European Answers to the Financial Crisis:
Social Banking and Social Finance
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From 2007 to 2010, a financial and economic crisis gripped the United States, Europe and the world. 7 million Americans and 2 million Europeans lost their jobs, and 10 million were pushed below the poverty line. Thousands of families lost their homes, and many lost their savings. A global recovery from the effects of the crisis will take years.

As a result of the crisis, social banking and social finance have become important trends among bank customers in Europe. In fact, European social banks are the big winners of the crisis, growing by more than 20% per year and doubling their assets between 2007 and 2010. The crisis transformed social banks from niche institutions to large, publicly visible players. This success is due to the conviction of a growing number of bank customers in Europe that social banking is a less speculative and more responsible, ethical, and community-oriented way to deal with money than traditional banking. In the aftermath of the crisis, many see social banking as less egoistic and more caring for the overall progress of society than mainstream banking. Thus, social banking may provide important lessons for the banking and finance sector as a whole, in order to avoid further crises in the future.

In order to see what can be learned from social banking, let us first take a look at what social banking is; second, review the most important social banks today; and third, examine lessons from the success of social banks.

What is Social Banking?

Social banks define themselves as “banks with a conscience”. They focus on investing in community, providing opportunities for the disadvantaged, and supporting social, environmental, and ethical agendas. Social banks try to invest their money only in endeavours that promote the greater good of society, instead of those which generate private profit just for a few. This means that social banks consider social and economic “sustainability” when making financial decisions. “Sustainable” investments and lending practices are ones that produce a better quality of life for the greatest possible amount of people, and whose effects endure over time and continue to produce a multiplicity of positive effects long after the initial investment is made.

The main difference between mainstream banks and social banks is this: While mainstream banks are in most cases focused solely on the principle of profit maximization, social banking implements the triple principle of profit-people-planet. Social banks care about making a profit, but equally for promoting human and environmental well-being. It is this “triple principle” that they follow when they decide to whom to lend money, and for what purpose. For social banks, the responsibility for the whole of society is the most important measure for a good lending practice and is more important than profit alone. This is why social banking is often called “banking for social cohesion”, or “cooperative banking”, instead of the competitive banking approach that has dominated the banking world in past decades. Banking for social cohesion means considering what money does for whom. Social banks in Europe lend money to socially responsible initiatives for much lower interest rates than mainstream banks, and donate money to people and projects that promote the greater good. Can you imagine a bank giving money as a gift, because it believes that in doing so, it is advancing the greater good of society? Social banks do!

To do this, banks must be free from pressure, and be small and flexible enough to make decisions quickly. Banks must trust their ideals and their judgement in borrowers, which is only possible if based on direct, personal relationships with customers. This is one reason that social banks refuse to become publicly traded companies listed on the stock exchange. Unlike large mainstream banks, social banks believe that this would put too much pressure upon them to focus only on maximizing profits, and to become anonymous “money machines”.

This leads us to three additional features of social banks that make them unique in the financial world:

1. Responsibility. Social banks know their customers personally. They care about mutual responsibility, and expect borrowers to use loans responsibly for the greater good. This excludes, for example, reckless speculation or other risky investments. Social banks want their money to be invested wisely and ethically. Some call this approach “soft money” or “slow money”.
2. Transparency. Unlike many mainstream banks, social banks know what is done with the money they lend to their customers. They look at the impact their investments have on the greater community – for example, if money they lend is used to harm or to protect natural environments, to exploit or to help people, to generate a better life for many or huge gains for just a few at the expense of others. Social banks provide full accounts to all their depositors of how their money is lent. This means that depositors not only earn interest but also know exactly what their money “does” while at the bank.

3. Sustainability. While most mainstream banks are focused on creating short term profit, social banks focus more on the long term effects of money. They aim to develop society, the environment and individuals, making investments in small projects that may “snowball” in to larger positive effects over time.

In summary, social banks aim to practice responsibility, transparency and sustainability. They consider the long term effect of money on the environment and the community, and about the “human outcome” of the use of money in general: whether it helps or harms profit, people, and the planet.

Which are the most important social banks today?

In contemporary Europe, some of the important financial players are social banks. Their combined assets total about 10.5 billion Euro ($14.5 billion), and continue to grow rapidly. It is expected that the overall growth rate of European social banks will remain stable at 13-15% per year in the coming years (as compared to the 1-3% forecast for mainstream banks), and that social banks will serve upwards of 1 billion people by 2020. The reason is simple: during the recent financial crisis, many customers became aware of the flaws of mainstream banks, as outlined above, and responded by shifting their assets to social banks.

The biggest social banks in Europe today are the German Gemeinschaft für Leihen und Schenken (GLS) Bank, its name meaning literally “Community for Lending and Donating” (with assets of $2.2 billion), the Dutch Triodos Bank ($6.7 billion), the Italian Banca Etica ($0.8 billion), the Swiss ABS bank ($0.7 billion) and the Danish Merkur Bank ($0.2 billion). These banks were founded throughout the 1970s (GLS bank), 1980s (Triodos) and 1990s (Banca Etica). Altogether, there are more than 600 ethical investment funds worldwide, including about 500 in Europe, and their numbers are constantly increasing.

Many of the social banks in Europe work closely together, and they increasingly cooperate with social banks around the globe. In March of 2009, twelve social banks from around the globe founded the Global Alliance for Banking on Values (GABV) in London. As the association declared at that meeting, “This Alliance is created in the belief that trends can be set to change the boundaries of mainstream finance, and contributions can be made to the growth and development of social innovation in the financial sector. The Alliance is a global alliance of innovative banking institutions, focused on delivering social finance products and basic financial services, while financing community based development initiatives and social entrepreneurs thereby fostering sustainable and environmentally sound enterprises, and fulfilling human development potential including poverty alleviation, while generating according to a triple principle: for People, Profit and the Planet”.

The GABV is the newest global joint venture of social banks, following previous initiatives from as early as 1989 by the International Association of Investors in the Social Economy, or INAISE. While GABV is an alliance of relatively larger social banks that specialize in the international financial sector, INAISE is made up of small banks, civil society groups, and local and regional community initiatives.

Academic research and educational engagement in the fields of social banking and social finance have increased in recent years, with the establishment of new institutions like the Skoll Centre for Social Entrepreneurship at the Said Business School of Oxford University in 2003 and the Institute for Social Banking in Bochum, Germany, in 2006. There is an increasing consciousness that a sound education in social banking and social finance will be a decisive step in shifting the mainstream attitude toward money and finance in a more humanistic direction. For example, the Institute for Social Banking Germany, an official project of the United Nations’ UNESCO Decade of “Education for Sustainable Development” from 2005-2014, awards globally recognized Master’s degrees (and will soon award PhD’s) in Social Banking and Finance. The goal of the project’s research and teaching is to show the relationship between money, finance, environment, culture and society in our globalized world, and to encourage people to develop alternative and progressive attitudes toward money and finance.

In the U.S., social banks existed even before their European counterparts: for example, the Chicago-based Shorebank was founded in 1973, the Wainwright Bank and Trust Cy were founded in the 1980s, and the New Resource Bank was founded in 2006. Currently, two U.S. based banks (Shorebank and The New Resource Bank)
are members of the GABV. According to INAISE, there are currently 20-30 social banking and social finance initiatives in the U.S., and their number has grown rapidly during the financial crisis between 2007 and 2010. While most U.S. social banks are smaller than their European counterparts, they are growing at a similar pace. Together, social banks in the U.S. and Europe can continue to expand and strengthen the global network of ethical finance.

**Lessons for the future**

So what can social banks teach us about the future of money of finance? In the wake of the financial crisis of 2007-10, many people have begun to seek a new, better system of money and finance.

One approach is to strengthen laws governing mainstream banking. The U.S. administration of President Barack Obama and many European governments are working to implement such laws, in order to exercise greater control over the investment practices of banks and to limit speculation. Such an approach from the outside of the banking and finance sector is certainly necessary. However, a more promising approach in the long run is to develop an entirely different type of bank, one that acts responsibly, and considers the long term effects of its lending practices. Social banks fulfill this role. They can help the global financial system develop from within by providing “best practice” examples: concrete success cases that other banks and policymakers can learn from.

Social banks are not the answer to every problem with the financial sector, and they will not be enough to solve the problems that lead to the financial crisis of 2007-2010. There are some well-grounded criticisms of social banking: that current institutions are still too small to affect global change; that they remain niche institutions, and are in some cases over-specialized; and that if the financial system as a whole followed their example, capitalism would not function as successfully as it has in the past. While these arguments should be considered seriously, social banks provide a worthwhile example of a progressive new approach to finance.

If we embrace the three goals that Nobel Peace Award Laureate and former Russian president Michail Gorbachev outlined as imperative for a better future - peace, fighting poverty and promoting global social justice and common wealth, and protecting the environment - then social banking and social finance may indeed have contributions to offer. The journalist Reihan Salam predicts that the aftermath of the recent financial crisis will result in a cultural shift in the United States (and we can predict similar changes in Europe too). If his prediction is correct, local governments, mobilized by popular support, may take on the task of building new local banking infrastructures owned by the entire community. This could “evolve into a new confidence that citizens working in common can change their lives, and in doing so can change the world around them.” Social banking and social finance can serve as a powerful instrument toward this purpose.


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