transformative social innovation theory

WP4 | CASE STUDY Report: Credit Unions

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Authors: Adina Dumitru, Isabel Lema Blanco, Ricardo García Mira, *University of A Coruña, Spain*
Alex Haxeltine, Anne Frances, *University of East Anglia, UK*

Contact person: Adina Dumitru. People-Environment Research Group. University of A Coruña. Spain. Email: adina.dumitru@udc.es

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1. Introduction to the case study report: Credit Unions

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 center of their activities. They have been defined, in the scarce literature that has studied them, as institutions that have "ethical and sustainable development at the core of their mission, ambitions and practices" (De Clerk, 2009). Not only do they embed social and environmental criteria in all their activities, but they also assess the projects they finance in terms of their social and environmental impact. In this sense, ethical financial institutions consider responsibility as a key tenet of their ethical approach, and some authors have argued that any economic activity calls for the exercise of moral judgement (Lanzavecchia & Poletti, 2005).

Several terms have been used to describe this form of financial intermediation: ethical banking, social banking, sustainable finance and alternative banking are a few of them. Micro-financial activities are closely connected to social and alternative banking, and they refer to financial services offered to social groups whose needs are not responded to by the traditional banking system. The Institute for Social Banking[1], the European educational organization for social and ethical banking, has listed a series of characteristics that define ethical banks. These are:

- Criteria to prevent unsustainable ways of living and doing business that do/do not foster the common good;
- Contestation of the values underlying its activities;
- Dialogue with a wider group of stakeholders;
- Emphasis on human rights and solidarity;
- Equal treatment of genders;
- Organizational structures based on participation;
- Ownership structures preventing dependency of dominant individual interest;
- Pro-active contributions to the public discussion of perceived problem areas;
- Promotion of giving as a central ingredient to renewal and development;
- Rejection of the profit maximization principle and of speculative activities;
- Self-perception as an intermediary providing services to depositors and borrowers;
- Transparency in all business conduct;
- 'Triple Bottom Line' approach for the simultaneous consideration of multiple success criteria.

In terms of the main differences with traditional banking institutions and practices, these have sometimes been grouped in three categories: transparency in the placement of assets (as opposed to asset opacity); participation of all stakeholders in the decision-making process, and alternative guarantee systems – credit cooperatives do not use mortgages and other collateral assets as guarantee, as this is one of the main barriers for marginalized groups in society or small entrepreneurs in having access to credit in the traditional banking system (San José *et al*., 2011).

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*

[1] Source: the website of the Institute for Social Banking.

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. The first steps in Holland were taken in the '60's through the founding of the ASN Bank, followed by the Triodos Bank in 1980. The Catholic Committee Against Hunger and for Development (CCFD) is considered as the natural precursor of socially responsible investment in France and was the first French ethical investment fund that placed human rights at its core.

Different European countries started forming credit cooperatives and founders came from a wide range of civil society organizations and social concerns. Banca Popolare Etica in Italy started out of a necessity to respond to the financing needs of fair trade organizations. One of the oldest credit cooperatives in Belgium, Crédal, was initially created to respond to the concerns of a group of anti-apartheid activists who were horrified to know that some of the traditional banks were using their money to fund the apartheid regime of South Africa. A strong connection with civil society organizations is still a characteristic of credit cooperatives and this has led to them being called a "countermovement" in the tradition of Polanyi (Tischer, 2013). As explained one of the founders of Febea, and creator of one of the credit cooperatives in France, the first cooperative banks responded to the needs of a profession and to a certain type of activity, for example, the needs of the peasants involved in agriculture, which were not supported by traditional banks:

> *"They needed to respond to social, cultural and agricultural needs but we could say that the agricultural needs were very important, with the appearance of the organic agriculture. It was impossible for a peasant involved in organic agriculture to go and get a credit from any bank"* (Febea_06).

Credit cooperatives started in several countries in Europe financing innovative activities "*that were very badly perceived by the traditional banks. Meanwhile, many citizens wanted these new institutions to exist...and really this is the birth of the ethical bank, it is the creation of new institutions of all kinds, in different sectors permitted by the will of the citizens, and the bank was the intermediate partner between the citizens and these new entrepreneurs... and this is the normal role of a bank, isn´t it?"* (Febea_06).

The strongest development and spread of the credit cooperatives movement can thus be placed in the ´70s and ´80. Although they shared the same concerns and core characteristics, they were rather diverse in the legal forms they adopted, as they needed to adapt to the legislative frameworks of the countries in which they operated. Contacts between these institutions in those years were informal, but they played an important role in creating an awareness of the common cause, and creating a space for sharing knowledge and providing informal support to one another, which in turn contributed to maintaining a high level of motivation and resisting the frustrations of isolation.

Within the large category of socially responsible finances, ethical banks are financial institutions that have the authorization (and thus fulfil the criteria) of the respective countries´ official regulator (normally central banks). Their origins and philosophies are diverse, with some embracing a cooperative philosophy and being transformed institutionally from the original NGO or social economy network, while other are traditional banks which incorporate some social and environmental concerns in their financial services. Until the end of the seventies, there were only three Ethical Banks in Europe: the German 'Bank für Sozialwirtschaft AG' established in 1923; the Dutch ASN Bank, set up in 1960; and the German GLS Gemeinschaftsbank, founded in 1974. In the 80' five other ethical banks were established, including the Triodos Bank in Holland. The greatest increase took place in the 90', with eight new entities, including the Italian Banca Popolare Etica, JAK in Sweden and the Co-operative Bank in England. Besides, small credit institutions in Italy and Spain have traditionally had a role that is similar to that of the ethical bank, financing local communities, rural and/or depressed areas, micro-enterprises as well as serving the family needs of those who are usually excluded from traditional banks. Since 1997, socially responsible investment funds have been developing in both Italy and Spain.

In terms of the network organization, a group of 6 credit cooperatives across Europe decided to formalize their previously informal meetings and created in 2001 FEBEA, the European Federation of Ethical and Alternative Banks, which constituted the focus of this study. Currently, FEBEA gathers 26 financial institutions from 14 European countries. At the initiative of Triodos Bank, 11 ethical banks have created the Global Alliance for Banking on Values, another international organization intended as a representative body of ethical banking. While the two networks cooperate on certain issues, there is a feeling shared by at least some of the founders of FEBEA that the latter has different objectives and is too dominated by a main player, which goes against the cooperative philosophy of socially responsible financing, in general, and credit cooperatives in particular.

The European financial crisis has constituted an important recent landmark in the popularity and development of socially responsible finance. Tischer (2013) provides a good analysis of the reasons for the increased attention given to ethical finance, while at the same time defying the idea that the European financial crisis would have been the main cause for the growth of ethical banking. In an analysis of the UK, lists a series of factors that have contributed to a low level of confidence in traditional banks: the increased proximity of banking with financial markets has led to business models that have incentivised hard selling. A culture of work hard-play hard had contributed to these business models, and they were facilitated by deregulation and a lack of effective consumer protection (in the UK, but this could easily be extended to many European countries). Furthermore, he states that in spite of the bad press, little has changed overall, and citizen distrust has provided an opportunity for alternative banking systems to put their agenda to the forefront.

Focus of this case study

This case study report will focus on one European network: **FEBEA, 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).

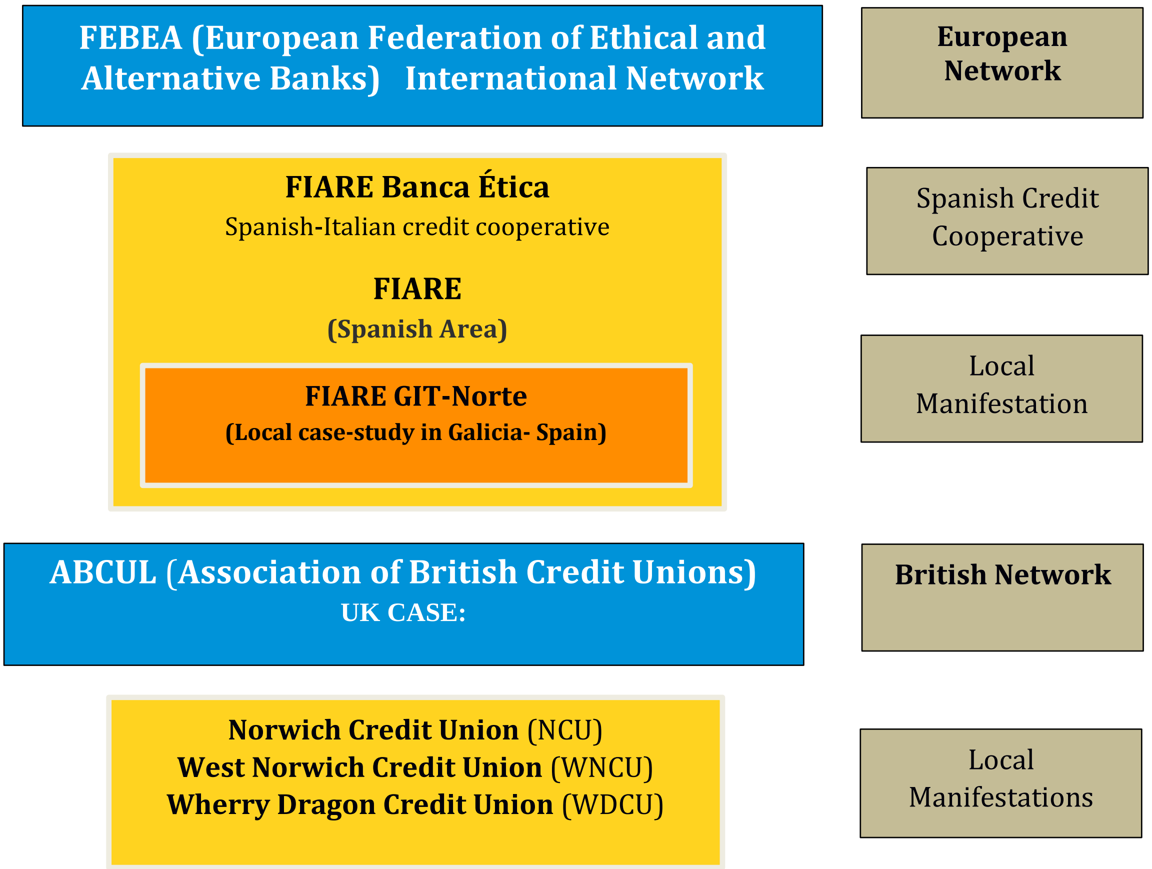
Besides, this report will study two local manifestations**:** **FIARE** (Spain) and the **Northwich Credit Unions** (United Kingdom). **FIARE**, founded in 2003 in the Basque Country, is a non-profit private credit cooperative established throughout the whole Spanish territory. Almost 4.000 people and 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 merged in 2013 with the Italian credit cooperative "Banca Popolare Etica, creating "FIARE Banca Ética", the first credit cooperative with two branches in two European countries.

The second local manifestation studied in this report is the **Credit Union movement in Norwich**. Three specific initiatives we selected: (1) Norwich Credit Union (NCU); (2) West Norwich Credit Union (WNCU); and (3) Wherry Dragon Credit Union (WDCU. This sample covers the main credit unions operating in Norwich today and allowed the study to focus on both these credit unions and the interactions between them over time. The three of them are members of **ABCUL** (Association of British Credit Unions Limited), which is the national association that represents credit unions in the UK and it is in turn a member of **WOCCU** (World Council of Credit Unions).

Overview of the report

This document presents the main result of the study conducted on the European credit unions movement. The following section describes the **research methodology** (section 2), which follows the guidelines settled by Jørgensen et al (2014) for TRANSIT case studies (Bath 1). Section 3 will covers the study on the **European Network FEBEA**. Section 4 presents the analysis of the **Spanish local initiative FIARE**, whilst section 5 presents research on the **Norwich credit unions** (UK). Finally, a **synthesis chapter** (section 6) comprises a comparative analysis of the two local initiatives and of the relationships with the European network.

Figure 1. Representation of the international network and local manifestations analysed in this study:



2. Methodology

2.1. Researcher relations to the case

Proximity. The case study researchers had no previous contacts with the international network or with the local case study in Spain. Researchers had previous interest in the cases and followed their development previously in the media. In the UK case study, one of the researchers had been involved in the creation of one of the Norwich credit unions and knew the cooperatives quite well in advance.

Normativity. Researchers have a positive view and sympathize with the case study initiatives. Nevertheless, researchers proceeded with an open mind given their previous lack of information on the credit cooperatives in general and the network and Spanish initiative in particular. Also, the researchers started with a critical stance and doubts about the potential for systemic transformation that these initiatives have.

Reciprocity. For the Spanish case study, the University of A Coruna organized an initial seminar with the case study representatives to present the TRANSIT project and to open discussion on the kinds of needs and benefits the initiatives might have from the researchers and the project. Several interests and questions were identified and the researchers will organize another meeting in the future to present the main findings and promote discussion around them. Further collaboration between researchers and case studies is planned, with a potential visit to the General Assembly of FEBEA by researchers and potential participation of the FIARE leaders in some TRANSIT workshops or the final conference.

Research subject versus research object. The researchers adopt a perspective of knowledge co-production in this case study. Although we maintain a “critical friend” position in this project, we feel it is not possible to create a discourse and theory on social innovation without processes of knowledge co-production. A fully-fledged process of knowledge co-production could not be set in place though for this phase of the project, due to time limitations.

2.2. Methods

2.2.1. Overall methodology

Aiming at gaining an overall knowledge about the international network and the two local initiatives in focus, TRANSIT researchers defined four research questions to guide the empirical data gathering and analysis. The four main empirical questions are the following:

- What is the network/initiative under study?

- How does the network/initiative engage with and relate to (different forms of) 'innovation' and 'change'? (How) has that changed?

- How were/are actors involved in the network/ initiative (dis)empowered regarding innovation and change? (How) has that changed?

- Which other questions/ issues/ themes emerged as relevant in the in-depth case-study of the network/initiative, for understanding the dynamics of transformative social innovation?

Following the TRANSIT methodological guidelines (Jørgensen et al, 2014), researchers have used three main data gathering instruments: semi-structured interviews, document review and participant observation. Each of the four questions has been divided in a number of sub-questions and subjects which guided the in-depth interviews as well as documents analysis and participant observation. The use of these different research methods provided valued information on the social innovation initiatives as well as the possibility of triangulation of the research results. The following research questions apply both to the local initiatives and the international network.

2.2.2. Interviews

Qualitative semi-structured research interviews were conducted. **A total of 36 in-depth interviews** were conducted in this case study with a length of approximate 63 hours of interview time. Interviews were conducted in October, November and December, 2014. Interviews with practitioners engaged in local manifestations (Fiare-GIT-Norte and Northwich Credit Unions) were done "face-to-face". In the case of the International Network some interviews were conducted through Skype (with image activated).

Interviews were recorded and transcribed, as literally as possible. Interviews inquired into some of the key issues considered central in the methodological guidelines, in order to answer the main research questions. But they also built on each other, in order to cover interesting aspects that were starting to appear in the first primary source documentation, in the scientific literature on ethical banking that was consulted, as well as in the first interviews. After the initial transcription and translation of interviews, these were then content-analysed and a series of categories were drawn, first from each interview, and then for the entire set. The first analysis followed the principles of grounded theory and tried to keep as close to the words of the interviewees as possible. In a second stage, these were organized in larger categories of meaning and used to answer the research questions of the project. Although not yet finalized and thus reproduced here, we also introduced a frequency count for the appearance of certain categories of meaning, in order to derive measures of centrality of certain themes.

Concerning the selection of the sample, four categories of actors were identified: (1) regular practitioners; (2) members of the initiatives with structural responsibilities; (3) pioneers/founders and (4) experts and external informants (not involved in the initiative but with a high knowledge of the movement/network). The selection of interviewees was made following criteria of representativeness, engagement with the initiative, gender and membership duration.

- *Transnational network:*

A number of **6 interviews** (with a total of 10 hours of interview time) with pioneers of FEBEA, new associates and representatives of the board committee and management staff were conducted for this study. Each in-depth interview had a length of 1:30-2 hours. Although face-to-face interviews is the preferred method but in case of studies of an initiative located far away from the case researcher's location some interviews can be conducted as interviews through telephone/skype. Interviews were conducted in Spanish, English and French and were then translated when necessary. All of them were recorded and transcribed for the posterior qualitative analysis.

- *Spanish local case study*

A total of **14 interviews** were done regarding FIARE, with a total length of approximate 13 hours. Interviews were conducted in Spanish and Galician, recorded and transcribed. The selected quotes were translated into English. Participatory observation and other techniques such as *snowball* sampling provided contacts with leaders and pioneers from Galicia and one representative from the Basque Country which made more plural the sample. Nine in-depth interviews and two informal interviews were conducted with practitioners directly involved in the management of the local initiative FIARE. Sample was formed by one local pioneers (founders of FIARE-Galiza), volunteers, coordinators in the territorial or national context, members of the Ethical Committee as well as members of the Board Committee of FIARE.

Besides, three experts and representatives of external organizations were interviewed with the objective of contrasting the information provided by the initiative as well to gain a wider perspective on ethical finances in Spain. These three external sources were: The Spanish NGO "Economists without Borders" (Madrid), the financial entity TRIODOS Bank and the Galician branch of "REAS", an organization belonging to the international network RIPESS.

- *Norwich case study*

Twenty five interviews were conducted in total over a course of 40 hours of interview time. Sixteen of these interviews were formally recorded and are listed in the appendix, while the remainder were informal interviews. The sixteen recorded interviews were conducted using a standard semi-structured interview technique. The sixteen interviews listed in the appendix were conducted in cafes or people's offices and were recorded. Notes were also taken during the interview and a summary transcript subsequently drawn up for each interview.

In this local initiative study the researcher and interviewer (Anne Frances) has had contact with and experience of the development of credits unions in Norwich over several decades. She does not currently have any formal ties to CUs in Norwich however. Based on this extensive prior experience a set of three initial interviewees were chosen for their lengthy involvement with the CU movement in Norwich, for their knowledge of the community and their ability to suggest further people to interview. The further interviewees were then selected so as to build upon the narrative arising from this first set of interviews. The initial scoping phase and background reading for this case study was greatly streamlined and simplified due to Anne's extensive prior knowledge of both the CU 'model' and her knowledge of the local context and local history of CUs in Norwich over an extended period of time, as well as her knowledge and familiarity with many of the individuals involved.

Most interviews were conducted with people directly involved either as members of a Norwich CU, founders (of a Norwich CU), volunteers (in a Norwich CU), or board members (of a Norwich CU). However, a few interviews were also conducted with people who were judged to have experience and an overview of the development of the Norwich CUs from a more external perspective. Along these lines, one interview was conducted with the manager of a local MABS (Money, Advice and Budgeting Service) service, one with the CEO of a local development trust (The Henderson trust) and one with Ian Gibson, a former labour MP for Norwich, and someone who has both a good understanding of the history of CUs in Norwich and a good understanding of, and opinions on, the history of attitudes successive UK governments have toward the CUs.

2.2.3. Participant observation

Participant observation refers to observations at public or internal meetings, public events, etc. involving actors within the social innovation case. Participant observation was not possible in case of the international network FEBEA, due to the fact that potential seminars and general assembly were celebrated in the first months of 2014, before this case study was started. However, the researchers made a personal visit to CREDAL, one of the Belgium credit unions, which is a founder member of FEBEA.

Regarding the Spanish local case-study, FIARE, researchers conducted participant observations in several events organized either by the local initiative and the UDC team. First, the researchers organized the seminar "Social transformation experiences in Galicia: Transition Processes to responsible economies and sustainable lifestyles" at the University of A Coruña. Held on the 5th of June 2014, the seminar was the first occasion for the research team to meet and engage with the initiative. Several members of FIARE attended the meeting and participated in the presentations and organized group discussions. Interventions and observations were transcribed, summarized and minutes were sent back to participants.

Second, researchers attended one Info Day (Lugo, 18-10-2014) organized by the local branch FIARE GIT-Norte in collaboration with the local Government. The activities permitted the observation of what explanations were provided when describing the initiative, the types of interaction between practitioners and attendees, the level of public concern for and interest in ethical finances, interactions between the initiative and public institutions etc. This Info Day gave us the opportunity to have an extended conversation with the Financial Director of FIARE, who travelled from the Basque Country to participate (give a talk) in the event. We maintained short informal interviews with participants during the visit. Notes were taken and transcribed.

The researchers were able to participate -as observers- in two events organized by the Northern Galician branch of FIARE GIT-Norte, which provided us with the opportunity to listen to their discussions, sharing of experiences, personal perceptions about the process and the future of the initiative. Notes were taken and information was used to contrast their vision with the official information provided by the initiative. The observations provided "open questions" that were incorporated to the questionnaire designed for the In-Depth interviews.

Finally, in order to obtain a general vision about the initiative FIARE BANCA ETICA, the researchers watched the two General Assemblies organized by the initiative in Barcelona (29th March, 2014) and Napoli (24th June, 2014). The assemblies and several workshops organized in those days were recorded and can be seen online on YouTube. About six hours of videos were observed, and we took and transcribed some the interactions and speeches given by representatives and volunteers of the initiative.

In the case of Norwich credit unions, observations were also conducted in the offices of the initiatives. Some photos were taken to illustrate the visit. Regarding the Spanish case-study, we have attended some of their meetings (about 20 hours of observation). Participant observation was carried out in the following ways:

First, observation of a so called CU collection point was undertaken on two occasions and notes were taken. This was to ascertain how the volunteers worked together, how they communicated with each other and members of the community and what circumstances led the members to visit the credit union. One observation was in West Norwich Credit Union, which has a high street presence in the local community, and the other at Norwich Credit Union which opens for 4 hours a week at the back of a charity shop in central Norwich.

Informal interviews were also conducted with approximately 25 users of Norwich based CU services; these were all either people already known to the researcher or people referred to her by other interviewees. Furthermore the researcher (Anne Frances) has been involved in credit unions in Norwich since 1989 and indeed was a co-founder of the very first Norwich credit union. She has thus been a participant in the Norwich credit union scene over more than three decades.

Finally one informal interview/dialogue was conducted with a member of an Irish credit union - where take up is much higher. The purpose of doing this was to provide an interesting (albeit anecdotal) comparison with the Norwich context where the take up is much lower. It provided an additional perspective on the specific features of the local context in Norwich that limit CUs take up in this area.

2.2.4. Document review

The document review included three types of documents: primary sources (edited or created by the both local social innovation initiatives and the international network); secondary sources (reports and scientific articles on the studied phenomena); and mass media articles and interviews to spokespersons and relevant members of the initiatives. Annex 1 contains a list of documents and Webpages reviewed, which provided excellent information about the aims, vision, mission of the initiatives, social impact and processes of change, or monitoring instruments applied by them.

Concerning primary sources, researchers reviewed the documentation uploaded to the Webpages of the initiatives studied (FEBEA, FIARE, ABCUL, etc.), including flyers, annual reports, studies (see FEBEA 2015, 2014, 2010), campaigns (FEBEA, 2014), etc. Besides, a number of scientific articles and books have been written by members of the initiative (e.g, De la Cruz & Sasia, 2012, 2008; De la Cruz, Sasia & Garibi, 2006; Sachs, 2011; Salviato, 2011).

The information supplied by primary sources has been completed and contrasted with scientific literature reviews on credit unions and ethical banking. A selection of the most relevant articles and studies focused on the local initiatives provided valuable knowledge and a wide perspective of ethical finances (e.g. De Clerk, 2009; De Castro, 2013; Santos, 2012; Steiner, 1999).

Finally, in recent years mass media have provided extensive information on the case studies. TV documentaries, interviews on the radio and in the written press with different spokespersons of the international network and the local initiatives have been used in this study (check Annex 1 for the detailed document reviews).

3. Analysis of transnational network

3.1. Transnational networking: FEBEA.

This section aims to provide an overall knowledge about the social initiative in focus, identifying those actors, structures and activities developed by the European Federation of Ethical and Alternative Banks (FEBEA is the acronym in French). FEBEA has been registered in Belgium as a non-profit international association with educational aims. It is formed by 26 European partners in 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 Eastern Europe (Croatia, Greece, Slovenia).

- **Historical origin of FEBEA**

FEBEA is an international non-profit association of ethical banks, created in 2001 by seven credit cooperatives and ethical banks who shared a common model of ethical and solidarity-based financing activity. The association's head office is located in Brussels (Belgium) whilst FEBEA's secretariat is in Padua (Italy). Founders of the European network were: the Caisse Solidaire du Nord Pas de Calais (France), Crédal and Hefboom (Belgium), an investment company in Poland called TISE, Banca Popolare Etica (Italy), Crédit Coopératif (France) and the BISE Bank (Poland). According to Karol Sacks, former FEBEA's president, two more entities joined shortly after: La Nef (France) and the German Bank für Sozialwirtschaft– BFS (Sacks, 2011). FEBEA was thus born with the aim of defending the existence of credit unions, protecting ethical banking and becoming a platform of political action that aimed at introducing changes in European banking regulations but also to have *"a space to share and talk, meet friends"* (Febea_06).

The pioneers of FEBEA belonged to credit cooperatives in direct contact with social networks and several third sector organizations (the Anti-apartheid movement or the Fair Trade movement, for instance). Besides, founders were people that had a long and high level experience working with social movements and civil society organizations. Since 2006, FEBEA decided to change its membership policy, opening the federation to new European members, integrating in 2015 a total of 24 ethical financing institutions, including the Spanish FIARE, the Spanish local manifestation studied in this report. In the following quotation, one of the representatives of FEBEA explains the characteristics of the pioneering group:

> *"Pioneers come from the field of practice. Some are very militant, with high ethical commitment. It was a very French-speaking group that mostly related to other representatives of southern Europe, French-speaking credit cooperatives. This is now changing. The network is opening to other territories in East Europe, for example, Croatia" (Febea_01).*
> ***Aims and goals of FEBEA***

According to a document of internal rules of FEBEA, the network has the four principal objectives:

- To represent its members to the European Union and other relevant financial and political organisations;
- To further develop ethical and solidarity finance in Europe;
- To create the necessary financial and banking tools for the realisation of their members´ objectives;
- To promote the exchange of information and experience as well as the cooperation between mainstream economic networks and players, on the one hand, and solidarity finance on the other, within the European Free Trade Area and other European countries (FEBEA, 2008, internal rules).

FEBEA has been created by a group of European credit cooperatives who decided to form a transnational network as a reaction to changes in European banking legislation (named "Basel II") in the year 2000, which jeopardized the existence of credit cooperatives and ethical banks. As a consequence of 2008 financial crisis, the most recently "Basel III" regulations have become more restrictive and unfavourable to small banking entities, as one of the members of FEBEA's Board of Directors explains:

> *"Basel II was very unfavourable to small banks and now, with Basel III, it is completely impossible for small banks, and specifically ethical banks, to work. These regulations favour large banks in the detriment of small banks (…) now, with Basel III norms, credit can only be given out 8 times more than the value of capital. To give out the same credit (500 million Euros) we now need more capital (between 60 or 70 million instead of 50 million. For larger banks, this is not a problem because they can increase their capital and have private investors or other companies. But the small banks, ethical and alternative banks included, have partners with a very limited capacity to capitalize the Bank. Large banks have tried to "get rid of" small banks; each month the small banks need to work with other small banks to survive. Spain is one good example, where all cooperative or popular banks have disappeared. FEBEA has a member in Spain which is Caixa Pollense, in Baleares, which is the only one still functioning in Spain"* (Febea_03).

The forming of the transnational network was thus viewed as a necessary step in maintaining the functioning of the cooperatives. This coincides with views of experts in the social innovation field that organizing at a more systemic level is not an objective that social innovators have from the outset, but is rather a consequence of the realization that in order to be able to fulfil their goals and keep serving the needs they serve, they need to change the rules of the system (*comment by Francis Westley In: 2015 TRANSIT Advisory Board meeting*).

As international banking regulations have accentuated the exclusion of the social sector (credit cooperatives, local banks) from the mainstream banking system, a very relevant aim of the network is to influence European institutions in order for them to recognize the social value and account for what differentiates social and alternative banking from the traditional banking system. FEBEA has thus been working on strengthening its networking activity in order to gain in reputation and becoming a credible actor in its representation of the sector of ethical banking to the European Commission. Their lobbying work has focused on two aspects:

- Demonstrating the importance of ethical banking for the sustainable development of Europe arguing for the necessity to change banking regulations in Europe to preserve the existence of ethical banks.
- Developing several solidarity investment initiatives in central Europe and North-Africa in cooperation with the European Investment Fund.

Besides being a representative body, the European federation constitutes a space to exchange knowledge and experience and thus learn from others. The knowledge exchange and networking have very tangible results in the opinion of members: newly created credit cooperatives have benefited from the advice and support of other cooperatives, on the one hand, and new coalition have been formed in the framework of FEBEA, in order to respond to tightening of banking regulations in European countries that threatened the existence of ethical banks, such as the creation of the Italian-Spanish FIARE BANCA ETICA. The network has also contributed to providing a space for reflection on common values, common practices (and financial instruments) as well as a development of relationships of trust and a tighter control of free riders or actors intending to join the network to reap the benefits of its newly acquired European relevance.

- **Values and mission of ethical banking**

A document review reveals the following main principles that FEBEA endorses:

1. The common good and the right to credit. This is maybe the core value credit cooperatives endorse: they define credit as a right and consider the main objective of the cooperative is to work for the common good.
2. Responsible finance in the source of money and in the projects they support. Credit cooperatives accept money coming from the real economy and reject sources such as illegal activities or money coming from sectors such as: tobacco, alcohol, gambling, GMOs, weapons, nuclear energy, pornographic productions or productions that exploit violence, exploitation of animals, collaboration with oppressive governments, human rights violations, etc.). They also do not accept money coming from tax evasions nor gains from speculative activities such as investment in derivatives and other such financial products.
3. They support positive social impacts such as inclusion of marginalized groups, or groups with a traditionally more difficult access to credit such as women and the youth; and employment – with a special emphasis on self-employment and/or entrepreneurship
4. They need to be deeply rooted in the territory in which they function and its socio-economic networks, which is a precondition for trustworthy relationships and a natural monitoring mechanism, as the bank then has intimate knowledge of the projects it funds and the people running them.
5. Relationships with customers are conceptualized as a partnership. This entails a governance structure where broad participation is ensured of both the customers/members as well as of the employees.

6. Transparency: has been posited as a fundamental value in ethical banks by the interviewees. Transparency means wide information about the origin and the use of money (savings, credits, investments) or the management of the credit union. Transparency also applies to employees' salaries.
7. Reducing salary inequality: maximum ratio of highest to lowest salary is 7 to 1.
8. Systematic evaluation of social and environmental impact of its own activities and of the projects it finance, and thorough assessment procedures which lead to low risk.
9. Endorsing these values both in local/national operations as well as internationally.

Among these principles, transparency has been highlighted as a fundamental value in ethical banks by the interviewees:

> *"Transparency is the most important (value); transparency in all aspects of the Bank: from the moment the customer arrives at the bank, he/she can deposit the money and decide in which area of activity the money goes to. All funded projects will be on the website with names and addresses and the Bank's Ethics Committee will check them. Even in the case of the employees we have a rule and you know the maximum and minimum money everybody´s going to win. For example the Director General can earn a maximum of 6.5 times more than the minimum wage in the business. This is a rule that was established for all members of FEBEA and this means that all aspects of the bank can be monitored if there is transparency, so that the clients and members can know how the money is invested"* (Febea_03).

From the interviews carried out with members of FEBEA, some other philosophical principles can be detected. One is the principle of personal responsibility: one of the interviewees mentioned that traditional banks prefer people acting irresponsibly and in general not caring about where their finances go, as long as there is profit. *"Ethical banking believes in, and encourages personal responsibility for one´s actions, including financial actions"* (Febea_04).

Furthermore, support and guidance are considered key values in ethical banking. In the opinion of one of the founders of FEBEA, *"traditional banks do not care if you fail and if you do they take other types of guarantees to ensure no loss*" (Febea_02). Ethical banks have a thorough assessment of the projects and the risk they entail, and when they decide to fund a project they also provide guidance and mentoring along the way to ensure its success. Their involvement and investment in its success is thus within the context of this partnership. This is seen as positive by members of FEBEA and reported as positive by the beneficiaries of the financial services.

- **Internal organization**

FEBEA has 26 members (ethical and alternative banks) with a capability of investment close to 31 billion euros and almost 1 million clients in Europe. They are located in 14 European countries: Spain (FIARE, BBK Solidarioa, Caixa Pollença), France (La Nef, Crèdit Cooperative, Sifa, Sidi, CS du nord du Pais de Calais, Femu Quì), Belgium (Hefboom, Crèdal), Germany (Oekogeno), Switzerland (Banque Alternative Suisse), Poland (TISE S.A.), Norwey (Cultura Bank), Sweden (Ekobanken), Denmark (Merkur Cooperative Bank), Italy (Cassa Centrale, Banca Popolare Etica, Cassa Padana), Malta (APS Bank), Slovenia (SKLAD05), Croatia (Cooperative for ethical finance), and Hungary (Patria Takarek).

The Statutes of FEBEA distinguish tree different kinds of members: effective members, associate members and honorary members. The effective members are financial institutions (with a legal status) that fulfil the criteria established by FEBEA for ethical banks. A few members within these are considered founding members. Associate Members are organizations registered in the European Union (or in an Associated Country) who participate in or collaborate with some of FEBEA´s initiatives. Associate members cannot be elected to the Board of Directors and have no right to vote in the General Assembly, but they may also participate in the working groups. Honorary members are individuals with recognized competence in the field of ethical and solidarity finance.

The organizational structure of FEBEA is similar to other associations. It has a General Assembly, an Executive Committee, a Board of Directors coordinated by a President, and an ethical committee which oversees the activity of the association and makes sure its ethical principles are respected. FEBEA members meet at least once a year in the General Assembly.

The **General Assembly** is composed of all members. Following a principle of equal participation, each member of FEBEA has one vote in the Assembly, regardless of the amount of capital they invest. Besides, according to the Statutes, each associate is able to be a candidate for the Board of Directors. These egalitarian criteria are shared by almost every bank that composes FEBEA. There is a limitation on the number of years that a person can hold the position of President or member of the Board of Directors.

The **Board of Directors** is a body composed by at least 5 people proposed by the permanent commissions of FEBEA and elected by the General Assembly for three years with the possibility for another three year mandate. Every member can be represented once in the Board of Directors with the exception of the Chairperson and the Vice-chairpersons and members are elected by simple majority. The Board of Directors can propose the creation of thematic subsections which are named working groups. When a working group has existed for two years and works on a financial tool for example, it becomes a Permanent Commission.

The **Executive Committee** supports the everyday operations of the Secretariat General and ensures follow-up of decisions of the Board of Directors and the General Assembly. This body convenes at least twice a year, in addition to the meetings of the Board of Directors and the annual General Assembly.

The **Ethical Committee** is proposed by the Board of Directors and approved by the General Assembly. It is formed by 5 members, with a three year mandate that can be renewed once. The members of the Ethical Committee are partly members of FEBEA and partly independent persons.
FEBEA members meet at least once a year in the General Assembly. Following a principle of equal participation, each member of FEBEA has one vote in the Assembly, regardless of the amount of capital they invest.

Following a decision of the Board of Directors, **two working groups** have been created to set up thematic sub-sections of effective members: "Financing the South and Fair Trade" and "Microcredit" whose aims are to create tools specifically designed for the issues they meet on a daily basis. Both working groups are considered *"useful in order to attract members to work more actively in FEBEA"* (Febea_05).

- **Activities of FEBEA**

Political "Lobby"

The main activity of FEBEA, according to its members, is lobbying European institutions -especially the European Commission- to achieve recognition of ethical banks and to develop a legal framework that would recognize and support them. It has already played a key role in getting at least some formal recognition, which came in the form of a Resolution of the Assembly of European Council, in 2007 *"of 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)"* (Council of Europe, 2007: Resolution nº1541 [2]). This public acknowledgement has opened the way to the implementation of social cohesion programmes through financial initiatives funded by the European Union (more details are given in the following subsection).

The resolution was the starting point of a widening interest on the part of the Commission which has also been stimulated further by the economic crisis. Negotiations have started with the Committee of the Basel III agreement with the purpose of modifying restrictions to ethical and alternative financial institutions that do not engage in speculative activity. We could detect considerable enthusiasm of interviewed FEBEA members regarding these negotiations and the openness of the former Commissioner for Internal Market and Services, Michel Barnier.

> *"The first question that the Commissioner asked was: what is the difference between an ethical bank and a commercial bank? FEBEA worked for about a year to establish 30 points of difference, and this information was enough for the Commissioner. FEBEA is now starting to work on the second question: to establish, at a scientific level, the basis for supporting ethical and alternative banks, the social impact they have. For example, with one million Euros, FEBEA members will create five times more jobs than a traditional bank would. This means that FEBEA is working on establishing indicators for the social and environmental impact of ethical banks, and this information is more or less ready to be presented to the Commissioner in the next meeting"* (Febea_03).

Political campaigning appealing to European Parliament candidates

In March 2014, FEBEA appealed – through an Internet website- to the political candidates to the European elections asking them some questions about their position on ethical finances, in order to emphasize the need of a change in European financial policies and provoke an expression of commitment to take action in order to correct distortions in the financial system. They sent

2 Source: http://assembly.coe.int/nw/xml/XRef/Xref-XML2HTML-en.asp?fileid=17523&lang=en

candidates a set of questions about ethical finances and the promotion of a real economy in the European Union, which would guarantee access to credit of the most excluded groups in society. For FEBEA, "financial markets have developed in an uncontrolled manner and citizens often feel powerless in the face of global evolutions, so it's important that candidates for the European elections give an answer to these questions". (Febea´s Website: *Appeal to the candidates for the 2014 European Elections*).

Creating alternative financial tools

In addition to being a place for knowledge and experience exchange, FEBEA aims to create financial tools that would support existing European initiatives and encourage the growth of new initiatives in the field of alternative finance. So far, FEBEA has developed diversified tools in order to improve or support their member's activity, such as mutual guarantee funds or investment funds. The most important tools cited by the interviewees are:

- A mutual guarantee fund named "Solidarity Guarantee", managed by Crédit Coopératif in France, which covers the loans granted by the FEBEA members.
- A mutual investment fund named "Solidarity Choice", managed by the Crédit Coopératif's asset management company (France), which can invest up to 5% of its assets in members´ securities.
- The investment cooperative company, "SEFEA" (Société Européenne de Finance Ethique et Alternative; European Ethical and Alternative Financing Company), managed by Banca Popolare Etica in Padova (Italy). Sefea offers its members financial and non-financial services to strengthen their own assets structure in order to respond to their clients' application for intervention and support. It achieves this through two operational tools: medium- and long-term capitalisation and financing (source: FEBEA´s Website).
- "Fefisol", Impact Investment fund established in 2011 by FEBEA to foster social and economic development in rural Africa.
- "CoopEst", Impact Investmentfund created in 2006 by FEBEA to promote social and economic development in Central and Eastern Europe. CoopEst that aims to finance micro-finance institutions, cooperative banks and mutual insurance companies in the new European Union's member states.
- "CooPMed", New Impact Investment fund established by FEBEA to promote the development of the social and green economy and social entrepreneurship in the Mediterranean Region. It is supported by the European Investment Fund and the World Bank's International Finance Corporation.
- "SEFEA Energy", this new Energy Service Company, created in 2014, will offer energy efficiency services, technological improvement and energy saving.
- In addition, six individual members of FEBEA (including FIARE) created TAMA, an European Financial Cooperative dedicated to solidarity finance and investing in Equity.

The last two tools (CoopEst and Coopmed) are funded by the European Union or the World Bank, which has been described as:

> *"A very positive signal, because it means that the European Community recognizes FEBEA and ethical banks as interlocutors with knowledge about the social and solidarity economic system and about the solidarity economy of Europe and the Mediterranean. FEBEA received money to finance micro-credit and has funded many projects with this micro-credit in many micro-finance institutions in Europe"* (Febea_03).

Supporting the creation of ethical banking in Europe

FEBEA receives EU funds for the development of new ethical banks where they do not already exist (in countries such as Austria, Slovenia, Croatia, Portugal, and Greece). The Federation offers technical assistance for the development and establishment of new ethical and solidarity-based banks in these countries. The growing demand from countries where these institutions do not exist is recognized by FEBEA members as a sign of the growing recognition of the importance of the sector of social and solidarity economy as well as of FEBEA´s role in this.

> *"There is a lot of demand from countries that do not have ethical banks or credit unions. For example, at this moment FEBEA is working on Croatia, where in April a new, online bank will be opening; in Greece, FEBEA is working with two small banks that want to work together to respond to the demand of solidarity of different social groups.* (Febea_01).

A space for experience exchange and innovation

There are two different dimensions of exchange cited by members: one is a more pragmatic exchange of knowledge and tools as well as experience on overcoming significant legal and financial obstacles and on creative financial instruments that could solve certain social problems.

> *"In this sense, six members of FEBEA are creating a new European financing cooperative called "TAMA" (There Are More Alternatives) with the aim of putting out on the market options for social investment for those interested in supporting social economy projects in the European context"* (Febea_04).

The second dimension of exchange has to do with a more emotional aspect of finding a space where one could meet with like-minded others, and feel part of a group of peers, find support and share frustrations. This is part of the founding culture of credit cooperatives as well as of FEBEA, and especially some of the long term members of the community of credit cooperatives express concern about FEBEA loosing that character as it grows larger.

Relation to transnational (formal and informal) networks

According to FEBEA members, the dissemination activities developed by the association in the recent years and oriented to promote the acknowledgement of ethical finance in Europe have led to a strengthening of relations with European organisations and networks that are involved in supporting ethical finance or the social and solidarity economy, such as RIPESS or the Institute for

Social Banking. Furthermore, some members of FEBEA belong to another international network named the "Global Alliance for Banking on Values" with 25 partners around the world. FEBEA is not a member but keep good relationship with this net. Successive waves of other financial institutions joined the first circle of founders. Several associates of FEBEA are also members of the International Association of Investors of Social Economy (INAISE) and others form part of the European Microfinance Network (EMN).

In particular in the last year, FEBEA is developing a "network of networks" working in collaboration with the European network of municipalities as well as RIPESS. These networks would meet once a year to position themselves and to coordinate their activity of lobbing and formation:

> "*It is a real network of solidarity alternatives which can talk to each other. It is not possible for FEBEA to solve everything on its own. We work with other organizations dedicated to training and education (the Institute for Social Baking) in order to learn more about the ethical and solidarity finance. We work with the network of municipalities on renewable energy. It is very important to work with such organizations, as FEBEA alone cannot solve things*" (Febea_03).

- **Time – Line**

Year / period	Important activities/changes/milestones in Health and Family association	Important changes in context
2001	6 European ethical banks and credit cooperatives create "FEBEA", The European Federation of Ethical and Alternative Banks	
2006	Change of policy in FEBEA, integrating a total of 24 ethical financing institutions	
2011-2014	Conversations with European Commission to incorporate Ethical Banking to European specific regulations	Financial crisis in EU Approval of "*a global regulatory framework for more resilient banks and banking systems* (Basel III, 2011)
2012-2014	Work with the Barnier Commission on developing the definition and criteria of differentiation of ethical banks from traditional banks as well as measures of social impact.	Openness of the European Commission to ethical banking as a consequence of both the work of FEBEA and the economic crisis.
2014	Strategic plan to FEBEA oriented to extend the network to new EU States and reinforce "lobby" work with European institutions	

3.2. Aspects of 'innovation' and 'change' of the transnational network

3.2.1. Relation with social innovation

Focusing on the transnational networking relation to social innovation[3], interviewees do not refer to credit cooperatives as a social innovation per se, but they do mention the types of radical change it intends to bring about and they refer to innovative elements. When prompted to detail what they think is new or innovative in the philosophy and practice of the credit unions, they mention the following points, which we summarize first:

- Credit cooperatives support a change in the main objective of economic activity, from financial gain to social and environmental gains.
- They entail a change in relationships, by embedding financial relationships in the web of social relationships and activities that exist in a given location, considering trust as a core principle and supporting relationships of cooperation and solidarity, instead of those of competition.
- They switch the focus from financial dependency to financial autonomy.
- Entail a change from individual entrepreneurship to collective entrepreneurship.
- Place the human potential for learning and developing at the core of their activity.
- Transparency of financial operations as opposed to opacity is considered an innovation in process.
- International solidarity.

Changing the main objective of economic activity. Credit cooperatives support the real economy. They support projects that aim to bring about positive social and environmental outcomes, instead of financial gain. Financial gain is only sought after until a level of sustainability of the enterprise is achieved. They encourage entrepreneurship and self-employment, and especially collective entrepreneurship. Positive social gains also include credit for marginalized groups that normally do not have access to it through the mainstream banking system. By ensuring a reasonable ratio between the best and lowest paid worker, credit cooperatives also contribute to stimulating cooperation rather than competition.

Changes in relationships. These include relationships between employees of the credit cooperatives (as well as between them and the managers) and those with members/customers. Relationships of cooperation and trust are placed at the core of the network´s philosophy, as well as

[3] According to BEPA (2010) definition: "Social innovations are innovations that are social in both their ends and their means… new ideas (products services, and models) that simultaneously meet social needs more effectively than alternatives and create new social relationships or collaborations. They are innovations that are not only good for society but also enhance society's capacity to act".

of its members. The bank is seen as an intermediary, but its role is also to support and take an active part in seeing projects to completion, by offering guidance and appropriate advice to entrepreneurs who take up credit. The mechanisms put in place to ensure protection against losses do not affect the right to shelter, so guarantees never include mortgages on homes. The most important guarantee is ensured by cooperation with a large base of grassroots organizations with a variety of social and environmental aims, of which the cooperative has good knowledge. Community relationships are thus an important part of the credit cooperatives. Some interviewees consider this to be the traditional role of the bank, which has been lost in the last decades through the progressive changes towards greater corporatism and a culture of speculative gain in the financial sector. A recent study of Credit cooperatives has also argued that this embeddedness in the network of social organizations in the territory in which they function also plays an important role in constraining the potential for unethical behavior of alternative financial institutions, especially as they grow larger (Tischer, 2013).

These changes in the way relationships are also visible in the behavior of all members of FEBEA that we interviewed. As researchers, we could observe how, for example, they endorse a culture of allowing time to meaningful discussions, which considerably supported our work and made it easier. Some interviewees would come to meet us outside of their offices (e.g. at a train station – to greet us). It seems that this culture is a key aspect of the attitude of credit cooperatives, which, in our view, is quite different from traditional banks.

From financial dependency to financial autonomy. Interviewees argue that traditional banks maintain dependency of their clients on the bank, by using a language that is difficult to understand, products such as derivatives and, most importantly, maintaining their operations and functioning opaque. By not allowing access to clear information on where the money goes to, they create dependency and passivity, reducing customers´ decisions to just a few. On the contrary, by providing transparency on their products, operations and the projects they fund, credit cooperatives encourage autonomy and responsibility.

From individual entrepreneurship to collective entrepreneurship. 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.

Transparency. Although already mentioned in the context of autonomy, this merits a separate consideration, given its importance for the members of FEBEA. As the ethical bank is acting as a partner in projects promoting the common good, transparency is a logical consequence. Transparency not only applies to members (which includes both investors and funded organizations/projects) but extends to the whole community in which it is embedded. Public information is thus made available on the source of money and the projects it funds.

> *"That is the question we address in many of our presentations of the bank: Okay, look, you know you cannot get support from the banks, but whose money are the banks using? It is our money! Do you think it is logical that we do not have any influence? There is no transparency, you have no clue about what they are doing with the money, and you don´t have any oversight control. Banks have a relevant role in our economy and they decide which type of economy will be developed by choosing certain investors. And why wouldn´t we have any control over this?"* (Febea_04)

International solidarity. Unlike traditional banks, credit cooperatives are committed to following the same principles everywhere in the world, independently of the local political conditions or legislative frameworks they encounter.

In conclusion, 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. Values and principles shared by FEBEA members are presented as "innovative characteristics" of credit unions in opposition to traditional banks. Participation ("one person- one vote"), transparency and regulation of salaries, for example, are values shared by the members of FEBEA. Besides being requirements to become a member of the Federation, they have also become "social demands" of the European society, as a consequence of the financial crisis.

The interviewees agree in considering social innovation initiatives as projects born to solve social problems or demands in a "bottom-up" collaborative process. As mentioned before, they reject the idea of the *"social entrepreneur"* as a lonely person with a smart idea. They propose the expression social entrepreneurship" to refer to collective social projects, with a wide social base to support them. They state that European institutions should support *"social innovations that are proposed by groups and associations, not by an individual"* (Febea_02).

Human potential for learning and developing is a given. Unlike traditional banks, who select their clients on criteria that have to do with their financial solvency (as one interviewee put it, clients that already have the money), credit cooperatives believe that people can develop and learn to become a successful social entrepreneur if given the support and opportunity.

Based on the principles outlined above, they create new financial instruments that can lead to the outcomes they envision. Some of these new financial instruments are also innovations, such as the mutual guarantee fund (Solidarity Guarantee), the investment cooperative SEFEA or CoopEst, a microfinance institution. By financing certain types of activities and not others, FEBEA members consider themselves active actors in promoting a "new economy", not only philosophically, but also in terms of the sectors they promote and support: *"FEBEA are banks that are working in a different way from other banks, in particular in the area of environmental sustainability, social cohesion, the cooperative movement, associations and non-profit companies. Particularly the micro credit, renewable energy, etc, are the main sectors of performance" (*Febea_03).

Interviewees mention that they take a critical stance on the sometimes perverse utilization of social innovation by actors such as governments. They insist on differentiating their role from theirs. Social innovation should not replace government action and members consider the recent political discourses on this topic to be rather dangerous.

What´s in a name?

Linguistic and cultural differences in European countries in the understanding of this term have led to credit cooperatives either being called alternative or ethical:

> *"The difference is historical you see, the first (alternative) Banks were born in The Netherlands, Germany, Switzerland, as alternative banks because in those cultures alternative means diverse, in a positive sense. But in Italy, the literal translation of alternative has a negative meaning, alternative does not mean different. We the Italians have called it ethical for this reason. We are now all starting to talk about ethical Banks, but historically, the difference comes from the language*" (Febea_03).

The term alternative is attributed to the Alternative Bank Switzerland (ABS), which became a member of FEBEA in 2003:

> *"When ABS was created, 20 years ago, Switzerland was being shaken by the scandal of the bank accounts despoliation of the victims of World War II, in particular the Shoah ones. The founders of ABS created an "alternative" to the Swiss banking system that relies on the secret of 'banking'. They founded a bank where the names of the borrowers are known and where every customer who wants to make a deposit signs an attestation to confirm that he or she complied with the tax office obligations"* (Sachs, 2011)".

3.2.2. Relation with system innovation[4]

FEBEA claims that financial system should be changed because the traditional banks have abandoned in the last decades the credit activity (that is the social aim of baking) in order to invest in more profitable but problematic activities: "financial markets have developed in an uncontrolled manner and citizens often feel powerless in the face of global evolutions" (Febea, 2014, *appeal to the candidates for the European elections*).

In opposition to traditional banks, FEBEA demands new rules for the financial system which would make economic profitability compatible with social profitability and would make information about the origin and destination of investments transparent. From a wider perspective, FEBEA has openly

[4] For the purpose of this study, system innovation is conceptualized as a "process of change at the level of societal sub-systems with functional and/or geographic delineations, e.g. an energy system, transport system, a particular city or region. Systemic innovation refers to a process by which a sub-system as a whole changes: at the level of institutions, social structures and physical infrastructures" (Jørgensen et al, 2014:31). The distinction between social innovation and system innovation is contested. Some scholars (e.g. Westley 2013) conceptualise social innovation as being 'systemic' (by definition). In TRANSIT, social innovation does not necessarily need to be at the level of societal sub-systems level (but it can be). So a new social practice within a local initiative can be considered a social innovation, regardless of its impact on surrounding societal systems.

supported the "introduction of a Tax on Financial Transactions" in European regulations. The network argues in favour of a legal separation between commercial and investment banks, arguing for the necessity to separate between banks dedicated to savings management and those conducting risky financial activities (Febea Website). They also target change in issues such as "tax havens" and the "shadow banking system", the non-bank financial intermediaries that provide services that are similar to the ones of ordinary commercial banks, but with approaches and methods that tend to avoid the ordinary controls of the overseeing bodies. All of these demands are directed to obtaining a radical change in the financial system. The financial crisis demands a change in the system (Febea, 2014).

Interviewees do not explicitly use the term system innovation. Nevertheless, from the interviews we can detect that there are several perspectives that are relevant to this topic that we will discuss here. In terms of **what they want to change**, there is some division among the interviewees: some have the perception that the objective of credit unions is to support the social and environmental aims that a significant part of society demands, as well as supporting the integration of marginalized groups into the mainstream economic system. The involvement with economic regulator institutions is thus seen as a way of ensuring that ethical banks maintain this role and they can keep serving these functions.

> *"Our basic strategy is not the transformation of the financial system as a whole, for that it takes many actors. If the legislative and political conditions exist, as citizen demand, maybe ... it's a continuous work; we'll see where we go. But setting this objective from the beginning only creates frustration, it does not generate anything"* (Febea_04).

Others are more ambitious and consider that credit unions should aim to change the financial system, which would in turn lead to a new economic system. For these members, changing European regulations would contribute to a wider systemic change by re-setting the rules of competition and potentially making social impact indicators a central aspect of banking activity. The first perspective considers staying small a key element of ethical banks keeping with their original aims and maintaining ideological purity, while the second considers growth as necessary, as well as establishing alliances with bigger and more loosely defined ethical banks (such as TRIODOS Bank and the Global Alliance for the Banking on Values).

> *"This is a very important question, whether alternative Banks would need to grow or not, whether that is desirable. We need to maintain the qualities of being an alternative and ethical bank (…) The next step, and this is a personal opinion, would be to have an ethical bank in every country…and these Banks will need to work together more…at this moment we have the Federation, but the Federation is an association where we go to meet and talk about our problems, solve our problems and do some activities, but the problem is that European ethical Banks want…need a greater consolidation and it might be that some need to merge with one another. But at this point …we do not talk about it.* (N.A.: to the issue of whether growth would pose any dangers to their innovative character)" (Febea_02).

Each position also includes a vision of **how impact is going to be achieved**. For the "stay small" perspective, impact is achieved by maintaining the purity of the concept of socially responsible and ethical banking in practice and thus drawing societal attention to the perversion of the mainstream banking system. Impact is achieved by occupying a position of being "alternative, but not marginal" as one interviewee beautifully defined it. For the "grow bigger" perspective, impact is achieved by becoming a stronger actor in the field (which is related to size) and thus slowly transforming the rules of the system, both through changes in regulatory frameworks and through raising societal awareness and thus provoking greater demand for ethical practices in banking, which, in turn, will affect the incentive structure of the traditional banking system.

> *"I believe in the future of ethical finance (…) First, there is a social demand for a new economy, and if we want this new economy, it needs a different financial system, and that different system is ethical financing. I believe in 10 years either the regulatory framework or society itself will make that change. Secondly, I believe traditional Banks will not occupy such a central role, they will become marginal and that is because at this moment, the big banks are not doing their work: they collect money but they do not give credit. What are they doing then? They are involved in speculative financial activity but how about the real economic system that needs credit? This is the question! In the following years, in my view, we will see ethical banks, alternative and solidarity banks as well as alternative financial products, such as crowdfunding and other financial instruments"* (Febea_03).

Perspectives on growth are also related to the **emotional involvement of members** with FEBEA and the types of functions they think FEBEA should serve. Thus, the founding members that have been pioneers in starting credit cooperatives in several European countries tend to perceive FEBEA as a place to meet each other, discuss and exchange experience and thus find a like-minded group and environment. They are also reluctant to letting go of this culture and tend to fear that being in a hurry to grow or achieve political objectives might have that effect. The newer members tend to see FEBEA as an instrument to achieve significant objectives that would lead to system transformation, by replacing existing rules with new ones. They see the potential of FEBEA as a relevant interface with European institutions and other relevant governmental and regulatory institutions, and push for transforming its culture in a direction that would emphasize efficiency and would push a system transformation agenda in a politically-savvy way.

The two perspectives are also associated with a rather pessimistic or optimistic perspective on the **possibilities for change.** The "stay small" perspective tends to have a more pessimistic outlook on possibilities for change, given the small size of credit cooperatives on the one hand, and the power resources the mainstream actors have to keep a stronghold on their privileges. The other perspective is rather more optimistic and considers change is possible and, for some, inevitable. Most agree that transformation will be possible if they grow bigger. Nevertheless, there was at least one member who maintained that small organizations can still have a big impact on the system, as one can find historical examples of that:

> *"There is no reason to make certain types of comparisons. There are very small organizations which have a localized social impact that is very interesting. There are models of horizontal segregation of such organizations. There is a great value in the small savings organizations that did not get into any sort of trouble and they operate perfectly, credit cooperatives or small economic circuits"* (Febea_04).

Perceived signs of system innovation

There are a few signs that indicate, in the perspective of the interviewees that the system is changing: the increased openness of the European Commission to discuss the changing of financial regulations that restrict the functioning of small ethical banks; and the increasing uptake by the traditional banking system of practices that are defined as ethical. In some cases, this uptake is considered to be substantial, while in others it tends to be seen as only widow-dressing. When it is only done to improve the image of traditional banks, it has proven to be highly detrimental to small banks, as the larger ones have the necessary resources to invest in aggressive marketing campaigns and are allowed by law to do publicity to their products (the ethical banks are prohibited from doing so, as one interviewee informs us).

There are different views on the new openness of European institutions to ethical banks. Some interviewees stated that the EU is aware of the need to change the financial system, as the existing one is not viable anymore. Others stated that the Commission is opening discussion with FEBEA because they are aware that the legislation has become so restrictive that the slightest change in the same direction would lead to the disappearance of small banks. Still others are rather more sceptic about it and see the EU as just maintaining an image of supporting ethical banking due to the growth of public discontent with the traditional banking system, while at the same time having interests that go against the objectives of ethical banks. One of the defenders of this last position stated the following:

> *"It is not possible to influence European institutions, or the system, because we are too small, we do not have enough strength. If we represented more banks, then maybe it would be easier, but we would not be FEBEA anymore, we would lose the original idea of being alternative but not marginal. Yet we have moral authority: nobody would now say no to meeting FEBEA, not the Commission, not the political parties, as it would give them very bad press, a bad image. We do not have a capacity of influence but we have moral authority."* (Febea_02).
>
> *"Europe and European governments have reoriented their policies in the last years, for their own interests. The new discourse is dangerous, as they (nb: the institutions), take up in their discourse social ideas such as "micro-credits" in order to change the situation, but they end up perverting the original value. Here in Belgium people are asking for micro-credits to pay the rent of their house, and that is not the point of the micro-credit".* (Febea_02).

Nevertheless, others consider that it is possible to maintain the philosophy of FEBEA and its criteria of inclusion, while at the same time allowing for some flexibility in order to become a stronger actors and managing system change:

> *"There is an example in France, a bank called Credit Cooperatif, which is not an ethical bank, but it has a department of about 20 people who are really working in the social and solidarity sector, and we decided to accept them as members. This is political thinking. This means, to me that the small Banks need, in this phase of transformation, they need the bigger Banks that nevertheless maintain a relationship with the territory, with the social and solidarity activities. We need the support of these Banks to enter a stage of growth of our activity"* (Febea_03).

The recent demand from the European Commission of indicators for the social impact of finance has been taken up with enthusiasm by FEBEA members, who are working together with social organizations and academic experts on creating a series of indicators that could then be applied to the whole banking system.

Besides the reactions of European institutions, some interviewees consider that there are signs of systemic transformation in how the mainstream actors in the system have reacted to this social innovation. The following quote is relatively self-explanatory:

> "*The big Banks have understood that working and proposing ethical financial products is good for business. They look at it through this lens. But the citizen understands that the bank is not ethical. The product they propose might be named ethical but that is a mere question of image, not a real thing. If a bank has an ethical product only that doesn´t make it ethical (…) I consider this to be good, because there are now in Europe, let´s say 2 or 3 banks, which are not ethical Banks but they are trying to work more ethically. They are undergoing a transformation. And this is a merit of the European Federation."* (Febea_03).

Interviewees also mention what we can qualify as dynamics of resistance and opposition on the part of traditional system actors. When credit cooperatives were not yet attracting a big number of clients, although they did grow steadily, the Basel II agreements were already reflecting the power of the big actors as they pressured and managed to get regulations in place that were unfavourable to small banks:

> *"Regulations are formulated, even before the economic crisis, in 2000, to protect the big Banks. This is a big error in the system. The most dangerous indicator at this moment for the small Banks is the risk and core capital they need to ensure, small Banks do not have that kind of capital"* (Febea_02).

However, the financial crisis constituted an important turning point as it created the context in which, due to the distrust that traditional actors inspired in citizens, alternative and ethical banks could grow in. Threats to traditional actors, including the one coming from the growth of the smaller credit cooperatives generated a reaction of intensifying efforts to strengthen traditional banks. This might be a characteristic of processes of social innovation (to be verified in other case studies): when alternative actors start becoming stronger, the resistance of traditional actors intensifies, which leads to manoeuvres to keep things as they are.

> *"This is the thing…. each month little banks need to merge with other little banks to survive. In Spain this is more so…all cooperative banks are disappearing. We have a member in Spain, Caixa Pollense, from the Balearic Islands, it is the only cooperative left…"* (Febea_03).

3.2.3. Relation with game-changers[5]

We could identify several relevant game-changers, which created windows of opportunity for the network, and for credit cooperatives more generally, to grow and achieve more impact. These were: the **financial crisis** and the resulting discontent with and mistrust of traditional banks; the **expansion of TICs** and the extended access to Internet services in Europe; and to a lesser extent,

[5] The term "Game-changers" refers to macro-trends that are perceived to change "the rules of the game".

the **new social movements**, especially in the South of Europe, which looked for alternatives to traditional funding resources when they articulated their programs and defined solutions to the existing situation.

The financial crisis

The economic crisis effects have been crucial to the development and activities of ethical banks and credit unions in Europe. On the one hand, the financial crisis has led the member states and the European Union to raise the criteria for allowing banks to operate, which had meant higher capital requirements. Traditional banks that had to react to this tightening of norms have stopped a significant portion of their credit activity. While before the third sector had a hard time getting access to credit from traditional banks, the economic crisis has made it much worse. In this context, the social economy initiatives only found the support and investment of ethical banks and credit unions. Altis study on the impact of Banca Popolare Etica in Italy demonstrates the impact of the credit activity in the following terms: “For the 82% of the sample, the loan was a necessary condition for continuing with their activity. 47% of customers were granted funding by Banca Etica after one or more banks had refused to grant it” (Altis, 2014 b).

The same strict conditions imposed by European regulators have taken a heavy toll on credit cooperatives and the usually smaller, ethical banks. The higher capital requirements reduced their ability to survive. Some of them have disappeared and others were forced to merge or reach agreements with bigger financial institutions and become ethical banks (*it was the case of FIARE in Spain, as we explain in the section 4 of this document*).

> *“Right now it's very difficult to create an ethical bank. The regulation to create new credit unions is very restrictive. After the crisis there is a compression of the banking system, a unification of banks, and only larger banks remain” (Febea_02).*

As one interviewee stated, credit cooperatives were the only ones still giving credit during the economic crisis, responding to the increasing needs of individuals and institutions that are excluded from the banking system. As they have not engaged in speculative financial activities before, they did not have to reform or suffer the consequences of the crisis. On the contrary, they grew at a significant rate (some up to 20 %) during the crisis.

> *“In Europe, the large banks insert into their balance sheet and portfolio speculative products and derivatives that add on a value that is two times larger than the capital (…) the regulatory system allows banks to calculate the value of their speculative assets at their purchase price, when they do not have any real value now, their value today is 0 or close to 0. This was a problem and, in a week, the accounting rules were changed” (Febea_03).*

> *“Ethical banks don't have speculative products, so they don't have this problem (…) during the financial crisis all ethical banks have had a growth rate of about 20 %. In 2014, the same is true. This means that there are many people with a lot more trust in ethical and alternative banks than in regular banks” (Febea_03).*

The raise of ICT technology for finances

The raise of internet banking has benefitted ethical banks, especially the new ones starting in Eastern Europe or Spain. Virtual banks have lower starting costs, and allow access to clients in wider geographical regions. Together with the other game changers, this one supports the development of ethical banks:

> *"There is a study by a German economist saying that in the next 10 years…okay, not 10 months, but 10 years, only 3 % of bank offices will still exist. All the others will disappear and 80% of the financial activity will be done through our cell phones. We are now seeing this change and in this change ethical and alternative banks can play a very interesting game, because…Now we are, more or less, 26 members, and between all the members we reach about a million clients." (Febea_03).*

New social movements

The emergent social movements, especially in the Mediterranean countries, looking for alternatives to economic and financial system are observed by some members of Febea as an opportunity for pushing requirements for ethical banking onto the political agenda.

> *"After the European elections, new members of the European Parliament are more sensitive, talk to us and want us to present things, studies on ethical banking. They ask a lot of things. Just yesterday we were working on a draft about the value of ethical banking and which regulatory frameworks should be changed to protect it. This would be much more effective for us" (Febea_04).*

The president of the credit cooperative Banca Popolare Etica, the Italian Ugo Biggeri, made reference to social participation and collective organization in an interview for a Spanish newspaper.

> *"In Spain there is the movement of the "Indignados" and this is an opportunity. The requests that "the Indignados" and "Occupy Wall Street" do look very much like twenty years ago when we create Banca Etica (...) It is necessary that citizens organize movements. In England, for example, the Ethical Consumer magazine promotes "Move your money", in which citizens can consult UK banks that operate better. It is a facilitating movement. Individually, we can always make a request for transparency in our organization, but it is difficult because, in general, banks do not want to be transparent"* (Biggeri, 2012[6]).

3.2.4. Relation with societal transformation[7]

The members of FEBEA state that Europe and the European Union are dealing with an economic crisis but also with a deeper social and economic transformation process. The financial system will

6 Interview available (in Spanish) in the URL https://fiaremurcia.wordpress.com/2012/11/24/ugo-biggeri-la-banca-etica-no-esta-al-servicio-de-la-red-social-es-la-red-social/

7 Societal transformation = fundamental and persistent change in society. It is distinguished from system innovation in that societal transformation (by our definition) exceeds individual sub-systems. Examples are the industrial revolution, European integration, or the rise of the market economy and the ideology of economic liberalism, as described by Polanyi

suffer a dramatic change in the next years, arising from the incapacity of banks to fulfil the requirements of the economic system. New actors and financial instruments will be created to provide new services, maybe even substituting the traditional banks. One of the founders of FEBEA makes an interesting reflection about the origin and primary mission of the first banks and the perverse evolution of these institutions, predicting immediate changes in financial system:

> *"We can imagine in the next 10 years a more or less radical change in the financial system which is mandatory because now, the financial system as it is, does not respond to the need for credit of the economic system. If the economic system wants credit for the company and the financial system does not have that ability, the opportunity for doing it, what will the banks do? Nothing! They will only do investment and speculative activities; this is the main activity of the banking system today. The companies, both traditional and social and solidarity enterprises need investments and credits. This is a time of passage that we are living. In the next 2 or 3 years it will be clearer, for everyone, than the big traditional banks do not have the ability to give a response to these needs. At this moment they are resisting, okay, because we do not have alternatives. The first bank in the world was born in Italy, it was called "Bank", because it meant there was a bank on the side of the road where a person was talking to people who wanted and needed money. This was 400 years ago. Why can´t we return to this model? To the small bank that does not have to undertake its activity in an office, but people who go and talk to the companies to understand that they need. This is the change that we are witnessing now" (Febea_03).*

A change in economic and financial system is needed, and FEBEA (as well as the European Commission, as they state) is aware about the how this new economic model should be drawn in order to ensure social cohesion and economic sustainability. According to the ex-president of FEBEA, Carol Sacks (2011), "the cornerstones of the future transformation of the European Union are job creation and the promotion of sustainable development". Several members of FEBEA express similar opinions about the future pathway of the European economic system. One interviewee affirms that, after the crisis, the new economy in Europe will be based on green production and responsible consumption of goods and services (organic agriculture, sustainable tourism, renewable energies) or the emergence of new job niches:

> *"We are in an economic crisis and the new economy - the European Commission already worked on that - goes more in the direction of organic agriculture, responsible tourism, social tourism… all these activities which the ethical banks have worked on for the past 10 years. I believe that renewable and alternative energy, micro-credit, all this, needs to be developed in the coming years, to create new jobs, new activity, a lighter economy and a financial system which can finance this new type of enterprise, the new economy. We can´t imagine a return to an economic system as the economic system of the last 10 years. It is impossible, that is the past. We need a change and we need a change in the financial system" (Febea_03).*

Interviewees consider the current crisis is not just an economic crisis, but also a political and cultural crisis. Societies with different values and principles should lead the economic, social and political processes of change. As one interviewee remarks, the banking system must themselves to respond new societal needs. Ethical and alternative banks would play a key role in this future scenario.

in the 'Great Transformation' (1944). Such societal transformation requires simultaneous change in multiple dimensions (not in only one dimension) of social systems, with changes occurring widely across society (not in only one place)

> *"If we continue like this for another 10 years our social and solidarity system will react in a way that we do not know. It can be... It could be a reaction that cannot be controlled. This is...more violent, exactly, we can assist to a more violent reaction. The other possible way is that the big banks are also developing an interest in starting a path of change, and they might transform themselves and in about 10 years arrive to a point where they can respond to this need of the economic system. At the same time, with Febea, we will develop our activity: it is clear that it is a small development in relation to everything that happens, but being able to meet with the President of the European Commission, the Director of the European Investment Bank, of the European Investment Fund, I believe that this is a sign of recognition, it shows some will for change. (Febea_03).*

> *"The bank can be a trigger for a complete rethinking of local economies and I think it would be a big change…focusing more on the use of local resources, sharing these local resources through the concept of what is common, utilizing them in a democratic way, extending the concept of democracy from the political sphere to the economic one and it is just something which could be a platform for those kinds of projects. Up to now our people are very open to it, they come up with ideas that did not appear before, and every day there is somebody coming up with an idea and saying "Oh, we have a bank, maybe we could also do this and that", things which just seemed impossible before because there was no platform to support them" (Febea_05).*

Social change seems to evolve in the line of a "democratic-cultural regeneration" of societies oriented to "the common good", sustainability and solidarity: *"We are in a systemic crisis that is not just financial, environmental, or economic; it is a political crisis, it is a systemic crisis and we need a new generation of people, of organizations with the ability to interpret the new future" (Febea_03).* Within the European context, some grassroots transition processes have been identified as signals of societal transformation:

> *"There are some small cities in Italy which call themselves in transition: they are working in a holistic manner and they do not only undertake an economic or social transition, they are going through a cultural transition, a different way of life. I believe that this is the main novelty and it is, roughly, 400 small communities in Italy that have started on this path, only in the last 3 or 4 years" (Febea_03).*

3.2.5. Relation with transformative discourses[8]

The real economy and the human right to credit. The definition of ethical banking provided by FEBEA illustrates how transformative discourses, like sustainable development, community building, equality, cooperation development or Fair Trade have influenced the aims and values of the network and its associates. Ethical banks achieve a positive impact in the saving and use of money and invest in new activities such as organic farming, renewable energies, the social economy (or not-for-profit sector) and Fair Trade. Febea's members claim the "human right to credit", responding to the needs of people and institutions excluded from the banking system, and prioritizing local community development and "real economy" investments.

[8] Transformative discourses refer to (any) discourses on change and innovation.

> "Thanks to ethical banks, the "bank" institution returns to a path interrupted at the beginning of the twentieth century, and it returns to be an instrument of development for the territory and for new social and environmental initiatives. This path goes in the opposite direction with respect to the one of commercial banks, which are increasingly oriented to use the financial leverage to build more and more profits, contributing to funding the economy and creating the conditions for a series of financial crises that continue even today to weigh on the lives of millions of citizens". (Febea, 2008a. *Definition of Ethical Bank*).

"The ethos of responsibility." Human responsibility for our acts and their consequences is part of the ethos of the movement, echoing the humanistic and existentialist principles of the beginning of the 20th century, reinvigorated after WWII. Social movements have inspired the constitution of some of the credit cooperative pioneers of FEBEA. Indeed, *"the majority of the credit cooperatives and alternative banks which are members of FEBEA have been promoted by social initiatives"* (Febea_02). One example is the Belgium cooperative CREDAL, born in the 80s as a reaction against the banks' support for the South African apartheid regime or the fair trade movement, which remains in the origins of Banca Popolare Etica in Italy. FIARE (in Spain) emerges from a critical perspective on the financial and economic systems, influenced by the solidarity vision of the social economy and by the solidarity ideals of Catholic associations (*as we describe more in depth in the next section*). One interviewee explains his personal engagement with environmental issues and fair trade and the motivations to create a credit cooperative, and this quote illustrates quite well the ethos of responsibility:

> *"I am the founder of the fair trade movement in Italy. When I was 25 years old, I made a trip to Ecuador. There was a meeting and people came all the way walking from the Amazonian and there was one particular person, an indigenous from the Amazonian who after the meeting had to go back and I accompanied him for a small part of the road. That man told me two things: one was that there are many wars in the world and that asked me what I, as a white man, would do about it, how will I fulfil my personal responsibility; the second thing he said was: the world is in great danger due to climate change and again asked me, how was I going to work against it. When I returned to Italy, I was working as a representative of a multinational company, but I decided to work in Fair Trade. In Italy we believe that money is fundamental, as one needs to pay the producers before one can sell. We saw that it was necessary to create a financial company, called Etimus. After 2 or 3 years the Bank of Italy called me to tell me that we should transform into a bank which would support civil society activities. They said, you either become a bank or we close you down. I started looking for organizations and, a month later, I travelled all over Italy and met with all kinds of social organizations and to my surprise they all said yes it is a good idea and we can create a bank. We constituted an association and then a cooperative, and in three and a half years we had built a Bank" (Febea_03).*

"Transforming human beings". Another founder of FEBEA, the French credit cooperative La Nef (Nouvelle économie fraternelle) arises from a group of people who want to help each other and try out the social and economic ideas of the Austrian philosopher Rudolf Steiner[9] , again humanistic principles of moral aspirations to transcend egoistic and competitive impulses and change our social institutions. Despite the fact that at the beginning they only financed projects borne out of the anthroposophy movement, defending the values of ecology and the social economy, they afterwards extended and evolved towards a structure of solidarity, in which people with resources would make these available to others who needed them and did not belong to their mutual help network (source: website of La Nef).

Community empowerment and self-sufficiency. Several interviewees refer to the community-building capacity of credit cooperatives. They understood the credit initiatives as instruments for social entrepreneurship and oriented to the development of social economy, but also contributing to community development in a given territory. The next two quotes explain how an ethical bank helps to build self-sustaining communities:

> *"People are using the cooperative to achieve something else…, for example, we now have several members who are working in the energy sector, in energy cooperatives. They joined our cooperative when they saw the possibility for a financial instrument; they just now completely changed their way of thinking… The way of thinking about the economy when you have a cooperative, a financial instrument, totally shifts: it's going towards creating self-sustainable communities…You have the availability of different kinds of expertise and the knowledge that you didn't have before. The bank can be a trigger for a completely different rethinking of local economies and I think it would be a big change…it is more looking to the use of local resources, sharing these local resources through the concept of the commons, using them in a democratic way, where you extend the concept of democracy from the political sphere to the economic and it is just a platform for those kinds of projects" (Febea_05).*

Some interviewees remark the role of credit cooperatives to experiment with new ways of doing and imagine new solutions to societal needs, which the following interviewee describe as laboratory for constant experimentation

> *"We should have imagination to respond to the changing needs of society. The structures we put in place should not limit us to do what we have to do. We should be a laboratory of constant experimentation. The initiative must be a good place to fight for the transformation from a sense of justice"* (Febea_04)

9 Steiner, R., & Heckel, F. C. (1972). *The threefold social order*. Spring Valley, NY: Anthroposophic Press. Available in: http://wn.rsarchive.org/Books/GA023/English/AP1972/GA023_index.html

3.3. Aspects of empowerment and disempowerment in transnational networks

3.3.1. Governance

3.3.1.1. Internal governance

The internal organization of FEBEA has been described in the previous section 2.1. Summarising, the Federation is formed by the following four bodies:

- General Assembly
- Executive Committee
- Board of Directors (headed by the President)
- Ethical committee

We can mention a few additional aspects that we think are relevant from an internal governance perspective:

FEBEA´s governance rules seem to ensure the equal participation of the members. According to the election criteria, every associate is able to be a candidate for the Board of Directors. Besides, each member has one vote in the General Assembly (both criteria are shared by almost every bank that composes the international network). Third, there is a limitation on the number of years that a person can hold the position of President or member of the Board of Directors.

The **actors involved** in the Network are usually the leaders or directors of ethical and alternative banks, European credit unions and other financial institutions with ethical and social investment objectives. FEBEA not only accepts ethical and alternative banks, but also non ethical banks, that make a great attempt to be ethical and solidarity-oriented. Besides, some differences have been observed by the interviewees regarding the **characteristics of the members** of FEBEA. On the one hand, the pioneers of FEBEA are described as *"elder men, activists, with a long and high level experience working with social movements and civil society organizations"* (Febea_01). On the other hand, the new members seem to be younger people, accustomed to work in the European context, that get enrolled in FEBEA looking for support and networking. They seem to be more open to new activities, to develop new projects that are considered as "exotic things for the pioneers":

> *"People started to find a base of how to do business without participation of financial institutions… with new trading systems, time banks…you can really help people achieving what they want and the benefit from being an actor who has recognized all this movements. For example, we had a quite large discussion within FEBEA about crowdfunding… we see that there is a huge opportunity, why wouldn't we be a bank that actually helps people, to facilitate the process, to enable them to do crowd-funding but with some extra security that you can provide as a bank …Why wouldn't we also, as a bank, do non-monetary transactions to trade services,*

> *to trade all other things… for a lot of FEBEA members this is very exotic still, but there are some other members, from the other side, which really see that and that would also like to push in that direction… Commercial banks are not seeing it yet, they just don't understand the process at all and ethical banks are the appropriate actor; some of them are recognizing this process.* (Febea_05)

In terms of **inclusiveness**, FEBEA appears to welcome new members to FEBEA. In the last year, several new partners have been accepted and a number of future affiliates are in the process of joining now and they have received technical assistance and support from the federation for the development and establishment of new ethical and solidarity-based banks in European countries.

> *"From the beginning, Febea made an exception, strongly influenced by Banca Popolare Etica, who held the presidency at the time. They accepted the membership of our Foundation (NB: FIARE), because they understood that it was an instrumental foundation, aiming to build a bank"* (Febea_04).

> *"Actually it was a parallel process. We got in contact with Febea last year, in 2013. We explained our project to them, they gave us support to proceed in this endeavour, but the real collaboration started after the formation of the cooperative. So we formed the cooperative, just a month later, in May, we became members of FEBEA, and now we are actively participating in the policy debates of FEBEA at the European level but also in the practical projects, for example, we are working together on a project for the implementation of a an investment fund under the European Union Social Entrepreneurship Fund (EUSEF) labels"* (Febea_05).

Being a member of FEBEA provides, in addition to technical support, networking and learning experiences (see the following section), certain prestige and enhances the positive perception of ethical banking in the local context.

> *"Of course it helps, here in Croatia being a member of FEBEA helps, because people still perceive things coming from Europe as something smart, something that we really should look at as a role model to maybe develop in our country. When we present the ethical banking model, saying that we are part of a European organization, that this model has proven successful in other European countries (...) people react quite well and I think that this perception of a better, more stable, more secure banking model, which has been proved in different European countries has helped us a lot in getting such a positive attention"* (Febea_05).

3.3.1.2. External governance

FEBEA tries to obtain influence and impact by developing a permanent activity of lobbying European institutions, with the aim of developing a specific normative framework to regulate ethical banks (in order to cope with Basel III restrictions) as well as to develop new criteria of impact measurement beyond the financial dimension. The awareness of the European Commission of the existence of ethical banks will allow FEBEA to start a negotiation with the Basel Committee III. *"This is the level of negotiation we are working at for the time being"* (Febea_03).

However, other practitioners perceive this lobbying work as a difficult task, because of the lack of influence of ethical finances on the political agenda, as we mentioned before. Practitioners feel disempowered when the international banking regulations ("Basel II" and "Basel III") accentuate the exclusion of alternative financial institutions from the mainstream banking system or jeopardizes the existence of local credit cooperatives or regional local banks. Although the effect of the regulatory changes has been described in previous sections of this study, the following quote illustrates the perception of one interviewee about this situation:

> *"At this point it would be very difficult or almost impossible to get a law for ethical banks. The problem is that the current regulatory system (especially in the crisis) is put in place to safeguard the larger banks, not the small ones. This is a great system error, because the small banks -currently disadvantaged under the law- work at a local level."* (Febea_03).

The network cooperates with European organisations and networks that are involved in supporting ethical finance or the social and solidarity economy, such as RIPESS, the Institute for Social Banking or the International Association of Investors of Social Economy (INAISE). Not much information has been provided by the interviewees about this collaboration. Indeed, we could conclude that individual members of the federation are more involved in international networks and associations than FEBEA itself. For example, some associates belong also to the "Global Alliance for Banking on Values" (association created by TRIODOS Bank) and others form part of the European Microfinance Network (EMN).

One example of the institutional relations established by FEBEA is the acknowledgement, in 2007, by the Parliamentary Assembly of the Council of Europe, of the role of ethical and solidarity-based financing and responsible consumption in social cohesion, highlighting *"the importance of ethical, solidarity-based involvement of citizens in the economy as a crucial prerequisite for social development and cohesion"*[10]. At the same time, it underlines the importance of dialogue and collaboration between the public authorities and socially committed grassroots initiatives. In this regard, *"the Assembly welcomes the activities of the European dialogue platform on ethical and solidarity initiatives for combating poverty and social exclusion to promote dialogue between public authorities and civil society*". From a more constructive perspective, the members of the network feel "empowered" when they are able to develop innovative financial instruments to support their affiliates as well as financing investment projects in the social and solidarity sector.

3.3.2. Social learning[11]

FEBEA has been defined by interviewees as an inspiring learning space where knowledge and tools are exchanged, especially on how to overcome significant legal hurdles. The network encourages their members to participate in the activities of the network, not only in General Assemblies or in the Committees, but also in permanent working groups or seminars organized by the network. One example of that was the last General Assembly of FEBEA (Hosted in Freiburg, May, 2014), which was followed by an open day of seminars, dedicated to "*The crisis of the European model and the alternative solutions of ethical finance*", attended by 70 persons from different European countries.

[10] Retrieved from: http://assembly.coe.int/Mainf.asp?link=/Documents/AdoptedText/ta07/ERES1541.htm

[11] (Social) learning = processes of learning (acquiring information, knowledge, experience), between individuals and groups at the level of the initiative/network, but also beyond the initiative/network to the broader social context.

> "The conference proposed a reflection, starting from the European economic-social-financial crisis, on the role of ethical banks and financial actors, both the «historical» ones and the new initiatives developing in different European countries, trying also to identify the challenges and opportunities of the next years for FEBEA and its members" (Febea, 2014"[12]) .

FEBEA provides an informal space to share experiences and concerns with a plurality of European initiatives, debating on aims and values, legal issues, performance, assessment criteria or the sustainability of the project. All these learning experiences are highlighted by the members of the network.

> *"FEBEA is an inspiring learning space about legal issues, banking structures, and plurality of owners about this form of having a bank owned by the cooperatives. We also learned quite a lot about the importance of a presence on the ground, of having volunteers of the cooperative and involving them in the bank processes, so that they can contribute in the assessment of the projects and the assessment of loans, in the control and verification of the output and the result of projects, and there are a lot of nice examples that you could look at"* (Febea_05).

On occasions, FEBEA became a space where specific partners and mentors could be found, which involved formal agreements oriented to provide assistance in the design of a viability plan, and training in banking operations:

> *"We looked within the European context, and we approached two networks. FEBEA and INAISE. We saw that there were two ways of understanding the ethical and alternative finance at the European level. INAISE, the North-European, was more oriented to agro-ecological and cultural projects, where the organizational-relational model was no so relevant. The South-European model (FEBEA) was more related to social-exclusion issues, development cooperation, etc. This model made us quickly identify Banca Popolare Etica, founder of FEBEA, as a benchmark; and it was worth trying to establish a partnership with them to help us build the most complicated part of our project, the banking operations, and how to make it economically sustainable"* (Febea_04)

Knowledge exchange also permits them to innovate on creative financial instruments or services. Some practitioners recognize that, as a consequence of the personal contact with other European ethical banks, their banking model became a sort of combination of the best practices that they have learned from FEBEA, *"with a little bit of their own innovation on top"* (Febea_05):

> *"I really like how Banca Etica is dealing with the alternative social market, how they are able to have very low default rates through very simple methods, having volunteers who are reporting back to people, taking this as a part of integral risk assessment approaches for example. It was quite impressive to see how alternative banks in Switzerland receive support and they finance housing cooperatives and invest in green energy and how to basically create value without any or almost any risk from those kinds of investments; the management of a*

[12] Extract of the report published in Febea's Website about the Seminar "The European-model crisis and the alternative solutions of ethical finance. Retrieved from: http://www.febea.org/febea/news/general-assembly-febea-2014

large social cooperative, with hundreds of thousands of members. The German GLS Bank experience with local currencies, where they are working introducing them to several municipalities; We have learned a lot about ethics, what criteria to look at, what kind of assessments in the projects we will have priorities just from the practice of others and those kind of things" (Febea_05).

3.3.3. Resources[13]

Human resources

FEBEA is almost completely a virtual network with only one person working in Brussels, its Policy and Advocacy Manager. The members of the Board of Directors and the President are highly experienced in the field of ethical finance. According to the interviewees, the federation is developing a highly intensive networking and lobbying work, especially in political conversations with the European Commission and internal working groups. However, some persons are of the opinion that reinforcing the internal structure of FEBEA could be very positive in order to make them more efficient:

> *"I think that Febea has recently introduced a good thing, which are the working groups: so they have working groups dedicated to several topics, which is attracting members to more actively work... to more actively work on some topics, some issues. I think where they have a huge opportunity is in their presence in Brussels, which they are still not using very well; they have Daniel Sorrosal, I believe that you have talked to him, who is the policy advisor of Febea in Brussels and he was up to... In this year he was working for one-third of his work time, I think, and now I believe that he will pass to a full-time contract, but when you see how much he has achieved with one-third of the time there, is just incredible and I don't see why it was even an issue discussing if we need to have him on full employment; and I think that, yeah the more operational structure will be welcome but in the terms that... Now the procedure, everything takes ages to happen in Febea and it is just too slow for the dynamic period that we are in"* (Febea_05).

Most of the members of FEBEA are small credit cooperatives without a big staff structure or operating entirely with volunteer work. FIARE or CRÉDAL are examples of initiatives which have involved volunteers at all levels of their structure (e.g. Board of Directors; Ethical Committees, Credit committees, etc.).

> *"We also learned quite a lot about the importance of a presence on the ground, of having volunteers of the cooperative and involving them in the bank processes, so that they can contribute in the assessment of the projects and the assessment of loans, in the control and verification of the output and the result of projects, so that are a lot of nice examples that you could look at"* (Febea_05).

[13] Resourcing = the process by which actors acquire the resources they need to attain their goals. Resources can refer to monetary resources, but also to natural resources, artefacts, information or 'human resources'

However, the need for the professionalization of initiatives is a common issue for practitioners as some interviewees observe:

> *"I would say that the most difficult thing is this transformation from the initiative to the professional organization, which requires resources and people are trying to work to be on the very same level of understanding of the concept. The other thing is that one might lose focus because when you think, okay, I need to start of a bank, but in the active process, there is just a variety of things which are not directly related to the formation of the bank but which are making it much more difficult*" (Febea_05).

Financial resources

In order to have the means to achieve their objectives, FEBEA has created financing and mutual assistance mechanisms among its members, which enable them to overcome temporary difficulties and, above all, be independent and able to work in spite of the difficulties that arise occasionally in their national banking systems. The mutual guarantee fund "Solidarity Guarantee", the mutual investment fund "Solidarity Choice" or the investment cooperative "SEFEA" are examples of mechanisms and instruments created within FEBEA in order to give economic support to their associates.

In addition, with the aim of promoting social and economic development in Central and Eastern Europe, in the Mediterranean Region or in rural Africa, the network received external funds provided by the European Investment Fund or the World Bank's International Finance Corporation.

> *"FEBEA has received money to finance micro credit and has funded many projects with this micro credit in many micro-finance institutions in Europe. We are now working on funding for the development of new ethical banks where they do not already exist (in countries such as Austria, Slovenia, Croatia, Portugal, Greece), having already received money for technical assistance, development and establishment of new ethical and solidarity-based banks in these countries. This recognition from the European Commission and European institutions is interesting, because it means that they recognize the position of FEBEA as being in direct contact with the social and solidarity economy sector in Europe. The money comes from the European Commission or the European Investment Bank"* (Febea_03).

Technological resources

The universal access to internet and the evolution of online banking services and Website secure platforms enables the emergence of new alternative online banks, initiatives with only six or nine workers that provide the basic financial services to their partners and clients. However, some practitioners complain about the banking management software available, for example, or about the lack of banking platforms that are compatible with Free Software/Open Source technological operative systems.

> *"There are not sufficient technologies available for our needs as an ethical bank. Free Software, for example. All solutions are designed for the commercial banks and there is no technical*

support available for what we planned. So that is way we needed to start developing our IT system, so we need to attracted enough capacity to do that" (Febea_05).

3.3.4. Monitoring and evaluation[14]

Social impact measurement

Ethical banks in Europe have been working, in the last years, on the development of internal monitoring and evaluation mechanisms. For example, the sub-group of GECES (Group of experts of the Commission on social entrepreneurship), dedicated to social impact measurement, has approved the report *"Proposed Approaches to Social Impact Measurement in European Commission legislation and in practice relating to: EuSEFs and the EaSI*[15] ", with the mandate to develop a methodology for measuring the social impact of the activities of ethical banks. Despite these studies, a common monitoring or evaluation mechanisms within the FEBEA network does not yet exist.

The following quote makes explicit reference to the need for the development of social impact measurement tools suitable to ethical banks that, at the same time, could be taken into consideration in financial circles:

> *"in terms of social impact measurement, as a bank you need to do such assessment, and then you see that there are a lot of approaches for social impact measurement but none is very well received in the financial community. If we want our bank to be successful we need to also develop our own methodology of social impact measurement, which would be strict and rigid enough and tested rigidly enough to be accepted by the national bank as an alternative methodology for impact measurement to that of commercial banks. And this just goes on and on"* (Febea_05).

In 2014, according to the information facilitated by FEBEA, the initiative has promoted a pilot program to implement social impact measurement among members "in order to map available information to implement indicators; identify a short list of indicators that can be implemented to measure relevant impacts; and design new indicators that fill existing gaps" (Febea Website). With the objective of analysing the "state of art" and identifying existing gaps of social impact measurement for ethical banks, FEBEA developed a "review of impact assessment methodologies for ethical finance"[16] and presented some SI Measurement methodologies and tools as the *SROI Network – Accounting* or *Impact Assessment, IRIS (Impact Reporting & Investment Standards).* This study also identified the apparent gaps in the field of impact analysis of financial activities (from the economic, social, environmental, as well as the organisational view point) in the context of the particular characteristics of ethical finance actors.

[14] Monitoring is defined as the process that actors use to evaluate the impact/progress of their initiative/network on/in the context of the surrounding societal systems.

15 Study available in URL: http://www.febea.org/sites/default/files/news/files/140605-sub-group-report_en.pdf

16 Report available in Febea's Website: http://febea.org/sites/default/files/news/files/review_of_impact_assessment_methodologies_for_ethical_finance.pdf

In terms of impact assessment, FEBEA aims to create a common tool to monitor their progress over time, which allows them to better focus their efforts and resources. According to the cited study, **ethical banks require the development of specific qualitative indicators** to measure the impact of lending activity, the types of relations stablished with clients and shareholders or the internal organisation procedures (Langella, 2014).

> "The measure of the impacts of all our activities is not an easy step, given the heterogeneity of our organizations and approaches, but is indeed fundamental in order to give evidence of what we have done in the past decades, and share those best practices and expertise that have allowed us to resist and grow also in this period of crisis (…) The gap of indicators to measure this kind of mission is surely due to the difficulties on measuring less "quantitative" elements and to the fact that the mainstream financial system has never been evaluated on those aspects, but still these are no good reasons to do some efforts on this issue" (Febea, 2014, pp. 60-61).

Although FEBEA has recently started to work on measurement strategies, some of the members of the network have more experience in social impact evaluation. One example is the Italian Banca Popolare Etica who has recently published a study titled "The Social Impact of Banca Popolare Etica. 15 years of finance serving the good common" (Altis, 2014 b). This study focused on three main areas of investment in which the impact of a loan granted is particularly significant: social and health services, services for the promotion of cultural, recreational and sports activities and environmental initiatives.

> "The measurement methodology is based on the Social Return on Investment (SROI) which allows us to identify the process of creating the social impact of their activities. The analysis begins with the mapping and involvement of stakeholders and then goes to the definition of the output obtained, outcomes pursued and, therefore, impact reached (…). The items related to social impact were: analyzing the employee capacity; creation of new jobs; satisfaction with the relationship with the bank's representatives and level of relationship management, distribution of funding, health and social services and job placement (Altis, 2014)[17].

Risk Assessments

Interviewees insist on the importance of changing risk assessment procedures in banking. Investment in social companies is perceived by investors as being high risk and low return, and thus not overly attractive. One of the interviewees is concerned with the need of changing this perception, proposing a new index to measure the impact of their activity:

> *"What we see still missing, and I think maybe FEBEA is considering it as a possible addition to their approach, is exactly this link between a cost of a risk and social impact. I think the huge problem for the entire financial sector and all social impact investment organizations is that, right now, investors perceive social enterprises and social impact as high risk for a low return and feel-good affect as compensation, which is not very attractive to them. But if it will be re-*

17 An extended report about the results of this study is available (in Italian) in BANCA ETICA Website: http://www.bancaetica.it/sites/bancaetica.it/files/web/BLOG/ricerca%20altis/BE-ricerca15anni_def.pdf

positioned as a lower risk for a lower return, this would be a completely different part of the portfolio. I think that FEBEA is also curious about how our (NB: Croatian) national regulator will react to this; because if it will be accepted by a regulator in our country, then it could argue to promote it in other countries as well, as a methodology" (Febea_05).

"We actually have some of our own hybrid of different evaluation frameworks, a combination of the most useful that we could find and its basis is in the Austrian "common good" economy framework; you might have seen they have an index of the common good, that is the kind of index that they have developed for companies, and we have experimented on that and adapted it a little bit for Croatian circumstances, but that is the framework that we would like to use on top of the economic assessment when giving out loans" (Febea_05).

4. Local initiative 1: FIARE

4.1. Overview of development in the local initiative

FIARE is (in Spanish) the acronym of "the Foundation for Investment and Responsible Saving", an ethical financial institution which operates in the Spanish territory. Fiare counts on 4.000 associates in Spain, including more than 350 organizations and entities (NGOs, cooperative federations, alternative and solidarity economy networks, trade unions, charities, municipalities...) FIARE signed in 2013 a formal integration agreement with the Italian credit cooperative "Banca Popolare Etica", creating FIARE BANCA ETICA, the first credit cooperative with branches in two European countries. FIARE headquarters are set in Bilbao (the Basque Country) but the initiative counts on several info points in the most important cities of Spain as well as an online banking platform. The initiative has been studied in a few recent publications (SETEM, 2012, 2006) as well as scientific articles (Enciso Santolices, 2013; San-Jose, 2011), some of them written by university professors who are members or founders of FIARE (Sasia, 2009; De la Cruz & & Sasia, 2012; de Castro, 2013). Mass media coverage –including TV documentaries- enhanced the general acknowledgement of FIARE, in special since 2014, when they started to operate as a formal Spanish credit cooperative (*see annex 2*).

- **Origin and evolution of FIARE**

FIARE was founded in November 2003 by 52 non-governmental organizations engaged in development cooperation, social inclusiveness and joined by religious institutions which represented *"nearly the whole Basque third social sector: solidarity economy, development cooperation, the fight against exclusion, REAS*[18]*, NGOs..." (Fiare_07)*. The intention of all these organizations was to "*create a real ethical alternative for the financial sector"* (Fiare_07) and put the banks to the service of citizenship:

[18] N.A. REAS is Spanish branch of RIPESS

> *"FIARE is a project of ethical banking based on a network of social organisations and people that want to put the banking and financial sector to the service of citizenship, to the service of projects that have a positive social impact"* (Gonzalo Gesto, 2014[19]).

Pioneers were social activists, volunteers and representatives of social-based initiatives (NGOs) who "*shared a cultural niche, we were people highly commitment*" (Fiare_ 07). These persons shared a common preoccupation for the use that traditional banks do with people´s savings. Joining to Fiare they "*asked for control and decision-making capacity regarding their money"* (Fiare_08).

One interviewee emphasizes that FIARE was created before the 2008 financial crisis: *"FIARE it is not a response to the crisis, it does not emerge from "indignation"* although it aims to promote *"alternative economic circuits in opposition to the "globalized financial system"* (Fiare_07). The initiative, unique in Spain, responds to the need of filling a gap in the Spanish financial market, thus being able to create *"a real instrument, overcoming purely theoretical debates and putting into practice our values and bringing our common knowledge to the ground.* (Fiare_09).

Although FIARE was initially conceived as a Basque organization, their leaders became immediately aware of the need to extend the initiative to the entire Spanish territory. FIARE needed to increase its social base and fulfil the legal and economic requirements established by the Bank of Spain for the opening of a banking institution in the country. In terms of evolution, two more critical events can be mentioned. The first relates to the contract signed in 2005 with the Italian credit cooperative Banca Popolare Etica, with the aim of establishing FIARe as an "exclusive operating agent" of Banca Popolare Etica in Spain. From the 2005 agreement, Fiare launches its financial activity, collecting savings and lending to economic activities with a positive and economically viable social impact.

After years of stable collaboration between the two entities, FIARE merged into Banca Popolare Etica in 2013. Pioneers recognize that the first phase of the project concluded in 2014 when FIARE obtained the formal authorisation of the Spanish regulator (Bank of Spain) to operate as a bank under the Spanish legislation. Currently FIARE is the Spanish branch of Banca Etica.

- **Aims, values and principles of FIARE**

According to the members interviewed, the general objective of FIARE is "to finance economic activities targeting a positive and transformative social impact and to provide responsible instruments for saving and investment" in order to achieve "societal transformation and social inclusion through the credit" (Fiare 2014). The cooperative adheres to the principles of ethical finance (as explained in section 2):

> - Ethically oriented finance is aware of non-economic consequences of economic actions;
> - Access to finance, in all its forms, is a human right;
> - Efficiency and soberness are components of ethical responsibility;
> - Profit produced by the ownership and exchange of money must come from activities oriented towards common well-being and shall have to be equally distributed among all subjects which contribute to its realisation;
> - Maximum transparency of all operations is one of the main conditions of all ethical finance activities;

[19] Gesto is one of the founders of the Galician branch of FIARE.

- Active involvement of shareholders and savers in the company's decision making process must be encouraged;

Being asked about principles and values, interviewees highlight **transparency** and **active engagement** of associates as the pillars of FIARE, which also became one of the main motivations to join the initiative. Transparency refers to making all the information about the source and destination of the money public. All loans are on the web, with details on the project funded. Wages, the composition of governing bodies and evaluation committees are public.

FIARE´s decision-making model endorses the motto *"one person one vote"* in the formal meetings of the cooperative. Besides, it seems to be a culture of consensus, in terms of searching the maximum consensus possible regarding the strategic decisions.

Practitioners usually make reference to other relevant values existing in FIARE, such as cooperation, solidarity, reciprocity, and altruism:

> *"FIARE has a history of cooperation, reciprocity, donation, altruism of many organizations that have shared money, time, resources and knowledge with great generosity"* (Fiare_07).

- **Societal problem addressed**

FIARE addresses a **problem of discrimination in the access of certain groups of people and organizations to credit**. The initiative claims "the right to credit", in opposition to the structural discrimination that inhibits the development capability of certain sectors of population.

> *"Money creates relations of hegemonic power that lead to structural violence that affects the financial autonomy and the access to credit of a big number of people. The percentage of people that are not attended by the conventional financial system is getting bigger. In several countries, social class and income are the main factors of discrimination and inequality. Indicators of discrimination include gender, ethnicity, age, nationality, region, race, and physical appearance. All of them make a difference also in the financial sector. Such discrimination is a demonstration of economic violence that has not been tackled by public policy".* (Cristina de la Cruz, intervention in Fiare´s General Assembly. Barcelona, 2014).

- **Members of FIARE**

While the founders of FIARE were 52 no-governmental organizations representative of the Third Sector in the Basque Country, FIARE is currently owned by four thousands of individuals and entities which represent the entire social and solidarity economy sector in Spain. The initiative has already more than 4.000 members in Spain (36.814[20] associates in Italy and Spain) that contribute with five million Euro to the social capital (the whole credit cooperative sums up a total of 48,5 million €). The most remarkable characteristic of the social base of FIARE is its plurality and diversity. Almost

[20] According to Fiare Banca Etica 2014 annual report, retrieved from: http://balancesocial.fiarebancaetica.coop/balance-social-2014/personas-socias/

80% of their members are linked to social movements or associations (environmentalism, NGOs, fair-trade, catholic associations, trade unions). "*Public institutions are welcome but political parties are not allowed"* (Fiare_06).

- **Activities developed by FIARE.**

The main objective of FIARE consists of "managing savings raised from private citizens and public and private organizations and invests them in initiatives pursuing both social and economic objectives, operating in full respect of human dignity and the environment" (FIARE Website). Social investment is the main activity of FIARE, which has been conducting since 2005 (as an agent of Banca Populare Etica in Spain). Projects funded by the initiative are mostly related to social cooperation, international cooperation, environmental protection and sustainability, as well as cultural activities and civil society building activities.

FIARE is also understood by respondents as a tool that should facilitate the access to credit of key sectors. Therefore, in addition to regular banking activity, FIARE supports "alternative banking circuits", searching alternative tools to fund risky but socially desirable projects. FIARE has a close relationship with other para-financial entities like Coop 57, Ais O Peto or REAS, that are also members of the bank. These organizations are non-profit, alternative financial instruments and they are not operating under banking laws. They are more flexible tools designed to give economic support to the cooperative sector.

The financial products offered and services that should be provided by FIARE in the future have been a subject of discussion (in informal and formal meetings) between partners, for a long time. Indeed, at least five of the interviewees refer to this topic as an open issue that generated high expectations and proposals and has become an open field for innovation, for proposals of new sectors to fund (sustainable construction investments, individual mortgages), of new financial tools (microcredits, crowdfunding) and for alternative interest rates.

- **Impact of the local initiative so far**

Regarding the social impact of the initiative, the interviewees underline the following strengths:

- **Funding social-oriented projects**: The main social impact of the initiative emerges from the lending activity, which enhances local socio-economic development and contributes to sustainability. FIARE is perceived as an empowering instrument for social transformation which enables ordinary *"create together a bank"* which *"supports projects that its members believe in"* (Fiare_03).
- **Strengthening social capital**: FIARE enables a strong network of personal and organizational capital. The 2014 Social Economy Conference (hosted in Zaragoza, Spain) acknowledged the trajectory of FIARE *"as an example of cooperation and democracy"* (Fiare_07).

> *"FIARE has served to unite groups that, otherwise, would not have come to do anything together. For example, the two Galician environmental organizations are partners of FIARE.*

We joined together the Christian community with the atheists. It was the teamwork of a large and plural range of organizations that greatly enriched the project" (Fiare_09).

- **Generating synergies** between different organizations and sectors: learning projects, trainings, platforms, joining demonstrations and public actions, courses on responsible consumption or ethical finances are examples of the benefit of being involved in FIARE.
- **Dissemination and educational outcomes**: FIARE increases people's awareness about their saving's destination *"demonstrating the existence of financial alternatives or questioning the legality or desirability of high baking rates, for example"* (Fiare_01)

- **International networking**

Many different financial initiatives are gathered around the Federation of Ethical and Alternative Banks (www.FEBEA.org) and the International Association of Investors in the Social Economy (www.inaise.org). FIARE is closely connected to international and regional networks like REAS (Spanish RIPESS´s organization), with more than 500 related organizations. FIARE is also a member of The Global Alliance for Banking on Values, an international association promoted by Triodos Bank.

"FIARE has networked with other ethical banks around the world through the Global Alliance for Banking on Values, which consists of 25 banks that have different organizational models, but that respond to the same question: What is done with my money? Among all of them, possibly FIARE has the widest level of social participation, embeddedness in the social network. FIARE is also part of FEBEA, which is closer to the idea of a cooperative banking network (Ugo Biggeri, intervention in FIARE's general assembly. Barcelona, 2014).

As the president of FIARE BANCA ETICA explains in the following, through international networking, the initiative helps other actors that want to develop an idea of ethical banking in Europe as well as aims to play a political role:

"It is important to change the economic system. The finances will change if we show that there may be alternatives. FEBEA has an important political role. For the European elections, we will ask parliamentary candidates what they think about ethical finance, through the campaign 'Change Finances to Change Europe" (Biggeri, 2014).

- **Timeline**

Year / period	Important activities/changes/milestones in FIARE	Important changes in context
2003	52 organizations meet in Bilbao to create the FIARE foundation with the aim of creating an ethical bank	

2004/2005	FIARE is accepted as a member of FEBEA	
2005	First agreement with Banca Popolare Etica (became an agent of BpE in Spain)	
2003-2009	Creation of FIARE associations in Catalonia, Madrid, Castilla, Andalucía and other regions in Spain	Financial crisis in Spain
2009	Constitution of FIARE-Galicia	
2010	First annual meeting of FIARE-Spain (Madrid). Agreement to initiate the creation of a European credit cooperative (formal agreement with Banca Popolare Etica)	New (worse) financial regulations. The Bank of Spain (Spanish regulator) changes the former rules on creating a credit cooperative
2011-2012	FIARE´s campaign for social capital rising	15th of March "indignados" movement in Spain
2012	FIARE´s General Assembly decides to integrate FIARE in Banca Popolare Etica	Reduction of the number of credit unions and local banks in Spain in consequence of European agreements
2013	Real integration of FIARE and Banca Popolare Etica. General Assembly in Firenze (with both branches).	
2014	FIARE BANCA ETICA has been approved by the Spanish regulator (Bank of Spain). FIARE opens their first bank office in Bilbao. General Assembly in Napoli.	

4.2. Aspects of 'innovation' and 'change' of the local initiative

4.2.1. Relation with social innovation

Social innovation appears to be one of the principal aims of the initiative. FIARE is considered "an innovation in the financial system, considering its origin, principles, practices and instruments that Fiare proposes" (Fiare_09). The following innovative aspects have been pointed out by interviewees:

- FIARE is a social innovation in the Spanish context because the project has not precedents in Spain: "*There were no ethical credit cooperatives in Spain, so we did something new*" (Fiare_09).

- FIARE means also ***"a new way of performing economic and banking activities"*****,** (Fiare_06). Compared to mainstream banks, ethical banks are oriented towards creating and sustaining social value by limiting their product markets and providing transparent services to a selected customer base. Besides, ethical banks claim to correct *"some distortions in the market*", through inclusive strategies.

- Interviewees define the cooperative as **an innovative collective response to new social needs**, able to provide *"answers to new needs, developing new activities and financial tools, as microfinance, crowdfunding and proximity loans, in order to guarantee the right to credit in certain circumstances"* (Fiare_07). Concretely, ethical finances are presented by speakers as an innovative solution to the problem of the exclusion of the poorer segments of society from the financial system and access to credit.

- The initiative strongly emphasizes that ethical **banks promote new ways of relating -within the economic system**-. Social engagement leads to more democratic economic and societal systems. FIARE's decentralized structure facilitates autonomy and encourages the participation of all its members introducing innovative rules and procedures in decision-making processes. The following quotation describes the new culture that cooperative aims to introduce in the economic field:

  > *"FIARE is a political project in the economic sector, citizenship-based, which pursues the democratisation of financial relations and proposes alternative ways to gaining social empowerment within the financial sector. We are a community of action that promotes emancipation, relationships based on trust and a sustainable life... we understand the economic space as a part of the public sphere which also belongs to the citizenship. We open spaces to stimulate the participation and solidarity of the active citizenship"* (Cristina de la Cruz, intervention in FIARE's General Assembly, BCN, 2014).

- Innovation in banking activity and **social impact assessment**: FIARE's loan activity involves the evaluation of social, environmental and economic impact of loans in the community. An ethical social analysis is developed by an Ethical Committee, *"that evaluates the worthiness of customers also in terms of social impact, ethical coherence and environmental sustainability"* (Fiare_01). In terms of the composition of such Ethical Committees, they are formed by members elected by the assembly that have the responsibility to evaluate the fulfilment of ethical requirements.

- **Innovation in the system of guarantees:** FIARE supports the development of alternative guarantee systems (not based on owned property) to facilitate the placement of assets in social projects (alternative to mortgages, personal and bank guarantees). The initiative promotes micro-credits and funds projects based on trust through the cooperation with "alternative para-financial entities" (which activity is not regulated by the Bank of Spain) such us Coop-57 or AIS-O Peto, which are at the same time partners of FIARE.

4.2.2. Relation with system innovation

The initiative pursues a change in the financial sector, introducing and expanding new practices and alternative ways of relating in the economy (see former quote of Cristina de la Cruz). Ethical banks are considered -by practitioners- key actors in economy which can facilitate the transition towards sustainability societies. In words of the president Biggeri:

> *"Traditional banks only accelerate one class of economy, based on money benefits and speculation without environmental or social considerations. Thus, the work of Fiare Banca Etica is very important:* ***we can accelerate another economy,*** *one that is fairer and closer to the community.* ***Banks can make the difference,*** *they can be better, but that depends on us using savings to accelerate the solidarity economy, not speculation"* (Ugo Biggeri, intervention in *FIARE's general assembly, March 2014, Barcelona*).

How to promote system innovation (understood as system change) has been a matter of discussion since the first stages of FIARE. Pioneers and members have extensively discussed on *"**how to achieve financial system transformation from inside the system**"*. On the one hand, the initiative is not a counter movement: "*Fiare is not counter-system tool, this is one of the criticisms we received which generated an intense internal debate*" (Fiare_09); However, according to the respondent, Fiare is able to introduce certain changes in financial system: "by *helping counter-system initiatives like para-financing entities, by funding non-profit projects, and by searching a positive social impact, which is also innovative"* (Fiare_09).

Dialectics between being pure or becoming instrumental also existed within the project. Once leaders and most of the members coincide on the necessity of formality and adapting its structures to fulfil the requirements of the Bank of Spain to become a bank, some counter voices arise showing preoccupation for losing the purity or original values: *"When the formal structure of the bank was approved some members decided to quit, because they had other values and visions" (Fiare_10).*

Being asked about how FIARE is able to force changes in financial system, interviews mention new practices and values that ethical banks have introduced such as that the promotion of **transparency, accountability and equal participation** in decision-making -which are changes that credit cooperatives have brought to the financial system and which can be observed in the financial entities that belong to FEBEA, including the new ones.

Ethical values seem to be increasingly adopted by traditional banks, but there is no agreement about what this means in terms of system change. Some interviewees consider this as a success of the activity of Fiare (and other ethical banks) although for other members *"it is just a marketing/green-wash campaign"* (Fiare_09). Respondents highlight FIARE as a successful experience for other people who aim to create new banks and credit cooperatives. As much ethical banks are founded more capacity they have to force changes in financial system:

> *"We may trigger a change in people but not in banks, because the system is created to function in this way. It will fall on its own. Other realities can make people change their way of thinking,*

> *but nothing more. International companies will continue using the Santander, and it makes sense, on the contrary they could pervert ethical banking. People would stop to use these entities. They could create new ones"* (Fiare_09).

Expert voices anticipate that the financial system will change in short-term, due to new actors operating in finances as the CEO of FIARE announce in the following:

> *"We should be aware of the new agents that are entering on the financial market, for example Accentum, which is providing all the ordinary traditional banking services (cash, income) in some European states, but they are not banks, actually"* (Juan Garibi, intervention in FIARE's Info Day. Lugo, 2014).

Actors facilitating or hindering system innovation

Practitioners identify a diversity of actors as being influential in either hindering or supporting system innovation in the financial sector, such as **public regulators and lobbies**. All interviewees mention governmental institutions -as the Bank of Spain or the European Central Bank-, which hindered the viability of credit cooperatives in Spain and the European Union. Both regulators appear to be a barrier to system innovation, through a conservative policy of reducing the number of banks and credit institutions in the country.

> *"Especially with the crisis, the economic policy was to leave the control of financial activity to the three or four largest banks (...) A new number of requirements were set that we couldn't fulfil. The social capital required to create the bank was increased as well as the infrastructure that you should have. The Third Sector does not have enough the strength needed"* (Fiare_01).

The legal requirements to establish a bank can act as a deterrent. FIARE was able to deal with this issue thanks to their international networking activity. Becoming a member of FEBEA enabled them to get in contact and establish *"a trustworthy relationship with the Italian credit union Banca Popolare Etica, sharing knowledge, expertise and finally sharing the same project"* (Fiare_07). The Italian bank gave technical and financial support to FIARE in order to create the Spanish initiative.

Economic requirements (fees) to become a member of the initiative have been also mentioned by several volunteers. Being a member of FIARE involves purchasing of a number of "shares", which can be a barrier to people who are not related to this kind of organizations (cooperatives). Plus, the lack of financial culture and conservative consumption behaviour are individual barriers which difficult the expansion of FIARE in the Spanish territory: "p*eople are afraid of losing their money. There is a huge discontent and distrust regarding regular banks, but people are afraid to change to alternative options"* (Fiare_09).

Several interviewees shared the intuition that big businesses' lobbies are the real designers of economic policies and political agenda, influencing governments and institutions like the European Commission. FIARE should be aware of this activity and do social lobbying if possible.

> *"There are lobbies that pressure. Economically, there are big business lobbies, in Europe and in the world, and in the European Parliament there are professional lobbyists. There are certain legislative techniques. For example, the famous white papers prepared by "independent" commissions, which are adopted by the European Commission or the Parliament, but in those commissions also participate representatives of private companies"* (Fiare_06).

Relations with the government of Spain seem to be inexistent. Otherwise, the initiative has good relationships with local or regional institutions such as the regional govern of the Basque Country or an increasing number of municipalities, which became partners or clients.

Co-optation attempts by mainstream banks

FIARE appears to be in good relations with other local or regional banks (Caixa Rural, Kutxa) or Triodos Bank. The interviewees also mention the high level of interest that FIARE produces for some financial institutions or competitors. The initiative is currently perceived as a potential "competitor" by other local or small banks, as we can deduct from the several attempts to "cooptate" FIARE by mainstream banks:

> "*We received several proposals to develop our initiative within their structures, from different financial institutions, willing to make heavy capital investment and preserving our status as a completely autonomous bank in Spain, with the input of a very interested investor. We had several and diverse options. FIARE, in 2008, received an informal proposal from a buyer interested in acquiring our brand for 1 million Euros* "(Fiare_07).

> "*FIARE does not scare anyone, banks look at us with sympathy. For example, the Basque Kutxa Bank offered us to become their ethical branch, but we do not want anyone to control us. We are not going to be taken by conventional banks, because our philosophy does not match with theirs*" (Raúl Asegurado, President of FIARE-Galicia, 2009).

4.2.3. Relation with game-changers

- **2007-2008 financial crisis**

All the interviewees pointed out the extraordinary impact that the 2007-2008 financial crisis had in the expansion of FIARE with positive and negative side effects. This crisis provoked that many credit cooperatives and small local or regional banks and saving institutions (which used to fund local/regional economies) disappeared or where forced to merge with larger banks in order to survive and fulfill new banking requirements. Banking regulations adopted in Europe (Basel III) and Spain were perceived as barriers which directly contributed to this process of concentration of capital in few large banks. In the case of FIARE, new regulations forced or accelerated the agreement between FIARE and the Italian credit cooperative Banca Popolare Etica as the following explains:

> *"New obstacles appeared in the process of constitution of FIARE: the banking policy was tightened. The legal requirements to create a bank have increased, including the necessary capital for the legal authorization by the Spanish regulator. These issues led to the agreement with the Italian Banca Popolare Etica to become partners within a single bank"* (Fiare_01).

Positive outcomes of the crisis relate to the increasing awareness regarding banking practices. Ethical finances became popular and more individuals and community-based organizations joined

FIARE. Banking practices entered in public and mass media agenda, which facilitated the acknowledgement and comprehension of ethical banking alternative discourse:

> *"Explaining the aims of our project takes us now half an hour less (after the crisis). In 2000, when we proposed alternatives to the financial institutions, people asked us: why do you have to look for alternatives? Explaining these issues today is easier. People understand what had happened and they consider reasonable to look for alternatives. The crisis facilitated this and our membership has increased" (Fiare_07).*

One of the managers or FIARE BANCA ETICA explains the consequences of the 2008 crisis in terms of loss of confidence and distrust in banking activity:

> *"Since 2008, the banks have experienced a period of great turbulence: they are responsible for the lasting crisis, triggered by overly speculative finance, and have struggled to cope with the loss of confidence by investors and growing problems in the real economy. In the same years, Banca Etica has been experiencing a steady increase in confidence from investors and shareholders. Our Savings and share capital have grown significantly since 2008, allowing us to be one of the few banks that has continued to grant credit to families and social enterprises, with a non-performing loan rate that is well below the average of the banking system" (*Mario Crosta, intervention in Fiare Banca Etica Assembly, June 2014, Napoli).

However, as a grassroots social innovation grounded on the social and solidarity economy sector, the economic crisis had also a collateral negative effect: the decrease in public funds weakened the viability of many third sector initiatives and transformative projects. As one interviewee remarks: *"the crisis has generated a tremendous vulnerability, it has weakened a lot of people and destroyed valuable social organizations"* (Fiare_07).

- **Changes in the funding activity of traditional banks**

Since 2008, most of the European traditional banks changed their loan activity and reduced (or cut) financial support to individuals, small companies or cooperatives: "*If you are a foundation, a cooperative or association, banks do not care your needs"* (Fiare_07). FIARE reacts to this situation by adapting its activity and strengthening its role of supporters of local and social economies, as President Biggeri explains:

> *"The crisis has produced a reduction of 5% of the loan activity. This situation requires a change in our work: we have to be more active in looking for new projects to fund but without changing the orientation of the bank. Our responsibility is to support the social economy, despite the crisis, looking for solutions together. We will not look for new networks or change our target. We must actually support the local networks" (Quote: Ugo Biggeri, Fiare's General Assembly, Barcelona, 2014).*

Besides, the initiative started to provide alternative ways of funding projects that cannot be sustained by regular financial tools:

> *"We had to create alternative economic circuits. There are applicants for funding that are very risky and yet we recognize their right to credit. They are risky because they are fragile, they*

> *require a commitment of seed capital and venture capital, which are non-mortgage loans. That cannot be done with the bank savings, which are protected by legal insurances. But another type of loans can be provided by engaging alternative local finances. Ethical banking means much more than a financial tool"* (Fiare_07).

- **Information and communications technologies**

Most of the interviewees highlight the extraordinary role of ICTs in the communication and participation strategies of the initiative. At the time this research was conducted (second part of 2014), FIARE had only nine employees working in Bilbao's headquarters, which appears to be a reduced staff in comparison to regular banks. The universal access to internet (in the European context) and the evolution of *online* banking services and secure platforms has facilitated the emergence of alternative banks which mostly operate through the Internet. Clients' banking operations can be done without face-to-face contact with an employee, which is a remarkable step forward in the consolidation of the social initiative as a "real alternative" to traditional banks.

Personal contact is replaced with a strong transparency policy using ICT technologies. The respondents mention the fact that FIARE BANCA ETICA is an Italian-Spanish credit cooperative which permit all its members to participate in decision-making processes, including general assemblies. However, to move all members to the physical space where to meet each other, discuss and vote is not possible (and not affordable) for the cooperative. So, Streaming video-conferences have enabled that the general meetings could be followed *online* by many associates and even interact or participate in the plenary through video-conference platforms. In terms of transparency, annual reports, information about savings and investments, projects financed by the bank, internal rules and all kind of organizational information are provided on FIARE website. Social networks (Facebook, Twitter are repeatedly mentioned) and the different blogs updated by volunteers permit direct access to the information about the initiative.

4.2.4. Relation with societal transformation

FIARE's values and goals relate with societal transformation in terms of challenging and countering current economic and societal relations that maintain hegemonic power relations, which lead to structural inequality, oppression and violence (see Cristina de la Cruz quotation in section 4.1.). Practitioners claim that *"economic and financial activity is not neutral"* (Fiare_09), and argue that traditional banks fund projects that only benefit the same minority of people and impoverish the majority, instead of "*facilitating a better life for everyone*" (Fiare_05).

Is shared knowledge among practitioners that ethical banks favour a positive social transformation throughout the credit activity and the alternative economic model they support: *"economic activity should be governed by ethical criteria. Savings cannot support economic activities like army industry, labour exploitation, and environmental destruction. Credit activity should serve social justice and the common good*" (Fiare_9).

> *"Therefore, there is an element of opposition to the mainstream, which in our case is the liberal way of understanding the financial system. Certainly, our aspiration, the utopian element that FIARE aims at is the transformation of the financial system as a whole, but our starting point is not that. Transforming the financial system requires many actors and not just an economic alternative. What concerns and occupies us is the creation of an alternative economic circuit"* (Fiare_07).

Social engagement is also mentioned as a mechanism and requisite to societal transformation. Fiare claims to be "*a project which requires the active participation of people and organizations who put their savings at the service of citizenship and in which transparency and participation are the marks of identity" (Fiare-Galicia, 2014).* Societal transformation involves also the commitment of other key actors like administrations which should operate as facilitators for social innovation, introducing changes at legal and political level and altering certain relations within political and economic sectors:

> *"System transformation implies changing the entire institutional framework that supports financial markets and allows certain financial behaviours. We are talking about a series of dynamic interactions between economic powers and authorities, including political influence, lobbing, etc."* (Fiare_07).

FIARE's transformative ambition has a lot in common with the demands of **emergent social movements** in Spain, as the 15th of May movement ("indignados"). These movements and manifestations mobilized millions of people in Spain demanding the transformation of political, financial and social structures and, at the same time, generating structures of opportunities for people excluded from the financial system. Several interviewees make reference to this movement and the connection between both initiatives. Although only a reduced number of people involved in the 15th May movement joined FIARE, such movement *"brought new questions up, ideas and thoughts which significantly contributed to the development of Fiare"* (Fiare_10).

4.2.5. Relation with narratives of change

FIARE is a unique experience in Spain but it is not an isolated initiative. The cooperative connects also engages with new social movements and their discourses of change.

A new paradigm of banking based on the human right to credit. FIARE contains a political dimension which endorses a universal *soft right: the "human right to credit"* as a key tool for economic development, poverty reduction and the improved welfare of all citizens. The initiative is clearly influenced by the transformative discourse proposed by the Nobel Peace Prize Muhammad Yunus against the consequences of a discriminatory financial logic have a right to credit. The creator of the "Grameen Bank" has demonstrated the transformative potential of microcredit in developing countries. The access to credit is understood like a subordinated right, a condition for the realisation of other basic rights and, consistently, for the development of a worthy life.

> *"The right to credit is a pre-condition to make a decent life possible, in certain circumstances and conditions. It is an innovative idea"* (Fiare_07).

Godwing & Stoddard (2001: 2-3) pointed out that Yunus has successfully changed the paradigm of banking, reversed conventional banking practices and created a banking system based on mutual trust. The right to credit is valued from the optic of the **emergent human rights**. The Universal Statement of Emergent Human Rights contemplates rights that arise from social transformations (technological change, globalisation), as well as updates of classical human rights, from a new citizen participation approach.

Political dimension of ethical banking. Interviewees acknowledge the influence of anti-capitalism, solidarity and environmental movements in FIARE's values and principles. Equality, community development, social justice, "*to work for the common good*", *"place people in the centre of the economy"* are common topics discussed at meetings and in conversations. Such political dimension can also be observed in the new *Manifesto* which FIARE BANCA ETICA approved in 2014, claims:

> *"We look for a model of society based on justice, which can be materialized in a specific model of production and equal distribution of wealth, considering the needs of individual and the community. We believe in a society that: 1) recognizes the equal dignity of all persons who compose it, respects and esteems diversity and pluralism; 2) creates and maintains the premise that each person is free to develop her own life in harmony with others; 3) claims that the human person is a value in itself; 4) believes that the structures are "for the people" and not that people exist "for the structures"; 5) promote and encourage reciprocity, interdependence, responsibility and guarantee preferential attention to people at disadvantage, by considering the emerging forms of poverty and marginalization"* (Fiare Banca Etica *Manifesto*, 2014).

The **relational dimension of the economy**. The members of FIARE incorporate several discourses from the "critical economy" into their transformative discourses. Supporting economic perspectives that put more emphasis on the common management of property, they highlight the relational dimension of the economy:

> *"The economy should be serving people. Therefore, we say that FIARE is clearly anti-capitalist (...) We propose an alternative financial system where the person is in the centre of the economy, rescuing the original value of short financial circuits and the relational dimension of financial intermediation"* (Fiare_07).

Feminist economy perspectives is also present in FIARE´s discourses in relation to the role of ethical banks in reducing gender discrimination in banking practices. Leaders of FIARE have observed gender issues concerning the access to credit -women entrepreneurs find more difficult to get a loan than males-. Also, the initiative puts special emphasis on female presence in decision-making structures, such as the Board of Directors or Ethical Committees.

Some organizations participating in FIARE have a Christian faith-based ethos. Interviewees mention the role of certain Catholic initiatives as founders of FIARE. Cáritas and other Christian-based associations have promoted, in Spain, a series of experiences framed as contributing to the local economy, based on informal solidarity, which rejecting both the dependence on public subsidies and the traditional charity of the Church. Critical Catholic perspectives arise from the thoughts and insights of many interviewees when they talk about the values and the political mission of the initiative, especially in relation to social justice, poverty and human rights. Such organizations are close to local and transnational social movements advocating migrants' rights, alternative economy, the global justice movement, peace movements or anti-globalization movements.

Ecological discourses. **The influence of sustainable development discourses on the initiative** is expressly recognized in the above mentioned "Political Manifesto" (2014), claiming a necessary inter-dependency between economy and ecology: *"We believe, therefore, in a model of sustainability closely connected with the quality of life of the individual and of the community; ecological balance and biodiversity conservation; the commitment to responsible consumption; investments in the production of energy from renewable sources; food sovereignty; and guaranteeing a good life for future generations*" (Fiare, 2014).

4.3. Aspects of empowerment and disempowerment of the local initiative

4.3.1. Governance

4.3.1.1. Internal governance

Structure of the initiative

FIARE is a cooperative corporation, which currently operates in the Italian and Spanish territory. Their internal statutes have been recently modified, adapting internal structure as a result of the integration process between Fiare and Banca Popolare Etica. In terms of internal organization, the initiative differentiates between the associative structure (based on 5 territorial areas: FIARE is the 5th Area) and the operational/banking structure21. Since the last restructuration, cooperative is run by four main bodies: The Shareholder's Assembly, the Board of directors, the Board of Auditors and the Guarantee Committee.

The **Shareholder's assembly** is the sovereign body of the Bank which deliberates in ordinary and extraordinary sessions. **All shareholders can participate**, and **everyone has the same right to vote**, whatever is the number of shares they hold. Moreover, "the Assembly is to be considered as a place where people, who have ethical finance at heart and who strongly believe in its principles, can meet, exchange experiences and opinions" (Fiare Banca Etica Website).

The **Board of Directors**, whose members are democratically elected among the shareholders by the Assembly, manages Fiare Banca Etica. To guarantee an operative management, the Board of Directors nominates an **Executive Committee**, composed of only few of its members, including the President, which carrying out the main activity of the cooperative on the basis of the executive capacity rented by the Board.

21 This information has been retrieved from FIARE's Website http://www.fiarebancaetica.coop

The **Board of Auditors** supervises the bank's management, to ensure that it carries out its functions in compliance with statutory constraints, legal rules and company resolutions. The **Guarantee Committee** resolves potential conflicts which may arise between the bank and shareholders' local groups or shareholders.

Besides, the respect to the principles and values of the initiative is monitored through appropriate tools and **supervisory bodies such as the Ethical committee**. Ethical Committee is formed by volunteer members of FIARE, elected in the general assembly, that have the responsibility to evaluate any project funded by FIARE. Their positive evaluation is a necessary requirement to obtain a credit. **The economic viability is paired with a social and environmental** assessment of the loan applicant. Credit is granted if project fulfil certain parameters such as: democratic participation, transparency, gender equity, respect for the environment and fair labour conditions and community engagement.

Territorial Structure

Regarding the **territorial distribution**, Fiare Banca Etica works in Italy and Spain through 5 territorial areas: North East, North West, Centre and South of Italy, and Spain (Fiare represents the fifth area). Every Area is managed by a Forum composed by a member of the Board of Directors, a sales manager, a cultural Manager and a representative of the active shareholders. In terms of people's engagement, the initiative has developed a territorial organization based on the local dimension. Local Circumscription and the GITs -Territorial Initiative Groups- are the local manifestations while the *"Area"* (e.g. Fiare in Spain) operates as a liaison with other Areas.

The **Groups of Territorial Initiative** (GIT), which are coordinated by volunteers, aims to spread the culture of the ethical finances, satisfy the needs and interests of the territory and guarantees the information on the activity of the Bank. The **Forum of Area** aims to give voice to the local needs and develop, at the same time, a more rooted action and coordinated in the territory. The **Interforum** is a consultative organism that supervises and evaluates the organisational processes that interest the numerous activities of the bank and its interrelationships. According to the 2014 Annual report published by FIARE, the initiative counted on 20 GITs (groups of territorial initiative) along the Spanish territory.

Practitioner's insights into Fiare's internal governance

- Institutionalisation and intended formality are substantial characteristics of FIARE. Promoters aimed to create a no-profit credit cooperative according to the Spanish legislation and supervised by the bank of Spain. From the first moment, the initiative has a legal structure, the "FIARE Foundation", which embodied the institutional commitment of 52 entities promoters which made a first economic investment of 3.000€.
- One interviewee mentions the quest of legitimacy in terms of being considered as a reliable baking option by citizens and social organizations: *"We did not want to do a para-financial activity, or seem little formal. The legal structure has always been an essential condition. Although there are norms that seem unfair, while they exist, we strictly fulfil them"* (Fiare_07).

- The decentralised organisational structure remains a high responsibility on the partners that get involved as volunteers in the management of the entity. Fiare is grounded on *"a high specialized not rewarded structure"* (Fiare_07).
- Although exists a wide satisfaction on the structure and the responsibility that assume the volunteers, few discrepant voices are mentioned by the interviews. Some partners discuss about the need to reform the current structure, proposing a process of professionalization. This involves increasing the financial structure with more workers and, maybe, reinforcing the internal structure to be more efficient and agile: *"we should evolve from a charismatic process, where leaders and individuals have boosted the process, to a more institutionalized structure, where workers and managers lead the process, assuming more responsibilities"* (Fiare_02).
- An ongoing debate was observed, in several meetings and assemblies (participant observation was carried out in the second part of 2014), regarding the criteria of selection of the new members for organizational structures. One interviewee proposed that "*a highly-qualified profile with extended experience should be, among others, a requirement for the candidates"* (Fiare_01).
- The decision-making process in FIARE seeks the consensus of members, through previous intensive discussion. The following interviewee refers to agreement adopted at local and regional level: *"We don't vote. Decisions should be unanimous. Distensions make no sense, because would mean a big issue"* (Fiare_09).

A variety of actors involved in the initiative

As mentioned in the first section of this chapter, actors involved in FIARE are individuals and social organizations which aimed to create a credit cooperative that serves the social economy, financing sustainable and local projects and avoiding no-ethical investments, arguing that "*a different bank is possible"*. Most of them participate previously in social organizations such as environmental NGOs, Trade Unions, fair trade movement, sustainable consumption groups, and, in a very important percentage, catholic base-organizations or para-financial organizations (Ais O Peto, Coop57...).

The **previous experience accumulated by the pioneers** and promoters appear to be key points for the success of the process for many interviewees. The most involved people in the project were, at least in the first moment, people that belonged to social movements and social organizations, people with a wide experience in the organizational field, well-informed about the characteristics of this type of projects. As one of the pioneers explained to us, FIARE required *"a lot of patience, consensus, reflection and capacity of work"* (Fiare_09).

> *"Background matters a lot. Fiare wouldn't be the same project without the accumulated experience of many people. On the other hand, there wasn't any kind of conflicts that happens in other entities, although the level of debate was greater. We were making very important decisions"* (Fiare_10).

FIARE cultivates a culture of **inclusiveness** which facilitates the connection among individuals and a variety of social-based initiatives and public entities. The leaders of FIARE are proud of their capacity to engage a huge number of organizations with different origins and goals and persuade them to join the cooperative and share knowledge and experiences with people with different -sometimes opposed- backgrounds:

> *"We share a common objective, which is highly ambitious and necessary. Fiare is a beautiful project that demonstrates us that we can forget our differences and work together for a common good"* (Fiare_03).

Motivations to join the initiative

A first conclusion of the analysis is that most of the interviewees share a common worldview and perceive the principles and vision of the initiative in accordance with their personal values:

> *"Most of us are in the project because of the ideological basis...what interested me the most was the ideological base, Fiare is a grassroots-based project, aiming to achieve a common good, and positive impact"* (Fiare_09).

Joining FIARE is, for some associates, a "matter of consistency" between their values and their practices, by placing their savings into an ethical financial institution, which supports social and solidarity economy and contributes to sustainability.

> "*In my personal opinion, joining Fiare is an ideological issue. If you save your money in other banks, you are contributing a series of things. If you save your money in Fiare you have the opportunity to decide. I don't know one project funded by Fiare that I wouldn't support. Having the capacity to impugn a credit, because the project does not fulfil the requirements, it is a great step forward"* (Fiare_10)

Asked about their personal motivations to join the cooperative, most of the interviewees also share the desire to contribute to the process of construction of an ethical bank, a real alternative as the following quote explains. They are motivates by the opportunity to *"do something real, transforming utopia into reality"* (Fiare_03).

> *"What I like most about Fiare is how it is constituted. Beyond being an ethical bank -because we have Triodos- Fiare has a different ideological base and performance. In Fiare we are involved in the construction of this bank. We are part of the project"* (Fiare_01).

Other practitioners are more motivated by the opportunity to participate in the banking decision-making processes. They wish to have certain control about what the bank does with their money:

> *"The members of Fiare are people concerned with what they want to do with their money; they want to be responsible and control the destiny of their money* (Fiare_08).

Active participation as a basis principle difficult to achieve

One of the main principles of FIARE is democracy and participation of all members in decision-making processes. The initiative uses classical strategies to enrol new members, as organizing meetings and conferences in public spaces in order to present the initiative as well as "face to face" reunions with relevant actors and stakeholders (for instance, public institutions, municipalities, foundations). FIARE partners perceive the participation as one of the main values of the project, but active engagement is still a challenge.

> *"Participation is a challenge and we are concern that the management of large human groups require other mechanisms"* (Fiare_07).
>
> *"In any cooperative, there are "sleeping" partners, that support us with money, because the project is interesting, but they do not want to carry out an active work. They do not want to be part of the process of construction. They know and trust the people and leave them carry out the work. I believe that any cooperative works in the same way"* (Fiare_01).

FIARE has over 4.000 members but most of the interviewees pointed out that only 10% of the social base participate in meetings, management work or decision-making processes. This lower participation of associates in internal structures might generate in the mid-term a negative consequence that some practitioners currently perceive: *"a "burn-out" effect on some volunteers that have been involved in Fiare from the beginning"* (Fiare_09).

4.3.1.2. External governance

In the preceding section 4.2 of this report we discussed how changes in the European banking regulations have disempowered and affected the governance of FIARE. We will now turn to a few aspects regarind their relation to local and regional institutions.

FIARE maintains good relationships with different levels of government, in special in the Basque Country, where the initiative has established some agreements with the regional government which enabled FIARE to handle the public aid for development cooperation. 31 municipalities and local structures are partners of FIARE[22]. Interviewees see as positive maintaining good relations with institutions and of them demand strengthen these linkages even more and gaining political influence:

> *"We need to work with municipalities, councils, the regional government, the State. They should approve laws and develop projects oriented to the construction of a better society. We should try to work with them to changing attitudes, ways of thinking"* (Fiare_01)

According to some interviewees, until 2014 institutions use to be sceptical regarding the cooperative´s capacity", as the cooperative was a marginal project. Although such perception has changed over the time, the general distrust on any financial proposal (due to the financial crisis) used to be a strong barrier when seeking institutional agreement.

FIARE maintains brotherhood relationships with social and solidarity networks as REAS (The Spanish branch of RIPESS). REAS is a founder member of FIARE and strengthens social economy sector through dissemination initiatives (conferences) and networking activities (named *"Social Market"*).

[22] According to the data facilitated by the initiative in December 2014.

4.3.2. Social learning

The first conclusion of this study is that participation in FIARE has involved a deep process of learning for practitioners, which facilitates the comprehension of financial system as well as provides competences for running a grassroots social initiative. Interviewees are aware about the necessity of information and training on economics and finances:

> *"At the beginning, each meeting of the local groups had a part of training for new partners"* (Fiare_09).

Each practitioner that joins FIARE and actively participate in the project –at local, regional or international context- should comprehend, for example, what a credit cooperative is and how it functions.

> *"At least the most active people in FIARE had much to learn. We attended to some talks but I had no idea about economics. Economists are a minority in FIARE. I learned a lot in these years, as well as how to communicate*" (Fiare_09).

Social learning occurs mainly in spaces which permit face-to-face encounters, such as assemblies and meetings where volunteers share their experiences, doubts and discuss about the activity of FIARE. Besides, the initiative use Internet (blogs, newsletters, Website, social media) as a learning tool in which to share experiences and disseminate FIARE´s activity to associates and to the wide audience.

According to several interviewees, volunteers need to develop certain skills related to internal management, team-working and abilities to participate in decision-making processes. In terms of participation, one of the ageing volunteers of FIARE makes the following reflection:

> *"Society does not have ability for dialogue. There is a lack of social skills and group participation influenced by the educational model, the media and the trivialization of the discussions through social networks such as Facebook"* (Fiare_02)

Information is closely related to democracy and participation. Participatory decision-making requires having the knowledge and abilities to elaborate proposals and defend a position. Banking issues are not common knowledge for everybody and some people could feel excluded from the internal debates, if they do not have a real chance to participate or express their opinion. If exists an excessive empowerment of the organizational structure (management staff, technical team, leaders involved in organizational bodies), this might have the perverse effect that only the most informed people lead or participate in decision-making processes: *"which can happen and has happened in many organizations before. Especially if technology is as important as in financial intervention"* (Fiare_07).

In order to avoid this, a bigger effort of information and education is required, as one of the leaders of FIARE explains:

> *"Finances are not only for the smart people, workers or experts. Everybody in FIARE should participate in the relevant decisions. Associates must be informed and should know about the issues for discussion. On the contrary, participation would be a lie"* (Juan Garibi, Financial Director of Fiare. intervention in Fiare's Info Day, Lugo, 2014).

One of the tasks volunteers are assigned has to do with "educating society" on ethical finances, giving talks and participating in public debates, info days, press interviews, etc. Not many people involved in FIARE had good communication skills. As several respondents pointed out, participating in FIARE help them to improve their communicative abilities and capacitate them to explain the project in short and large groups:

> *"In order to be able to present our project to the public, in our GIT we dedicate some seasons to inform and debate about FIARE, ethical finances, the characteristics and differences. It was a work in group, with more volunteers; it was exciting and very fulfilling. I have never talked in public before, but I can do it know, it was a personal milestone" (Fiare_03)*

Social learning is strongly connected to active participation within the initiative. Practitioners have listed a number of positive outcomes of engagement: learning process, being informed about the process, meeting new people with different perspectives of reality are positive benefits of involvement.

> *"The plurality, the diversity of sensibilities enriches a lot the project... makes you see things you would not see. Dialogue between different perspectives is very rich... Working groups generates a dose of reality and you perceive that alternative economy is possible" (*Fiare_06).

Capacity building and empowerment are highlighted as substantial outcomes of the project, a clue to social innovation and social change. Being able 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.

> *"We see that it's possible to collaborate in small initiatives without another bank, or the State, or a grant from the regional government. Some projects have succeeded thanks to the initiative of one or two people. That encourages you because sometimes we reject the personal initiative; we say we are not able to do anything. In Fiare, I noticed that people take the initiative, which is something that motivates me"* (Fiare_06).

> *"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"* (Fiare_03).

The following quotation refers to learning about how to gain credibility and good reputation:

> *"We have to do rigorous work, better that the others banks. A bank uses the money of its clients and has to do it well. It should consider both economic and social effectiveness, supporting projects which engage social organizations and local networks. The projects funded by our bank are better, the quality of the credit is better than what the traditional banking sector offers, with a high level of commitment and few slow payers.* (Ugo Biggueri, intervention in Fiare's General Assembly, Barcelona, Spain, 2014).

Since 2005, the initiative has been involved with European networks as FEBEA, which permitted FIARE leaders to meet similar initiatives in the south of Europe and establishing partnerships with the Italian Banca Popolare Etica for sharing the knowledge and resources.

> *"We identify Banca Popolare Etica, founder of FEBEA, as a reference in Europe. We wished to establish a partnership with them to help us to build the most complicated part, the banking issue, how to make an economically sustainable project of this nature."* (Fiare_07).

Since 2010, both financial entities initiate the processes of creating the first European (ethical) credit cooperative, which finally was named FIARE BANCA ETICA. The construction of this new cooperative project has been described by many respondents as an authentic mutual learning process in a networking international context.

> *"We learned a lot. It is a **mutual learning.** One can see it since the first assembly in Barcelona. There was all the board of Banca Popolare Etica. Many Italian people come to here. We saw a lot of interest from both sides. They meet us, they know us, we talk to them. This is the most important part of these encounters, meeting people, from the Spanish territory as well from the Italian one"* (Fiare_01)

The agreement between FIARE and Banca Popolare Etica enables a close and continuing interaction between practitioners from both initiatives. Social learning processes (re-)shaped the activities and the structures of the initiatives as volunteers involved in organizational duties manifest across the interviews. For example, the bottom-up process, the territorial structure and the plural ethical commissions, composed by volunteers, are characteristics of FIARE that will be adopted by the Italian part of the project.

Personal meetings, workshops, general assemblies etc. facilitate remarkable knowledge interchanges between people from both structures, which enhance creativity and innovation processes.

> *"You perceive happiness on both sides. We have also brought fresh air to the project. When we were working in groups, everyone wants you in their group, because you are Spanish and you bring fresh air. Italians have been working together so long that maybe they are closed to new ideas. Another perspective makes them thinking. This is an interesting part of the project, learning from all persons and organizations that are very different"* (Fiare_01).

> *"I see Banca Popolare Etica as a big bother. I see the steps we can take in the future. Managing and operating ideas… the network of mutuality, where partners offer their services, the crowdfunding platform… They give mortgages. Of course, our steps don't have to be the same. We should choose our pathway"* (Fiare_01).

The following interviewee highlights the issue of coherence in terms of maintaining the core values and principles of the initiative as well as how such principles should address the banking practice as well as people´s behaviour:

> *"Despite having one million euros in profits, the project Banca Popolare Etica has not been perverted. The composition of their Board Committee follows some clear but no written criteria,*

> *representing the plurality of the project. Regarding the question of gender, a majority of women compose the Board Committee. And people. Wow, when you look at the curriculum! They are very close people. Humility… At the meeting in Bilbao, many Italian people came to listen, help, improve, change"* (Fiare_09).

4.3.3. Resources

Initial economic investment to become a bank: the main aim of FIARE was the foundation of an ethical credit cooperative in the Spanish territory. According to the Spanish regulations, among other requirements, the financial investment demanded by the Bank of Spain (explained in a very simplified way) reached the amount of 8 million Euros of Social Capital. The initiative raised new capital by increasing their membership and by asking existing members to increase their savings, conducting a social capital raising campaign along the whole Spanish territory. Despite these efforts, the irruption of the financial crisis and the inability to fulfil the economic requirements, motivated the integration agreement between FIARE Foundation and the Italian credit cooperative Banca Popolare Etica, as have been explained in previous sections.

Requirements to become a shareholder. Any member of the cooperative must purchase the minimum number of co-op shares. This initial investment[23] (300 € is the minimum for individuals) has been perceived as a barrier to engage more associates by three interviewees. On the other hand, based on the territorial context, the initiative reduced the initial amount required, for example, in case of no-profit institutions. The economic barrier seems to be the main explanation for the lack of young people in the initiative. On the other hand, being a proprietary of the cooperative is an essential requisite to participate in the election and voting processes in general assemblies.

Economic sustainability of the initiative. The practitioners are concern about the economic sustainability of the initiative. The dimension of obtaining benefit refers to good bank management, because FIARE do not distribute benefits between shareholders. The aim of FIARE is the social profitability, understood as the funding (placement of assets) of economic activities with social added value. *"We intermediate between depositors, who are keen to invest savings in socially and sustainable project, and borrowers, who represent various types of social and environmental organizations and enterprise. Competing on rates with traditional baking is not our objective". (*Juan Garibi, Financial Director of FIARE. Intervention in Fiare's Info Day, Lugo, 2014).

Human resources: limited organizational structure and volunteering. As we mention in the previous section, the initiative is ruled by highly qualified group of volunteers and only eight banking professionals for the financial structure of the credit union. Some interviewees consider that volunteer participation could slow down the future evolution of the project, asking for strengthening the structure hiring more professionals.

Specific software for online baking: *"We use Free Software in all computer teams but working only with free software is impossible, because no banking management free software systems are available.*

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23 According to the information provided by the initiative in 2014, the economic investment required by FIARE for individuals is 300 €; 600 € in case of no-profit legal organizations; and 2,000 € in case of profit organizations and Public institutions: 2.000 €

We had to buy an overall package that, in our case, we rented to "Rural Via Computer Services" (Juan Garibi, Financial Director of FIARE. Intervention in Fiare's Info Day, Lugo, 2014).

4.3.4. Monitoring and evaluation

In the context of ethical banking, a global consensus has arisen on the need to improve techniques of monitoring and assessment of the impact, efficiency and sustainability of financial activity and social projects. The Italian branch of FIARE BANCA ETICA has recently published the study "The Social Impact of BANCA ETICA. 15 years of finance serving the good common" (Altis, 2014 b). This goes beyond the economic evaluation of the activities and services provided, focusing on the changes operated in the beneficiaries, on the community and on the environment. Measure methodology is based on Social Return on Investment (SROI) which allows *"identifying the process of creating the social impact of their activities. The analysis begins with the mapping and involvement of stakeholders, then go to the definition of output obtained, outcomes pursued and, therefore, impact reached"* (Altis, 2014).

The Italian study demonstrates the capability of ethical financing to activate a positive circuit for community and the improvement of services for people who are dependent or in fragile condition. In particular, there are three areas of investment in which the impact of a loan granted by BANCA ETICA is particularly significant: social and health services, services for the promotion of cultural, recreational and sports activities and environmental initiatives[24].

Being asked about this issue, one interviewee affirms that the social impact of the initiative can be measured by the whole credit activity:

> *"In our case, the social impact is strictly measured by the activity of credit. When we talk to other financial institutions about social activity, we always say that 100% of our project, all we do, is social activity. We are a no-profit entity. There are no grant dividends. Everything is geared to lend. And all our credit activity respect strict criteria that evaluate the social impact of any investment. We can make other calculations. The direct and indirect employment that we have created with our funds. Things like that. But basically, the social impact is to help organizations that have granted credit to be alive"* (Fiare_07).

"The New Economy Laboratory".

FIARE Foundation is launching the project of *"the new economy lab"* in Spain with the aim of creating a network which gathers social enterprises, universities and third sector organisations, and connects them with profit and non-profit initiatives. The Lab will observe the changes in economy focusing on initiatives which experiment with new models of sustainability development. This initiative simulates the *"Laboratorio di Nuova Economia"* experience (promoted in Italy by BANCA POPOLARE ETICA), inspired on the thought of the economist Antonio Genovesi. No much

24 An extended report about the results of this study is available (in Italian) in BANCA ETICA Website: http://www.bancaetica.it/sites/bancaetica.it/files/web/BLOG/ricerca%20altis/BE-ricerca15anni_def.pdf

information has been provided by the initiative about this future Laboratory but one of interviewees has explained the general aim in the following quote:

> *"We want to meet relevant stakeholders, not only members of Fiare, but also the business sector, organizations that promote innovation and entrepreneurship etc., and ask them what could we do with the credit activity according to them. Dynamics are changing over time. We have an ethical-social methodology to evaluate the investment, we know what we do, but we're never satisfied with it. We know that new things can be done, that new impacts can be generated" (Fiare_07).*

5. Local initiative (2): NORWICH CREDIT UNIONS

5.1. Overview of development in the local initiative

Specific initiatives covered in this case study

The specific initiatives selected for this case study were:

1) Norwich Credit Union (NCU) with a head office located at 60 London Street, Norwich, NR2 1JX, it has various collection points open around the city at different times throughout the week.
2) West Norwich Credit Union (WNCU) Earlham West Centre, NR5 8AD with a high street shop presence open 5 days a week and located in the centre of the community.
3) Wherry Dragon Credit Union (WDCU) operating from Room 15, City Hall, St Peters Street, Norwich NR2 1NH supplying financial products to employees and contractors directly related to Norwich City and County Council.

This sample covers the main credit unions operating in Norwich today and allowed the study to focus on both these credit unions and the interactions between them over time. It should be noted that Norwich is surrounded by extensive rural areas and is thus geographically a quite distinct urban entity.

Background to credit unions in the UK

Credit Unions are non-profit making organisations whose purpose is to encourage regular saving and to use their pooled funds to make low-cost loans available to members. All members of individual credit unions are linked by what is termed a *common bond*. There are three main types of common bond. These being:

1) Geographical (WNCU and NCU)
2) Work based (WDCU)
3) Associational (for example faith based)

Credit unions operating in Britain today are extremely varied in size, membership and the range of services they offer, but they all share a basic philosophy and set of principles with the worldwide credit union movement.

ABCUL (Association of British Credit Unions Limited) is the national association that represents credit unions in the UK and it is in turn a member of WOCCU (World Council of Credit Unions), which represents the credit union movement globally:

> *ABCUL has the vision that credit unions will become the primary source of affordable, high quality and ethical financial services for the people of Great Britain. And its mission is to be the principal, democratically governed representative body of the credit union movement in Great Britain and to provide credit unions with the leadership, services and assistance they require to meet the financial needs and aspirations of the people of this country.*

Through membership of WOCCU and ABCUL members benefit from best practice information from around the world and tools such as PEARLS Financial Monitoring System.

The ideas and values central to credit unions were developed in the 19th century. In Britain they were the work of pioneers such as Robert Owen. In Germany there were innovators like Herman Schulze-Delitzsch while in North America Alphonse Desjardin developed his vision of co-operative credit. The credit union movement grew quickly throughout America and Canada and soon began to have an influence on the rest of the world. Credit unions in Jamaica began during the 1940s: father John P Sullivan, a Jesuit priest, believed credit unions could help working people cope better with wartime conditions. In Ireland the first credit union was founded in 1958, thanks to schoolteacher Nora Herlihy and colleagues in the Dublin Central Co-operative Society, which she helped to found. The first Irish credit union developed through contact with the Credit Union National Association (CUNA) in America.

Today, there are now some 40,258 credit unions in 79 countries around the world, enabling around 118 million members to access affordable financial services.

Credit unions took some time to take off in England, Scotland and Wales. People who had seen the idea work in Ireland, the Caribbean, Canada and the US were amongst the first British credit union pioneers. Before 1979, there was no legal structure for credit unions in the UK. Some of the early credit unions chose to register under the Companies Act and some under the Industrial and Provident Societies Act. Many of the credit union pioneers played a key role in getting a legal structure for credit unions on the statute book. Eventually, in April 1979, the Credit Unions Act was the last Act to be passed by the outgoing Labour Government. The core ethos of credit unions was laid out in this act. They are:

- The promotion of thrift among members.
- The creation of sources of credit for the benefit of members at a fair and reasonable rate of interest.
- The use and control of their members' savings for their mutual benefit.
- The training and education of members in the wide use of money and in the management of their financial affairs.

The number of credit unions in the UK has fallen over the last decade across England from 700 to 375 (ABCUL website) and this reflects credit unions, responding to changes in legislation and society, merging to become larger. Norwich has gone from having five CUs to three since 1989. Overall there has been an annual increase in money saved and the collective lending balance both nationally and locally.

CUs vary widely in size from having a few hundred members to the largest in Glasgow having over 32,000 members. As circumstances politically, socially and technologically have changed the smaller more idealistic credit unions have had to merge with larger ones in order to survive and compete with the other financial institutions operating nationally. This brief overview sets the scene for the beginning of the credit union movement in Norwich in 1989.

Timeline of the historical background to the events leading up to the establishment of the first CU in Norwich.

Year / period	Important activities/changes/ milestones in the credit union movement worldwide	Important changes in context
1850	First credit union was established in Germany	
1909	Edward Felene started the first credit union in the US	
1955	The first credit union in Africa was established in Ghana	
1958	The first credit union was established in Jamaica then spread across the Caribbean	
1964	The first credit union in UK was established by the Caribbean community in Hornsey London	
1960s	The Great British League of Credit Unions split into ABCUL (Association of British Credit Unions Ltd) and NFCU (National Federation of Credit Unions)	
1965	Industrial Provident Society Act	Credit unions registered as IPS as it was the only legal structure available
1979	Credit Union Act	Setting the interest rates at 1% per month on a diminishing balance and the common bond as a geographical area of no more than 3x3 miles
1994	PEARLS introduced by WOCCA	Setting a universally accepted standard to which all CUs could measure their financial viability
2002	Credit Unions became authorised by the Financial Services Authority	Giving credibility and offering the same safeguards as banks

Overview of the development of credit unions in Norwich

The credit union movement in Norwich began with Ian Leather, who was at that time the Cooperative Development Officer for the Norwich Co-operative Development Association (he is currently President of West Norwich Credit Union, office manager for MABS and consultant in developing credit unions; and one of the interviewees in this study). He discovered and was inspired by visiting credit unions (CUs) as a student in Bradford. On taking up a job with Norwich Co-operative Development Association (CDA) in 1989 he set about introducing CUs to Norwich. He initiated several meetings with Len Nutthall, CEO of ABCUL (Association of British credit Unions) to which members of Norwich City Council and local communities were invited. At these meetings the financial case for CUs was accepted by those present and Ian set about finding the resources to start the process in Norwich.

It is noteworthy that the very first of these meetings had only one community member in attendance, Freda Shehey who now runs MABS (Money, Advice and Budgeting Service) and has been recognised with an MBE in 2010 for her work in this area and has been a stalwart of the West Norwich Credit Union (formerly Earlham Credit Union) ever since this very first meeting!

Two years later, the Norwich Co-operative, Community Credit Union was established with a common bond of those who had an association with six socially motivated organisations sharing the Norwich Education and Development Centre (NEAD) in Norwich. These organisations included a fair trade shop (Global Exchange), Banana Link campaigning for workers' rights in the developing world, The Ecology Party (precursor to the Green Party in the UK) and NEAD which focussed on raising awareness of social and development issues, especially through education in schools. Ian Leather conducted the training of volunteers and oversaw the start-up and registering of the CUs.

Some background information on Norwich relevant to this case study report follows.

As early as the 1980s Norwich had been identified by the Trade Unions Council (TUC) research as one of the lowest paid in the country (www.tuc.org.co.uk) - suffering from pockets of poverty, due to an often seasonal, part-time and low paid workforce, alongside the more middle class and affluent population of Norwich. Several organisations arose from support and funding from a Labour-led, local government. Organisations such as the Women's Enterprise, Employment and Training Unit (WEETU) which was dedicated to assisting women in poverty to improve their lives through training in transferable skills and financial literacy. The CDA was one of these organisations. Ian Leather got the job partly because of his prior knowledge of CUs.

Although Norwich is not perceived as being an area of high deprivation it has pockets of poverty and was again recognised in 1999 by the government's New Deal for Communities scheme as having one of the 39 most deprived communities in the country within its boundaries. The West of Norwich received £25 million over 10 years to aid regeneration of this highly deprived area. When the funding ended in 2010, the NELM Development Trust was transformed into the Henderson Trust, which still supports the local credit union with training rooms, occasional funding and management support (Henderson Trust website).

Ten areas of high deprivation in Norwich were identified as being suitable for the development of small, individual, geographically common-bonded credit unions. Of these ten areas, three went on to set up credit unions. These being Mile Cross Credit Union in 1990, Earlham Credit Union in 1992 and

Pillgate Credit Union in 1994 (Pillgate was an amalgamation of two areas Pilling Park and Heathgate which then went on to change its name to Ketts Credit Union). In 1992 the Norwich City Council Employees Credit Union was formed with a common bond of those working for the City Council. Over the years the smaller credit unions closed or merged with larger ones leaving three currently operating. Norwich Credit Union (formerly Norwich Co-operative, Community Credit Union), Wherry Dragon Credit Union (formerly Norwich City Council Employers Credit Union and merged with Ketts) and West Norwich Credit Union (formerly Earlham Credit Union).

The Norwich CU movement has overcome crises on several occasions. One of these was when in 1999 Earlham Credit Union was failing with a huge deficit. The Financial Services Association (FSA) sent someone to speak to the community and recommended it close the CU. At the meeting community members persuaded the FSA to give them another chance. Money was accessed from the New Deal for Communities pot managed by NELM Development Trust and a paid Financial Membership and Support Officer was appointed. Alongside a Marketing Manager – The local Doctor's surgery moved and a building became free which the credit union were able to rent. Membership went up from 300 to 1800 by having this shop front (physical presence) and employing dedicated staff. Eventually after 6 years the paid workers were lost as the funding ran out but by that time the credit union was strong enough to stand on its own.

Over time common bonds changed too. In the case of Wherry Dragon this reflected the changes in the way City Council was increasingly buying in services since the economic downturn. When the NCCECU (Norwich City Council Employees Credit Union) was started Norwich City Council employed over 1,000 people. By 2014 this has fallen to 640. HR Business Partner David Langston who is a member of WDCU notes -

> *"The Wherry Dragon Credit Union is a highly valued opportunity to save and have very favourable access to credit when I need it. I use it as a savings scheme as money is taken from my salary so it's easy and I don't even notice. I have had loans for holidays and when the boiler broke. I guess it evens out life's little challenges for me."*

When the common bond of the NCCECU changed in 2006, and then also the name changed to Wherry Dragon in 2007, all employees of associated organisations such as NORSE and ex-employees of City Council were able to join or retain membership.

To put the Norwich based CUs in regional context they are included in seven CUs currently operating throughout the county of Norfolk. Two of the Norwich based CUs are currently linked to the Norfolk Co-operative Development Service which was set up by Ian Leather with funding from LEGI in 2010 to explore the possibility of closer working ties between the Norwich based CUs, the Norwich Credit Union left this group in 2013 citing not having enough time to commit to meetings.

All of the credit unions in this study are associated with ABCUL, the Financial Ombudsman Service and the Financial Services Compensation Scheme.

Membership, share balance and loan balances 2013 and 2014 of Norwich Credit Union, West Norwich and Wherry Dragon

Credit union	Memb 2013	Memb 2014	Share £ 2013	Share £ 2014	Loan £ 2013	Loan £ 2014	No of loans 2013	No of loans 2014
Wherry Dragon	533	586	556,492	673,493	561,446	594,161	264	319
West Norwich	1,373 (350)	1,310 (306)	297,880	356,178	352,141	388,578	191	220
Norwich	570 (68)	586 (69)	250,616	265,350	192,326	162,932	150	154
Total	2,376 (418)	2,482 (375)	1,104,988	1,295,021	1,105913	1,145,671	605	693
Number in brackets represents young savers included in the figure (not allowed to borrow)								

When interviewed, Alan Carmona, president of Norwich Credit Union (NCU) thought the smaller loans being taken out in 2014 reflected people being less confident due to decreased income, low paid, zero hours contracts and the uncertainty in the economy. This trend was not found in the other two credit unions studied. They both had a rise in loan balance. The question here could be is this a blip? Or is it a trend due to the relatively old-fashioned and cautious, more change resistant approach demonstrated by key members of the NCU board?

Interest rate comparison on a borrowing of £300 over 3 months

A big part of the narrative of CUs in Norwich today is about how they sit with regards to the rise (and possible fall?) of the so the called pay-lenders. It is therefore helpful background to provide an illustrative calculation of a typical short-term £300 loan, based on rates available at the end of 2014 in Norwich.

The Money Shop a commercial provider of short-term loans with a visible presence in Norwich. Total amount repayable on the £300 loan is £437.44 in 3 monthly instalments of £145.81, £145.81 and £145.82. Equates to an annual interest rate of 1306% APR.

Norwich Credit Union. Total amount repayable is £309.71 in three monthly instalments of £103.24. Equates to an annual interest rate of 19.56% APR.

Wherry Dragon. Total amount repayable on a loan of £300 over 3 months is £306.03 in three equal payments of £102.01. Equates to an annual interest rate of 12.68% APR.

The credit union loans are subject to the loan criteria of having saved with the credit union for more than 13 weeks consecutively and having half the loan amount in savings. Higher interest rates are payable if this criteria is not satisfied.

In the CIVITAS funded research “Credit Unions: A Solution to Poor Bank Lending?“ (2013), Joseph Wright reports that it is cheaper to take out a loan of £500 for a year with a credit union than it is to borrow £500 for one month from either of the biggest UK payday lenders.

- A timeline for the development of Credit Unions in Norwich

Year / period	Important activities/changes/milestones in Norwich based CUs development	Important changes in context
1984	IL discovered credit unions as a student in Bradford	Story starts with a single Norwich-based individual 'discovering' credit unions
1980s	TUC research identified Norwich as one of the poorest, lowest paid areas in the country	Successive reports highlight the need to tackle poverty in Norwich's most deprived wards
1987	Len Nuttall, CEO of ABCUL gave a presentation in Norwich about the economic argument for credit unions. Other meetings followed	Introduction process starts with a presentation in Norwich from external 'expert'
1989	Norwich Community Co-operative Credit Union set up (NCCCU) by Ian Leather Community Enterprise Officer for Norwich City Council	The *common bond* was 'those who are associated with the 6 environmental and social development organisations located with NEAD in Norwich
1990s	Government anti-poverty strategy rolled out across the UK – Growth Funds	Made funding available for staffing; helped to set up the Mile Cross and Earlham Credit Unions (which later became the West Norwich CU)
1990	Mile Cross Credit Union set up	
1992	West Earlham (WECU) and Norwich City Council Employees Credit Union set up (NCCECU)	WECU common bond geographical. Common bond for NNECU was to be employees of Norwich City Council
1994	Pillgate credit union set up	Geographical common bond in areas of high deprivation – Pilling Park and Heathgate
1994	PEARLS introduced by WOCCU *(Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity, Signs of Growth)*	PEARLS is a financial monitoring system; can be associated with the beginning of a more 'professional', 'business-like' and 'accountable' approach to CUs in Norwich
1993	Consumer Credit Counselling Service established	Aims to give free access to debt counselling in the UK
1999	Mile Cross Credit Union closes	
2005	NCU changed common bond; Pillgate Credit Union changed its name to Ketts Credit Union	Common bond of NCU changed to include everyone in Norwich. Ketts changed to cover the East of Norwich
2006	NCCECU changed common bond	Changed common bond to include organisations such as NORSE Commercial Services associated with the

		city council and anyone living and/or working within city boundary
2007	NCCECU changed name to Wherry Dragon	Countywide financial co-operative offering services to all local government employees and those providing services to local government across Norfolk
2008	Government Growth Fund granted £¼ million to Norwich based credit unions	Funds to take on paid staff and improve services
2010	Norwich Co-operative Development Society formed with £20K LEGI money	To help Credit Unions in Norwich to work together more effectively
2012	Legislation Reform Order changing the Credit Union Act	Changes removing restrictions in the current law and allowing CUs to choose to: 1) Reach out to new groups, by serving more than one group of people; 2) Provide services to community groups, businesses and co-operative; 3) Offer interest on savings, instead of a dividend; *and* 4) Allow more people who move jobs or home to continue to use a CU.
2012	Kett's Credit Union merged with NCU	After a meeting held by NCDS aiming to get all Norwich based credit unions to merge or at very least work together more formally
2013	NCU (with Ketts) pulled out of Norwich Co-operative Development Society	
2014	Scoping proposal put to Norfolk Knowledge	For a consultant to gather evidence and suggest ways the 3 Norwich based Credit Unions could work more effectively together

Main themes identified for the development of this local initiative

This study explores, amongst other things, the debate around the efficacy and long term usefulness of credit unions as a viable and sustainable alternative to mainstream financial services. It has found, through interviewing members, employees, volunteers and founders of these Norwich based CUs that there are diverging views in the CU movement, which can be loosely characterised as two main 'philosophies' that have influenced the growth and efficacy of the movement in Norwich. One point of view, or philosophy, states that CUs should remain small, individual, localised and community based while the other one proposes that in order to survive CUs have to merge, become larger, charge higher interest rates (to borrowers), offer higher interest rates (to investors), and provide a wider range of banking services.

This report also discusses the issues around government intervention and legislation and highlights how this has both aided the development of strong, sustainable CUs in Norwich, and also has impacts and influences that can be interpreted as being to the detriment of the original ethos of the CU movement.

The reasons for joining credit unions are also discussed and the relatively low rates of exposure, understanding and take up in the UK is higlighted (ABCUL and WOCCU websites.)

By way of an upfront summary, we identify the following main themes identified in this study concerning the development of this local initiative. Each of these themes/findings is addressed somewhere in the following sections of this report.

1. A perception within the (CU) movement in the UK that the government has, to date, paid lip service to supporting credit unions and that while there has been positive support for CUs from government policies, some government interventions have actually been detrimental (to the continued growth of a CU movement in the UK that adheres to the original ethos, as set out in the introduction above).
2. A suggestion from some of the interviewees that there are too many small CUs wasting resources and operating unsustainably in Norwich. (Separate training, ICT systems, etc). A perceived lack of trust and co-operation between the Norwich CUs. There is also no cohesive street presence and neither is there a prominent or cohesive on-line presence.
3. A general perception of CUs as being <u>less</u> trustworthy than banks; and also an opinion expressed by some interviewees (but contested by others) that the name itself may put some people off. It was also suggested that changes in society regarding attitudes to borrowing and saving may be influencing people's reluctance to join CUs in Norwich and in the UK as a whole.
4. Comments by some interviewees that volunteers are overstretched, sometimes inexperienced, occasionally displaying unprofessional behaviour and that their training is ad-hoc and often adequate. This then relates to a wider theme of how sustainable it is for a social innovation such as CUs to be run mainly by volunteers.
5. Within the CU movement there are what can be loosely termed 'Philosophical differences' or disagreements about the values and ethos that should underpin the CU movement, and how the ethos and values should be updated in response to a changing context and changing attitudes among consumers/citizens. The differences can be loosely characterised as 'big bank-like' versus 'small community' (to ensure social/community cohesion/sustainability). The former being encouraged by ABCUL and resisted by Norwich credit unions. Quote from research paper Sean O'Connell 2005 page 1 - "This is largely because the credit unions have followed an inappropriate model of operating at a small, localised level with a philosophy linking loan provision to savings."
6. Poverty and austerity in the UK are still currently driving a need for CUs and the need for innovation within the financial/monetary system. To many observers it is sad to see the rise of payday lenders during the recession when CUs could have provided a far better solution.
7. Lack of range and flexibility of services offered by Norwich CUs who are arguably not keeping up with other money lenders (at least in terms of e.g. speed of getting a loan, access to accounts on-line, mortgages, fixed interest rates, insurance and dependable dividends). The local CUs lack of demographic monitoring, lobbying capabilities and slow, risk-averse

decision making processes, arguably leads to missed opportunities for advancing an improved take-up of CUs in Norwich.

8. Little to no high street presence and a lack of marketing and advertising leads to obscurity and the two main groups currently using CUs in Norwich being limited to, the "Guardian reading middle class" and those living in areas of high deprivation and/or the low waged (according to Sharon Quantrell).

These eight main themes identified are further explored and expanded upon in the remaining sections of this report.

5.2. Aspects of 'innovation' and 'change' of the local initiative

5.2.1. Relation with social innovation

The CU movement as researched in Norwich did not explicitly use the term 'social innovation' however there is evidence of 'innovation' of the CU 'model' in Norwich in response to both internal dynamics and changes in the external context. The main aspects of changes and/or innovations (?) of the CU model identified in this study are:

- The original innovation was bringing the CU model to Norwich as discussed. This was an innovation that allowed low-income persons/families to access low interest credit and learn to manage their money. Plus it provided an option for (more) middle class people who wanted to put their money into an alternative to mainstream banking system and feel that they were supporting more deprived communities.

- A subsequent innovation has been the development of a strong Norwich Money Advice Budgeting Service (MABS). Ian Leather got funding from Norwich Consolidated Charities to set up the pilot in Norwich. It's thriving now and closely linked to the West Norwich Credit Union. However all the Norwich CUs can access the services: "MABS aims to take the stress, shame and embarrassment out of the situation and teaches people to budget." It also negotiates with creditors and establishes affordable monthly payments from a CU account to pay off the debt. For example if someone has £50 per month disposable income £20 will be used to pay off the creditors and £30 goes into a credit union account as savings.

- The establishment of NCDS (Norwich Co-operative Development Services) in 2010 with the purpose of assisting in an increase in collaboration between the four CUs operating at this time in Norwich.

- Emergency loans were introduced in October 2014 in response to changes in benefits having a detrimental effect on families. This scheme was initiated by the Norwich Credit Union in partnership with MABS, the Kings Church and Norfolk Community Legal Services. To date only three of these emergency loans of £250 have been made.

- An additional innovation that is currently 'under development' is an attempt to respond to the lack of cohesion between the various CUs in Norwich. A 'scoping study' has been submitted to Norfolk Knowledge for funding to be sought from Norwich Consolidated Charities by Ian Leather. It is worth just saying a bit more about this scoping study which is entitled: "Sharing Services across Norwich". The salient points of this scoping document include:
    - For some time the three active credit unions operating in the Norwich City area, Norwich, Wherry Dragon and West Norwich have discussed the merits of joint promotion and marketing initiatives across the city and the practicality of offering shared services to existing and potential customers.
    - The vision of providing a single, convenient place for any customer of any credit union to access any services offered by credit unions in the city, for the moment appears remote. It is however worthy of further exploration.
    - To achieve this there are clearly many issues to overcome, not least strong organisational desires to remain independent and local. There are however obvious ways that credit unions can work well together to share things that can benefit each organisation. They probably do not combine to form a one size, all embracing solution, but are more in the nature of a shopping list of possible benefits.
    - The scoping document covers joint promotion and marketing, premises, ICT, staff and training.

- Another innovation planned in anticipation of future changes in the UK benefits system (Universal Credit) that would mean money paid to recipients being paid monthly in arrears, is the proposal to introduce 'jam jar' accounts through the credit union which would ring fence benefits within a CU account for the paying of essential services such as utility bills.

A strong will to do something positive to help people in need

A strong will to do something positive to help people in poverty was mentioned by many of the interviewees. The Norwich based CUs have plans to help people with what are known as 'jam jar' accounts which will ring fence money for families to be able to pay utility bills etc. when the changes to benefits system come into effect (see also the section on game-changers below). These changes include people being paid monthly in arrears. For many people on benefits living 'hand-to-mouth' this will be a frightening and challenging change for them. The CUs studied all felt they had a part to play in helping people learn to budget and manage their money through this potentially difficult time.

A system of 'emergency loans' has also been developed as one response to this challenge. During the time of this study only three of these loans had been actually paid out since their launch in October 2014. Interviewees reported that here is a lack of time and resources to get the message out into the wider community.

Other responses to the rise in poverty have led to Norwich CUs offering more flexible loans. For example WDCU used to give loans that were 2.5x the share balance, now they are offered up to 4x (the share balance being the savings that the individual has in the CU). Loans used to have to be repaid before another loan was taken out whereas now there are rolling loans, which can be topped up when necessary.

Current interest rates on a loan with the Norwich based credit unions range from 1-2% per month. Members are rewarded if they take out a loan within their share balance, with lower interest rates. Loans 'out of policy' although judged to be sound through an interview process will be charged at a higher rate.

Many interviewed volunteers of the Norwich CUs are proud of the fact that they can interview prospective borrowers and use their judgement to give a loan even if it is outside normal policy. An example of this was when a young woman joined the WNCU and had obviously front loaded her account to up the amount she could borrow to get a loan for a car. Because of this, under the scoring system, she failed but at a follow-on interview she put it in context. The Credit Committee looked at her credit history, which was good as she had never defaulted. Talking through it became apparent that it would be a good loan. A car would enable her to get to work between dropping and picking up the children from school. The balance was between risking members' money against an individual member's development. The banks would not have lent her the money and her ability to progress her life would have been hampered.

The need for Norwich CUs to embrace technology has been difficult with these smaller, largely volunteer-led CUs, which still only offer downloadable joining forms, which have to be filled in and posted to the CU. There is talk of increasing the access to CU services on-line but the different systems used by all three organisations prohibit a combined, cohesive and coherent approach.

There is also talk of expanding the services to include mortgages, ISAs and insurance but again this is hampered by old-fashioned systems, risk averse board members, prohibitive legislation and a lack of volunteer hours. However there is evidence of positive change. For example WDCU and WNCU have recently introduced pre-loaded debit cards for members who want to be able to use their money in a more flexible way.

Clearly the notion of social innovation as 'social in means and social in ends' is alive in these Norwich CUs. There is a strong desire to help others that motivates the volunteers working in these Norwich CUs.

Barriers and limitations to social innovation found in this study

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- One interviewee suggested that the legislation, which has been tightened up by law regarding the setting up of credit unions has dampened innovation and made change within the organisation happen at a slower pace. These changes are discussed in greater depth in subsequent sections of this report.
- Another disincentive to innovation suggested by (interviewee) Sharon Quantrell is regarding the 'paternal attitude' of the credit union, demonstrated in the language used when opening an account or taking out a loan. For example people are asked what they will be doing with the loan implying that there is a need for the organisation to check that the money used will be for 'productive purposes.' Although it has to be noted that his is a question all financial organisations have to ask since money-laundering laws have been tightened up. To the interviewee this language and question was seen to be 'paternal', in a negative sense. They felt that it showed an outdated view that people don't really know how to manage their own finances.

- Several interviewees noted that decisions are made slowly within the movement and certain key actors are very risk-averse. This has had an adverse effect on the plan to bring the three active CUs in Norwich closer together to share resources, systems and learning. It has been noted by several interviewees that personalities that disagree with each other regarding the appropriate pace of change and direction of change have slowed innovation.
- One interviewee said that any bright, creative dynamic volunteers tend to leave (the CU) after becoming bored or frustrated.

5.2.2. Relation with system innovation

The CU movement as researched in Norwich did not use the term 'system innovation', however there are system innovation processes in the banking and financial sectors that are identified as being of relevance to the development of the local initiative in recent decades:

- The first concerns innovations in the banking and financial sector/systems and especially around patterns of consumer credit use. Especially the rise of so called payday lenders in the period since the 2008 global financial crisis.
- Linked to this have been a series of interventions from the UK government, aimed supposedly at supporting the development CUs, but with some evidence that these interventions have also had detrimental impacts on the CU movement.

The findings around the relation of the studied CUs to these system innovation processes are further explored in the rest of this section.

In this study we found that the Norwich based CUs have responded more to the factors within society since the credit crunch that have led to the rise of payday lenders than to the payday lending phenomenon itself. Interviewees ranged in attitude towards seeing payday lenders as an annoyance, a social evil or as an inevitable part of the financial services mix.

It is clear that the CUs studied do not have the time, resources, or aspiration to directly challenge or overtly compete with the payday lenders. There is an opinion by several people interviewed that ABCUL should be doing the lobbying and local CUs should get on with the task at hand. Ian Leather commented that he does not advise WNCU staff to challenge someone coming into the shop asking for an immediate loan who then say they are going to go to a payday lender instead. He said -

> *"I don't see credit unions as an alternative to banks or payday lenders, I see them as part of a financial package for the individual. We want people to choose wisely because it's about thrift and changing behaviour not just about the money"*

Joseph Wright (2013; page 4) in a report entitled *Credit Unions: A solution to poor bank lending?* Argues that:

> *'In a damning display of the banks' failure to cater for low earners, the payday lending market has rapidly expanded to reach a value of over £2 billion, leaving many people with no option*

other than loans with extortionate rates of interest (sometimes called a 'poverty premium'). As a reaction to these and more widespread banking scandals, public dissatisfaction with mainstream banking has ballooned: movements such as Moveyourmoney.com which helps people to move their money from the big four banks - have grown in popularity, while 'alternative banks', the Co-operative Bank and the Nationwide Building Society, have seen their personal account holdings rapidly increase.'

This opinion is supported by interviewee Nick Craig, CEO of the Henderson Trust (working in West Norwich to alleviate poverty in local communities) who said that payday lenders are wealthy enough to be able to afford the publicity that CUs can't. He also said:

"They are in your face, massively advertised and highly funded. They're on the TV, radio, everywhere you look. Credit unions don't have that ability, they are relatively unknown. My dad told me when I got my first credit card to remember that it wasn't my money I was spending and that I would have to pay it back."

Several interviewees stated that in their opinion the shame traditionally associated with being in debt or bankrupt is now greatly diminished in today's society, especially with younger people. The wartime generation had more of the attitude that:

"*You saved until you could afford something, you made do until you could improve things. You didn't just assume that everything was your right to have immediately."* Quote from Edna Clark aged 77

One interviewee noted that society now sends young people into their working lives with a huge burden of debt from their student loans which would have been unthinkable just a few years ago.

The government's responses to calls to improve the situation for CUs in the UK have included the following:

1) 1979 Credit Union Act;
2) 1993 Consumer Counselling Credit Service;
3) 1994 introduction of PEARLS;
4) 2002 CUs linked to the FSA;
5) 2008 Growth Funds; and,
6) 2012 Reform Order to the 1979 CU Act.

The most significant of these in relation to Norwich CUs include the introduction of the PEARLS Financial Monitoring System which was introduced in 1994 with a system of 39 financial ratios which the World Council of Credit Unions (WOCCU) employs to provide a detailed picture of CU operations. Standing for Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity, and Signs of Growth, the PEARLS system was originally designed and implemented with Guatemalan CUs in the late 1980s. WOCCU now uses it worldwide to monitor the performance of CUs, to create a universal language that each CU can speak and understand, to generate comparative CU rankings, and to provide the framework for a supervisory unit at the second tier. PEARLS is used by the Norwich CUs and is seen as a useful tool to monitor activity and financial viability.

In 2002 changes came into force and CUs became linked to the Financial Services Association (FSA). Common bonds were made more flexible and interest rates were allowed to vary. This enabled NCCECU to include ex-employees and members of contracted-out organisations such as NORSE. This led to a perceived weakening of the common bond and a slight increase in delinquency. In response to this the lending criteria was tightened up which alleviated the trend. Boyd Taylor, board member of Wherry Dragon Credit Union, when interviewed, commented that he felt this change weakened the common bond:

> *"The common bond for Wherry Dragon changed recently to anyone working or involved with local government in Norfolk. The problem with NORSE, for example, is that it operates nationwide. The Wherry Dragon Credit Union catchment area is local government employees but when they created arm's length organisations they were still deemed to be employees. This created something the board [had not] thought of at the time – {that it} included cleaners by NORSE in Plymouth, [we have] now not even seen some of our members. [The] common bond [has] probably weakened."*

The government's attempt to support the development of credit unions across the country through the growth fund came online in 2008. Norfolk received £¼ million at this time from the fund. It was designed to be rolled out in three phases of three years each. During phase 1 and phase 2 Norwich based CUs applied and received money to develop their operations and underwrite bad loans.

Several interviewees were under the impression that this top down, money injection was against the principles of the CU movement and actually contributed to the demise of smaller credit unions by focussing money at the third stage on ABCUL and larger credit unions. The smaller ones were left behind with unsustainable numbers of paid staff and weakened loan policies in place, due to the new underwriting procedures introduced. People's behaviour was not being changed. This forced many credit unions to merge and this is reflected in the mergers that happened subsequently in Norwich.

However at the same time monitoring became more robust and this tightened up the local CUs ability to make safer loans. Interviewees have commented on the impression that members' money was therefore better protected and those CUs running at a loss had time to trade out of deficit. This is exactly what happened to Earlham Credit Union with support from the New Deal for Communities fund. Another plus to this relationship with NELM Development Trust was the implementation of monitoring of gender. However they chose not to monitor ethnicity and one interviewee feels that they have missed an opportunity to measure changes in ethnicity patterns of membership in order to better meet their members' needs. Another side to this was the tightening up of approved person checks, which some members of the community were reluctant to engage with, thereby reducing the already small pool of people willing to take up a volunteer role (in running the CUs).

On the plus side according to Ian Leather, the government-backed consumer compensation scheme now protects CU members' money up to a value of £85,000.

Another positive intervention by the government has been to allow credit unions to pay a much smaller amount in compensation than the banks and this is funded through the banking industry funded from the industry.

There is a perception amongst several interviewees that the government wants to move CUs away from small community-based organisations and this leads to volunteers leaving or not being able to participate. It was the loss of the growth funding at the third stage that led to the challenges within the Norwich CU movement and the subsequent decisions to merge.

In 2012 changes to the Credit Union Act of 1979 removed restrictions in the law and allowed credit unions to choose to:

- reach out to new groups, by serving more than one group of people;
- provide services to community groups, businesses and co-operatives;
- offer interest on savings, instead of a dividend; and,
- allow more people who move jobs or home to continue to use a CU.

The Norwich CUs responded to this change by, amongst other things, expanding the common bond to include people who had *previously* worked at Norwich City Council.

Other legislation has come in designed to relax the current laws relating to CUs, for example from 01/04/14 credit unions can increase their monthly interest rates to 3% from a previous ceiling of 2%. Other financial services operators (including the payday loan companies) do not have these restrictive laws in place. Other countries limit the interest rates a company can charge customers which is why there are no (legal) loan sharks in the US for example.

The CUs have also responded to changes in legislation by holding training and away days for staff and implementing the changes. The CEO of Henderson Trust Nick Craig was engaged to help West Norwich Credit Union write a business plan when that became a legislative requirement in 2002.

Interviewee Ian Leather thinks that the government may be protecting 700 years of banking history, which has an ingrained culture of competition. The legislation has restricted the amount any member can save with a credit union – It used to be only £2,000, now it has gone up to £10,000 which no other financial institution has to adhere to. He thinks that they don't seem to want high wealth individuals accessing credit unions. For example anything beyond £250 dividend had to be declared and taxed. This changed in 2012. He also noted that credit unions deliberately keep dividends low to avoid members having to pay this tax.

He added that credit unions currently can't expand their range of products due to restrictive and bureaucratic legislation. Years ago they could offer household, holiday and car insurance working in partnership with insurers for a small commission. Now they have to have mediation and insurers are restricted from working with credit unions. This changed in Blair's government as a response to a European directive.

When interviewed for this study Dr Ian Gibson (an ex Labour MP for Norwich North) expressed a similar opinion and said that -

> *"People like Duncan Smith, Tony Blair they see a bit of poverty and it's a game that they played to try and get round it in other words pretending they are concerned, blaming big bankers etc. So they supported credit unions knowing their influence is very limited."*

Research by Sean O'Connell (2005, page 1) found that although all of the major political parties have consistently made supportive noises about the credit-union movement and its principles credit unions have failed to establish themselves in Britain to anything like the extent they have done in personal finance markets as diverse as those of the USA, the West Indies and the Republic of Ireland. In Ireland well over half the population are credit-union members. In Ireland well over half the population are credit-union members. In the USA one in four is a credit-union member and in the Caribbean penetration is over 70% on some islands. In contrast, credit unions in Britain serve less than 3% of the population.

In December 2004, Tony Blair took the symbolic step of joining South West Durham Credit Union and in March 2005 the Griffiths Commission on Personal Debt, sponsored by the Conservative Party, strongly supported the credit-union movement in its report. Criticism of the government's alleged support of credit unions and actual results are demonstrated in this quote by Polly Toynbee in the Guardian [`The new credit deal for the poor is turning into an expensive disaster', 8 February 1999]:

> *"For this negligible progress, a lot of money has been spent. Some £20 million a year has been poured in by local and central government and European social funds. And yet the total assets of all community credit unions are still only £36 million. (That suggests they might have done more good if they had just handed the £20 million out each year.) There is something about the word 'community' that ought to ring alarm bells. The credit union story is just one example of the sort of misguided good intentions that have plagued social policy for years, offering the poor high-minded good ideas that none of the rest of us would bother with the only thing that binds the inhabitants of the worst estates together is their desire to get out. Yet social planners get amazingly sentimental about 'bonding', wanting poor people to get together in ways the rest of us rarely have time, energy or inclination to do. There's a danger that in the name of something called 'community' we keep expecting the least able, with the fewest resources and the least support, to do magically energetic things in their spare time."*

The final sentence of the above quote really resonates with what we found in this study, that at least one trend in recent UK government policy towards CUs has been characterised by a disempowerment rather than empowerment of the CU model, and this is despite government paying lip service to the importance of CUs and purportedly implementing legislation that should be supporting them.

5.2.3. Relation with game-changers

The Credit Union movement as researched in Norwich did not use the term "game-changers" however there were a number of 'game-changing developments' of relevance to CUs in Norwich that were identified in this study, including:

- **The global financial crisis of 2008**; which has been associated with an increase in poverty, the appearance of food banks and the upsurge of 'payday lenders' and on-line lending schemes with (usually) much larger interest rates than those offered by the Norwich CUs.

- **New legislation has tightened the lending criteria for financial institutions** (see our timeline). Relevant legislation changes are now managed by The Financial Conduct Authority (FCA) which has taken over from the Office of Fair Trading. New legislation is designed to make payday lenders more accountable and credit brokers to stop charging upfront fees to customers. The website FCA states – "*We have significant concerns about the practices of some credit brokers who charge upfront fees to consumers. Some 41 per cent of all the complaints received since 1 April by the FCA's Consumer Credit Department relate to credit broking, and around 80 per cent of these are about online brokers charging upfront fees."* (*http://www.fca.org.uk accessed on 12th January 2014).* As discussed in various sections of this report the trend towards tighter and more legislation has had both empowering and disempowering implications for the CUs in Norwich, and several of the interviewees (one of them with direct experience of working in national government; former labour MP Ian Gibson) were highly cynical about the actual motivations behind new government legislation.

- **Changes in the UK benefits system (Universal Credit).** An emerging/ongoing trend is future changes in the UK benefits system (Universal Credit). The implications for the poorest in Norwich are at this time unclear and speculating about them is outside the scope of this study. However as discussed under the section on social innovation, the CUs studied have already tried to anticipate a change that involves benefits being paid to recipients 'monthly in arrears'. Actors in the Norwich CUs have proposed to introduce 'jam jar' accounts through the credit union which would ring fence benefits within a credit union account for the paying of essential services such as utility bills. This then represents an attempt by the social innovation (as CU) to mitigate the potentially damaging consequences of politically-motivated changes in the UK government welfare and benefits system.

- **Increased exposure of unethical practices** and an intensified societal debate about what constitutes unethical practices in the context of money lending. This has been made public through social media and subsequently the rise of social activism critical of existing establishments such as the church, payday lenders and the banking system. This is a broad general trend in UK society with both opening and closing down aspects. If we focus for the purposes of this study however on developments of direct relevance to the Norwich CUs. Then there was what might be described as a public and establishment reaction against the payday lenders in the two years preceding this study. A milestone was in July 2014 when the Church of England had to very publicly severe all financial ties with eh payday lender Wonga (see The Guardian, Friday 11 July 2014 Chris Johnston, link in reference list). This has combined with the new legislation trend mentioned above and the payday lending industry is now in crisis: Wonga for example had to write off £220m of bad debt later in 2014, saw its profits slashed and was forced to start using somewhat lower rates of interest on loans (see Julia Kollewe, The Guardian, Thursday 2 October 2014, link in reference list). An expectation/hypothesis going into this study was that this might have led to a bit of a 'buz' in the world of CUs but, while this may be the case in the wider world of CUs we did not find much evidence of this in Norwich.

- **Longer-term (decadal) changes/trends in attitudes towards credit among UK consumers/citizens.** As a response to a fast changing world where debt has become a normal factor of everyday life, having lost much of its shame and stigma. The older generation consequently tend to borrow less than the younger. It would be a separate study in itself to go into this in detail, but the findings of this study go as far as to raise questions about the fit between the CU 'model', which was quite explicitly designed with a specific set of values around borrowing (emphasising the promotion of 'thrift') and the reality of people's attitude towards money and borrowing in Norwich today. And that this is an intrinsically linked but distinct issue from trends in the availability of different types of credit.

- **The switch to online banking** (and shopping) and the increasing use of online platforms by 'competitors (such as the payday lenders). The increase in on-line banking creating motivation for Norwich CUs to provide an up-to-date service.

- **Changes in immigration patterns.** Leading to people from abroad seeking out CUs in Norwich, as the uptake in many other countries is far higher than in the UK. Figures are unavailable, as ethnicity is not presently monitored by Norwich credit unions, but interviewee and Norwich CU expert, Ian Leather stated that - "*My perception is that we have a significant increase in members from Eastern Europe, the Caribbean and African countries such as Zimbabwe."*

We present the above as a non-exhaustive list of trends that we found to be relevant to the development of Norwich CUs over time. Each of these social/societal trends may or may not be conceived of as a game-changer within the TRANSIT research framework. They are also all inter-connected in complex ways and could easily be grouped differently. The responses of Norwich CUs to these game-changers and their role in their construction/performance are further explored in other sections of this report.

5.2.4. Relation with societal transformation

The original CU model can be considered as a social innovation with a strong transformative ambition, the founders of the CU movement in the UK and internationally were clearly motivated by wider goals of social justice and social welfare. The question to be addressed here then is whether the Norwich CUs have managed to adhere to the principles of the founders of the CU movement or whether they have shifted to a more bank-like approach that is favoured by today's ABCUL? As ABCUL states:

> *"ABCUL has the vision that credit unions will become the primary source of affordable, high quality and ethical financial services for the people of Great Britain. And its mission is to*

be the principal, democratically governed representative body of the credit union movement in Great Britain and to provide credit unions with the leadership, services and assistance they require to meet the financial needs and aspirations of the people of this country."

Interviewee Sharon Quantrell, Economic Development office at Norwich City Council, member of Wherry Dragon and ex board member of Ketts Credit Union states that -

"Credit Unions started with highly idealistic and paternalistic views on helping the 'poor'. Older people tend to regard borrowing less favourably than younger generations and saving as the main way of affording a big purchase. There used to be a shame attached to borrowing and being in debt which is largely not there anymore. There were the deserving poor and the undeserving poor. There is also a wider recognition that circumstances can change very quickly leading to financial difficulties. Loan facilities marketed at poorer sectors of society operate within the law but do nothing to help people manage their money more effectively and often compound the problem by offering inflexible and large interest rates."

This has led to a divergence of opinion over the years between those that believe credit unions should retain a strong ethical and moral position - and be about helping to change (improve) people's financial habits and remain closely linked to local communities and savings versus those who believe that CUs need to focus more on sustainability (of the business model) and offering services more along the lines of the high-street banks.

So what evidence is there that the Norwich CUs have had a transformative impact over time on specific individuals within this area? We did find plenty of anecdotal evidence indicating the transformative influence of local credit unions on individual behaviours and habits:

For example - JW is a Norwich taxi driver who has no credit rating with Barclays, however he does have a 'triple A' rating with the local credit union. Over the years he has borrowed over £20K and never defaulted – he even pays in advance when he goes on holiday and is a now a board director – This is a member of the community who would not have been able to develop his skills and experience, manage his money or afford his holidays without the intervention of the credit union. On paper he may have seemed like a high risk to the banks however in reality he was a low risk and now contributes much more fully to society.

The Norwich based interviewees were overwhelmingly positive about the CU they belong to and the ideals of the original founders. The researcher tried to find an interview with someone disgruntled or critical with the provision in Norwich and was unable to find anyone willing to be interviewed. Despite seeing the CUs' slow growth in Norwich Ian Leather has remained committed to the concept and financial model of the early pioneers. Many of the interviewees expressed pride in the achievements of the CUs to date and saw themselves as being part of a small but significant agent of social justice.

The *business plans* of the three CUs studied all reflect their aspirations to grow in the future and make a more significant impact on their communities. There are future targets in place to see each of the Norwich credit unions with 5,000 members in the next 3 years. It is estimated that 15,000 members out of the total population of Norfolk and Norwich would lead to sustainability (of the business model). Projected figures for 2015 – 2018 are for a 20% increase in loans per year.

The Norwich CUs do get involved with local initiatives to help alleviate poverty and educate people in areas of high deprivation regarding thrift and budgeting. For example they are involved with Sure Start and have collection points within some of these organisations in the West of Norwich. They are also involved with job fairs and other activities at central venues such as the Forum in Norwich.

Factors limiting the systemic impact of CUs in Norwich

Based on this short qualitative study it is not possible to identify with certainty factors that may have limited the systemic and transformative impacts of CUs in Norwich, however, the interviews and documentary analysis did highlight a number of factors which may have been at play in limiting the impact of CUs in Norwich. In no particular order these are:

1) Aggressive and ubiquitous advertising of instant payday lending companies coupled with the Norwich CUs' almost total lack of marketing budgets and (near total) reliance on volunteer staff.
2) Changes in society's attitude to borrowing and bankruptcy.
3) Perceptions of CUs as being less 'business-like' and therefore less trustworthy than banks. There was also anecdotal evidence that different CUs are trusted differently. For example a Norwich City Council employee said that she trusted the Wherry Dragon as it was run by the City Council but the Norwich CU didn't appeal to her as she didn't know who was involved and therefore couldn't quite trust it.
4) There is a further issue regarding evidence that people are not used to sharing risk with a financial institution – with the credit unions a dividend is paid out annually on any surplus that the CU makes. This uncertainty about the dividend on savings may put some people off joining.
5) There was plenty of evidence that 'philosophical differences' within the CU movement often hinders its development – one major tension can be characterised as the 'big bank-like' versus 'small community' philosophies of CU operation. The former being encouraged by ABCUL and resisted to date by Norwich CUs.
6) There was a common theme that emerged in the research that Norwich based CUs are struggling to keep up with new technology and the expectations of a society that has grown used to having instant access to their financial affairs. In terms of changing the 'business model' more generally: one interviewee stated a belief that CUs need to change and adapt but it must be done slowly and in small incremental steps. Others thought it needs a restructuring across the board with much more significant and speedy change. This division in approach leads to a stalemate situation where change does occur slowly. One interviewee expressed a strong opinion that the more dynamic and creative volunteers get bored and/or frustrated by this state of affairs and leave.
7) Government legislation that hinders CUs from 'taking off' and that allows the centuries old banking industry to remain dominant.

8) A history of late development of CUs in this country compared to other parts of the world.
9) A lack of a wide range of financial services and products that could compete with others available on the high street. E.g. The speed of getting a loan, access to accounts on-line, mortgages, fixed interest rates and dependable dividends.
10) Relying largely on the time and good will of volunteers drawn from communities that have traditionally low education levels, high levels of poverty and low aspirations; this sometimes leads to inexperienced, under-trained and unprofessional behaviour from volunteers. People being discouraged from joining the CU by staff members being rude and unhelpful has been observed by one of the interviewees. In small close-knit communities this can happen as some families can have personal feuds and grievances. Despite the apparent lack of professionalism of some volunteers, the passion and determination of most volunteers to help their communities is also very apparent.
11) A suggestion that there are too many small CUs in Norwich, wasting resources and operating unsustainably. It is true that Norwich CUs operate 3 different systems: two of them 'back office' systems and, with West Norwich CU, a front office system. <u>Everyone</u> interviewed expressed the opinion that the CUs would better serve the community if they worked more closely together. For example they think that a collective high street presence would make a positive difference to all three Norwich CUs.
12) Finally the name of the movement was a reason some interviewees stated as being a why CUs had not caught on in the UK, conversely however Ian Leather doesn't think that the name has any bearing on the movement at all, stating that - " *I don't think the name is an issue – branding a product and promoting it – [the] brand is [that the] credit union [is a] financial co-operative providing access to affordable loans – promoting a concept – buying into a way of life – people forget names but buy into part of a product – [the] name becomes immaterial*"

A quote from a CU member in Ireland illustrates the point about people's perceptions of CUs in the UK contrasted with attitudes in countries with much higher CU penetration rates:

> *"What I love about the Irish Credit Union movement is that it's about and for "the little people" - not the bondholders or the Wall Street wolves. There's nothing "flash" about Irish Credit Unions. Over the past six years, since Lehman Brothers collapsed and the Irish financial sector went into meltdown, my local credit union remained the one and only institution I could rely on for financial credit and that was because it had held on firmly to its original purpose and values, namely, as an agent and promoter of financial prudence and mutual financial support in the community underpinned by the common bond which I and my fellow credit union members undertook to honour."* Cliona Kernan. (Member of the Irish Credit Union movement since 1986)

Compare to this quote from a Wherry Dragon CU founder member:

> *"I talk to my friends at work about it especially when they are having financial difficulties and tell them what a godsend it is and they agree with me but never do anything about it, I don't know why. They are mostly younger than me so maybe the idea of saving before you borrow is not attractive? Maybe the idea of something going out of their wages every month is not appealing?"*

5.2.5. Relation with narratives of change

Although elsewhere the CU movement may be playing a significant role in emergent 'narratives of change' (see the network overview sections of this report), in this Norwich study we did not find evidence of the CU movement in Norwich was significantly doing so. The original pioneering and radical ethos of the CU movement is still alive in Norwich but there is also strong evidence that the reliance on a volunteer work-force and minimal operating costs model is limiting the potential CUs have a broader impact. As mentioned already, this has led to a tension between what might loosely be characterised as the 'big bank-like' versus 'small community' philosophies of CU operation. The former being encouraged by ABCUL (the UK national CU body) but strongly resisted to date by Norwich CUs.

Some observers might bemoan an apparent lack dynamism here: by embracing the possibilities of online services and new 'generative paradigms' (such as Open Source) the CU model might be updated or even transformed into a social innovation that could offer powerful new solutions to current social problems. But this judgement needs to be balanced against recognition that many of the social benefits of CUs are intangible and bound up with the opportunities for community cohesion and empowerment that they offer. In this study we have tried to recognise and be sensitive to the nuanced social relations embedded in what at face value might be understood as a 'mere loan providing service'.

It is outside the scope of this study to make recommendations but we can acknowledge that responding to new narratives of change and bringing the CU model up-to-date in the 21st century, needs to be done in way that recognises the diverse, often intangible and often hidden social benefits of CU schemes as well as the explicit/instrumental functions of credit provision.

5.3. Aspects of empowerment and disempowerment of the local initiative

5.3.1. Governance

5.3.1.1. Internal governance

Formally the internal governance of the CUs studied can be summarised as follows:

Members of the Board of Directors are elected at each Annual General Meeting.
The Board of Directors are responsible for management and overall operation of the CU, its officers, policies and compliance. There are two main committees. The Credit Committee has responsibility for:

- Setting loans policy
- Approve loans
- Approving revolving credit applications

The Supervisory Committee has responsibility:

- To act as internal auditor
- Not responsible to Board

There are a number of additional teams within the CU which perform specific roles and report to the Board of Directors. These include:

- The Treasury Team
- The Promotion and Marketing Team.

Others positions provide member services and include:

- Membership Officer
- Compliance Officer
- Complaints Officer
- Share Withdrawals Officer
- Delinquency Officer

The study suggested that the empowerment and/or disempowerment of this local initiative has been affected by its internal governance procedures in the following ways:

1) An endemic lack of professionalism (a largely volunteer work force often with insufficient training but this also relates to physical premises, branding, etc.)
    a. Lack of customer relation skills
    b. Lack of appropriate physical premises
    c. Lack of time – volunteer work force
    d. Older volunteers not liking computers
    e. Strong personalities and infighting

f. Lack of time and resources for innovating new products and services, etc.

2) Lack of an up-to-date 'vision' or wider sense of purpose /lack of a sense that they could have a big impact – low aspirations.

3) Externally imposed regulations having a negative impact on internal governance and functioning. For example: an external funder required the WNCU to subject every volunteer to an 'approved person' process which has led one interviewee to suggest that some members of the community might be reluctant to submit themselves to police checks if they wish to become more involved with the running of their local CU.

It should also be emphasised however that much progress has already been made in addressing these challenges, as Ian Leather says in talking about the learning over 25 years of CU operation in Norwich: " *We now have a better understanding of what's needed, yes we made mistakes but we have learned to speak of it as a business. This is a big change over the years."*

5.3.1.2. External governance

In the preceding sections we discuss how changes in government regulations have influenced the external governance environment of the CUs in Norwich. Here we therefore simply provide a summary of these developments:

- The 1979 Credit Union Act which led to the setting up of CUs that had previously only been able to use the IPS or mutual structure. Restrictive legislation in this act limited the interest rates and common bonds of CUs in the UK.
- The 1993 Consumer Counselling Credit Service was set up to provide everyone with free access to debt and budgeting advice. CUs were recommended as a useful financial service.
- 1994 WOCCU introduced a global system of monitoring PEARLS.
- In 2002 the FSA became the supervisory organisation of CUs in the UK. Providing security and the same credibility as banks.
- Government growth funds were set up to help develop CUs in the UK. The negative affect this had on small community based CUs has already been discussed in the preceding sections.
- 2012 Reform Order to the 1979 CU Act was passed providing more flexibility to CUs regarding common bonds and interest rates.

5.3.2. Social learning

In the initiatives that we have studied the major learning points that we observed and their contribution to the organisation are listed below:

- Slow change regarding ICT and reluctance to use computers by some volunteers has led to the NCU developing easier 'two click' system of inputting member information. However this system is not shared by the other two CUs in Norwich so learning has not been shared (even within Norwich).

- The issue of Norwich CUs not working together closely enough has led to the establishment of an organisation dedicated to bringing about closer working relations. Norwich Co-operative Development Society in 2010 by Ian Leather with funding from LEGI.
- New products have been introduced as legislation has been relaxed regarding interest rates chargeable and rules regarding the common bond. These include rolling loans, business loans, emergency loans, Christmas savings loans and the introduction of an ethical account where people can squirrel away £500 for 5 years. They would have the dividend and insurance on their savings plus the knowledge that their money was being put to good use in the community.
- MABS accounts that link advice (on debt management) with opening an account with a CU. This can be seen as a significant learning, providing a functional way to link citizens with debt problems into the CU services.
- Learning to target young savers to counter the fact that society has changed and saving is not a part of most people's lives today. Targeting the young savers has been a priority of the Norwich CUs. West Norwich has the highest number with a young savers membership of over 800 children. They currently represent £30,000 of savings. When they get to 18 they have the option of joining the adult CU and thus having access to loans. Some join, some take the money and leave so they lose them at high school. When they get to 18 Rachel writes to them and says they've got full membership of the CU and authorise the money to be transferred. The letter gets sent to the parent/s/guardian/s, who decides whether they join or not. To date over 77% of young savers have gone on to become full members. Ian suggested that this percentage could be increased if the CU engaged more actively with the local high schools. At the moment due to lack of volunteer hours and prioritising other initiatives there is no high school CU presence. Whereas in the primary schools many of them have collection points that collect money from children and parents on a weekly basis.
- Finally - Ian leather talking about the learning over 25 years reflects on the increase in professionalism of volunteer staff. He said: "We now have a better understanding of what's needed, yes we made mistakes but we have learned to speak of it as a business. This is a big change over the years."

5.3.3. Resources

The tension between needing money to operate and develop a service that best meets the needs of a section of society struggling with poverty versus the desire to offer lost-cost, low-interest services is a recurrent theme in this study. As is the tensions between the need to become more professional versus the desire to stay connected and genuinely responsive to the needs of the communities served.

- The CU model is to lend money at a small interest rate and this pays for the running costs. With government restrictions on this rate CUs struggle to make enough money to support their continued development and sustainability - although this maximum rate has recently been raised from max 2% per month to max 3% per month. It is a striking feature of the current legislative regime that CUs face these tight constraints on the interest rates that they can charge on loans but the payday lenders do not! The small size of the Norwich CUs also compounds the difficulty of achieving a sustainable resourcing model. [It would be interesting to compare the resourcing model of the Norwich CUs with those of some of the largest CUs in the UK, such as the one in Glasgow with some 32,000 members].

- Norwich City Council contributes by funding Ian Leather's current post, providing staff time for committee members to meet regularly and office computers.
- Volunteers contribute across the community by fulfilling board posts and doing the collecting of monies.
- Funding has also been successfully drawn down from LEGI in 2010 enabling the setting up of Norwich Credit Union Development Society tasked with finding ways of CUs working together for mutual benefit. Funding to enable the scoping exercise (to find out how Norwich based CUs can best work more closely together) to take place has yet to be found (as of December 2014).
- Norwich Consolidated Charities paid for the pilot MABS scheme and a newly appointed Budget Advice and Guidance Adviser.
- Unity Trust Bank who manage 40% of CUs money in the UK have a fund to support CUs – For 2015 the focus is on improving IT systems within CUs. Last year it focussed on marketing – West Norwich Credit Union put in a bid to fund support for the young savers scheme.
- NELM (North Earlham Larkman and Marlpit Development Trust funded through the government's New Deal for Communities) funded a project manager for the move to a shop on the West Earlham Shopping Centre. They also supplied rooms for staff training and management advice and from the CEO Nick Craig in the writing up of a business plan.

In the context of a shortage of resources, a further theme that we observed was a mentality that external funding from government or other agencies is required to further develop aspects of the CUs. This can lead to a situation where availability of external funding is seen as a limiting factor in taking the CU movement forwards and/or a situation where the process of applying for and securing funding leads to an emphasis on certain values, a certain ethos, at the expensive of others.

5.3.4. Monitoring and evaluation

Evidence found regarding the roles of monitoring and evaluation procedures in the local initiative may be summarised as follows:

- PEARLS is a monitoring system that is used by ABCUL based on every CUs annual returns. It was used by all of the Norwich CUs.
- There is not much evidence of regular internal monitoring of the CUs' progress, however Ian has used management and finance ratios.
- There is no evidence that the CUs measure customer satisfaction. This is because they rely on volunteers and don't have the resources to carry out such activities.
- Oversight committees are a legal requisite of credit unions and regularly report to the board.
- There is no demographical coding or monitoring, which could aid marketing and planning of future products. For example the researcher found out that the West Norwich Credit Union

has a far higher percentage of female members (2:1) than the other two, which are roughly 50/50. Perhaps this reflects the high street presence in an area with high female unemployment and low paid part time workers making the CU a very accessible and visual option? In any case, it indicates the lack of development of the CUs that may be resulting from a lack of monitoring of the client base and potential clients.

5.4. Other issues about the local initiative

Several interviewees noted that a 'resource hub' could help the Norwich CUs to access streams of funding for training (for example personality type, general volunteer training, and customer service). Funding for an increased street presence and national marketing was also noted as a priority. Interestingly, we note that, as with many socially motivated business models, there is perhaps a tendency here to look outside for resources rather than to examine the business model itself and find other ways of developing income streams or resourcing models that could fund activities such as an increased high street presence.

An interest was expressed in: Meeting with innovators from other countries – what can we learn from other countries?

Finally a need has been identified specifically by Ian Leather - *"to look outward and be more pragmatic. To liaise with other organisations that might not be perfect. There is a need to have people who will find collaborators, who can engage with the community and also be professional."*

6. Synthesis of case study results

Credit unions and 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, goals 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.

This report contains the study of the transnational network of ethical and alternative banks in Europe **FEBEA**, the study of a local initiative in Spain called **FIARE**, and of the **credit cooperative movement in Norwich**, UK, with three credit cooperatives taken as local initiatives.

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. The network is formed by 26 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, mainly, in Eastern Europe (Croatia, Greece, Slovenia).

FIARE is (i*n Spanish*) the acronym of "the Foundation for Investment and Responsible Saving". The initiative was born in 2003 as a Basque foundation (its first formal structure) with the aim to be a financial instrument for the activities of the third sector. FIARE is a non-profit private credit cooperative currently established throughout the whole Spanish territory. Almost 4.000 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. FIARE signed in 2013 a formal integration agreement with the Italian credit cooperative "Banca Popolare Etica", creating "FIARE BANCA ETICA", the first credit cooperative with two branches in two European countries.

The UK Case Study approaches three similar non-profit local-based credit unions located in the city of Norwich: the Norwich Credit Union (NCU), the West Norwich Credit Union (WNCU) and Wherry Dragon Credit Union (WDCU). All of them are members of ABCUL (Association of British Credit Unions Limited), the national association that represents credit unions in the UK, which is, in turn, a member of WOCCU (World Council of Credit Unions), which represents the credit union movement worldwide. A timeline for each of the case studies is presented below.

6.1. Condensed time-line

Two differences can be established between the local initiatives in Spain and the UK from the outset. The first is related to their geographical spread and the aspirations for upscaling: FIARE is established throughout the Spanish territory, while the UK credit cooperatives are more localized. This character is then reflected in their vocation for up-scaling: while the UK cooperatives prefer to stay small and provide a localized set of services, FIARE has reached several agreements with the Italian credit cooperative "Banca Popolare Etica", in 2005 and 2013, in order to create the first European credit cooperative with two branches in two European countries (*they have also tried, in the past, to engage a French credit cooperative but with no success)*.

An International orientation is more visible in the case of FIARE than the Norwich credit unions: FIARE is member of FEBEA, the European Federation of Ethical and Alternative Banks (the international network studied in this research). The iniative is also a member of The Global Alliance for Banking on Values, keeping as well (not strong) relations with INAISE, the International Association of Investors in the Social Economy. The Norwich credit cooperatives are members of ABCUL, the Association of British Credit Unions Limited.

Although this is a clear difference between the cases in the two geographical regions chosen here, there is an ongoing debate in both case studies and the network (FEBEA) on the possibilities for growing and expanding as well as the risks such expansion would entail for the practice of credit cooperatives. There are defenders of the "stay small" approach in both case studies and this division can also be encountered in the network: with founders and older members being in favour of occupying an important moral position and practical space while conserving the purity of the philosophy of credit cooperative sin practices, and those that favour growing and pursuing aspirations for systemic change.

A second difference between the case-studies relates to the target (clients) of their activity. Both cases share a *strong will to do something to help people in need,* by ensuring *"the right to credit" of a part of the population that seems to be discriminated by traditional banks* but the Spanish initiative FIARE only provides credit to third-sector organizations and social economy projects, unlike UK Credit Unions provide low-cost loans to individuals.

- **Timeline for the Spanish case study: FIARE**

Year / period	Important activities/changes/milestones in FIARE	Important changes in context
2003	52 organizations meet in Bilbao to create the FIARE Foundation with the aim of creating an ethical bank	
2004/2005	FIARE is accepted as a member of FEBEA	
2005	First agreement with Banca Popolare Etica (became an agent of BpE in Spain)	
2003-2009	Creation of FIARE associations in Catalonia, Madrid, Castilla, Andalucía and other regions in Spain	Financial crisis in Spain
2009	Constitution of FIARE-Galicia	
2010	First annual meeting of FIARE-Spain (Madrid). Agreement to initiate the creation of a European credit cooperative (formal agreement with Banca Popolare Etica)	New (worse) financial regulations. The Bank of Spain (Spanish regulator) changes the former rules on creating a credit cooperative
2011-2012	FIARE´s campaign for social capital rising	15th of March “indignados” movement in Spain
2012	FIARE´s General Assembly decides to integrate FIARE in Banca Popolare Etica	Reduction of the number of credit unions and local banks in Spain in consequence of European agreements
2013	Real integration of FIARE and Banca Popolare Etica. Creation of the first European cooperative: FIARE BANCA ETICA. General Assembly in Firenze (with both branches).	
2014	FIARE BANCA ETICA has been approved by the Spanish regulator (Bank of Spain). FIARE opens their first bank office in Bilbao. General Assembly in Napoli.	

- **Timeline for the development of Credit Unions in Norwich**

Year / period	Important activities/changes/milestones in Norwich based CUs development	Important changes in context
1984	IL discovered credit unions as a student in Bradford	Story starts with a single Norwich-based individual 'discovering' credit unions
1980s	TUC research identified Norwich as one of the poorest, lowest paid areas in the country	Successive reports highlight the need to tackle poverty in Norwich's most deprived wards
1987	Len Nuttall, CEO of ABCUL gave a presentation in Norwich about the economic argument for credit unions. Other meetings followed	Introduction process starts with a presentation in Norwich from external 'expert'
1989	Norwich Community Co-operative Credit Union set up (NCCCU) by Ian Leather Community Enterprise Officer for Norwich City Council	The common bond was 'those who are associated with the 6 environmental and social development organisations located with NEAD in Norwich
1990s	Government anti-poverty strategy rolled out across the UK – Growth Funds	Made funding available for staffing; helped to set up the Mile Cross and Earlham Credit Unions (which later became the West Norwich CU)
1990	Mile Cross Credit Union set up	
1992	West Earlham (WECU) and Norwich City Council Employees Credit Union set up (NCCECU)	WECU common bond geographical. Common bond for NNECU was to be employees of Norwich City Council
1994	Pillgate credit union set up	Geographical common bond in areas of high deprivation – Pilling Park and Heathgate
1994	PEARLS introduced by WOCCU (Protection, Effective Financial Structure, Asset Quality, Rates of Return, Liquidity, Signs of Growth)	PEARLS is a financial monitoring system; can be associated with the beginning of a more 'professional', 'business-like' and 'accountable' approach to CUs in Norwich
1993	Consumer Credit Counselling Service established	Aims to give free access to debt counselling in the UK
1999	Mile Cross Credit Union closes	
2005	NCU changed common bond; Pillgate Credit Union changed its name to Ketts Credit Union	Common bond of NCU changed to include everyone in Norwich. Ketts changed to cover the East of Norwich
2006	NCCECU changed common bond	Changed common bond to include organisations such as NORSE Commercial Services associated with the city council and anyone living and/or working within city boundary

2007	NCCECU changed name to Wherry Dragon	Countywide financial co-operative offering services to all local government employees and those providing services to local government across Norfolk
2008	Government Growth Fund granted £¼ million to Norwich based credit unions	Funds to take on paid staff and improve services
2010	Norwich Co-operative Development Society formed with £20K LEGI money	To help Credit Unions in Norwich to work together more effectively
2012	Legislation Reform Order changing the Credit Union Act	Changes removing restrictions in the current law and allowing CUs to choose to: 1) Reach out to new groups, by serving more than one group of people; 2) Provide services to community groups, businesses and co-operative; 3) Offer interest on savings, instead of a dividend; and 4) Allow more people who move jobs or home to continue to use a CU.
2012	Kett's Credit Union merged with NCU	After a meeting held by NCDS aiming to get all Norwich based credit unions to merge or at very least work together more formally
2013	NCU (with Ketts) pulled out of Norwich Co-operative Development Society	
2014	Scoping proposal put to Norfolk Knowledge	For a consultant to gather evidence and suggest ways the 3 Norwich based Credit Unions could work more effectively together

6.2. Aspects of 'innovation' and 'change'

Interviewees in the network do not refer to credit cooperatives as a social innovation per se, but they do mention the types of radical change it intends to bring about and they refer to innovative elements. When prompted to detail what they think is new or innovative in the philosophy and practice of the credit unions, they mention the following points:

- Credit cooperatives support a change in the main objective of economic activity, from financial gain to social and environmental gains.
- They entail a change in relationships, by embedding financial relationships in the web of social relationships and activities that exist in a given location, considering trust as a core principle and supporting relationships of cooperation and solidarity, instead of those of competition.
- They switch the focus from financial dependency to financial autonomy.
- Entail a change from individual entrepreneurship to collective entrepreneurship.
- Place the human potential for learning and developing at the core of their activity.
- Transparency of financial operations as opposed to opacity is considered an innovation in process.
- International solidarity.

In terms of **what they want to change**, there is some division among the interviewees: some have the perception that the objective of credit unions is to support the social and environmental aims that a significant part of society demands, as well as supporting the integration of marginalized groups into the mainstream economic system. The involvement with economic regulator institutions is thus seen as a way of ensuring that ethical banks maintain this role and they can keep serving these functions. Others are more ambitious and consider that credit unions should aim to change the financial system, which would in turn lead to a new economic system. For these members, changing European regulations would contribute to a wider systemic change by re-setting the rules of competition and potentially making social impact indicators a central aspect of banking activity. The first perspective considers *staying small* a key element of ethical banks keeping with their original aims and maintaining ideological purity, while the second considers growth as necessary, as well as establishing alliances with bigger and more loosely defined ethical banks (such as Triodos Bank and the Global Alliance for the Banking on Values).

FIARE interviewees consider credit cooperatives to be innovative due to the fact that they are oriented towards creating and sustaining social value by limiting their product markets and providing transparent services to a selected partner base. Interviewees define FIARE as an innovation that respond to the new social needs *"giving answers to new needs, developing new activities and financial tools, as microfinance, crowdfunding and proximity loans, in order to guarantee the right to credit in certain circumstances"* (Fiare_07). They also consider it an **innovative solution to the problem of the exclusion** of the poorer segments of society from the financial system and access to credit. **Innovation in internal organization, type of banking activities and inclusion of social impact assessments in the evaluation of banking activity** are also considered key aspects of credit cooperatives innovation in banking.

Members of the Norwich credit unions focus more on the inclusion of marginalized or low-income persons and families in the access to credit and the possibilities to offer an alternative for people wanting to put their money the cause of supporting poorer communities.

Financial legislation and governmental inference are perceived by the interviewees (in both local cases, as well as in FEBEA) as barriers and limitations to social and system innovation, albeit for different reasons. Although the UK Government tried to support CUs, through fund investment and flexible regulations, practitioners consider that the governmental interference has dampened innovation and made change within the organisation happen at a slower pace, as one interviewee explains: "*this top-down money injection was against the principles of the CU movement*". Regarding the Spanish case, public institutions, like the Bank of Spain (influenced by the Bank of Europe), are presented as a barrier to system innovation, due to their conservative policies of reducing the number of banks in the country and toughening the legal requirements to create a credit institution.

Government intervention and legislation: The UK government has aided the development of strong, sustainable CUs in Norwich. However, influences were interpreted (by some practitioners) as being to the detriment of the original ethos of the CU movement. At least one trend in the recent UK government policy towards CUs has been characterised by a disempowerment, rather than empowerment of the CU model, and this is despite the government paying lip service to the importance of CUs and purportedly implementing legislation that should be supporting them.

There is an important difference in the way the evaluation of projects and purposes for the credit are perceived in each of the cases, in part due to the different destination of money (for individual low-interest credits in the case of the UK, and for institutions and collective projects in the case of FIARE. In the UK case study, members consider the need of the organization to check if the money will be used for "productive" purposes as a paternalistic attitude and an interference, while in the case of FIARE, strict procedures for the assessment of whether the loans´ purposes and destination fit the ethical, social and sustainable criteria of the credit cooperative are considered inherent to the essence of the credit cooperative.

Furthermore, FEBEA members state that credit cooperatives also differ from regular banks in offering support and consultancy services throughout the life of a project they fund, thus being a real partner on the ground and assuming an active responsibility in the project´s success or failure. This allows for both a better rate of success, a learning experience for the new entrepreneurs who do not necessarily have to know everything about running a successful financial plan for a project (especially more marginalized groups) and at the same time a closer control and assessment of the project in terms of the ethical, social and environmental criteria they endorse. Assessment is thus an intrinsic part of the activity and it is done step-by-step. Both FIARE and what seems to be the majority of credit cooperatives in FEBEA consider however that social innovation is based on collective entrepreneurship, not individual, and they would not support credits that were not going to projects with a social and environmental impact.

Slow decision–making processes are highlighted as inconvenient consequences of volunteering work and innovative social impact assessments of the ethical evaluation committees (in FIARE). Volunteer work is highly recognized and appreciated in both case-studies, but faster responses to credit demand and unified criteria are required, by some interviewees, in order to become more "professional" and competitive. Further, in the UK case-study certain actors or members seem to be rather change-averse. This has been perceived as an obstacle to the future evolution/development of the initiative. This is not the case in FIARE, yet this is to be found in the division within the members of FEBEA, already described above.

Divergence of opinions regarding the pace of growth is common to both case studies. Two main 'philosophies' have influenced the growth and efficacy of the CU movement in Norwich. One point of view states that CUs should remain small, individual, localised and community based, while the other one proposes that, in order to survive, the CUs have to merge, become larger, competitive and provide a wider range of banking services. The *'big bank-like'* approach has been also encouraged by ABCUL (the UK national CU body) but seem to be strongly resisted, to date, by Norwich CUs. This debate is, somehow, also present in the Spanish case-study. On the one hand, FIARE agrees to merge with the Italian BANCA POPOLARE ETICA (thus substantially increasing their capital and partners) and seem to be in favour of achieving increasing systemic impact (a characteristic they share with that Italian credit cooperative, at least in the view its President holds on the development of credit cooperatives in general and FEBEA as their representative, in particular). However, on the other hand, they are not interested in fast growth very fast. Most of their members prefer to engage new partners (web of social organizations on the ground) than new clients, for example.

In terms of relevant game changers, the two case studies have commonalities in what they perceive as relevant influences on their trajectory. The **global financial crisis of 2008** is considered a very relevant **game-changer** in both case-studies, although with differences. On the negative side, in both case studies, the crisis has led to new legislation that tightened the lending criteria for financial institutions and jeopardized the existence of local credit institutions and small banks. On the positive side, increased public exposure and knowledge regarding unethical financial practices and their consequences have intensified societal debate and critique of mainstream banking practices and the turn of attention to credit cooperatives as an alternative.

Emergent movements like 15th of May in Spain, "Move-your-money" in United Kingdom or "bank-secrets", have grown in popularity in the last years, and encouraging people move their money to ethical banks. In the words of one FEBEA's representative, credit cooperatives were the only ones whose credit-giving activity was not so affected by the economic crisis due to their non-involvement in previous speculative financial activities. CUs were the only financial institutions with a steady growth during the crisis, but there are now doubts on whether this trend will persist, given the tendency of the political system to protect large banking actors through legislation and the reactions of traditional banks to the loss of legitimacy they experience. Even though the **financial crisis increased the popularity of ethical banks and credit unions,** practitioners insist on that credit cooperatives are not emerging initiatives that "respond" to the crisis (all cases were born previously).

The access to **information and communications technologies** also seems to be a game-changer. The evolution of *online* banking services enables FIARE to provide basic financial services and appears to motivate Norwich CUs to provide an up-to-date service. The original CU model can be considered as a social innovation with a strong transformative ambition, being that the pioneers were clearly motivated by wider goals of social justice and social welfare. However, interviewees are worried about **how to preserve the fundamental values of the initiative,** remaining pure and respecting their aims and principles. These issues have also been discussed by FEBEA, the international network.

Regarding their **capacity for transformation**, there is disagreement among members of the two case studies, although this disagreement is more visible in the Norwich credit unions case than in the Spanish case. Nevertheless, the debates around system transformation have commonalities in the two case studies, and some of these are shared by the network. A part of the members of the case studies consider that credit cooperatives are too small to have the capacity for system transformation, and some believe they should stay small, as a way of preserving their essence and character, and thus be a real alternative for traditional banks. However, especially in the Spanish case and in part of FEBEA, interviewees believe that credit cooperatives are well-suited to achieve system transformation, with some seeing indicators of that already taking place in the interest of the European Commission in starting a discussion with FEBEA or in the fact that traditional banks are adopting ethical practices.

As researchers, we believe 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 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 – 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.

Despite the social impact of credit activities, interviewees agree that the transformation of the financial system requires the engagement of more actors. Certain changes in legislative and political conditions are required, because a *"system transformation implies the change of the entire institutional framework that supports the financial markets and allows certain financial behaviours"*. Lobbies, such as big businesses, are the real designers of policies and public agenda, influencing governments and institutions. Hence, the different existing networks should develop, according to several interviewees in both case-studies, a "**lobby activity"** oriented to preserving credit unions and promoting system changes. Regarding ***narratives of change***, tensions between the 'big bank-like' versus 'small community' philosophies has been discussed previously. Community-building philosophy stands behind the UK CU movement. The intangible outcomes of CUs bound up with the opportunities for community cohesion and empowerment. Secondly, practitioners enhance the **political dimension of ethical banking**, with anti-capitalism, solidarity and environmental paradigms present in the initiatives´ aims and values.

FEBEA and FIARE posit a **"new paradigm of banking based on the human right to the credit",** endorsing the transformative discourse proposed by the Nobel Peace Prize, Muhammad Yunus. The right to credit is defined as an **emergent human right** and it incorporates the discourses of the **"critical economy"** into their narratives of change. We could also recognize elements from discourses on equality, feminism, critical economy paradigms and **Christian faith-based perspectives** in the interviews and narratives of change of the practitioners, especially in the Spanish initiative.

6.3. Aspects of empowerment and disempowerment

The initiatives differ on the level of experienced empowerment and disempowerment of the members. A certain disempowerment seems to be present in the experience of the Norwich credit union members. Several factors such as an endemic lack of professionalism of volunteers, lack of time and resources for innovating services and lack of an up-to-date 'vision' or wider sense of purpose, appear to be the main **factors of disempowerment** in the UK study. 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 universalist Christian perspectives on dignity 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. At a more operational level, **a strong network of social organizations tied by common goals and a common identity contribute to feelings of empowerment and real possibilities for getting things done**. However, in spite of the fact that in the Spanish case study volunteers are considered a very important part of the initiative, some members of FIARE mention the need to reform the human organization of the initiative and increase paid staff, in order to be more efficient and agile.

Participation is a key tenet of all credit cooperatives, and a defining element. Participation is also considered a necessary means through which empowerment is achieved. Members of FIARE highlight the importance of participation in learning processes, in the individual transformation process of changing values and beliefs and in building better interpersonal and community relationships. However, participation is considered by both initiatives as something that is sometimes difficult to achieve in practice, as fewer than desired people participate and there is a certain "burn-out" effect on some volunteers.

A social perception of credit cooperatives as less trustworthy: A general perception of CUs as being less trustworthy than banks; and also an opinion expressed by some British interviewees (but contested by others) that the name itself may put some people off. This perception is also shared by the Spanish practitioners, which have pointed out that the economic crisis has also brought about distrust of any financial endeavour, and this is perceived as a strong barrier to the development of credit cooperatives.

External governance and networking: researchers perceived a lack of trust and cooperation between the Norwich CUs. There are too many small CUs, wasting resources and unsustainable operating in Norwich, with separate training, different ICT systems, etc. In the last year, the Norwich Co-operative Development Society (2010) dedicated efforts and resources to enhancing closer working relations between CUs. Relationships with the ABCUL, the British Network, appear not to be very close. Divergent ethics criteria and positions regarding the involvement of the State in credit union movement are barriers that impede the evolution and empowerment of the initiatives. For instances, despite the important public funds received in last years to enhance CU, they only serve to 5% of British society. On the contrary, FIARE maintains a brotherhood relationship with the Spanish Network of Solidarity and Alternative Economy (REAS) as well as with para-financial initiates (COOP 57, AIS O Peto), and good relationships with a number of regional banks (Kutxa, Caixa Rural). The initiative is also a member of the Board of FEBEA, and a new associate of The Global Alliance for Banking on Values. Although FIARE keeps a good relation with different levels of government, interviewees demand stronger relations between the third sector and State (lobby activity, specially).

Participation and volunteering work within the initiatives lead to **deep processes of learning** about general issues (economics, financial system, ethical baking) as well as internal management, participatory process, communication skills, as respondents pointed out in their answers. These learning processes have resulted in a higher level of professionalization of volunteer staff, as one interviewee puts it: "*We now have a better understanding of what's needed, yes, we made mistakes but we have learned to speak of it as a business. This is a big change over the years".* Interviewees insist on the importance of **training events**, for instance, on communication skills or ICTs that are especially tailored for volunteers. Practitioners of both case-studies posit that one of their responsibilities is **"to educate society"** on ethical finances, by giving talks and participating in public debates, info days, press interviews. Society has changed and saving is a part of most people's lives today. Targeting the young savers has been a priority of the Norwich CUs.

The agreement between FIARE and the Italian Banca Popolare Etica enables a close and continuing interaction between volunteers from both initiatives. Personal meetings, workshops and general assemblies facilitate remarkable knowledge interchanges, the opportunity to learn from other experiences, reinforcing trust and confidence between both structures and boosting social innovation and system innovation processes. **Social learning processes (re-)shaped the activities and the structure of the initiatives** as volunteers involved in organizational duties were able to evaluate across the interviews. For example, the bottom-up process, the territorial structure and the plural ethical commissions, composed by volunteers, are characteristics of FIARE that will be adopted by the Italian part of the project.

Empowerment and learning: Interviewees establish a clear relationship between empowerment and learning. Learning about financial issues and banking, as well as developing skills to elaborate projects and defend them are considered very important in feeling empowered as a member of the initiative. **Empowerment can also be understood as a threat** whether exists an *excessive empowerment of the organizational structure (management and technical teams)* which inhibits the active participation of associates in decision-making processes*.*

Economic resources: The tension between needing money to operate and develop a service that best meets the needs of a section of society struggling with poverty versus the desire to offer lost-cost, low-interest services is a recurrent theme in this study; the same is true with the tension between the need to become more professional versus the desire to stay connected and genuinely responsive to the needs of the communities served. In the Spanish case-study, any member of the cooperative must purchase the minimum number of co-op shares. This initial investment[25] (300€ is the minimum for individuals) has been perceived, by three interviewees, as a barrier to engage more people. The economic barrier seems to be the main explanation for the lack of young people in the initiative.

Human resources: limited organizational structure and lots of volunteering. Some interviewees consider that volunteer participation could slow down the future evolution of the initiatives, asking for a strengthening of the structure through a higher number of paid staff.

25 according to the information facilitated by FIARE in 2014, the economic investment required by FIARE for individual is 300 €; 600 € in case of no-profit legal organizations; and 2,000 € in case of profit organizations and public institutions.

Monitoring: in the context of ethical banking, a global consensus has arisen on the need to improve techniques of monitoring and assessment of the impact, efficiency and sustainability of financial activity and social projects. PEARLS is a monitoring system that is used by ABCUL based on every CU´s annual returns. It was used by all the Norwich CUs. PEARLS Financial Monitoring System, introduced in 1994, is a system of 39 financial ratios that the World Council of Credit Unions (WOCCU) employs to provide a detailed picture of CU operations. Regarding a qualitative analysis, there is no evidence of regular internal monitoring of the CUs progress or customer satisfaction. However, oversight committees are a legal requisite of credit cooperatives and regularly report to the board. FIARE, on the contrary, did not provide information about monitoring systems. They are interested in the future development of social impact measurement techniques. Being asked about this issue, one interviewee affirms that "the social impact of the initiative can be measured by the whole credit activity".

Related to this, the Italian BANCA POPOLARE ETICA published the study *"The Social Impact of Banca Etica. 15 years of finance serving the good common"* (Altis, 2014 b). FEBEA is now working with its members and a series of experts from academia in defining indicators of social impact for the activity of credit cooperatives. The European Commission for Internal Market and Services, the body in charge of defining credit cooperatives and their characteristics and roles, has also shown interest in the development of social impact indicators by FEBEA, and the network is working on developing these in reply to one of the requests of the Commission. The measurement of social impact might also become a standard European request from banks, which could be an indicator of system transformation. The regulator taking up and introducing such a change within the whole system can be one of the pathways of system transformation resulting from the work of initiatives such as FEBEA.

Finally, we can advance a few hypotheses here: that 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. A certain "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. This internal work of building a coherent model and ensuring its purity seems key to the success of these initiatives. It also seems that an engaging with wider ranges of stakeholders leads to success only after a clear and coherent project associated with a visible identity in the community have been achieved (see below the laboratory for a new economy experience to illustrate this further).

6.4. Other issues

Suggestions that can be useful for TRANSIT activities and tool development.

Several interviewees noted that a 'resource hub' could help the Norwich CUs to access streams of funding for training (for example personality type, general volunteer training, and customer service). A second interest was that of meeting with innovators from other countries.

Regarding FIARE, interviewees have already established, and show further interest to establish a long-term dialogue between researchers and practitioners, to have a closer knowledge of activities taking place in their organizations (needs and challenges of their work, degree of dependence on state subsidies, and formulas of internal governance). They consider as very relevant the transmission to high spheres of political decision of the real importance of such proposals of alternative economy to transform society, and see scientists as a credible actor that could play this role. They are also interested in analyses of how to change the entrenched habits and attitudes of society to encourage and increase the use of alternative financial or social tools (credit unions, Time Banks, other "social economy" initiatives). In other words, recommendations on how to achieve transformative change are seen as fruitful results of projects such as TRANSIT.

"New Economy Laboratory".

FIARE is launching the project of *"the new economy lab"* in Spain with the aim of creating a common networking and public space for businesses, academia and third sector organizations, which can together evaluate the experiences that are contributing to a new economy in Spain and thus also receive external feedback and inputs on ethical banking activities and possibilities. This initiative has been inspired by the Italian *"Laboratorio di Nuova Economia"* experience (leaded by Banca Popolare Etica), based on the ideas of the economist Antonio Genovesi. As one interviewee explains in the following quote, "We *want to sit with relevant stakeholders, not only members of Fiare, but also the business sector, organizations that promote innovation and entrepreneurship etc., and ask them what we could do with the credit activity according to them. Dynamics are changing over time. We have an ethical-social methodology to evaluate investments, we know what we do, but we're never satisfied with it. We know that new things can be done, that new impacts can be generated"* (Fiare_07). TRANSIT might become a relevant partner in this laboratory.

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Annex 2: List of interviews

- **International Network: FEBEA**

Interviewee	Purpose of interview	Date	Duration of interview	Interviewer
FEBEA_01 [member of the European Federation of Ethical and Alternative Banks. In advance: FEBEA]	[First contact and information about FEBEA]	17/10/2014	0:50:00	Isabel Lema
FEBEA_02 [member of the board of FEBEA)	[In-deph interview]	23/10/2014	2:30:00	Adina Dumitru Isabel Lema
FEBEA_03 (member of the board of FEBEA)	[In-deph interview]	25/11/2014	1:50	Adina Dumitru Isabel Lema
FEBEA_04 (member of the board of FEBEA)	[In-deph interview]	02/12/2014	1:40	Adina Dumitru Isabel Lema
FEBEA_05 (member of FEBEA)	[In-deph interview]	16/12/2014	1:10	Adina Dumitru Isabel Lema
FEBEA_06 (member of FEBEA)	[In-deph interview]	09/01/2014	1:00	Adina Dumitru Isabel Lema

- **Spanish case study: FIARE**

Interviewee	Purpose of interview	Date	Duration of interview	Interviewer
FIARE_01 [Member of FIARE GIT-Norte]	[First contact]	05/06/2014	1:00	Ricardo García, Adina Dumitru Isabel Lema
FIARE_02 [Member of FIARE GIT-Norte]	[First contact]	05/06/2014	1:00	Ricardo García Adina Dumitru Isabel Lema
FIARE_03 (Member of FIARE GIT-Norte)	[In-deph interview]	10/11/2014	1:10	Isabel Lema
FIARE_04 (Member of FIARE Galicia)	[In-deph interview]	20/11/2014	1:30	Isabel Lema
FIARE_02 (Member of FIARE GIT-Norte)	[In-deph interview]	26/11/2014	1:30	Isabel Lema
FIARE_05 (Member of REAS and FIARE)	[In-deph interview]	02/12/2014	1:00	Isabel Lema
FIARE_06 (Member of FIARE-GIT Norte)	[In-deph interview]	15/12/2014	1:20	Isabel Lema
FIARE_07 (Member of FIARE BANCA ETICA)	[In-deph interview]	02/12/2014	1:40 hours	Isabel Lema
FIARE_08 (Member of FIARE-GIT Norte)	[In-deph interview]	16/12/2014	00:55	Isabel Lema
FIARE_09 (Member of FIARE-Galicia)	[In-deph interview]	17/12/2014	01:20	Isabel Lema
FIARE_01 [Member of FIARE GIT-Norte]	[In-deph interview]	17/12/2014	2:00	Isabel Lema
FIARE_10 (Member of FIARE-GIT Norte)	[In-deph interview]	17/12/2014	00:45	Isabel Lema
Economistas sin Fronteras (expert perspective from economics science)	[In-deph interview]	09/01/2015	01:20	Isabel Lema
Triodos (extern perspective from ethical finances)	[In-deph interview]	19/01/2015	00:40	Isabel Lema

- **Norwich case-study**

Interviewee	Purpose of interview	Date	Duration of interview	Interviewer
SQ past board member of Kett's Credit Union and member of Wherry Dragon Credit Union, Norwich City Council employee Economic Development Team	Purpose of the interview to gain information about the establishment of Wherry Dragon Credit Union and to ascertain other people to interview	4/11/2014	46 m	Anne Francis
BT board member and credit committee Wherry Dragon		13/11/2014	60 m	Anne Francis
IL Treasurer WDCU, founder of Norwich CU, President West Earlham CU		14/11/2014	2hr 13 m	Anne Francis
BS member and collector for Norwich CU		24/11/2014	57 m	Anne Francis
BB board member WDCU		27/11/2014	23 m	Anne Francis
AC President of Norwich Credit Union		29/11/2014	28 m	Anne Francis
TO volunteer economics student from UEA		29/11/2014	5 m	Anne Francis
FS manager of MABS		2/12/2014	26 m	Anne Francis
IG		12/12/2014	39 m	Anne Francis
Nick Craig CEO of Henderson Trust		05/01/2015	30m	Anne Francis
Irish credit union member		18/12/14	dialogue by email	Anne Francis
SW member of Wherry Dragon CU		04/01/2015	46 m	Anne Francis
EC elderly community member		23/12/14	35 m	Anne Francis
Customer of payday lending service		19/11/14	7 m	Anne Francis
DL HR NCC		20/12/14	20 m	Anne Francis

Annex 3: List of meetings and events attended

- **Spanish case-study**

Meeting and events attended as part of data collection, dialogues, etc.	**Purpose of attending**	**Date and duration**	**Attending from the research group**
Seminar **"Social transformation experiences in Galicia: Transition Processes to responsible economies and sustainable lifestyles"**	First contact with time banks and credit unions initiatives. Debate with several NGOs about social (interviews)	5th June, 2014 (7 hours)	Ricardo García Mira Adina Dumitru Isabel Lema Blanco
FIARE's Info Day (open meeting) in Lugo (Galicia, Spain)	Participant observation	18th October, 2014. (4 h)	Isabel Lema Blanco
Assembly of FIARE GIT-Norte in Lugo	Participant observation	18th October, 2014. (2:40h).	Isabel Lema Blanco
Public debate "Ethical Finances in Spain" with spoke-persons of FIARE and Triodos, organized by a public library in A Coruña	Participant observation	29th October, 2014. (2:30 h)	Isabel Lema Blanco
Assembly of FIARE GIT-Norte in A Coruña	Participant observation	5th December, 2014. (2h).	Isabel Lema Blanco
Assemblies recorded (video-streaming)			
Assembly of FIARE-Spain in Barcelona	Observation	29th March, 2014 (3 hours of streaming video).	Isabel Lema Blanco
FIARE-Banca Ética assembly in Napoli (italy)	Observation	24th june, 2014 (2:40 hours of streaming video).	Isabel Lema Blanco

- **Norwich case-study**

Meeting and events attended as part of data collection, dialogues, etc.	Purpose of attending	Date and duration	Attending from the research group
Visit to collection point for Norwich Credit Union in the offices of Age Concern	To study the relationships between collection agents, other volunteers and members of the public.	12-1pm 29/11/14	Anne Francis
Visit to West Norwich Credit Union shop	To interview MABS co-ordinator and observe the interactions with the members of public who came into the shop	9-12noon 02/12/14	Anne Francis