

For debate in the Standing Committee — see Rule 15 of the Rules of Procedure

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The role of ethical and solidarity-based financing and responsible consumption in social cohesion

Report
Social, Health and Family Affairs Committee
Rapporteur: Mrs Gratiela Denisa IORDACHE, Romania, Alliance of Liberals and Democrats for Europe

Summary

Ethical and solidarity-based financial mechanisms can contribute to social development in a number of ways e.g. by involving vulnerable social groups in economic processes at micro level in order to develop activities for self-employment or by encouraging financial institutions' responsibility to focus on the ethical reinvestment of saving funds.

In a number of European countries the social and solidarity-based economy is being seen increasingly as a necessary component in the economic and entrepreneurial diversity of our societies.

The Rapporteur stresses the distinct importance of ethical, solidarity-based citizen involvement in the economy as an important prerequisite for social development and cohesion. At the same time, she underlines the importance of dialogue and collaboration between the public authorities and socially committed grassroots initiatives.

In this regard, the Rapporteur welcomes the activities of the European dialogue platform on ethical and solidarity initiatives, a Council of Europe initiative (since 2004) to promote a dialogue between public authorities and civil society.

A. Draft resolution

1. Europe's policies on social protection and social inclusion face major challenges. Global competition, the impact of new technologies and an ageing population shape the long-term policy context; weak growth, high unemployment and persistent inequalities need to be addressed in the short term.
2. Public authorities at national, regional and local level, especially in western Europe, have long recognised the existence and relevance of numerous forms of citizen commitment in the economy such as ethical use of financial resources (ethical finance) or responsible consumption initiatives (fair trade). In a number of European countries the social and solidarity-based economy is being seen increasingly as a necessary component in the economic and entrepreneurial "biodiversity" of our societies. While these civil society initiatives do not constitute an alternative development model in themselves, they are helping to reshape systems of regulation and governance, production and consumption.
3. The Parliamentary Assembly acknowledges the distinct importance of ethical, solidarity-based citizen involvement in the economy as an important prerequisite for social development and cohesion. At the same time, it underlines the importance of dialogue and collaboration between the public authorities and socially committed grassroots initiatives. In this regard, it welcomes the activities of the European dialogue platform on ethical and solidarity initiatives, a Council of Europe initiative (since 2004) to promote a dialogue between public authorities and civil society.
4. Ethical and solidarity-based financial mechanisms can contribute to social development in a number of ways, e.g. by involving vulnerable social groups in economic processes at micro level and thus decreasing the unemployment rate or by encouraging financial institutions to focus on the ethical reinvestment of saving funds. Solidarity-based microfinance initiatives may respond directly to social needs and emergencies by providing funds for activities targeting areas in difficulty or persons who are excluded or in danger of becoming so, such as the unemployed, recipients of basic welfare benefits and social categories experiencing problems integrating (young people, women).
5. The Assembly welcomes in this respect the introduction of some social criteria in the rating of financial institutions (the so-called Basel 2 criteria) which may lead to a greater share of ethical and solidarity-based financial instruments – also by encouraging to set up agreements with associations in order to propose micro-credits for vulnerable social groups.
6. The Assembly also recognises the importance of the activities of European financial networks committed to ethical and solidarity principles, such as *The International Association of Investors in the Social Economy (INAISE)* or *the European Federation of Ethical and Alternative Banks and Financiers (FEBEA)* that promote the implementation of social cohesion programmes by financial initiatives.
7. Considering the proven capacity of the ethical and solidarity-based financial initiatives in some Council of Europe member States to create new work places and, as a consequence, to increase social cohesion, the Parliamentary Assembly encourages member States:
 - 7.1. to recognise the authentic necessity to implement an ethical and solidarity-based finance programme in the South-Eastern European countries and to increase exchanges on good practices between countries and regions;
 - 7.2. to introduce and promote social and environmental criteria in financial products (for instance, in pension funds);
 - 7.3. to further the implementation of microcredit initiatives for vulnerable social groups;
 - 7.4. to promote the Council of Europe's European dialogue platform on ethical and solidarity initiatives.

B. Explanatory memorandum by Mrs Iordache, Rapporteur**I. Introduction****i. Financial mechanisms generating poverty and exclusion in Western and Eastern Europe****a. Micro level**

1. The traditional banking system is quite reluctant to grant credit to population at risk, therefore it excludes a part of the population from economic initiatives such as consumption or entrepreneurship. As a result, it is relatively complicated for someone suffering from a kind of “financial exclusion” to improve his or her own self either by becoming self employed or by accessing some goods that allow him or her to enter the labor market, and thus he/she is reliant on public social benefits.

b. Macro level

2. On the other hand, the financial system as a whole is generating unexpected side effects. For instance, saving money in pension funds with only financial criteria and no ethical criteria may contribute to finance weapon production, polluting companies or enterprises which do not respect ILO norms. But the worst exclusion mechanism related to the conventional financial system is the impact of short-term profit maximization by financial institutions and the consequences of unemployment. The claim for 15% of benefits growth each year by the shareholders is putting unacceptable pressure on enterprises, which are in many cases obliged to close less profitable factories or departments to save profitability.

ii. The specific role of ethical and solidarity-based finance to combat poverty

3. By choosing to save their money in the ethical and solidarity-based finance system, the citizens will choose a system not only focused on profit maximization. Such a system contributes to the development of projects run by excluded people which allows them to enter in the productive economy and avoid financing activities that are not socially or environmentally sustainable.

iii. Where are we with Basel criteria?

4. Furthermore, the recent developments in the international banking regulation standards, the so-called Basel 2 criteria, are leading to the introduction of some social criteria in the rating of financial institutions. This led credit companies to set up agreements with associations to propose microcredit to vulnerable people.

II. The concept**i. Definitions****a. Solidarity-based finance:**

5. The solidarity-based finance system is acting more at micro level, directly in relation with individuals. The main activity of the solidarity-based finance is to grant loans to vulnerable people who are carrying out projects in different fields such as developing economic activities for self-employment, either by granting micro-credit directly, or by guaranteeing the loans granted by traditional banks or finance institutions, or to associations running community or development projects, for instance.

6. Why is it called solidarity-based? The basic principle of the solidarity-based finance is the allocation of a certain percentage of the customers' savings profitability with the implicit agreement of the customer to grant micro-credit loans or other forms of economic support. There is a solidarity-based relationship between the customer and the beneficiaries via the action of the bank. Furthermore, the bank is giving support and assistance to the beneficiaries for them to run their project properly and to maximize the chance of success.

b. Ethical finance:

7. The ethical finance system is intended more specifically to work at a macro level. It is based on an ethical approach of classic finance, avoiding investments in some specified areas of economies or countries such as weapon industry, tobacco, polluting chemicals, or in non democratic countries or in companies convinced not to respect the human, labor and social rights. The aim of the ethical finance system is still to maximize profitability but giving the choice to customer to decide where their money will be invested.

8. However, the frontier between solidarity-based finance and ethical finance is not always very clear and depends on cultural and linguistical contexts. In Italy, for instance, solidarity-based is a concept which is also used by the mafia so that it is able to create confusion and the used name is ethical finance for all levels of intervention.

ii. Advantages

9. Governments could find advantages in supporting solidarity-based finance at two levels:

- First, it is a complement to social inclusion schemes, as it allows people living on benefits to run their own economic activity and to shift from "richness consumers" to "richness producers".

- Second, ethical finance is a more democratic option for the investment of one's money because it allows the choice between a system where the destination of the money is not known and a system where one knows that his money will not contribute to undesirable financial activities (and more democracy should always be considered as a gift for governments).

a. Community level and local development

10. Solidarity-based finance focuses mainly on proximity relations between savers and beneficiaries in the way that they are financing local projects with local money. It contributes to create social links and social cohesion.

b. Financial system

11. Ethical and solidarity-based finance can be seen as an advantage for the financial system itself because it is a reasonable approach of finance, not only based on profits and profitability for shareholders but rather on the use of the money, taking into account economic, social and environmental criteria. Furthermore, it allows access to credit to a broader scope of people, which enlarges the opportunity of banks to sell credits.

12. Finally, it gives better conditions in debt repayment as, if it does not grant loans directly, it guarantees the loans contracted, which gives a smoother position the debtors. Considering the hardest case of being over indebted, solidarity-based finance can also be seen as an opportunity to support over indebted households while lending personal micro-credit with assistance and support.

iii. Level of development (see tables in appendices)

III. Examples of good practices and results

i. INAISE (The International Association of Investors in the Social Economy)

13. INAISE is a global network of socially and environmentally oriented financial institutions.

14. Created in 1989, INAISE has grown rapidly as the movement of social investors and gained importance, volume and visibility in a number of European and non-European countries. Through INAISE, social investors from Norway to South Africa and from Costa Rica to Japan have been joining forces to exchange experience, disseminate information and demonstrate to the world that money can actually be a means to achieve positive social and environmental change.

15. INAISE members, through their investment policy, foster and promote the development of organizations and enterprises:

- Environment and sustainable development: renewable energy such as wind, solar and hydro-energy; energy efficiency; organic agriculture, food processing and retailing; nature conservation; eco-building; clean technology;
- Social economy: co-operatives; community enterprises; employee participation; employee buy-outs; micro and small enterprise creation and development, especially among unemployed, migrants, women;
- Health-care: health centers; community care; clinics and hospitals; programs for the disabled; preventive therapies;
- Social development: social housing; community housing; employment generation; social services, community transport; charities; community groups and the voluntary sector;
- Education and Training: school buildings; training courses; organizational development; alternative schools;
- North-South: fair trade; small-enterprise start-ups through micro credit programs; small business training and counseling; crafts, farming, small scaled-industries;
- Culture and arts: artists, exhibitions, theatre; film; dance; local radios.

ii. FEBEA (European Federation of Ethical and Alternative Banks and Financiers)

a. Federating to concretely develop a solidarity-based European finance

16. Created in 2001, the European Federation of Ethical and Alternative Banks (FEBEA – Fédération Européenne des banques éthiques et alternatives) is an association based in Brussels governed by Belgian law. Open to member countries of the European Union as well as applicant countries, it gathers financial bank and banking institutions whose aim is to finance social and solidarity-based economies.

17. The entrepreneurs of a solidarity-based economy – whether they are the long-term unemployed creating their own businesses, farmers starting up in organic produce, or directors of insertion enterprises – all have a point in common: they often have difficulty in obtaining financing from the traditional banking system. This is where the FEBEA can help: its members can offer these business managers their expertise and financing.

b. Creating financial tools for solidarity, together

18. The FEBEA is a place for exchange, sharing experiences and creating common tools to encourage the development of financial solidarity in Europe. Available to all FEBEA members who wish to participate, these tools are very diversified: guarantee funds (“Solidarity Guarantee”), investment fund (“Solidarity Choice”) and also financing companies (European Ethical and Alternative Financing Company), etc.

19. All of these means have one common objective: ultimately, to create a refinancing bank for ethical and alternative financial institutions on a European scale.

c. The platform and the internet work

20. Since 2004, the Council of Europe (DGIII) is running a European dialogue platform on ethical and solidarity initiatives in line with the Council of Europe Strategy for Social Cohesion which states that a society is cohesive and human rights are better protected when the stakeholders have a feeling of shared responsibility. Drawing on this idea of shared responsibility, the Council of Europe is currently promoting a dialogue between public authorities and civil society.

21. Therefore, the objective of this platform is to promote a dialogue between public authorities, represented within the Council of Europe by the Committee of Ministers, the Parliamentary Assembly and the Congress of Local and Regional Authorities of the Council of Europe, as well as other intergovernmental bodies and the representatives of citizens' initiatives, in particular finance based on solidarity, responsible consumption and other forms of citizen commitment in the economy which contribute to social cohesion. The Liaison Committee of the INGOs enjoying participatory.

22. The activities of the platform are mainly based on:

- observatory work, gathering all the relevant information, practices and legislations to provide good awareness of the situation,
- promoting exchanges of information and good practices between countries,
- analyzing certain specific themes and developing proposals and recommendations on these themes.

23. The platform is run by a steering committee composed of a representative of all the Council of Europe institutions as well as representatives from solidarity-based economy networks.

24. Those networks have expressed the need to set up a cross sectorial body in order to work together on the main objective of the platform, which is fighting poverty and social exclusion.

25. At the end of every year, a seminar is held in partnership with the autonomous province of Trento (Italy) to present the outcomes of the work and to share the knowledge and different relevant topics, like household over-indebtedness, information and awareness raising, partnership methodologies, and so on.

IV. The impact of this new concept

26. The impact of this concept has multiple aspects.

27. First, we can try to assess the social impact of this concept: using the economy through citizen initiatives as a tool of social policy. This is interesting in itself. By changing the finality of a pure economic scheme, you can turn it into a social policy scheme aimed at local, community and personal development as well as in a mainstream policy on social and environmental rights.

28. Secondly, the financial impact is also to be considered as the profitability performance of ethical finance is comparable to "usual" finance at macro level, and at micro level it broadens the accessibility of financial tools. Economically, the contribution of ethical and solidarity-based finance in year 2000 (invested amounts) was 400 million euros in Great-Britain, 130 million euros for Banca Etica in Italy and almost 7,5 billion euros in USA. Within the 400 million invested euros in Great-Britain, 200 million were devoted to support community development and 131 million to deprived community. The economic and social impact of solidarity-based finance on community support and development seems to be more than obvious.

29. Another important outcome of ethical and solidarity-based finance is the link to be made with the development of responsible consumption and sustainable development. Some financial boundaries still exist between responsible consumption projects and solidarity-based financial institutions, especially in Italy. Furthermore, ethical finance can itself be considered as responsible consumption as it takes into account social and environmental criteria.

V. How to approach an action plan

30. The situations in eastern and western Europe are quite different. In one case, you have established companies, institution and networks and in the other, an almost "virgin" land. It seems obvious that the needs are not the same in each case. In western Europe, there is a need for recognition of the impact of solidarity-based finance in terms of social/societal and economical outcomes and in the eastern Europe, there is a need for an alternative banking system allowing vulnerable people to access the financial market. However, both are related; if there is a recognition of the importance of those activities and support from public authorities, it will also allow the spreading of those good practices in eastern Europe and at the same time open an alternative financial market there.

31. It is also important to raise the awareness of European citizens that they can act in a democratic way in their everyday life, by making a choice between traditional finance system and this alternative, and therefore support the local and community development as well as the respect of international social, labor and environmental standards.

32. The role of all international institutions is important in that perspective, and a cooperation between them would give legitimacy to this alternative finance system as a complement to the traditional system and recognize a citizen-based complement to public inclusion policies.

33. The support of local authorities is also very important because, as solidarity-based finance is basically aimed at local level, the action undertaken should be done in partnership with local authorities as guarantors of the project to maximize the opportunities of success.

VI. Why the Council of Europe should be implicated

34. The role of the Council of Europe could be:

- recognizing the interest of ethical finance
- facilitating its recognition and favorable policies
- recommending concrete steps that should be taken by the governments
- promoting dialogue and proposal through the European dialogue platform on ethical and solidarity initiatives.

VII. Recommendations

- Recognition of the role of solidarity-based finance
- Maximum credit rate (example of France)
- Introduction of social and environmental criteria in financial products (for instance in pension funds)
- Social cohesion European funds with citizens as contribution.

Appendices

a. Solidarity-based financial tools classification

	Investment per project	Created jobs per projects	Investment per created jobs
Microcredit	from 2 000 to 6 100 € +/- 4 000 € (average)	from 1 to 4,3 +/- 1,8 jobs (average)	from 1 300 to 6 100 € +/- 2 900 € (average)
Small credit	from 15 000 to 100 000 € +/- 34 000 € (average)	from 2 to 17 +/- 7,1 (average for the total) +/- 14 (average for social enterprises)	from 1 200 to 8 000 € +/- 4 100 € (average)
Average credit	from 30 000 to 160 000€ +/- 75 000 € (average)	from 1 to 7,8 +/- 3,7 (average)	from 19 000 to 25 000 € +/- 25 000 € (average)

b. Evolution of the activity of solidarity-based finance in France (number of projects)

	1997	1998	1999	2000	Variation 1997/2000
Guarantees accorded <i>by France Active</i>	195	276	270	301	54%
Contribution in fixed-capital (SIFA, FCP IE, paid-in contracts)	30	7	35	66	120%
Honor loans (territorial funds)	140	122	254	242	72%
ADIE loans	1279	1491	1636	2844	122%

c. Evolution of the total Socially Responsible Investment funds assets in Europe

Date	Capitalization (millions Euros)
1992	426
1996	1439
1998	2284
2001	3851

Source : IMA Unitrack Database

FIG 2 : Number of Socially Responsible Investment funds by country in 2000

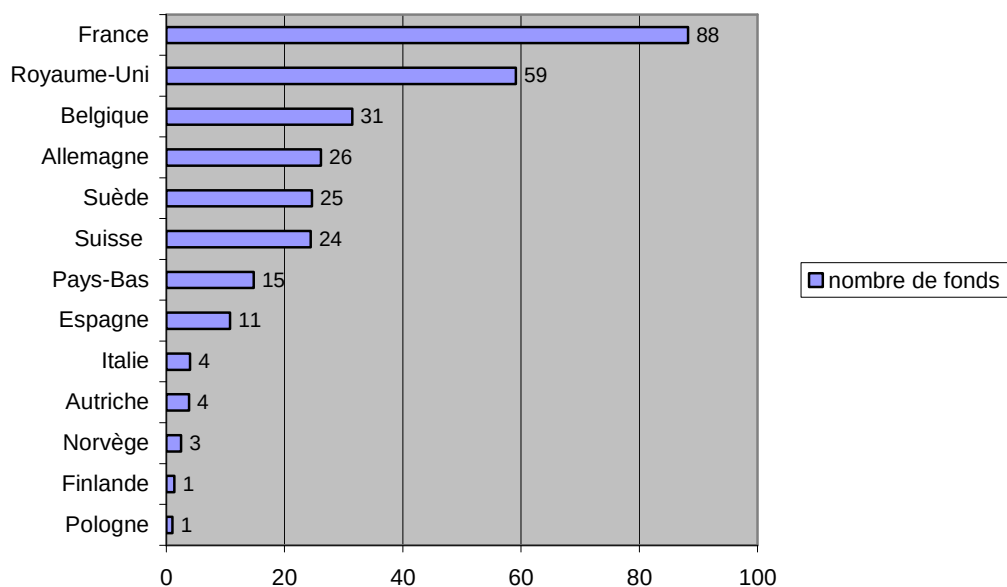
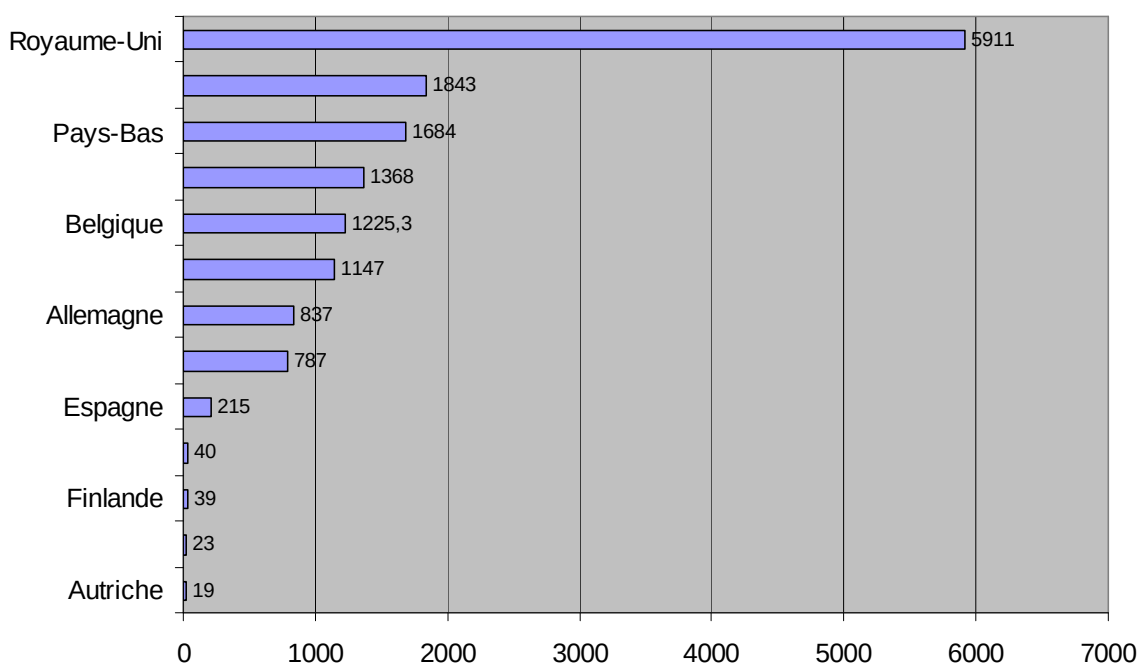
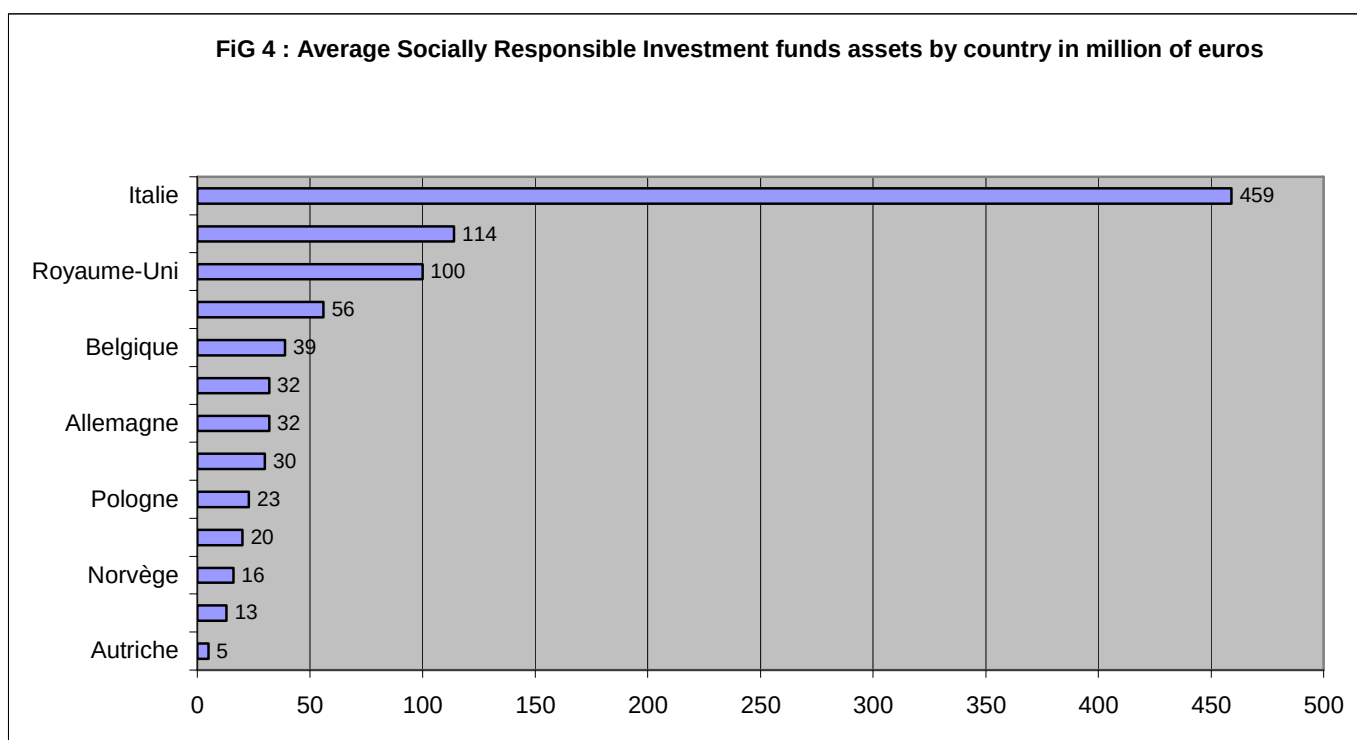


FIG 3 : Socially Responsible Investment funds assets in 2000 in Millions of euros





d. Solidarity-based finance activity indicators in some countries

Country/initiative	Amount in million €
France	
Raised savings	
NEF	44
Dépôt caisse solidaire NPC	4,5
Coopérateur caisse solidaire NPC	0,2
Actionneurs d'autonomie et solidarité	10,6
Total	50,3
Loans granted	
ADIE	10,7
NEF	12,4
Caisse solidaire	2,1
Total	25,2
Participation	
Autonomy and solidarity	1
France active paid-in contracts	0,2
Investment from "FCP Insertion emploi"	3,6
Contribution of the France active investment company	1,6
Total	6,4
United Kingdom	
Social or community development bank	200
Microcredit and deprived community aimed lendings	131,1
Venture capital	73,8
United States	
Social or community development bank	3278,7
Microcredit and deprived community aimed lendings	3762,3
Venture capital	339,3
Italy	
Banca Etica : lendings	56,8
Banca Etica : raised savings	88,8

source: ADIE

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Members of the Committee: **Mr Marcel Glesener** (Chair), Mrs Christine McCafferty (1st Vice-Chair), **Mrs Helena Bargholtz** (2nd Vice-Chair), **Mr Cezar Florin Preda** (3rd Vice-Chair), Mr Vıcen Alay Ferrer, **Mr Jorodd Asphjell**, Mr Miguel Barceló P  rez, Mr Miroslav Beneř, Mr Andris Berzinř, Mr Jaime Blanco, Mrs Raisa Bohatyryova (alternate : **Mr Oleksandr Stoyan**), Mrs Monika Br  ning, **Mr Saulius Buceviius**, Mrs Sanja ekovi, **Mr Igor Chernyshenko**, **Mr Dessislav Chukolov**, **Mrs Minodora Cliveti**, Mr Imrie Czinege, Mrs Helen D'Amato, Mr Dirk Dees, Mr Stepan Demirchayan, Mr Karl Donabauer, Mr Ioannis Dragassakis, Mr Claude Evin, Mrs Sonia Fertuzinhos, **Mr Paul Flynn**, Mrs Margr  t Frimannsdottir, Mrs Doris Frommelt, Mr Renato Galeazzi, Mr Jean-Marie Geveaux, Mr Stepan Gl  van (alternate : **Mrs Gratiela Denisa Iordache**), **Mr Igor Glukhovskiy**, Mrs Claude Greff, Mr Ali Rıza G  l  ek, **Mr Michael Hancock**, Mrs Olha Herasym'yuk, **Mrs Sinikka Hurskainen**, Mr Ali Huseynov, Mr Fazail Ibrahimli, **Mr Mustafa Ilicali**, **Mrs Halide Incekara**, Mr Denis Jacquat (alternate : **Mr Alain Cousin**), **Mrs Krinio Kanellopoulou**, Mr Andr  s Kelemen, Mrs Katerina Konen  , Mrs Marie-Jos   Laloy, Mr Slaven Letica, **Mr Jan Filip Libicki**, Mr Gadzhı Makhachev, Mr Bernard Marquet, Mr Ruzhdi Matoshi, Mr Paddy McHugh, Mrs Ljiljana Milievi, Mr Philippe Monfils (alternate: **Mme Fatma Pehlivan**), **Mr Donato Mosella**, Mrs Nino Nakashidz  , **Mr Conny   hman**, **Mrs Vera Oskina**, Mrs Lajla Pernaska, Mrs Adoraci  n Quesada (alternate : **Mrs Bianca Fern  ndez-Capel**), Mr Walter Riester, Mr Andrea Rigoni, Mrs Maria de Bel  m Roseira, Mr Alessandro Rossi, Mrs Marlene Rupprecht, Mr Fıdias Sarıkas, Mr Walter Schmied, **Mr Gianpaolo Silvestri**, Mr Hans Kristian Skibby, Mrs Anna Sobecka, Mrs Darinka Stantcheva, **Mrs Ewa Tomaszewka**, Mr Oleg Tulea, Mr Alexander Ulrich, Mr Milan Urb  ni, Mrs Ruth-Gaby Vermot-Mangold, Mr Aleksandar Vui, Mrs Angela Watkinson (alternate : **Mr Nigel Evans**), **Mr Bart van Winsen**, Mrs Gisela Wurm, Mr Victor Yanukovych (alternate : **Mr Ivan Popescu**), **Mrs Barbara   gajner-Tavs**, N.

N.B. The names of the members who took part in the meeting are printed in **bold**.

Head of the Secretariat: Mr Geza Mezei

Secretaries to the Committee: Mrs Agn  s Nollinger, Mrs Christine Meunier