transformative social innovation theory

TSI-NARRATIVES: CREDIT UNIONS

About TRANSIT:

TRANSIT is an international research project that aims to develop a theory of Transformative Social Innovation that is useful to both research and practice. It is co-funded by the European Commission and runs for four years, from 2014 until 2017. The TRANSIT consortium consists of 12 partners across Europe and Latin America. For more information, please visit our website: http://www.transitsocialinnovation.eu/.

About this Document/ Disclaimer:

This report provides a very short summary of a full case-study report that includes in-depth case-studies of the Credit Unions movement, including the International Network FEBEA (European Federation of Ethical and Alternative Banks) and the local manifestation FIARE BANCA ETICA. Both, the full case reports and this summary, were guided by four empirical research questions based upon a preliminary conceptual framework of the TRANSIT-project. The four questions concern:

1. the overall development of the local cases and the transnational network(ing);
2. how they relate to different types of change and innovation (incl. social innovation, system innovation, game- changers, narratives of change and societal transformation);
3. how actors are empowered and/or disempowered in and by the local cases and the transnational network(ing), including topics such as governance, learning, resourcing and monitoring;
4. what are other relevant emergent issues with regard to understanding the dynamics of transformative social innovation.

This summary document focuses on the first three questions. It presents – in a highly reduced and generalised format – the interpretations of the researchers, and does not necessarily reflect the views and nuances of the initiatives and respondents themselves. For a full account of each transnational network and local case, including interview quotes and expressed nuances by respondents, we refer to the full case report, which is available via communication.transit@ihs.nl. Both the full case report, as well as this summary document, are the basis for future research activities and publications.

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1. Development of the transnational network(ing)/local manifestation

Credit unions or credit cooperatives are financial organizations that aim to provide financial intermediation services to a range of stakeholders, guided by a set of ethical principles that place social and environmental goals at the centre of their activities. They have been defined as democratic financial institutions that have ethical and sustainable development at the core of their mission, ambitions and practices (De Clerk, 2009).

The historical origins of the concept of ethical banking can be found in the second half of the 19th century, inspired by the philosophy of Rudolf Steiner, which became popular in the first decades of the 20th century with the publication of his book Towards Social Renewal: Rethinking the basis of society. Stronger development of socially responsible investments began in the 1920's in the United Kingdom (UK), with the Methodist Church; during the '60's the movement started to spread across the continent, staying related to different churches and religious groups. Developments in ethical finance in Europe were further spurred by environmental concerns and the growing mobilization of ecological and peace movements in the '70's, but it wasn't until the beginning of the '90's that they started to become well known throughout central Europe.

FEBEA is the acronym (in French) of the European Federation of Ethical and Alternative Banks. FEBEA has been registered in Belgium as a non-profit international association with educational aims. FEBEA is formed by 26 European partners based across 14 European States. The members of the network have different legal forms: ethical banks and credit cooperatives, foundations and investment companies. The federation is currently in an expansion process which aims to increase the number of their members mainly through the creation of new socially responsible financial institutions in the European countries where they do not yet exist, also responding to the recent demand of boosting new alternative ethical banks in Europe, mainly, in Eastern Europe (Croatia, Greece, Slovenia).

FIARE BANCA ETICA (in advance, FIARE) is the acronym (in Spanish) of "the Foundation for Investment and Responsible Saving". FIARE was born in 2003 as a Basque foundation (the first formal structure of FIARE) with the aim to be a financial instrument in the Basque Country for the activities of the third sector. FIARE is a non-profit private credit cooperative established throughout the whole Spanish territory. Almost 5.000 people and more than 350 organizations of all types (NGOs, cooperative federations, alternative and solidarity Economy networks, trade unions, charities, municipalities...) are members of FIARE, becoming "owners" of this new credit cooperative. Since 2005 the Spanish local manifestation, FIARE, became an associate of FEBEA, being currently a member of the board of the network. FIARE signed in 2013 a formal integration agreement with the Italian credit cooperative "Banca Popolare Etica" with the aim of creating the first (ethical)credit cooperative with two branches in two European countries.

Figure 1. Time line of the International Network FEBEA (European Federation of Ethical and Alternative Banks).

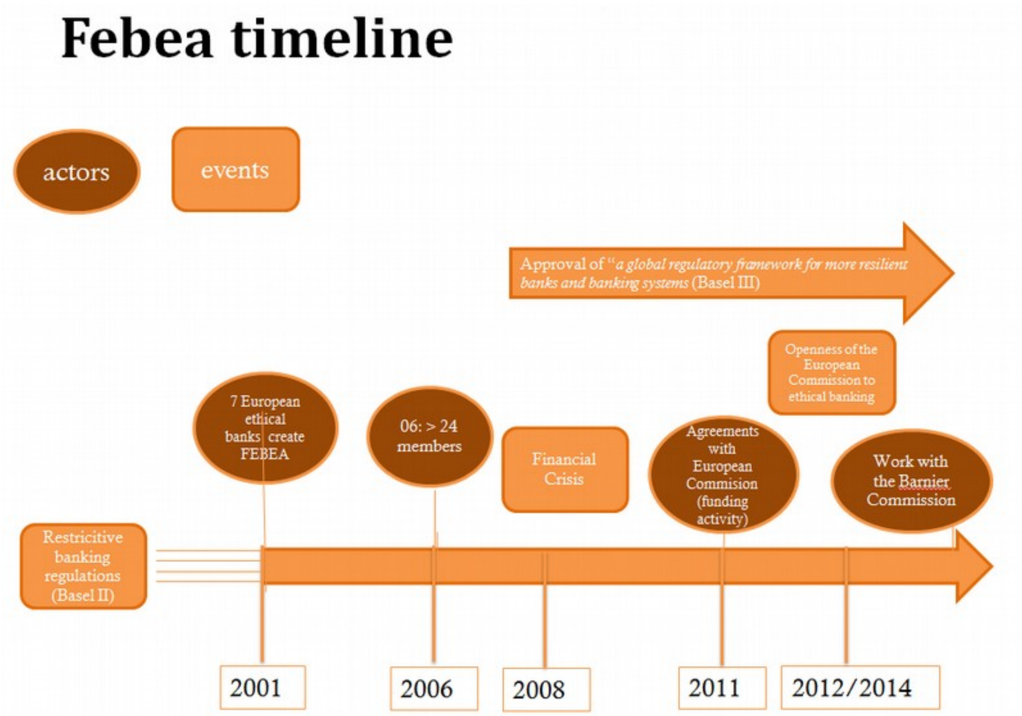
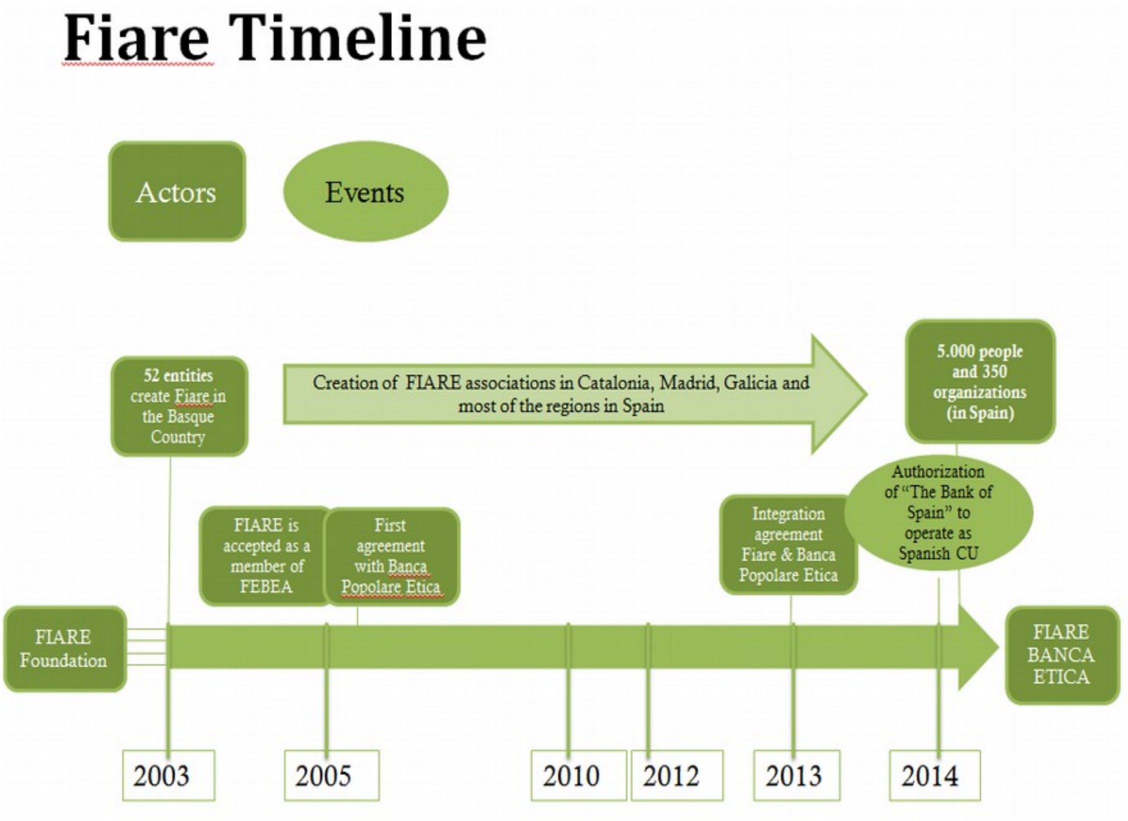


Figure 2. Time line of the local manifestation FIARE BANCA ETICA



2. Aspects of change and innovation.

The International network studied (FEBEA) and the Spanish local case-study (FIARE) share the similar philosophies (and practices) of the credit unions movement. Social innovation is directed at meeting social needs of a social group or community, trying to solve a problem better than the current alternatives (provided by the State or the private sector). Practitioners affirm that they are innovative in their internal organizations (ruled by principles of transparency, participation, democracy) as well as in banking activity or social impact assessments.

The practitioners of both initiatives mention the types of radical change that Credit Unions, as grass-roots social innovations, intend to bring to economic and financial system. They claim a change in the main objective of economic activity, from financial gain to social and environmental gains. They switch the focus from financial dependency to financial autonomy and entail a change from individual entrepreneurship to **collective entrepreneurship** (in opposition to capitalism principles). This is an important concept for the interviewees, and they consider this to be a main difference with the mainstream. Individual entrepreneurship is also encouraged by traditional banks and the capitalist system, in their view, while credit cooperatives consider that any meaningful entrepreneurship is collective. Even when a project is undertaken by a single individual, when working for the common good, it will need the cooperation of others to be taken to completion. The bank itself is a cooperative partner in any entrepreneurial effort. **Social entrepreneurship seems to be the first step for system/social change.**

FIARE and FEBEA pursue a change in the economic system, through a change of the financial sector: economic activity should be ruled by ethical criteria, serving as an accelerator of social economy, transforming the economic system and supporting social inclusion by means of credit. Practitioners define the local initiative as *"a social movement that seeks to offer an alternative to the mainstream banks"* and that requires *"the active participation of people and organizations that put their savings in the service of a proposed alternative bank"*. Highly influence by the core values of the initiative and the political dimension of ethical banking, the pioneers of FEBEA and FIARE mention the *"human right to credit"* as a key tool for economic development, poverty reduction and the improved welfare of all citizens, thus ensuring a universal soft right *(here we highlight the influence of the narratives of change in the design of the initiative).*

What is their **real capability of change** and how to promote system innovation (understood as **system change**) are continuous topics in members´ reflections. On one hand, interviewees think that the promotion of transparency and participatory policies are changes that can be brought to the financial system, provoking a slow system innovation process. On the other hand, a part of the members of the case studies consider that credit cooperatives are too small to have the capacity for system transformation ("*We cannot solve things alone*"). A diversity of actors (national government, lobbies of big businesses, European Institutions) is identified as being influential in either hindering or supporting system innovation in the financial sector. For example, the increased openness of the European Commission to discuss the changing of financial regulations that restrict the functioning of small ethical bank (influenced by the financial crisis) has been pointed out as a positive change by practitioners as well as the increasing uptake by the traditional banking system of practices that are defined as ethical.

As researchers, we believe that it is not clear here whether this uptake by traditional banks will not result in capture and transformation at the margins within the system. We believe it is interesting for TRANSIT to develop a set of indicators on when one can recognize transformation at the margins, with the core of the system staying the same (core elements could mean the same economic logic, more or less the same institutionalization of this economic logic etc.); versus transformation at the core, with changes in key discourses on economic logics and then changes in institutions, both formal and informal.

Economic crisis and the governmental reactions to financial crisis are the mostly mentioned "game-changers" by all the interviewees, perceived as *"agents of change"*. At the same time, some practitioners observe not only a process of change in financial system (derived from the crisis), they perceive that Europe is dealing with a deeper social and economic transformation process, because *"the current crisis is not just an economic crisis, but also a political and cultural crisis"*. In this sense, societies with different values and principles should lead the economic, social and political processes of change. Social change seems to evolve in the line of a *"democratic-cultural regeneration*" of societies oriented to "the common good", sustainability and solidarity, values shared and promoted by the initiatives studied.

Social innovation and system innovation could be considered, in the macro-level processes, intermediary necessary "steps" for social transformation (see figure 3). Social innovation enables system innovation and –with the support of other organizations, institutions and society- social transformation can be addressed to more solidarity and equal societies (*according to the initiatives*).

As researchers, we could conclude that credit cooperatives can be considered a social innovation that re-incorporates the old conception of a bank as a partner and a financial intermediary investing in the real economy but transforms it by placing the common good – and positive social and environmental impact – at the core of their philosophy and practice. By financing certain types of activities (social economy, third sector economy) and not others, credit cooperatives can be consider active actors ("accelerators") in promoting a "new economy", not only philosophically, but also in terms of the sectors they promote and support.

We consider the credit union movement social/system innovations with a strong transformative ambition, oriented to the development of social economy, but also contributing to community development in a given territory. However, this transformative capability of credit unions might depend on the preservation of the fundamental values of the initiative, remaining pure and respecting their aims and principles, becoming as well an "example of success" to the whole society.

The initial proliferation of initiatives that enact a certain alternative (in this case economic) paradigm acts as a show case for the new model. Maintaining purity of these models seems to be a key to the success, so initiatives that stay small and true to their character until they reach a certain threshold seem to stand a better chance of success than those that diversify too soon or have ambitions to grow too soon. This "purity" of the model contributes to them being recognized as a **coherent and consistent minority** and thus stand a greater chance of success, as they can also be recognized from the outside as a clear and well-defined entity. The concept of a minority does not refer to numerical inferiority (although this is the case) but to a normative and social position of less power (with associated status) of a group. From a psychological perspective, minorities' discourses (or movements) can contribute to systemic change when they smartly play into the 'game- changing pressures'. Innovation and social change may depend on the efforts by active minorities to challenge the prevailing order safeguarded by the mainstream.

We have identified in the interviews **strong evidences of social identification with the initiatives**. The individual expectations and motivations to join the initiative expressed are directly connected to a consistent framework of values and visions, sharing common worldviews and similar transformative discourses. This internal work of building a coherent model and ensuring its purity seems key to the success of these initiatives. Only after a clear and coherent project and an intensive engaging activity with wider ranges of stakeholders associated with a visible identity in the community, the social innovation project leads to success.

Table 1. Different Types of Change & Innovation

Innovation & Change	References to "social and solidarity economy" and "new economy"
Social innovation	New organizational models, new financial instruments, new banking practices, collective entrepreneurship, social and environmental gains, financial autonomy, cooperation and solidarity, transparency and democratic rules, social impact assessment.
System innovation	New economic system; new financial regulations; ethical practices in banking; new agents in finances; "banks as accelerators of economy".
Game-changers	Economic crisis, financial crisis, ICTs, new social movements, changes in the funding activity of traditional banks.
Narratives of change	'Critical Economy; the "human right to credit"; transforming "human beings"; community empowerment and self-sufficient; the political dimension of ethical banking; relational dimension of economy; ecological and feminist discourses.
Societal transformation	Solidarity economy; Green economy; responsible consumption; economic, social and political processes of change.

3. Aspects of Dis/empowerment.

Empowerment and disempowerment in Credit Unions movement seem to be directly related to intern governance and decision-making procedures, learning processes and capacity building perception. Credit unions can be defined as horizontally organized initiatives that enable governance innovation and horizontal relationships between their members. **Participation in (inter) structures and decision-making processes** ("one person- one vote", consensus agreements, transparency,) are defining elements through which empowerment, social learning and social innovation are achieved (*scientific literature supports that democratic-participative style is a facilitator of innovativeness in groups*). Although some interviewees consider that volunteer participation could slow down the future evolution of the project, highly qualified voluntarism seem to be a key tenet of all credit cooperatives.

Capacity building and empowerment are highlighted as substantial outcomes of participatory processes (in local case-study), a clue to social innovation and social change. Being able to engage a relevant number of organizations (with different origins and aims), to find the better solution to the out-coming situations (as changes in banking regulations), to deal with inter and external issues, to take advantage of learning outcomes, are empowerment experiences perceived by volunteers that appear to be at the basis of social transformation: *"Demonstrating that normal people are able to create a bank is also a tool of empowerment, because it shows that individuals can change society. Until now, we were people working together, but now, we realise that we can be and change much more".* On the other hand, technological resources, as ICTs or the online banking services, permit the initiatives to operate with relative lower resources (e.g. in Fiare they only hired nine workers) and provide the basic financial services to their partners and clients).

Networks also provide **spaces for the creation and dissemination** of know-how, experiences and critical thinking. Examples of these can be observed in both international network and local initiatives. The continuing interaction between practitioners from different initiatives reinforces social innovation (even (re-)shaping the activities and the structure of the initiatives). Social and institutional networks function as interchange instruments that provide initiatives with some of the resources needed for innovation and system change. Social transformation requires the implication of a wide range of actors, including governmental structures. How to engage public institutions is an open question. Several practitioners claim a stronger relation with government and institutions, as well as global initiatives, while other members are reluctant to lose the control of the initiative, being afraid of losing their independence (**disempowerment feelings**).

In the specific case of credit cooperatives, practitioners feel disempowered when game-changers as the international banking regulations ("Basel II" and "Basel III") accentuate the exclusion of the social sector from the mainstream banking system or jeopardizes the existence of local credit cooperatives or regional local banks. In the local context, the economic crisis has also brought about distrust of any financial endeavour (credit cooperatives are perceived as less trustworthy) and this is perceived as a strong barrier to the development of credit cooperatives. Interviewees from the local case (volunteers) feel demotivated when they are not able to reach to more associates, convincing citizens to join the initiative (economic resources and funds are vital to the development of the initiatives).

A stronger sense of empowerment seems to be experienced by the Spanish case study. From the analyses undertaken so far, we advance several possible hypotheses here, to be further tested within this and other case studies: at a philosophical/ideological level, this is due to a combination of universal Christian perspectives on dignity, reciprocity and human transformation potentials as well as a strong feeling of identity within the Basque members that started the initiative – an identity characterized by a sense of difference and a desire for self-governance. Social identification processes could enhance people to engage in *social competition phenomena*, approaching to social initiatives that are perceived as potentially effective. Engagement is not only a reflexive action (perception of efficacy), it is has an emotional component, closely connected to feelings of empowerment, ideology and political identity.

Figure 3. Shades of innovation, change & social transformation