

The Emergence of Ethic Banks and Social Responsibility in Financing Local Development

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***Abstract.** The evaluation of the present offer of banking products and services in the developed countries as well in the emerging ones shows the extent to which they fulfill or not the principles specific to social responsibility and ethics in economics. Considering heightened competition, some institutions adopt new strategies based on the creation of new concepts where human finality is to replace economical finality. Thus, banking ethics and social responsibility are concepts which are found at the level of credit cooperative and ethical banks. Oriented mainly towards rural financing and financing social responsible projects, within the study, the two approaches complete and sustain each other.*

Key words: ethic bank; credit cooperation; microcredits; social responsibility; rural financing.

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The ethic interrogation in economics constitutes today a turning point in approaching global humanity problems, as some authors show (Passet, 2003, pp. 1-3). The pure instrumental rationality which is specific to the satisfying the needs of the productive apparatus must give its place to a rationality founded on human finality: this is the idea which generated a true current of ethic thinking in economy. Such an approach is particularly applicable to the enterprise, durable development and globalization.

At an institutional level, UNESCO's medium-term strategy can be highlighted for the 2002-2007 period, which had as theme "humanizing and globalization", the objective being to sustain those initiatives which contribute to promoting and introducing ethic values in the economic life (final report of the special reflection team on UNESCO in the 21st century, Document 160 Ex/48 of the UNESCO Executive Council – Ninou Garabaghi responsible for the inter-disciplinary program "Ethics in economics").

Favoring the development of a "social or solidarity" economy brings the issue of an institutional framing of the market and the necessity of a norm to channel the market in opposition to the principles of self regulating market. Such an economy generates collective actions regarding the introducing of international and local rules to complete the national rules or to substitute their absence. This approach is necessary in the present, as the contemporary vision in economics has evolved to a multidimensional economy, a dynamic and collective economy, and subordinated to the ethical imperatives of human finality.

In such a situation, where any economic process belongs, in the same time, to the human and natural spheres, and where the advent of computer has created the possibility of economic functioning in real time at a global level, institutions and processes founded on the principle of ethics are required such as: equitable commerce, solidarity financing (the ethic bank and micro-credits), the

non-monetary exchange network (local exchange systems – SEL and services exchange systems).

The contemporary current in favor of corporate ethics is also highlighted by the initiatives and measures adopted internationally. Thus, ONU has proposed to multinational companies “The Global Pact” through which it promotes the ethic issue at the corporate level, and the European Commission has created the document “The Green Charter”. In the same time organizations were created such as “*Corporate Social Responsibility Europe*”, which groups companies such as: British Telecom, Suez, IBM, France Telecom, Danone, Shell and “World Business Council for sustainable Development”, which groups multinational companies in 30 countries.

These are only a few landmarks of the genuine current of managerial thinking oriented towards business ethics, which has developed considerable just in the 90’s, although the first approaches were signaled in the US, in the 60’s.

The ethic current in banking activity

In the context where developing new technologies of information and opening of international financial markets has determined a major modification of the market structure, banks were launched in a race of innovation, conceiving new services offered to the customers but also in diversifying the investments into new activity sectors.

Some institutions, being exclusively preoccupied with the turnover, have neglected the means used; in return, other banks have adopted *positioning strategies* differing to those of other banks, aware of their capacity of innovation and expertise, and other banks (credit cooperatives and ethical banks) launched *new concepts*.

Market studies on the concept of banking ethics have proved that the goal is identifying the level of interest of customers regarding the knowing of ways and activities through which the bank places their money.

The concept of *banking ethics*, which consists of valuing the ethic banking actions, has introduced an already existent dimension but less used in inter-bank relationships. The importance of the concept is also proved by the existence of the *European Federation of Ethic Finance and Alternatives*.

The Ethical Bank fits in the context of financial innovation and launching of a new concept. In the last 15 years, the achievements in the field are considerable, several institutions may be cited.

BID Amerique is an ethical bank, created for the *Latin America and Caribbean* area having the mission of introducing *ecology* in the national development strategies and encouraging the dialogue with the authorities. Considering the environment’s condition in planning the financial efforts, BID must ensure resources, infrastructure

and services for a population of 600 million inhabitants. The priority of the bank is the promoting of vast programs of fighting poverty and offering of social protection. It also proposes programs in favor of education, emphasizing the formation of teachers, programs for the unemployed, elderly, development of rural collectivities.

Starting from the idea that information and communication are necessary, BID has proposed programs which would favor the connection to Internet and programs for sustaining *rural tele-centers*. In this way, the procurement of scholastic and sanitary services is intended, some programs being launched within the “Rio de Janeiro” program.

Another graphic example is the *GRAMEEN BANK* in Bangladesh, which in 2006 received the Nobel Prize for Peace, together with its mentor Muhammad Yunus. The prize was awarded for the efforts of promoting economical and social development through favoring the innovative programs such as microcredits (Lelart Michel, 2007, pp.14-16).

In a rural universe, traditionally the banking and financial offer must be adapted so that it is based on trust, participation and mutual credibility. In statistic figures, Grameen Bank (with an offer of services in 73,000 rural establishments in Bangladesh, annual credits of 800 million USD, average credit value of 100 USD, rate of reimbursement of 99%) is proof of a new concept in banking and of the will of the founders that in a world of poverty (over 58% of its customers being poor), micro-credits awarded to women being the solution. Grameen Bank – “The Rural Bank”, a micro-financing institution which reaches international dimensions is present in 60 countries in Asia, Africa, Latin America and Europe and responds to a demand of 7 million customers, of which 97% are women, and the volume of credits given raises to over 6 billion USD.

In our enumeration, an exemplification of the success of the new concept is offered by the *Cooperative Bank* in the United Kingdom. In a conservative industry, Cooperative Bank appears as an innovative bank through the offer of services (free credits or with zero rate of interest, the prolongation of work program, guaranteed level of services). The bank develops and has almost 1,5 million customer accounts. Founded in 1992, this institution operates and offers a range of products to its customers, established after consulting the banks’ customers and employees. It is remarkable that the bank sent questionnaires to 2 million customers, their answers contributing to the revision of bank’s ethical policy. The customers have requested that the bank should have a *proactive policy* based on selecting investments through a direct confrontation between the deponents and the investors. Following the consultations, the bank’s deposits rose to 8 billion EUR in 2002, 5 times more than in 1992, and have a gross result of £60,2 million.

Among the ethical banks we can mention the Swedish *EKOBANK*, as an ethical bank open to those with initiatives in areas of activity such as health, education and art. The bank has a policy of investing in social and durable economy. The ones which invest in the bank may influence the bank's crediting policy, determining the type of project they wish to finance. As a particularity is the fact that no shareholder can own more than 10% of the capital. It is the only bank in Sweden which allows its customers to know exactly what is the destination of the amounts deposited, being *transparent*.

ETHIKBANK of Germany, launched in 2002, represents a necessity in this country where charity and religious organizations play an important role, influencing social-responsible investments. The volume of *ethic-ecological* funds in Germany has exceeded 2,4 billion EUR (in 2002) which justifies the creation of this institution. In this ethic-ecological background, the bank has chosen to focus on the top 100 companies included in the DAX indicator, excluding any investment in enterprises which operate of own part of the atomic contracts, participate in the development of genetically altered organisms. Following a project initiated by Ethikbank, a small bank, Volksbank Eisenberg, has programmed 3 financial placements, while a part of the interest is used in financing environment projects. The interested customers offer 0.25% of their interest to finance one of the following objectives: building a school in Afghanistan, renovation of an orphanage in Bulgaria or a plan of cleaning and protecting the Selenga delta or the Baikal lake.

The current status of the Romanian economy highlights the formation, at the corporate level, of a true current in favor of *corporate social responsibility* (CSR) and including this concept in the marketing strategies. In line with the European Union's recommendations, social responsibility at the level of international companies is stimulated through a series of facilitations such as tax exemptions. Such corporations, preoccupied with the ethical and social dimensions report performances registered from a financial, social and ecological point of view, through specific indicators. The CRS programs in Romania materialize through: promoting a cause, social marketing, charity actions, community volunteering, social responsible businesses, the latter highlighting the fact that companies improve their activity in order to respond both to own interests as well as public wellness.

The evaluation of the extent to which *social responsibility and business ethics concept* is found in the *Romanian banking system*, shows that this approach is well defined in *Bancpost*. In vision of this bank, corporate social responsibility has as purpose following the rules and principles of corporate governing, fulfilling engagements to all the parties that have an interest in the bank

(shareholders, employees, customers and suppliers) and the continuation of social contribution programs. The bank sustains important fields for the community life such as: education, professional formation, culture, environment protection, local communities.

Also at the level of BCRS – the concept of responsible and proactive bank begins to take form, as it results from BCR's core values.

The principles of credit cooperation in financing rural development

The idea of credit cooperation has been issued in the second half of the 19th century, as a reaction to the traditional commercial banks, which refused to credit certain areas of activity such as agriculture, foresting and craft works. Different cooperative systems were conceived, based on the democratic principles of access of all debtor categories to all the resources offered by the creditors.

The most well known cooperation structures which were noticeable and remained as models in the European cooperation movement are: Friederich Wilhelm Raiffeisen (1818-1888) in Germany, Herman Schulze-Delitzsch (1808-1887) in Germany, the Society of equitable pioneers in Rochdale (1844) in Britain, Wilhelm Hass (1839-1913) in Germany, Luigi Suzzate (1841-1927) in Italy.

In banking cooperation, the principle of the first two systems was applied on a large scale, their characteristics being the following:

- from the activity area point of view, the Raiffeisen system is limited to a smaller administrative-territorial area, and the Schulze-Delitzsch has no marked area;
- from the quality of adherents point of view, on signing, the first system considers this aspect important, a preliminary selection of the adherents being required, and, in the case of the second system, the social status or moral profile has no importance, but attracting important resources for the creating of the own capital;
- from the social obligations of the social parties, the Raiffeisen system is more relaxed, also proposing the state's or charity financial support; the Schulze-Delitzsch system imposes the creation of own capital, formed of social parts with highest values possible, without accepting other forms of support;
- the profit and its distribution also represents differences from one system to another: in the first, the profit is not distributed to the members, but it is transferred to the reserve fund, and in the case of the 2nd system, the associates participate in distributing the profit while the reserve fund is constituted only partially from profit and from taxes of joining the association;

- regarding the responsibility issue, in both systems, the principle applied is: “one for all and all for one”;
- the operations comprise a wider area in case of the first system, other activities being accepted, apart from those specific to the credit cooperation (such as supply and selling merchandise, in commission), and in the 2nd, only banking operations;
- from the loan characteristics point of view, a series of differences is also noticeable; thus, in case of the first system, the credits are issued on long periods, up to 10 years, for needs of exploitation or real estate, the paying back being done annually, depending on the production obtained and following the use of the credit; while in the case of the Schulze-Delitzsch system, the crediting period is 3 months, without stating of the purpose or following the use of the credit;
- through the Raiffeisen system the economic prosperity is sought after, as well as intellectual and moral prosperity of the members, while in the second system, only the economic progress of the associates is intended;
- the Raiffeisen system is more appropriate to the needs of rural population, the small agricultural producer and the Schulze-Delitzsch system has the function of supporting craftsmen, owners and administrative workers.

No matter what the model adopted, the credit cooperative has developed quickly, mostly in European countries, but also in Japan and the United States, thanks to the advantages offered to large masses of debtors represented by cooperating members, SME's, cult organizations, family associations which have their social residence in the area of operations of the credit cooperative.

For certain activity fields, especially manufacturing and agriculture, commercial banks of the specific period didn't give credits due to the lack of guarantees which generated the association of banks with the goal of unifying liquidities, savings and mutually awarding credits on the basis of trust. Different branches of the mutual and cooperation credit developed this way on a democratic and decentralized basis characterized in an “Administration Council” and “Local Houses”. At the present, the network of mutual banks and cooperatives in every country numbers millions of local houses. The majority of administration councils of the Local Houses felt the need of federal or national organs, centralizing the liquidity placements or realizing operations with foreign countries, which require a certain dimension and financial means. Thus, the respective banking institutions benefited from advantages awarded by the public power, materialized in the monopoly on crediting or fiscal advantages, which have now diminished.

Becoming ordinary banks, both through clientele and services offered and included in the globalization process, mutual banks and credit cooperatives must face current competition, by specializing in a punctual activity and by diminishing personnel.

In *Germany*, the basic principle of the *Raiffeisen* type mutual credit was founded on the idea of religious solidarity, with unlimited responsibility of the companies. In Germany, two mutual bank and cooperation networks have existed: the rural network “*Caisses Raiffeisen*” and the urban network with the name of popular banks “*Volksbanken*”. For these banks a representative syndicate organism functions “The Federal Association of Popular Banks and Raiffeisenbanken banks” as well as a central bank – “D.G. Bank”.

In other countries, the mutual network has the following particularities:

- In *Great Britain*, the cooperation network has developed in the field of production and consumption, without having the dimensions in the other European countries. A special kind of institution is represented by construction companies, whose customers own important parts of these institutions and accept in certain conditions the financing of houses. Such construction companies constitute a form of credit cooperatives. A bank having the status of commercial bank specialized in financing cooperation and with the headquarters in London is “*Cooperative bank*” which used to own at the beginning of the 90's more than 109 branches and 3280 ATM's.
- In *Italy*, the activity is grouped in two syndicates, coordinated by a central institution “*Credito Popolare Centrobanca*”.
- In *Japan*, the credit cooperatives are named shinkin banks and are different to the commercial banks in term of organizational structure and customers to whom they offer services. As regards structure, in the shinkin banks, the number of members cannot exceed 300 and the level of capital 900 million yens. The credit cooperatives accept deposits in the same way as commercial banks, but credits are restricted, being given only to contributor members, the maximum level given to a single debtor not exceeding 25% of the capital level. The use of the credit is only accepted for local development, this fact contributing to the rapid growth of local enterprises and improving the quality of life in the respective residential area. Thus, shinkin banks represent an important support for the SME's within the community. This was the belief which was the basis of the creation in 1996 of a Center of Information for Business Management at the SME

level, which set out to develop and promote exchanges between different industries. This center is based on a philosophy of basic principles in the Japanese credit cooperation (vitalizing local community, residents' prosperity, creating a pleasant working environment, developing cooperation with other credit cooperatives). The number of credit cooperatives in Japan reflects this philosophy which is the basis of rural local development and adequate risk management. Over 3,000 credit cooperatives of agricultural workers and fishermen, as well as credit unions emphasize the significance and importance of shinkin banks.

The credit cooperative registers a special expansion in emergent countries as well, such as China and India. Thus, the rural credit cooperatives as well as the urban ones began offering banking services for development of local communities in 1979. But, as a particularity, as opposed to the western countries where credit cooperatives are owned by cooperative members, in *China*, the major owner of the credit cooperatives is the state, which significantly influences the activity of these institutions. In the context of the reform of the banking systems in China, in 1992 the level of credit cooperative deposits was 13% and the credits 9% of the total banking market, as opposed to the values registered at the commercial banks' level (6% and 4%). The number of urban credit cooperatives in 1992 was 4,000, but following the process of banking restructuring, after 1995, 2,000 of these institutions were converted into 111 commercial banks with local ownership, which would service the small and medium enterprises. In 2003 the number of urban credit cooperatives was reduced to 758 as a result of an ample merger and acquisition process with commercial banks, which led to the creation of *Commercial Credit Cooperatives*. Also in 2002, in the rural environment the number of credit cooperatives was 35,544 (these offering credit services to enterprises in the rural environment).

În *India*, the structure of the banking system the credit cooperatives are particularized as well as the rural banks, which are nationalized and focus their activity towards financing and developing agriculture. Their number was of 29 in 2002, as opposed to the urban credit cooperatives numbering 1,950, specialized in financing auto and real estate acquisitions.

The credit cooperation is a component of the financial sector, having an intense activity in the developed countries. For example, in the *United States of America*, the *Center for Development of Rural Cooperatives* functions, with an important activity in offering rural support to little American entrepreneurs.

In conclusion, the access of all the social categories and economic agents to the credit offered in more advantageous conditions has constituted the determining

factor of cooperative development in the banking system, confirming the belief that the cooperation represents a specific form of organizing human activity which manifests in the sphere of industrial and agricultural productions.

The credit cooperation in *Romania* has integrated in the similar process of evolution in Europe, but was particularized due to historic and geographic characteristics. At the basis of the development of credit cooperatives was the first popular bank founded in 1851 in Transylvania by Ion Ionescu de la Brad, later on a series of popular banks and savings associations being created, functioning under different forms and names, on the basis of normative acts issued in time.

Credit cooperatives in Romania adopted the German systems of organizing – Raiffeisen and Schulze-Delitzsch, in the 1891-1900 period a number of credit and savings institutions being founded in almost every big city of the country.

The creation of the credit institutions was sustained by BNR, and in the year 1915 a special credit of 50 million ROL, with an interest of 4% was given to qualify the personnel in the credit institutions, including the ones in the credit cooperatives. Also, between 1916 and 1929, BNR has given to the credit cooperatives through the Central of Popular Banks credits totaling 1,617,100,000 ROL, for current operations of popular credit for population supply and banking operations. Between the two world wars, the popular banks represented the most powerful sector of the cooperation. These were disbanded in 1948 and founded in 1955 under the form of credit and consumption cooperatives. According to the current regulations, the credit cooperatives represent autonomous associations, apolitical and non-governmental having as main purpose banking activities in order to help the members.

The activity of the cooperation credit organizations affiliated to *CREDESCOOP* network is regulated, authorized and supervised by BNR, being similar to that of any banking institution. The deposits constituted at the credit cooperatives are guaranteed, all the units in the network contributing to the creation of the resources of the Fund for Guaranteeing the Deposits in the Banking System, In addition, the network has an own fund – the mutual reserve of guarantee – created at the level of the Central Cooperation House.

The recognition at the European level of the credit cooperative in Romania – Creditcoop was realized by earning the quality of member of European Association of Cooperative Banks.

The subject of rural financing and micro-enterprises is mainly present in emerging countries in Africa, Asia, Latin America and Eastern Europe, where official financial institutions (public or private) have alliances with less official institutions, usually rural, in order to get close to the rural customer base. The financial alliances may have different forms, such as:

- some alliances are spontaneous and respond to a logic of the market (it is the case when a large urban commercial bank gives credit to a credit cooperative or to a non-governmental organization specialized in rural credits);
- other alliances are a form of helping. For example, when the creation of a gross-selling institution that is to give credits to small rural retail institutions;
- certain alliances are established according to the current legislation, respectively when an insurance company is approaching a rural micro-financing institution in order to achieve a market share, by selling life insurance to rural consumers;
- in other cases, smaller institutions wish to get close to the larger institutions in order to have access to funds and expertise. The larger institutions also want to create alliances with rural institutions (credit cooperatives) closer to the demand of services of the rural customer base.

Some of these relationships are permanent if they serve the commercial interests of the two partners, on a long-term, and other have a determined life cycle (for the accomplishment of an objective established in time, afterwards the alliance disappears, as a result of modifications of the regulations, market, institutions or customers).

Such partnerships allow each of the two partners to get over obstacles and achieve advantages they wouldn't be able to obtain individually. In the same time, these alliances have the risk of not bringing durable and reproducible effects.

In conclusion, the banking ethics and credit cooperation are accepted at an institutional, macroeconomic and personal level, as in a predominantly competitive economic universe, where profit is the sole objective; these two tendencies come to position the human individual and his needs.

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