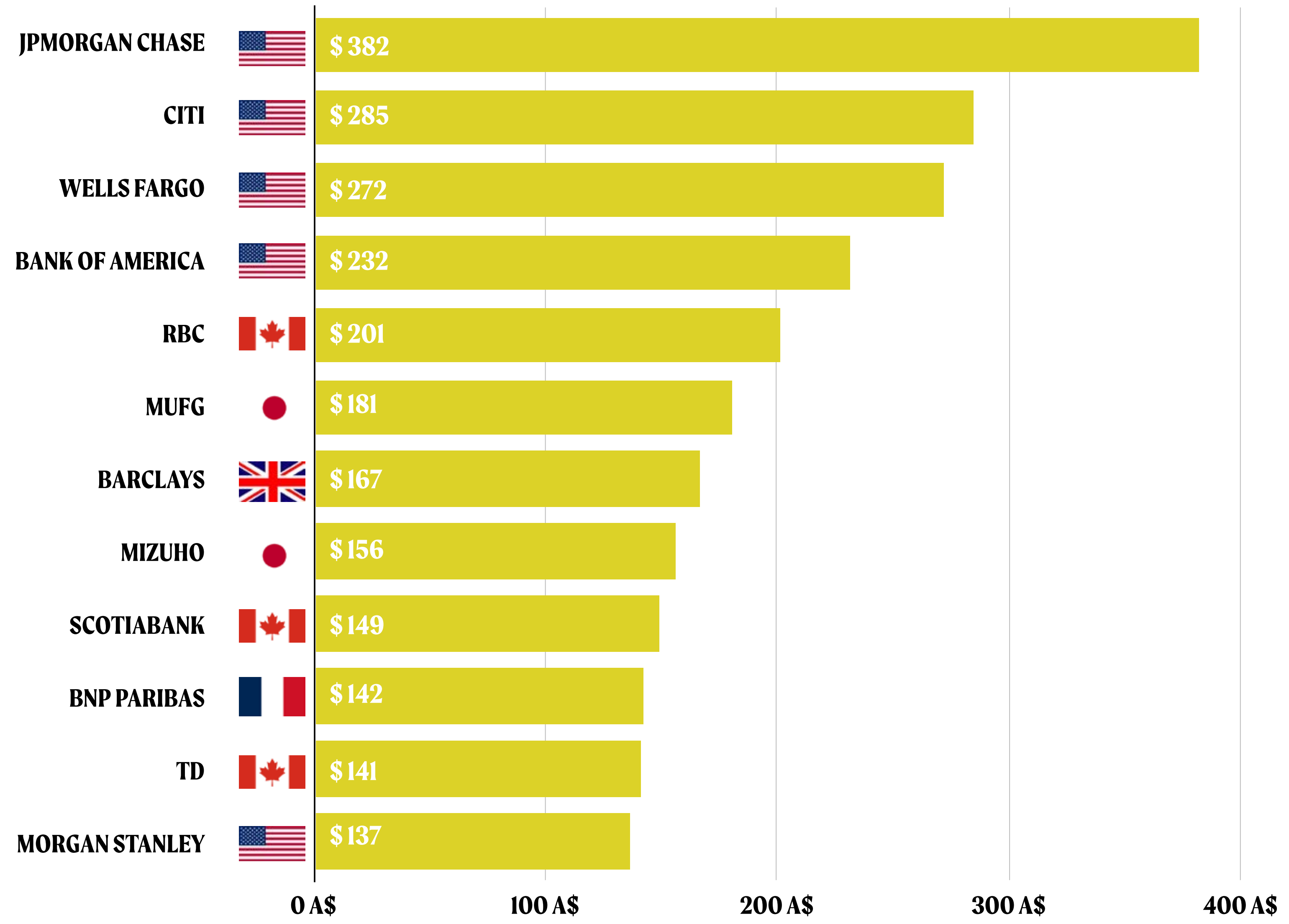
For example, you might read about their improvements due to a sharp decrease in their use of "gas and diesel oil for the independent heating system and petrol and diesel oil" as a result of a "reduction in the use of the company fleet" and "a particularly favourable climate for heat consumption."[18]. The metaphorical "elephant" was still in the room, yet unseen. Millions of euros in loans were, and still are, granted to polluting industries, coal-fired power plants, and oil well drilling, but they simply were not factored into the tally of greenhouse gas emissions. It was as if the financed activities lived a life of their own, and no longer had anything to do with the banks. However, without the banks, the power plants would not have been built and oil wells would not have been drilled. If indirect, or "Scope 3," emissions were considered, with reference only to emissions generated from the purchase of copy paper or related to waste and office machines, it would be cursory. Emissions produced from loans to businesses and individuals, or generated by employees' commutes, were not deemed as "indirect."



Graph 1. The three emission categories, as defined by the Greenhouse Gas Protocol (GHG),[19] related to banking activity[20].

18 https://group.intesasanpaolo.com/content/dam/portalgroup/repository-documenti/public/Contenuti/RISORSE/Documenti%20PDF/en_sostenibilita/CNT-05-00000003DF1E2.pdf
19 The GHG Protocol provides the most widely used greenhouse gas accounting standards in the world, https://ghgprotocol.org/
20 Please see https://www.bancaetica.it/la-carbon-footprint-di-banca-etica/

However, banks control most of the available capital globally. Since the Paris Climate Agreement (2015) until today, they have continued to invest more than 4.6 trillion dollars in the fossil fuel sector[21].
That is equal to 2.1 billion per day up to 2021, with no downward trend, or any assessment of the impact of loans and investments on greenhouse gas emissions.



Graph 2. "The Dirty Dozen." The 12 most active banks in fossil fuel financing in the world between 2016 and 2021. Source: Banking on Climate Chaos - Fossil Fuel Finance Report 2022[22].

Fortunately, things are beginning to change. In 2020, some of Wall Street's largest banks, such as Morgan Stanley, Bank of America, and Citigroup, announced that they will begin to measure and disclose the emissions of their financial portfolios. They have joined more than 250 financial institutions, with over 71 trillion dollars in assets, that already do so through the Partnership for Carbon Accounting Financials (PCAF)[23].

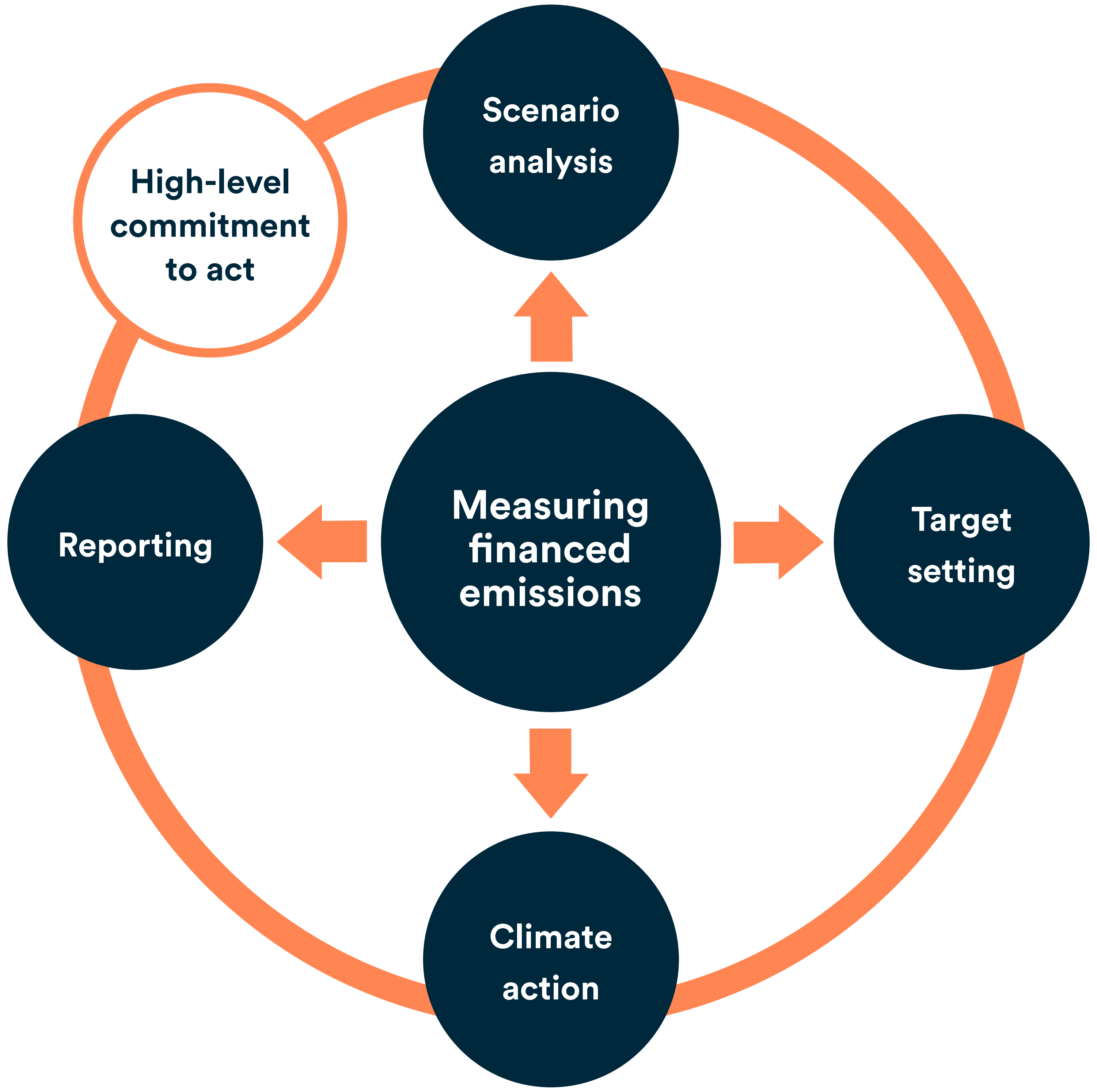
21 https://www.bankingonclimatechaos.org//wp-content/themes/bocc-2021/inc/bcc-data-2022/BOCC_2022_vSPREAD.pdf
22 https://www.bankingonclimatechaos.org//wp-content/themes/bocc-2021/inc/bcc-data-2022/BOCC_2022_vSPREAD.pdf
23 https://carbonaccountingfinancials.com/newsitem/pcaf-welcomes-250th-signatory-growing-global-participation-fourfold-in-three-years#newsitemtext

2.1 PARTNERSHIP FOR CARBON ACCOUNTING FINANCIALS

PCAF was established in the Netherlands in 2015, on the initiative of ASN Bank and thirteen other Dutch financial institutions. In 2019, PCAF was joined by all the members of the Global Alliance for Banking on Values (Gabv), one of the three organizations that the diverse ethical finance universe refers to (See Chapter 1). Ethical and value-based banks are among the pioneers in adopting the PCAF criteria, which, from 2019 onwards, an increasing number of banks and financial companies around the world have begun to adopt as well.

PCAF's goal is to set ever-improving standards to help banks and financial companies measure and disclose the greenhouse gas emissions generated by their loans and investments.

This is a first step towards defining emission reduction strategies with clear targets. Indeed, as the graph shows, measuring indirect emissions generated by loans and investments is at the heart of a new approach to banking and finance with the aim of alignment with the climate goals set by the Paris Agreement.



Graph 3. The six key areas for climate actions for financial institutions[24].

By measuring emissions generated by a portfolio of loans or investments, financial institutions can perform scenario analyses, set targets, take action, and disclose their progress.

PCAF is one of the best methods that exists today for measuring the climate impacts – and, specifically, Scope 3 impacts – of financial portfolios, but it is only one of several. A comparison of about ten different methodologies is available inside the report "Metodologías de análisis para el alineamiento de carteras financieras con la acción climática," published in November 2020 by the Foro Académico de Finanzas sostenibles[25], a think tank established in 2019 in Spain on the initiative of Triodos Bank and Afi Escuela de Finanza.
Indeed, one of the problems in measuring emissions related to financial portfolios is the lack of a shared methodology on an international and institutional scale. This certainly entails a risk: some banks may choose the method that yields the best results for them, or even devise their own methodology for the purpose of celebrating supposed progress in climate protection.

24 https://carbonaccountingfinancials.com/files/downloads/Overview-Initiatives-Shaping-Climate-Action-Journey-for-FIs.pdf
25 https://www.bsm.upf.edu/documents/monografia-2-alineamiento-carteras-financieras.pdf

Climate Change Commitment: the GABV's commitment to measure emissions generated by financial activities

Following the 2019 GABV Summit in Vancouver, ethical and value-based banks that are part of the organisation committed to a global, coordinated effort to monitor the carbon impact of their loan and investment portfolios over a three-year period.
The commitment to combat climate change, known as the "3C (Climate Change Commitment) initiative," reflects the dire need to rectify the current environmental trajectory, and is aligned with the Paris Agreement goals to limit global temperature increases in this century, compared to the pre-industrial period, to well below 2 degrees Celsius.

By assessing and disclosing their own greenhouse gas emissions, banks can better understand their contribution to climate change, and take decisions that limit the climate impact of their activities. The GABV promotes the adoption of the measurement methods developed by PCAF by its members, with the support from the consulting firm Guidehouse.

The list of banks and financial institutions that have made the commitment to combat climate change is available at www.gabv.org .

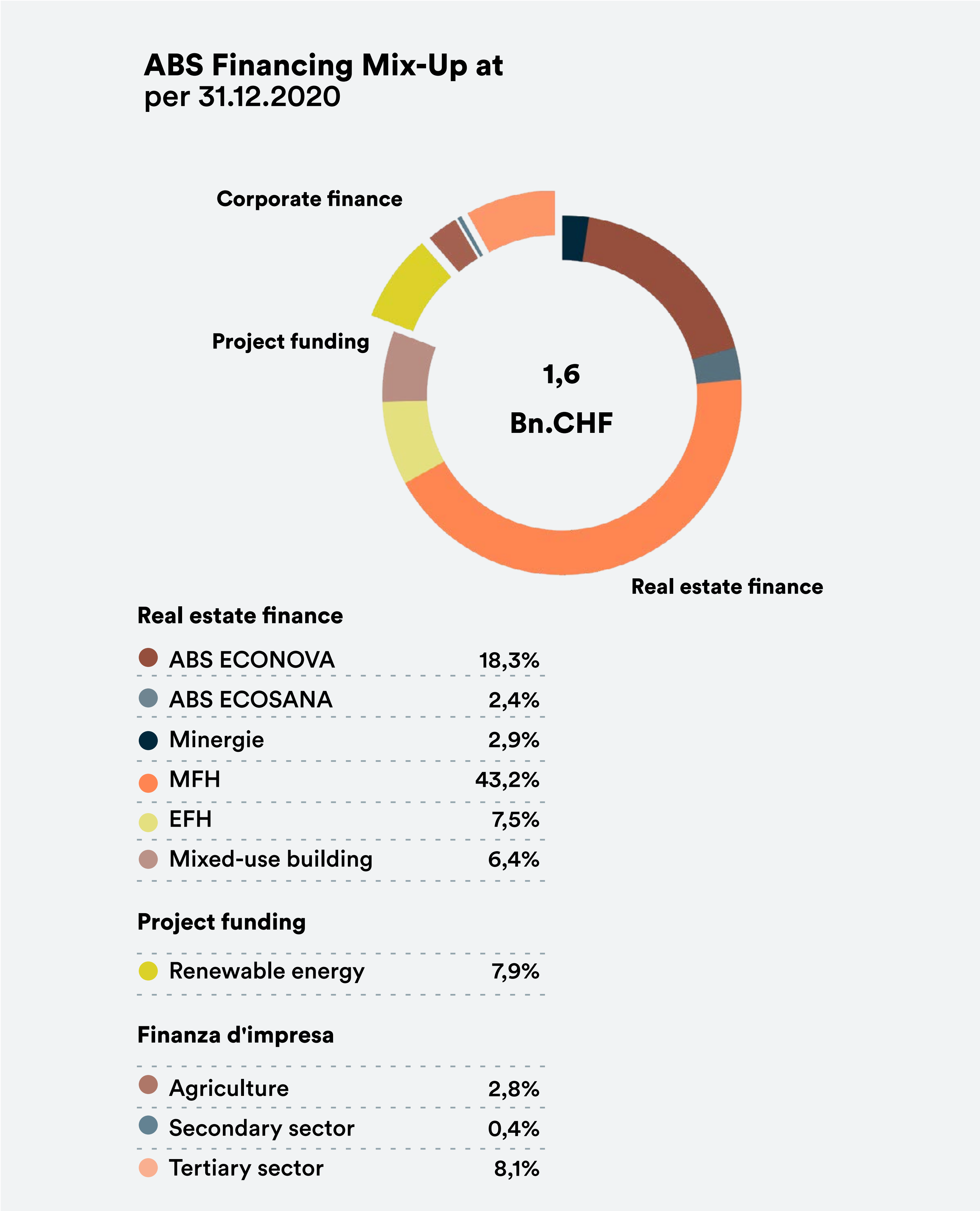
2.2 ETHICAL AND VALUE-BASED BANKS' REPORTING OF EMISSIONS

As previously mentioned, ethical and value-based banks were among the first banks in the world to publish reports on the indirect greenhouse gas emissions generated by their loans and investments.
Banca Etica published its first impact report in 2020 and again 2021. As of today, it is the only Italian bank that accurately publishes the level of emissions generated by its loans and investments. Ethical and value-based banks are trailblazers in this area. In addition to Banca Etica, for example, the Dutch Triodos Bank, the Swiss ABS, the British Ecology Building Society, Sweden's Ekobanken, Denmark's Merkur, and Germany's Umweltbank have also published detailed reports.

In the following paragraphs, we will briefly review some of the carbon impact reports published by ethical and value-based banks, focusing on ABS, Banca Etica, and Triodos Bank. Then, we will try to understand what some Italian and Spanish conventional banks that have joined PCAF, are doing instead.

ABS

ABS (Alternative Bank Switzerland) published its first impact report in 2021. The report shows the results, as well as the difficulties encountered throughout the project. According to their initial measurements, as of December 31, 2020, ABS, through its funding, produced a total of **10,800 tonnes of CO2** equivalent (7.2 tonnes of CO2 per million invested or lent)[26].
A substantial portion of the funding (81%), which amounted to a total of 1.5 billion euros (1.6 billion Swiss francs), was granted to sustainable building and housing; 7.9% of the funding went to renewable energy, and 2.8% to agriculture, which, however, was excluded from the emissions tally.
The money invested by the customers through the bank's products, in corporate stocks and bonds and government securities generated **53,000 tonnes of CO2 equivalent** (121,200 in 2019).



Graph 4. ABS' sectors of funding as of December 31, 2020[27].

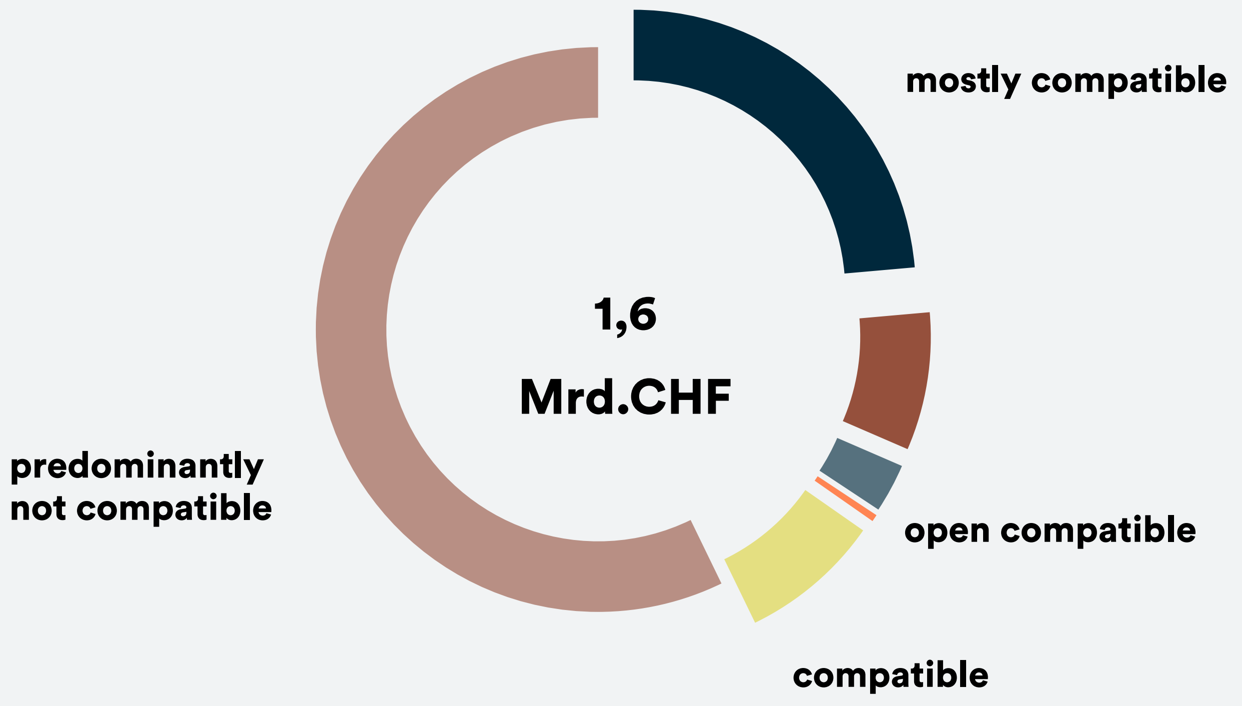
The bank's **direct** emissions (Scope 1) and energy consumption emissions (Scope 2) only amounted to a total of **66 tonnes** of CO2 equivalent. This confirms that most of the bank's climate impact is due to indirect emissions, rather than to energy consumption, copy paper, and fuel for heating the offices (direct emissions).
ABS acknowledged that their impact report is still flawed. With regard to some sectors, such as agriculture, there aren't sufficient data to draw meaningful conclusions. Despite these problems, the bank decided to move forward, and, for the first time, present reliable emissions data for a large part of its financing activities, something no other Swiss bank has done to date.

According to ABS' analysis, as of today, 31.5% of funded activities would already be in line with the goal of limiting global average temperature growth to 1.5 degrees Celsius by the end of the century compared to pre-industrial levels. On the other hand, 57.2% - all of which are investments in social housing – are not yet aligned. As ABS explained in their sustainability report, "social sustainability does not always go hand in hand with green building standards, which, however, are equally important. We will have to address this issue more consciously in the future and try to solve it." This is a new challenge in terms of their strategy, which would not have surfaced without a thorough assessment of greenhouse gas emissions linked to the loans granted and the investments made.

26 Excluding agriculture from the count, which, as will be explained below, is by far the most polluting sector.
27 https://www.abs.ch/sites/default/files/2021-10/Nachhaltigkeitsbericht_2020.pdf

ABS has pledged to reduce emissions from all its funding to zero by 2030, in order to comply with the 1.5°C target[28].

Compliance with the 1.5 degree target



Renewable energy	7,9%
ECONOVA/ECOSANA/Minergie	23,6%
Agriculture	2,8%
Secondary sector	0,4%
Tertiary sector	8,1%
Other real estate	57,2%

Graph 5. Alignment of ABS' loans with the 1.5°C target (from their 2020 Sustainability Report)[29].

Banca Etica

In 2021, Banca Etica published its second impact report about 2020[30], which included a section dedicated to the financial accounting of their carbon footprint. The analysis covered Scope 1 and Scope 2 emissions with regard to all of the bank's assets and managed to cover Scope 3 indirect emissions for 87% of assets.

In 2020, Banca Etica's activities produced a total of **116,572 tonnes of CO2 equivalent**, approximately 40% less than in 2019. Concerning the carbon intensity of the assets, every 1 million euros invested or lent by the bank generated an average of **43 tonnes of CO2**. Unlike ABS and, as we will see below, unlike Triodos, Banca Etica did not publish any data on the carbon footprint of the investments made by customers in financial products placed by the bank (mutual funds). However, such data are available in Etica Sgr's impact report, Banca Etica's subsidiary asset management company whose funds are placed by the bank[31].

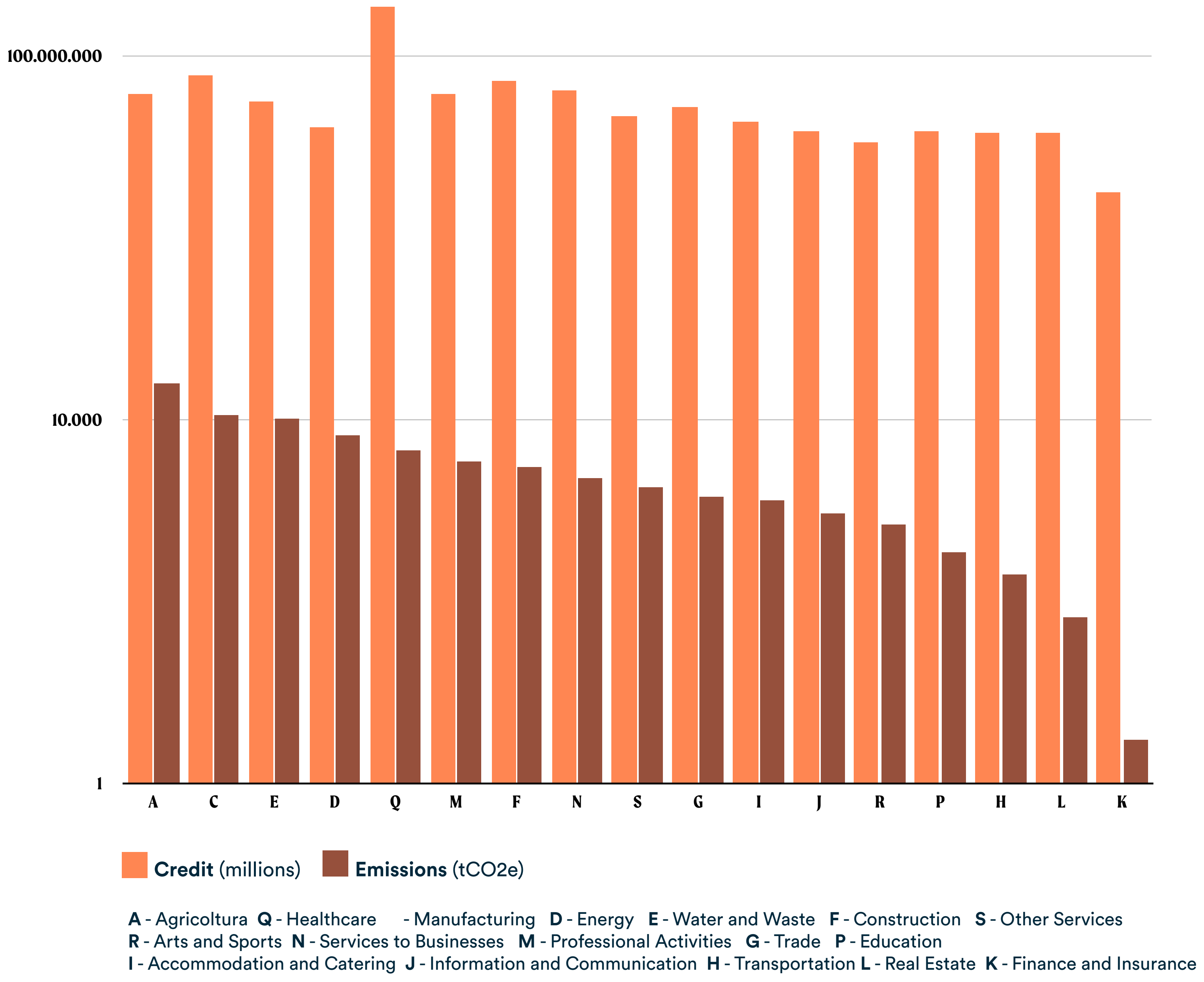
DIRECT AND INDIRECT EMISSIONS GENERATED BY BANCA ETICA IN 2020

Category	tCO2e
SCOPE 1: Direct Emissions	
Offices	11
Transportation	52
SCOPE 2: Use of Electricity	
Purchased Energy	*5,7*
SCOPE 3: Leased Assets	
Loans and Investments:	
Investments	
Government Bonds	5.899
Other Investments	2.069
Loans	
To Businesses	107.717
To individuals	818
Total Emissions	**116.572**
Avoided Emissions	37.144

Table 1. Direct and Indirect emissions generated by Banca Etica in 2020[32].

28 Maximum temperature increase of 1.5°C compared to the pre-industrial period, in accordance with the Paris Agreement.
29 https://www.abs.ch/sites/default/files/2021-10/Nachhaltigkeitsbericht_2020.pdf
30 https://www.bancaetica.it/report-impatto-2021/
31 https://www.eticasgr.com/investimento-responsabile/il-nostro-impatto/carbon-footprint
32 https://www.bancaetica.it/report-impatto-2021/

As is the case for Banca Etica, a large part (92%) of greenhouse gas emissions is indirect and related to loans to businesses and organisations. The report also highlighted avoided emissions, which amounted to 37,144 tCO2e i.e. tonnes of CO2 equivalent (which were 4,907 in 2019), mainly related to new renewable energy facilities that were built as a result of the bank's funding.



Graph 6. Generated emissions and loans granted by Banca Etica, by sector[33].

As shown in Graph 6, drawn from Banca Etica's 2021 impact report (referring to 2020), the sectors that, in proportion to the amount of the loans granted, generated the most emissions were agriculture and animal husbandry (35% of total emissions), manufacturing (27%), and water and waste treatment (13%). While other sectors, such as healthcare, business services and construction have much lower climate impacts in both absolute and relative terms.

Agriculture and animal husbandry are the most polluting sectors. However, it should be noted that the estimates, as specified in Banca Etica's impact report, "are based on sector average emission intensity for the different crops and animals raised." Thus, it is impossible to account for the lower environmental impacts of organic and biodynamic farming (the only types of agriculture that Banca Etica finances), which, according to estimates published in 2017 by the Journal of Cleaner Production, can produce up to 60% less climate-changing emissions than conventional agriculture. In fact, the emissions generated by the loans granted were defined by assigning the average emissions of the different ATECO[34] sectors, in proportion to the loans, to the companies and organisations.

As highlighted above with regard to ABS, it was not possible to report emission estimates for all activities, due to a lack of accurate information. In some cases, as noted, the lack of data has been compensated for by using coefficients and statistical models. In other instances, it was necessary to acknowledge the existence of emission, corresponding to 13% of leased assets today, that cannot be accounted for yet.

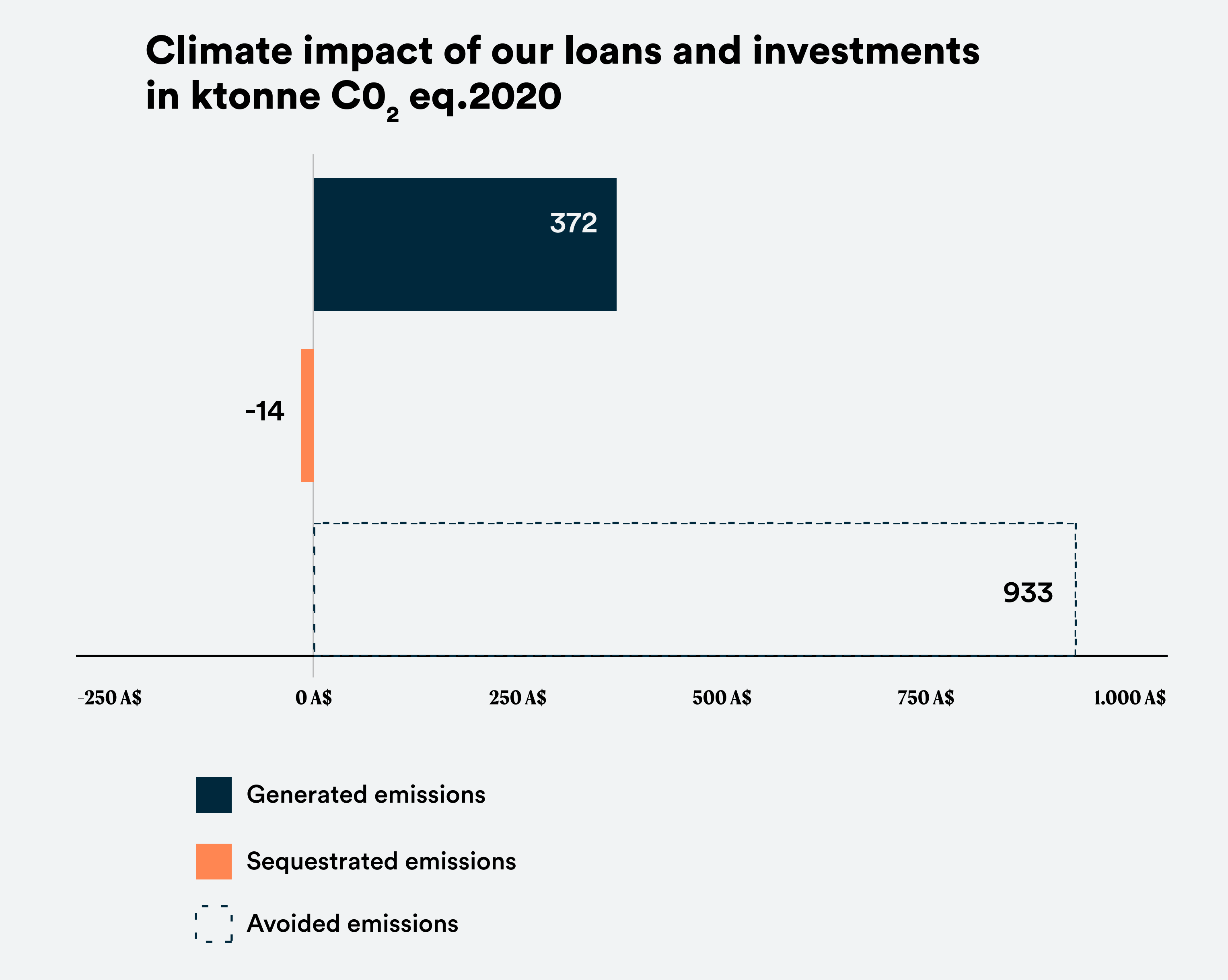
In fact, the implementation of PCAF principles is not an end point, but the beginning of a process that allows banks to look at their business from a new perspective, to set new goals, and to seek to improve both their carbon footprint and the measures taken to detect it over time, consistently with the breadth of data available.

One of the strengths of Banca Etica's reporting is the extreme transparency of their calculation methods, which have been published in detail so that everyone can be inspired by the criteria adopted.

Triodos Bank

Among GABV banks, the Netherlands Triodos is definitely the most advanced in measuring carbon footprint.
The bank adopted the PCAF methodology for the first time in 2018 and has expanded the scope of measurement to 100% of its loans and investment funds in 2019. Triodos stresses the importance of this type of measurement in redesigning the bank's strategies: as explained in their 2021 Annual Report, "by mapping emissions by asset class, we can see the current problematic points (hotspots) within our portfolio. This provides us with useful guidance to shape a long-term strategy that is in line with the Paris Agreement"[35].

33 https://www.bancaetica.it/report-impatto-2021/
34 Classification of economic activities adopted by the Italian National Institute of Statistics.
35 Triodos Bank, Annual Report 2020,



Graph 7. Climate impact of Triodos' loans and investments in thousands of tonnes of CO2 equivalent in 2020. Source: Triodos Bank, Annual Report 2020[36].

As shown in the graph above, from Triodos' 2020 Annual Report, loans and investments (through funds) generated around **372 thousand tonnes of CO2 equivalent** in 2020. A total of 933 thousand tons of emissions were avoided however, by funding renewable energy and energy-saving projects. Altogether, in 2020, the bank financed 484 renewable energy projects. Avoided emissions may not be subtracted from those produced (neither Triodos nor Banca Etica does this, while ABS, for now, does not calculate them) since, as Triodos explains in its report, "they do not remove existing carbon from the atmosphere." This item only represents the fact that, instead of financing fossil sources and producing CO2, the bank chose to invest in renewable energy sources that do not produce CO2. Thus, the production of additional CO2 was avoided, but existing CO2 was not absorbed. However, Triodos did "absorb" 14,000 tonnes of CO2 by funding projects related to nature conservation and forestry. These tonnes correspond to "316,000 trees" and would be sufficient to counterbalance the emissions produced by the loans and investments in the farming sector.

Furthermore, Triodos explains that the figures related to avoided emissions will, at some point, begin to decline, even as the amount of energy generated by the renewable energy projects that the bank finances increases. This is because the energy system, as a whole, will have a lower impact with regard to carbon intensity: "energy from fossil fuel sources will continue to decline, while energy from renewable sources will increase, creating a more sustainable energy system."

36 Triodos Annual Report

FUNDED SECTOR	CARBON INTENSITY (TCO2E/MN€)	TOTAL EMISSIONS (TCO2E)	TOTAL INVESTMENT (MILLIONS OF EURO)
Arts and Culture	67	34.000	501
Other Cultural Projects	60	16.000	271
Investment Funds	60	139.000	2.306
Social Housing	44	23.000	528
Organic Agriculture	43	13.000	298
Other Environmental Projects	42	13.000	298
Care for the Elderly	38	29.000	748
Healthcare	37	17.000	456
Other Social-Municipal Projects	35	13.000	377
Sustainable Property	31	30.000	963
Education	29	9.000	322
Inclusive Finance and Development	13	11.000	816
Mutui casa	9	26.000	2.739

Triodos, like Banca Etica, reports the total emissions generated by each funded sector, in both absolute and relative terms. As shown in Table 2, the sectors that produced the most CO2 emissions per million euros invested (carbon intensity) were the cultural sector, investment funds, social housing, and organic farming. The sectors with relatively lower climate impacts included residential mortgages, inclusive finance and development, and education. In absolute terms, the sector with the highest impact was that of investment funds (Impact Equities and Bonds, Funds), which generated 139,000 tonnes of CO2 equivalent. In 2020, the average carbon intensity of leased assets (loans and investments through funds) was **35 tCO2e per million euros** invested. Triodos is committed to reducing the net emissions of all its financing to zero by 2035 at the latest[37].

Table 2. Carbon intensity of Triodos' loans and investments (tonnes of CO2 equivalent per million euros) in 2020, in descending order. Source: our reworking of Triodos Bank data, Annual Report 2020.

37 https://www.triodos.co.uk/articles/2021/triodos-bank-sets-target-to-reach-net-zero-by-2035

2.3 REPORTING OF EMISSIONS CARRIED OUT BY A FEW CONVENTIONAL BANKS THAT HAVE JOINED PCAF

After analysing how some European ethical and value-based banks have begun to report the impacts of their portfolios according to the principles defined by PCAF, we now focus on a few conventional banks that have joined PCAF, particularly in Italy and Spain.

2.3.1 ITALIAN CONVENTIONAL BANKS

Mediobanca

In Italy, other than Banca Etica, only Mediobanca Group has joined PCAF. Its membership status is “committed.” This means that it has committed to disclose data on the carbon impact of its investments but has not yet done so.
In fact, Mediobanca only formally joined the Partnership for Carbon Accounting Financials (PCAF) in February 2022, with the goal of achieving net zero emissions by the end of 2050[38].

Mediobanca’s 2020-2021 Consolidated Non-Financial Statement[39] disclosed details of the Group’s Scope 1 and Scope 2 emissions, while it only accounted for the emissions generated by employee and collaborator travel by train, aeroplane, or cars not owned by the bank for Scope 3. Indirect emissions generated by investments are completely excluded from their reporting for now, but, given its involvement in PCAF, it is possible that these data will begin to be disclosed in the next financial statements.
At present, in their emissions tally, Mediobanca has referred to the principles of the Global Reporting Initiative (GRI)[40].

Unicredit

Unicredit, Italy’s second largest banking group, **has not yet joined PCAF**. In late 2021, it declared that it had joined the Net-Zero Banking Alliance (NZBA), a United Nations financial initiative that “brings together banks worldwide which are committed to aligning their lending and investment portfolios with net-zero emissions by 2050 or sooner”[41]. By joining NZBA, Unicredit has committed, inter alia, to:
set interim targets for 2030 or sooner for priority sectors;prioritise areas of most significant climate impact (i.e., the sectors that generate the most greenhouse gases); and annually disclose the bank’s emissions and their intensity.

For the time being, Unicredit has only disclosed, in its 2021 Integrated Report, its Scope 1 and 2 emissions, while Scope 3 emissions only include emissions from employee and contractor rail and air business travel, copy and paper consumption, and from glass, paper, and plastic disposal[42]. Unicredit has begun to adopt specific policies with regard to sectors “that present significant environmental and social risks”, and to monitor their portfolio exposures. Currently, we find the coal, oil, and gas sector, the mining sector, the nuclear energy sector, and the water infrastructure one are among the monitored sectors[43].

2.3.2 SPANISH CONVENTIONAL BANKS

As of today (April 2022), three Spanish banks have joined PCAF: Banco Santander (in September 2021), BBVA (in May 2021), and Caixabank (in July 2021). All three have joined, for now, with “committed” status, thus, committing to disclose data on indirect emissions generated by their loans and investments in the future. Although all three banks have yet to publish the information required by the PCAF principles, we, nevertheless, examined their financial statements to understand the current quality of their emission reporting.

Banco Santander

In its Climate Finance Report 2020 - June 2021[44], and in its 2021 Annual Report[45] Santander stated that it has begun using the PCAF principles: “Regarding our Scope 3 emissions, we began to disclose the financed emissions from our customers, following the PCAF standard. This means we can assess the GHG emissions linked to our portfolios and devise alignment strategies.” Currently, Santander is reportedly working to improve data on estimating emissions associated with their portfolios,

38 https://www.mediobanca.com/it/hp-media/eventi-iniziative/mediobanca-aderisce-alla-partnership-for-carbon-accounting-financials-pcaf.html
39 https://www.mediobanca.com/static/upload_new/non/non_financial_statement_2020-21.pdf
40 https://www.globalreporting.org/
41 https://www.unicreditgroup.eu/en/press-media/press-releases/2021/unicredit-aderisce-alla-net-zero-banking-alliance.html
42 https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/sustainability/sustainability-reports/2021/UC_INTEGRATO_2021_ENG.pdf
43 https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/sustainability/sustainability-reports/2021/UC_INTEGRATO_2021_ENG.pdf
44 https://www.santander.com/content/dam/santander-com/en/documentos/informe-anual-de-sostenibilidad/2020/ias-2020-climate-finance-2020-21-en.pdf
45 https://www.santander.com/content/dam/santander-com/en/documentos/informe-financiero-anual/2021/ifa-2021-consolidated-annual-financial-report-en.pdf

through “external databases” and “model developments using information from our customers.” Santander is also a member of the Net-Zero Banking Alliance and has declared that it aims to achieve carbon neutrality of all its activities by 2050[46].

In its 2021 Annual Report, however, Scope 3 emissions still only refer to “indirect emissions generated by employee travel,” and not also to those generated by loans and investments, which, as seen above, have by far the most significant impact on the environment.

BBVA

In its 2021 Annual Report[47], BBVA states that it has begun to measure indirect emissions generated by its loans and investments by adopting the PCAF principles. “This project will cover all the portfolios and geographies to obtain a global vision of the emissions financed, identify in what portfolios and sectors these emissions are focused and then define mitigation plans for them.”

In an initial estimate of emissions generated from its financing to corporate and small and medium-sized enterprise customers, which has been developed by applying emission factors based on the customers’ business sector, it appears that 80% of BBVA’s emissions are concentrated in six sectors. The largest emitting sectors are manufacturing, mining and energy (power generation).

In the 2021 Annual Report, the reported Scope 3 emissions were still limited to the emissions from employee business trips (by plane or train), waste disposal, and employee commuting.

Like Banco Santander, BBVA is also a member of the Net-Zero Banking Alliance and has set the goal of achieving carbon neutrality by 2050.

Caixabank

In its 2021 Financial Statements, Caixabank stated that it would implement the PCAF methodology for the accounting of the indirect emissions of its loans and investments “within 3 years of joining[48]” (therefore, within 2024). However, the bank also explained that, actually, the estimate, based on the PCAF principles, had already been calculated for the emissions associated with the outstanding portfolio of “residential and non-residential mortgages, debt securities (corporate bonds), equity instruments (stocks and shares), and corporate loans and advances” as at December 31, 2020. “The calculation is based on information about the carbon footprint (Scope 1, 2, and 3) reported by the financed companies or from sectorial proxies (when the data is not available).” In the 2021 Financial Statements, the measured Scope 3 emissions did not yet include the investments (category 15 of the GHG Protocols)[49] and were limited, as was the case for the other examined conventional banks, to the emissions generated by employee travels and waste disposal.

A materiality analysis of Scope 3 for the Caixabank Group is expected in 2022, “with the aim of defining the most relevant emission categories, and entirely calculating them in subsequent years.”

Caixabank is one of the Net-Zero Banking Alliance founding members and has stated that it intends to achieve carbon neutrality in all its activities by 2050.

46 https://www.santander.com/en/press-room/press-releases/2021/02/santander-group-sets-ambition-to-be-net-zero-by-2050-supported-by-first-decarbonization-targets
47 https://shareholdersandinvestors.bbva.com/wp-content/uploads/2022/03/Annual-Report-2021.pdf
48 https://www.caixabank.com/deployedfiles/caixabank_com/Estaticos/PDFs/Accionistasinversores/Informacion_economico_financiera/CCAA_GRUPCAIXABANK_2021_ING.pdf
49 https://ghgprotocol.org/

Budgets and climate: ethical banks lead the revolution

	PCAF JOINING	CREDIT IMPACT MEASUREMENT from
ETHICAL AND VALUE-BASED BANKS		
ALTERNATIVE BANK SWITZERLAND	2020	2020
bancaetica	2020	2020
Triodos Bank	2018	2018
CONVENTIONAL BANKS		
MEDIOBANCA	2022	NO
UniCredit	NO	NO
Santander	2021	NO
BBVA	2021	NO
CaixaBank	2021	NO

Conclusions

The climate emergency is undoubtedly the most urgent and serious crisis humanity will face in coming decades. Ethical and value-based banks have always been aware of the environmental impacts of banking and financial activities and, since their establishment, have set precise exclusion criteria in their lending and investment policies. Ethical and value-based banks, per statute, do not finance fossil fuels or industries with a high environmental impact. Historically, they have invested in renewable energy and environmental conservation projects. In general, compliance with social, environmental and governance criteria is integrated into all processes and activities carried out by ethical and value-based banks.
Conversely, for many years, conventional banks have only considered the direct environmental impacts of their offices and branches, without taking into account the indirect environmental impacts generated as a result of their financing.
At the climate conference held in late 2015 in Paris, a new climate agreement, which set precise targets for the period after 2020, was agreed upon. For the first time, all countries committed to reducing their greenhouse gas emissions. Furthermore, the agreement aims to steer private and state financial funds towards low greenhouse gas emission development.

Following the Paris Agreement, ethical banks, which had already adopted strict environmental criteria for lending and investing in financial securities, were among the first to adopt precise guidelines for accounting for indirect emissions from their portfolios. In 2019, ethical and value-based banks that are a part of the Gabv joined the PCAF, currently the most advanced system for measuring greenhouse gas emissions generated by credit and financial activities. In this chapter, we have briefly presented the first results of emission accounting under the PCAF principles for three ethical banks: ABS, Banca Etica and Triodos. As shown above, the adoption of PCAF principles is still at an experimental stage: the scope of activities covered is different for each of the banks examined, and a significant portion of the financed entities do not yet disclose accurate emission data. Thus, in many instances, it became necessary to resort to estimates based on sector averages. For all these reasons, the final data from the three banks examined, of which we provide a summary table below, are not yet comparable.Nevertheless, a common trend does emerge: the Paris Agreement is prompting ethical and value-based banks to better outline their environmental strategies and, in some instances, to explicitly address the trade-offs[50] that may arise between social and environmental goals. It is possible that, in order to be compliant with the Paris Agreement goals, ethical and value-based banks, which do not need to repurpose their investment portfolios because they are already staying clear of the most environmentally impactful sectors (such as fossil fuels), will have to make a relatively smaller effort (within the banking system) to make their portfolios carbon-neutral.

Unfortunately, as long as conventional banks do not disclose their carbon intensity with regard to all three Scopes, we cannot know how much more advanced ethical and value-based banks are on this issue, compared to conventional financial institutions.
In any case, the adoption of the PCAF criteria creates new scenarios and sets new goals, which until now have not been given the attention they deserved.
At the same time, conventional banks are also taking action, albeit much more cautiously. Some of them have joined PCAF and are beginning to measure emissions in their portfolios. Many others have joined the Net-Zero Banking Alliance, to achieve carbon neutrality in all of their activities (including financial activities) by 2050.
We examined the cases of the only Italian conventional bank (Mediobanca) and the three Spanish conventional banks (Santander, BBVA, and Caixabank) that have joined PCAF. All of them are still limited to measuring emissions from their offices and employee travel. However, they will soon begin to report on emissions related to loans and investments as well.
This is a “Copernican” balance sheet revolution, of which ethical and value-based banks have been trailblazers and will most likely continue to play a leading role within the global banking system. It is a revolution that conventional banks will not be able to avoid, either. In the coming years, their conversion to environmental accounting, followed by the conception and implementation of strategies to reduce portfolio emissions, will be inevitable.

50 Inverse relationships, as in the case of an investment that has both a very positive social impact and, on the other hand, a negative environmental impact (e.g., a social housing project in energy-intensive buildings with high heat loss).

BANK EXAMINED	AVERAGE PORTFOLIO CARBON INTENSITY (TCO2E/MN€)	TOTAL EMISSIONS FROM ALL ACTIVITIES (TCO2E)	ACCOUNTED-FOR EMISSIONS	GOAL	NOTES
	Ethical and value-based banks				
ABS	7,2	63.866	Loans and investments in funds and securities by customers (securities accounts). Emissions produced by offices and employees.	Carbon neutrality by 2030	Emissions from agriculture were not calculated. Carbon intensity only refers to loans, and not, also, to investments. Treasury emissions were not taken into account.
Banca Etica	43	116.572	Loans, direct investments (by the bank: treasury) in securities. Emissions produced by offices and employees	7% reduction in direct and Scope 3 emissions generated by transportation.	Emissions produced by customer securities accounts were not accounted for.
Triodos Bank	35	372.000	Loans and investments. Emissions produced by offices and employees.	Carbon neutrality by 2030	It is unclear whether only the bank's direct investments were accounted for, or also customers' investments made through funds held in securities accounts.
	Mainstream banks				
Mediobanca	n.d.	n.d.	Emissions produced by offices and employees.	n.d.	It joined PCAF in 2022.
Unicredit	n.d.	n.d.	Emissions produced by offices and employees.	Carbon neutrality by 2050	It didn't join PCAF. It joined NZBA.
Banco Santander	n.d.	n.d.	Emissions produced by offices and employees.	Carbon neutrality by 2050	It joined PCAF in 2021.
BBVA	n.d.	n.d.	Emissions produced by offices and employees.	Carbon neutrality by 2050	It joined PCAF in 2021. It identified the six funded sectors with the greatest climate impact in the 2021 balance sheet.
Caixabank	n.d.	n.d.	Emissions produced by offices and employees.	Carbon neutrality by 2050	It joined PCAF in 2021.

Table 3. Summary of the main data on emissions accounting of the eight banks examined.

THIRD PART

Ethical finance and social taxonomy

Chapter 1

3.1 WHY EU LEGISLATION ON SUSTAINABLE FINANCE IS GOOD NEWS, BUT NOT ENOUGH

by **Ugo Biggeri**, Chairman of Etica Sgr

Over the past few years, the European Union has been developing a regulatory definition of sustainable finance.

This, in itself, is a good thing. For decades, ethical or sustainable finance, emerging from the bottom up (e.g., from the demand of responsible savers), has crafted financial practices and procedures that make it possible to combine financial management with beneficial social, environmental, and cultural impacts. We are mostly referring to the European banks that are now in the FEBEA and GABV networks. Here, in order to distinguish them from the recent European definitions, we refer to them as "ethical and value-based banks".

In order to answer crucial questions about the use of savings, these banks have begun to be very transparent about their lending or financing choices. They have developed practices and processes aimed at improving their ability to assess, measure, and report on their impact. Similarly, other banks have also had social concerns in their past, but, unlike ethical banking, these concerns have generally not led to clear operational and management choices that are also integrated into the audits of their internal control systems. More generally, until a decade ago, ethical finance was not only a niche phenomenon, but it was also regarded with condescension by mainstream finance.

Sustainability in finance now being addressed by regulation is, thus, an important acknowledgement of the fact that a new approach to finance is needed and, above all, that the insights of the ethical finance pioneers were profoundly reasonable.

The European Union now seeks to regulate sustainable finance mainly because of the urgency of climate change, as well as the push to adopt the Sustainable Development Goals[51]. The basic idea is to encourage private finance and the savers' choices, so as to trigger necessary and lasting economic changes.

What can ethical finance say about these actions?

My first observation is that the need for change in economic and financial practices is acknowledged, but this change should not be addressed by regulatory aspects alone. A much broader structural rethinking of economic and fiscal policies will be necessary.

In fact, regulation seeks to bring clarity to the sector, but, deliberately, is leaving sustainable finance in a realm of voluntary, rather than systemic, choices. This is evidenced by the fact that, to date, there is insufficient interest in the idea of a "Brown Punishing Factor", which is supposed to discourage investments and companies with negative impacts and would definitely encourage quick change. Another relevant aspect, in this regard, is that the regulation is limited to the market for "sustainable finance products," and does not define and promote "sustainable finance" as a goal that financial players should strive for: sustainable finance is just one "off-the-shelf" product among many offered in the market.

Despite these significant limitations, the regulation is still useful, and even encouraging for ethical finance experts, because it establishes a common and clarifying framework, as well as, most importantly, measurement and reporting commitments that make different sustainable finance products and the impacts they can generate comparable.

A Point of Convergence: Finance Must Not Do Significant Harm

An important point of convergence between sustainable finance regulation and "ethical finance" concerns the "do not significantly harm" (DNSH) principle, i.e., the requirement that the actions chosen for investment do not significantly harm the environmental - and, in the future, social - objectives of the so-called "taxonomy"[52].

This is a concept very close to the "exclusion criteria" inherent in ethical finance, and one of the methodologies of responsible and ESG investing[53]. In this case, an a priori decision is made not to invest in pre-defined activities or sectors, such as fossil fuel extractions or purchases of government bonds from states with the death penalty.

European regulation, by introducing the "do not significantly harm" concept, encourages a broad and potentially ambitious view of sustainability. This is perhaps the point of greatest convergence with ethical finance practices, and one that, if applied seriously, could be decidedly

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51 They were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that, by 2030, everybody enjoys peace and prosperity. (https://www.undp.org/sustainable-development-goals)

52 Classification of sustainable activities within the European Union's "Action Plan for Sustainable Finance," specifically in EU Regulation 2020/852. The primary purpose of the taxonomy is to direct investments toward environmentally -and, in the future, socially - sustainable activities.
In this regard, please see the Fourth Report on Ethical and Sustainable Finance in Europe: https://finanzaetica.info/wp-content/uploads/2021/09/4th-Report-EN.pdf

53 Investments based on environmental, social, and governance criteria (ESG is the acronym for Environmental, Social, Governance). For more on the different types of responsible investments, please see Second Part of the Second Report on Ethical and Sustainable Finance in Europe: http://base.socioeco.org/docs/2019_ethical_and_sustainable_finance_in_europe_eng.pdf

effective. Unfortunately, choices made with regard to the environmental taxonomy, and, in particular, the introduction of nuclear and gas into sustainable finance, have severely undermined the positive potential of this principle, which is in danger of being applied in a bland manner with respect to other sectors as well.
Following a product-based rationale as put forth by the regulation, the principle could be strictly applied, as "excluded" investments would have a chance to find investors in the market, as they always have; conversely, more clarity, innovation, and positive stimulus could be brought to the sustainable investment market.

After Environmental Taxonomy, A Social Taxonomy Is Being Prepared

On February 28, 2022, the "Platform on Sustainable Finance"[54] published its final report on a potential social taxonomy[55], outlining the "Platform's" proposals for incorporating social taxonomy into European sustainability legislation.
The report, unfortunately, does not provide an early indication of the real effectiveness of the "do not significantly harm" principle. In fact, any exclusions appear to be at very "high" levels of violations of standards. However, as shown by the "Banking on Human Rights" research carried out by the Centro REMARC at the University of Pisa and presented in the Fourth Report on Ethical and Sustainable Finance in Europe, it is possible to make exclusionary choices that could have significant impacts even at high levels. Ethical finance is clearly in opposition to speculation and has a clear interest in the real economy: social functions of finance itself are realised within the economic activities themselves, with regard to both the efficient allocation of resources and social and environmental impacts.
The word "speculation" never appears in the regulations framing "sustainable investments," and the time horizon and objectives of financial investments are not considered. The direct link between the pressure to maximise short-term profits and corporate environmental impacts is completely overlooked. Only a brief mention is made of the expression "short-termism"[56], reminding that one should "attenuate short-termism in capital markets"[57]. Thus, we could end up in the paradoxical situation, in the future, where a "green bond"[58] could make use of "high frequency trading"[59], short selling, or food speculation, and still be considered as a "sustainable investment." The **Report on Social Taxonomy**, at least, has the merit of dealing with governance[60], and calls for nonaggressive tax policies. It will have to be seen whether this idea will be applied in the definitions by introducing Country-by-Country Reporting[61] with exclusion of companies that also operate in tax havens, or whether less effective decisions will be adopted.

The Definitions of Social Taxonomy. What Can Be Improved in The Report?

As noted above, the work of classifying activities, which is currently underway for social sustainability, has already been done with regard to the environmental aspects. We have seen the green taxonomy come into being with a few contradictions, such as, above all, the inclusion of gas and nuclear in the taxonomy itself.
With regard to social issues, it is more difficult to define sustainable (or unsustainable) practices, mainly due to sociological and political implications. Ethical finance also has quite different approaches to the topic among the different players.
Practices such as forced labor and child labor exploitation are excluded in the Social Taxonomy proposal, but other **workers' rights**, such as safety, union rights, or fair pay, are not regulated. The choice was made to limit the social taxonomy to areas, such as decent jobs, social

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54 As a permanent expert group of the European Commission, which was established under Article 20 of the Taxonomy Regulation (EU Regulation 2020/852), the platform assists the European Commission in the development of its sustainable finance policies, particularly with regard to the further development of the EU taxonomy. Please see: https://ec.europa.eu/info/law/sustainable-finance-taxonomy-regulation-eu-2020-852_en
55 https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf
56 Focus on short time horizons by both corporate managers and financial markets, prioritising short-term shareholder interests over long-term growth of the firm. https://www.eca.europa.eu/Lists/ECADocuments/SR21_22/SR_sustainable-finance_EN.pdf
57 Please see Action 10 of the EU Commission Action Plan on financing sustainable growth: https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en
58 These are bonds whose issuance is linked to projects that have positive impacts on the environment, such as energy efficiency, clean energy production, sustainable land use, etc.
59 Buying and selling of financial securities at high speed.
60 The set of principles, rules, and procedures concerning the management of a company or institution.
61 Country-by-Country-Reporting (CbCR) is an accounting practice that requires companies to publish profits and costs incurred in each of the countries in which they operate, instead of publishing all the profits and costs incurred worldwide as an aggregate figure. By requiring companies to publish, in detail, profits by country in which they operate, Country-by-Country-Reporting is a transparency practice that allows identification of companies that move profits out of the countries in which they actually operate, to tax havens and other outlets, in order to pay less tax than they should. Country-by-Country Reporting not only reveals profit shifting, but can also discourage it.

inclusion, or healthy communities, which are the most removed from thorny political issues or that would involve different regulation of the economy. The control of **production chains** is not tackled decisively, but it will be necessary, because many economic activities can have negative social impacts on communities or workers, not only in the areas where they operate, but also and especially, in the production or supply chains. The issue of production with a view to **responsible consumption** is highlighted in the taxonomy, but in a way that currently makes it unclear whether the "do not significantly harm" principle will be rigorously applied.

It seems that **weapons** may be excluded from the social taxonomy, but it is significant that clarification has been sought on this issue.

Finally, in the Final Report on Social taxonomy, the **nonprofit world** is seen as a "crutch" to support activities with a social impact, and not as an economic actor in its own right. The role of value-based organisations, driven by clear, solid, and stable social (or even environmental) goals, is not emphasised, and new opportunities for strengthening their ability to attract capital do not seem to be on the horizon. Just as renewable energy is at the heart of green investment, so should nonprofit organisations be for social investment.

Sustainable Finance: for Whom?

A final important consideration concerns the target audience of sustainable finance "clients." The guiding principles of the regulations also explicitly refer to individual citizens, the so-called retail market. Hopefully, a significant portion of institutional and retail investors may shift to sustainable finance. This idea is shared with ethical finance, which was created precisely to provide answers to citizens' demands for responsible use of their savings. Ethical finance has implemented this concept by introducing sustainability attention into every kind of product offered and giving answers to all citizens. Ethical considerations can be embedded into any financial instrument: from checking accounts to payment systems, and investment funds. At the same time, ethical finance must be affordable for everyone, both in terms of accessibility and in terms of risk classes, even for those with only a very low risk appetite.

Unfortunately, sustainable finance products seem to have taken a different path from that expressed in the assumptions underpinning the regulation. In fact, secondary legislation rules out the possibility of doing an ESG assessment of States, and, thus, of government bonds. This fact places sustainable finance products that adopt more stringent ESG criteria (the so called "dark green funds"[62]) in a medium to high risk range. The assumptions of the social taxonomy seem to go in a similar direction, as among the most frequently cited operational instruments are social bonds and social impact bonds[63] (e.g., instruments that are not suitable for investors with low risk appetite and certainly exclude the general public). In fact, ethical banks, with a clear commitment to working on social issues, could, in themselves, be considered financial instruments within the reach of the general public. In that case, one could define them not so much as sustainable finance products, but financial intermediaries dedicated to sustainable finance, which can offer consistency on all products, even simple current accounts. The legislation, unfortunately, does not seem, at present, to be open to this possibility, with the risks of sustainable finance being left as a product that is not suitable for everyone and not as "popular" as the issues it is supposed to deal with are.

62 "Dark green funds" (according to Article 9 of SDFR) adopt more stringent ESG criteria. Please see the Second Part of the Fourth Report on Ethical and Sustainable Finance in Europe.
63 Social bonds invest in funds whose cash is reinvested in environmental projects. Social impact bonds (SIBs) are innovative positive-impact investment instruments, targeted at public benefit projects, especially through nonprofit organisations or social enterprises that provide a certain service.

3.2 THE REPORT ON SOCIAL TAXONOMY. HOW IT IS STRUCTURED AND HOW IT CAN BE IMPROVED

by **Daniel Sorrosal**, Secretary General of the European Federation of Ethical and Alternative Banks (FEBEA).

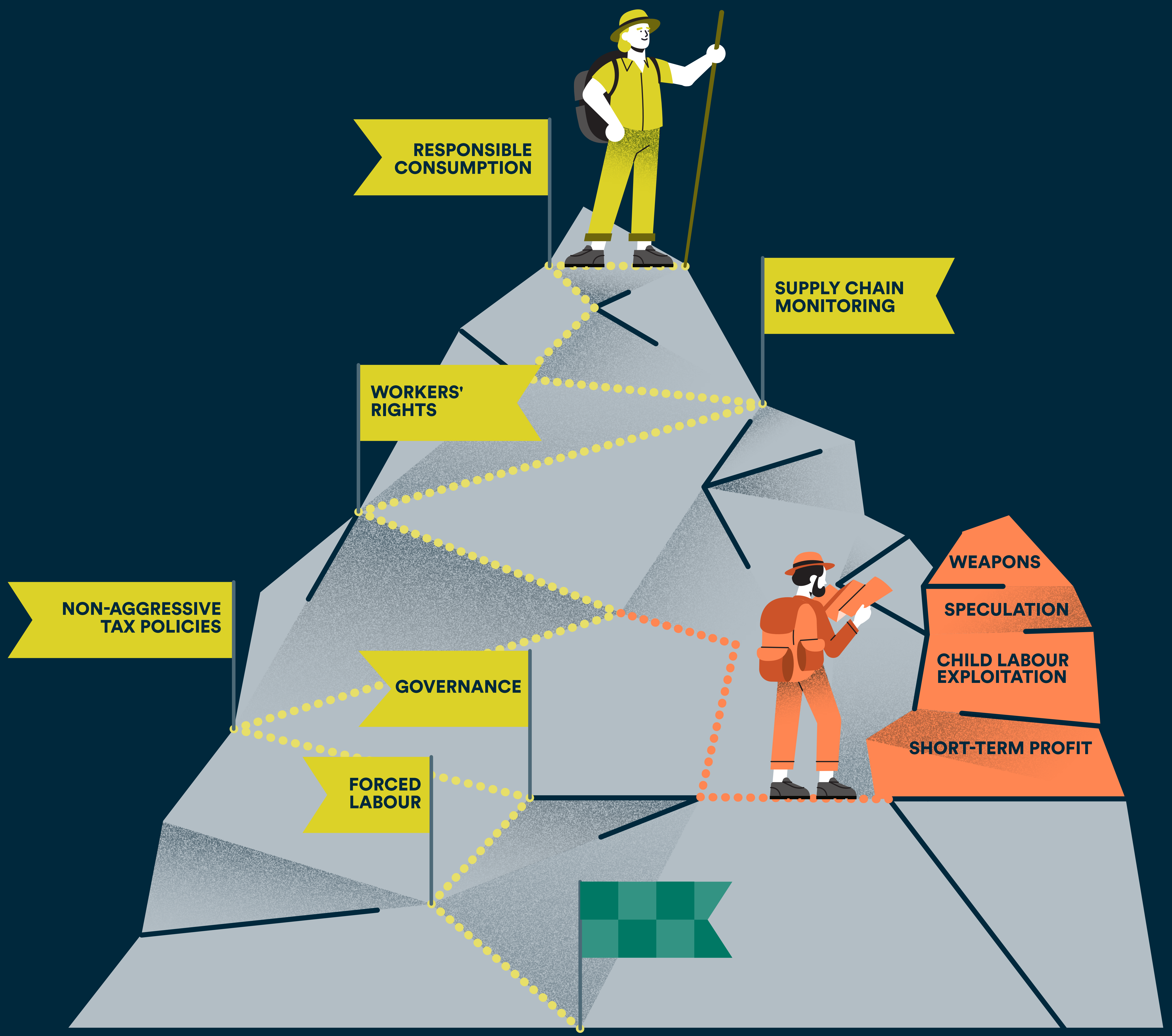
The EU decision to exclude all social aspects from the EU taxonomy for sustainable activities, reducing the concept of sustainability to pure environmental aspects, has been somewhat reversed by a new initiative to develop, in parallel, a new EU social taxonomy.
The purpose of the social taxonomy, currently under development, is similar to that of the sustainability taxonomy. It aims to develop a classification of activities considered as beneficial in social terms, prevent "social washing"[64], encourage companies to adopt social practices, and, ultimately, direct the flow of private investment towards social activities. The initial work, conducted by an independent panel of experts (the **Platform on Sustainable Finance**[65]) ended on February 28th, 2022, with the release of the Final Report on Social Taxonomy[66]. The Report then passed into the hands of the European Commission, which must now develop a formal proposal for a social taxonomy for adoption by the European Parliament and Council.

Although this initiative may still evolve, the experts' initial proposals are not very encouraging. The experts have defined the concept of "social" around **three main principles**: decent work, adequate living standards and well-being, and inclusive and sustainable communities and societies. In the absence of clear scientific criteria, as is the case with the environmental standards, the experts proposed using internationally acknowledged human rights standards as the unit of measurement for determining which activities should be considered as social. In this framework, any business that respects human rights, pays decent wages and corresponding taxes, and contributes to the welfare of citizens or the community, could be considered "social" under the EU taxonomy. Essentially, almost any company in the EU that complies with European and national labour and tax laws, and does not harm its community or the environment, could claim to be, in some way, social.

At the same time, a typical social economic organisation with democratic governance, citizens participation, engaged in social inclusion activities with vulnerable people, and with a clear mission to contribute to local development and improve society and the environment, would not be considered more social than any of the abovementioned companies. All aspects related to mission, governance, approach, target group, territory, etc. would be ignored or reduced to a matter of salaries, taxes, welfare, and some generic widespread contribution to the community/environment.
It is to be hoped that these proposals will be improved, especially in light of the Social Economy Action Plan (SEAP, described below), launched by the EU in December 2021. Otherwise, ethical banks could find themselves in a situation where their activities, mostly aimed at a social and sustainable economy, could be considered "social" in the same way as those of any traditional bank financing any industry.

64 The principle of "social washing" is much the same as "greenwashing:" pleasing the public and investors by giving a misleading image of one's company on social and human rights issues (while "greenwashing" gives a misleading image on environmental issues). https://www.eticasgr.com/en/storie/insights/social-washing
65 It is made up of 57 members and 11 observers, appointed from a range of sectors, including industry, academia, and civil society. https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/eu-platform-on-sustainable-finance-organigramme_en.pdf
66 https://ec.europa.eu/info/sites/default/files/business_economy_euro/banking_and_finance/documents/280222-sustainable-finance-platform-finance-report-social-taxonomy.pdf

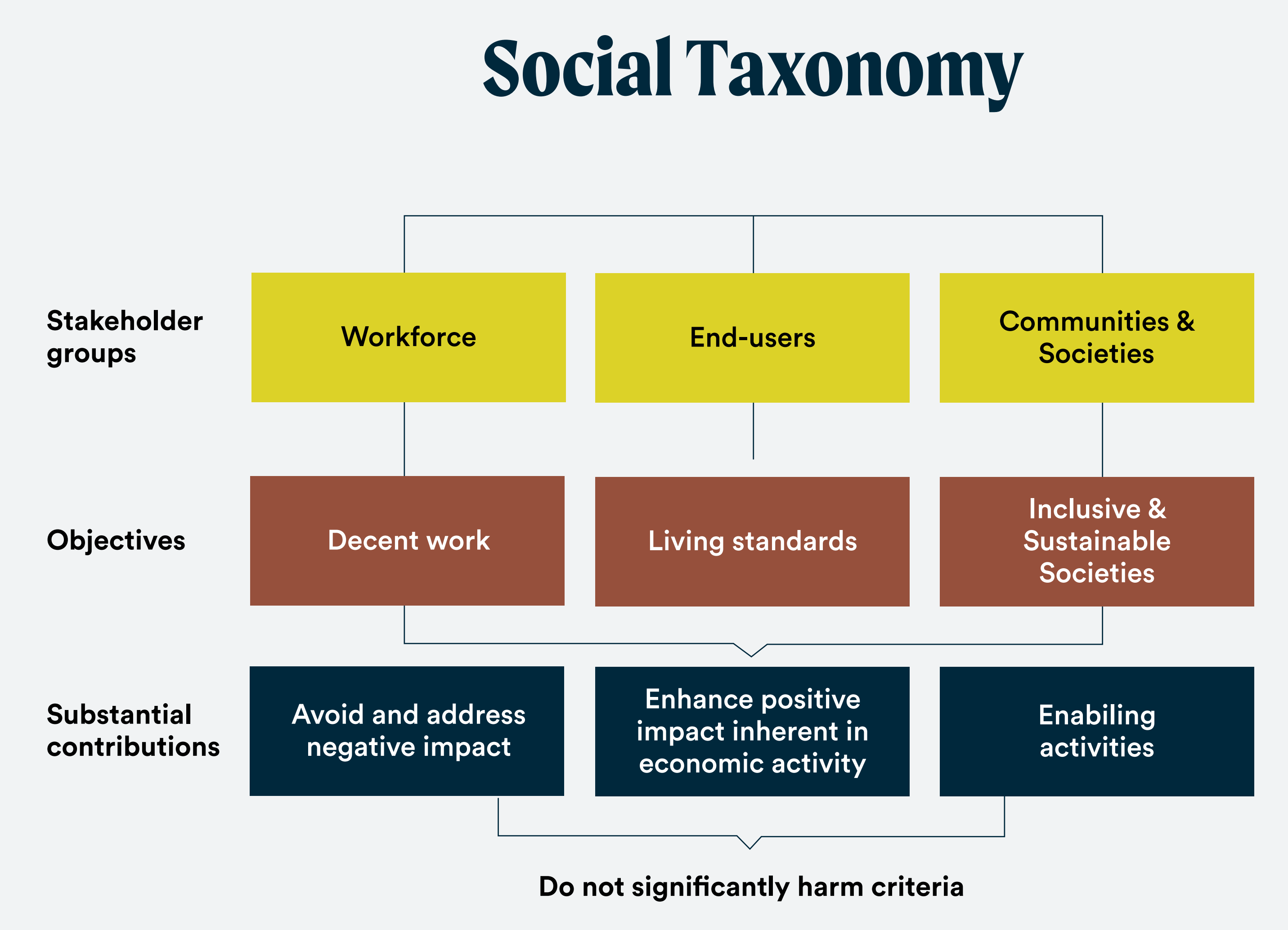
Ethical and value-based finance and social taxonomy



The EU Social Taxonomy

The structure of the social taxonomy employs the following structural concepts of the environmental taxonomy: (i) the development of objectives, which, in this case, are social; (ii) types of substantial contributions; (iii) “do not significant harm” criteria; and (iv) minimum safeguards. However, the social taxonomy deviates from the environmental taxonomy by containing sub-objectives, which spell out different aspects of the three social objectives. Each objective addresses a different group of stakeholders:
decent work (stakeholders: workers, including value chain workers); adequate living standards and well-being (stakeholders: end users); and inclusive and sustainable societies (stakeholders: communities and societies).

A social taxonomy is intended to support activities that substantially contribute to achieving social objectives, in much the same way as an environmental taxonomy is designed to support investments in environmentally-friendly activities. These criteria could help to define a common ground for comparing companies’ contributions to social objectives on an international scale. In doing this, a social taxonomy would provide investors with a much-needed instrument for supporting their investment choices.
There are two main differences between a social and an environmental taxonomy. While most economic activities are detrimental to the environment, many economic activities can be considered inherently socially beneficial, because they contribute to the creation of decent jobs, pay taxes, and produce socially beneficial goods and services. A social taxonomy has to distinguish between such inherent benefits and additional social benefits that directly contribute to the realisation of human rights, such as improving access to quality healthcare or ensuring decent jobs. While environmental objectives and criteria can be based on science, a social taxonomy has to be based on international authoritative standards of topical relevance, such as the Universal Declaration of Human Rights.



Graph 1. The structure of the social taxonomy. Source: Sustainalize

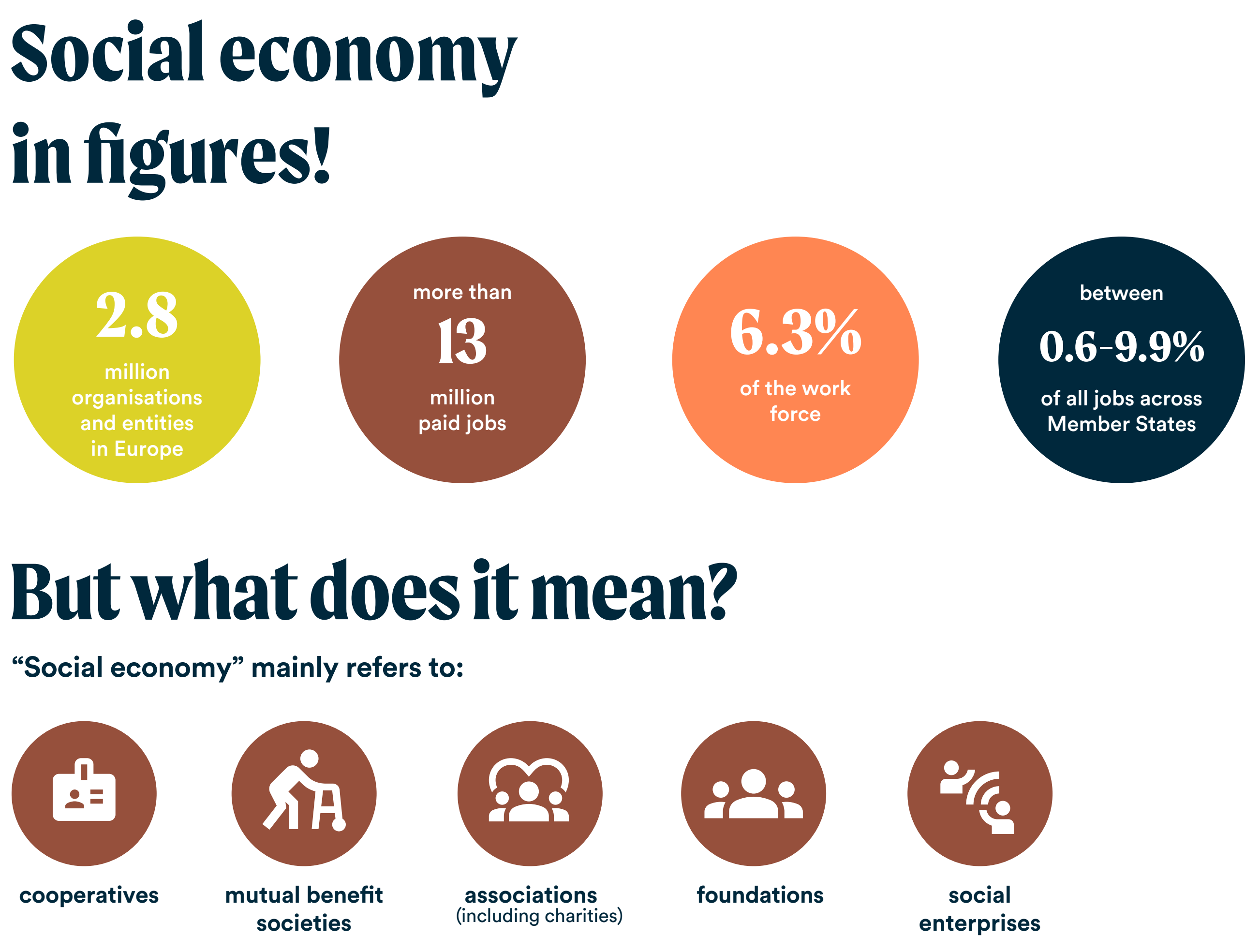
In Europe, There Is Not Only the Social Taxonomy: the SEAP and InvestEU Programmes

Notwithstanding the above, EU support for a social and sustainable economy does not end with the Green Deal and the green and social taxonomies. Two major EU initiatives will be implemented in 2022, which will contribute to the development of a social and sustainable economy until the end of the decade: SEAP and InvestEU.

EU Social Economy Action Plan (SEAP)

The SEAP is a major policy initiative aimed at promoting the development of a social economy in Europe over the next decade. SEAP includes several measures aimed at ensuring the right conditions for the development of a social economy across Europe, including improved visibility and recognition, access to financing, and access to markets.
In addition, SEAP has given the social economy a cross-cutting role that goes beyond a specific policy, with a development objective for all European countries, and serves as a virtuous concept to be exported to Europe's neighbours and partners in other continents.
The greatest asset of this plan is that, through it, Europe is promoting a social economy as a model for future economic development, based on innovation, social inclusion, and the regeneration of land and the environment. In addition, and this may be less visible, but even more important, this social economy plan connects the European institutions with the collective effort of thousands of European citizens, who, every day, contribute to building a more democratic, inclusive, and resilient Europe.

The plan involves ethical banks for two reasons. First, they are involved as organisations that are integral to a social economy. Indeed, ethical banks have cooperative, democratic and participatory organisational models with a clear and ambitious social mission to channel people's money to organisations that work to solve social problems and regenerate society and the environment.
Second, the plan is intended to promote the development of a social economy. It can therefore be a huge boost for ethical banks' economic model, since they specialise in financing social economy organisations. Thus, the more the social economy sector grows, the more ethical banks can contribute by financing this development.



Graph 2. Europe's social economy in figures. Source: European Commission[67]

InvestEU

InvestEU is a EU investment programme, designed to provide the financial means to support the implementation of many of the policies described above and, in particular, the SEAP. The agreement, recently signed between the European Commission and the European Investment Bank, will mobilise InvestEU funds for SEAP. The InvestEU fund has a broad scope, including strategic infrastructure, research, SMEs, sustainable infrastructure, social investment, and skills.
For ethical banks, InvestEU Fund resources represent a strategic opportunity to grow their loan portfolios over the next decade, take more risks, and venture into new areas of business. To do so, they can count on the **guarantees amounting to €3.6 billion made available** under the InvestEU Social Investment and Skills window. The EU has mandated that the European Investment Fund (EIF) identify the financial intermediaries who may have access to these guarantees. Both the EU and the EIF have years of experience working with ethical banks.

67 https://ec.europa.eu/social/BlobServlet?docId=24985&langId=en

InvestEU

InvestEU is one of the programmes of the EU budget (2021-2027), mobilising and channelling public-private capital to support strategic investments in various sectors across Europe, such as sustainable infrastructure, research and innovation, SMEs, social investments, and other strategic investments for the EU. It aims to mobilise more than €372 billion euro of additional investments in the 2021-27 period.

The programme consists of three pillars:
the InvestEU Fund – providing financial support and mobilising private resources;
the InvestEU Advisory Hub - providing non-financial support and building capacity for investing in EU strategic priorities of both public and private stakeholders; and
the InvestEU portal – providing an easy-access and user-friendly database of investment opportunities available within the EU.

InvestEU aims to implement the EU budget more efficiently, through a more simplified process than in the past, lowering the investment gap across various sectors. The programme gathers all EU-wide investment instruments under one roof, with common rules, and a dedicated investment committee of independent experts responsible for approving individual applications for financing. At least 30% of the InvestEU program, in line with the objectives of the European Green Deal, will support the financing of investments that contribute to the EU climate goals.

How will the InvestEU fund work?

The Fund will mobilise public and private investment through an EU budget guarantee of €75 billion that will back the investment projects of implementing partners, such as the European Investment Bank (EIB) and others, and increase their risk-bearing capacity, lowering the risk of their investment portfolios.
The InvestEU fund will support operations through five policy windows: sustainable infrastructure: €20 billion;
research, innovation, and digitalization: €10 billion;
SMEs: €10 billion;
social investment and skills: €3,6 billion; and
Strategic European investments: €31 billion.

Conclusions

All European policies and instruments outlined above have already been adopted or are in the process of formal adoption. Together, the Green Deal, green and social taxonomies, SEAP, and the InvestEU fund act as a development factor that will surely boost the growth of ethical finance in Europe.

However, there is no hiding from the fact that the war in Ukraine could turn everything upside down. The combined impact of rising energy prices, sanctions against Russia, and a growing refugee crisis are resulting in an unprecedented rise in inflation, a more than likely economic recession, and a growing humanitarian crisis, with millions of refugees reaching the EU.

In this context, and should this situation continue for a prolonged period, it is foreseeable that the EU and its Member States may abandon, or postpone, their sustainability priorities, and focus on more pressing problems.

It is still too early to tell what the impact of this new crisis will be on ethical and sustainable finance. Taking the past as an example, ethical banks have proven to be resilient and able to cope with the financial crisis, the sovereign debt crisis, and the Covid-19 crisis.

While the current situation may reduce, to some degree, their growth potential in sustainability investments, it may also increase the need for more social investments. Therefore, it is possible that, once again, ethical banks will emerge stronger from this new crisis.

- Exclusion criteria only for substantial violations
- Risk of downward levelling of activities considered to have positive social impact
- The issue of speculation is not addressed
- Thorny political issues, as well as concerns regarding distortions of the current economic system, were avoided
- The issue of speculation is not addressed
- There is not a clear position on weapons
- The nonprofit world is seen as a “crutch” and not a full-fledged economic player

- Even exclusion because of substantial violations could have significant impacts
- Corporate governance is taken into consideration
- Non aggressive tax policies are called for
- The social taxonomy becomes more effective when viewed within a set of European interventions in favour of a social economy

Graph 3. Report on Social Taxonomy. Positive and negative aspects observed by Banca Etica and Febea.

Will the social taxonomy affect the arms industry? A case study in Germany.

In early February 2022, just before the “Final Report on Social Taxonomy” was published, panic spread in the arms industry in Germany, or so it seemed. “Green taxonomy will be followed by ‘social’ taxonomy, the EU wants to divide the ‘good’ economy from the ‘bad’ economy. The arms industry, in the midst of the Russian crisis, could be particularly affected,” wrote Handelsblatt, the leading business newspaper in the country. Defence industry companies, they said, would especially fear a considerable increase in their debt costs. In fact, the list of activities defined as socially harmful by the taxonomy could have included “not only internationally banned weapons systems, such as toxic gases, landmines, and cluster munitions,” but also “investments in other arms that can be easily used by child soldiers, for example, or exported to conflict areas.” A concept – it was said – that would have allowed for a broad interpretation and could have led to financing difficulties for all arms manufacturers.

Handelsblatt pointed out that it had obtained this information from a confidential European Union document. For a couple of weeks, controversy flared up, and leading figures in the national arms industry were headlines in the newspapers. In the business weekly WirtschaftsWoche, the CEO of German arms manufacturer Rheinmetall, Armin Papperger, voiced his concerns: “It seems that all companies that generate more than 10% of their revenue by selling arms could be considered ‘socially harmful.’ We are already starting to have funding problems in EU countries.” BDI (the Bundesverband der Deutschen Industri, the Federation of German Industries) issued a statement, where it called for the EU to declare only internationally banned weapons unsustainable. In principle - according to BDI - the arms industry should even be part of the activities considered as sustainable by the EU, “because it contributes to ensuring peace, freedom, and democracy in Europe.”

Then, war broke out in Ukraine, and no one talked about social taxonomy anymore. On the stock market, arms manufacturers’ shares skyrocketed, and orders flew in. Suddenly, the European Union was no longer a threat, but a valuable ally. The prospect of having criteria as restrictive as those feared by the arms industrialists within the taxonomy began receding more and more every day, provided that such an option was ever really on the table (please see, below, the interview with Antje Schneeweiß).

3.3 THE INTERVIEW

«With regard to social taxonomy, the European Commission is not ambitious enough, but the course is now set»

How did the Final Report on Social Taxonomy come about, what are the next steps, and how can it be improved? We asked Antje Schneeweiß, rapporteur of Subgroup 4 (on extension of Taxonomy to social objectives) of the EU Platform on Sustainable Finance, which worked on the Report. Antje is co-president of AKI, the German Working Group of Church Investors.

What do you think is missing from the Final Report on Social Taxonomy?

We need to be more specific about criteria, especially with regard to "social products and services" (health products, social housing, or public transportation, Editor's note). There is a lot of work to be done, but we would ask housing experts or those who work with homeless people, for example, to help us develop the criteria. We did not have time to develop specific criteria, and it was not our mandate, either. However, we were not influenced or held back by anyone. These issues were simply not within the scope of our duties.

What are the key points of the Report?

The Report is based on three social goals: decent work, adequate living standards and wellbeing for end users, and inclusive and sustainable societies. Two types of substantive social contributions are associated with the goals: avoiding and addressing the negative impact, and enhancing the positive impact inherent in economic activity. The third step will be to select the sectors which are most relevant for these two types of social contributions. Therefore, it will be necessary to find a criterion for selecting the most relevant sectors for each of the three objectives.

Are there also sectors that should be excluded?

We were very careful about this. In Chapter 8, we made some suggestions, and we highlighted that certain sectors could be excluded because of specific activities that are dangerous to human health (such as tobacco, Editor's note), or because of products that have been banned by the UN, such as the weapons banned by UN conventions.

There has been a great debate about weapons and social taxonomy in the German press... (Please see the BOX)

There have been many discussions with regard to the defence industry. For some, this industry should be excluded, while, for others, it should be considered as "social." In the end, we placed it in a neutral area. Arms may be considered as something inevitable, as is currently the case in Ukraine. On the other hand, if we want to define arms as "social," then Russian tanks in Ukraine would also be defined in the same way. Any kind of armament may be used for good or for evil; that is why we considered these products as neutral.

Such a decision is consistent with our approach to building a social taxonomy on internationally-agreed norms and principles, and, in this framework, armaments have never been labelled as positive. Indicator 16.4.2 also explains that SDG 16 "Peace and Security" may be achieved by destroying illicit weapons.

Reading the Final Report, we got the impression that you chose to limit the social taxonomy to issues, such as decent work, living standards, and inclusive societies, which are actually far removed from thorny political concerns that are crucial today. These kinds of issues would imply a different regulation, and a reform of the current economic system. How do you respond to this?

This is an important observation but, again, we need to think about what the Report is intended to be. A taxonomy is a classification of economic activities. We have established that a company that implements very ambitious human rights processes in at-risk sectors, or that certain social products and services, that is, products and services for basic human needs, may be called "social."

One example would be retraining employees in industries that are affected by the green transition or by digitalization, such as the automotive industry. In this case, we said: there is a real danger of people losing their jobs, and companies should make an extra effort to train people instead of firing them. If companies did this, if they implemented these processes, that would be a "substantial social contribution." It would be something that is above average.

Another example is a minimum wage in very low-wage sectors, such as the garment industry. A living wage should be the norm, but this is often not the case. If companies in these sectors make an effort to pay a minimum wage, while other companies, in general, do not do the same, we can call it a "substantial social contribution."

It seems that, in the report, the nonprofit sector and grassroots organisations and NGOs are viewed as a "crutch," and not as key economic players. Actually, just as renewable energy is at the heart of green investments, nonprofit organisations should be at the heart of social investments, and not simply an adjunct. What do you think about this?

Once again, I think that the problem is mainly structural, because the taxonomy is a tool for investors, and we had to consider where people actually invest. I think that, at some point, grassroots organisations were included. We specifically included microfinance as a social activity, but that is the only instance. We had to link the taxonomy to investment, which is why we included microfinance. On the other hand, you cannot invest in NGOs.

Let's talk about taxes and fiscal justice. Have you seen any progress in this regard?

Taxation is addressed under the minimum social safeguard clauses of the taxonomy. These clauses are based on the OECD guidelines for multinational corporations, which include taxation. At the end of the day, it is not easy to include taxation as an objective in the social taxonomy; one cannot easily assess the substantial social contributions of certain tax behaviours. That is the reason why taxation should be included in the minimum safeguards.

What happens now with the social taxonomy? What are the next steps?

First of all, by the end of this year, the European Commission will provide its own report on the social taxonomy and will also explain how it intends to move forward. I expect the timeline to be long, however.

Why is that?

Considering the problems related to the green taxonomy, and with many unresolved problems with the social taxonomy, it may take some time before the latter is implemented. Furthermore, the European Commission does not seem to be ambitious enough regarding the social taxonomy. However, the course is now set. Sustainable investing is defined as ESG investing, meaning that it meets environmental, social and governance criteria. An environmental taxonomy is now in place. Without a social taxonomy, only green investments may be officially considered sustainable though. In the long run, this is not sustainable. Therefore, the adoption of a social taxonomy, which takes social criteria into consideration, will be inevitable in the long run.

Antje Schneeweiß,
relatrice del Sottogruppo 4

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