

Access to Finance and the Freedom of Association in Europe

a response to the
Consultation on the future "EU 2020 Strategy"

by SOFI¹
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The EU 2020 Strategy, while taking stock of the effects of the financial crisis (in particular growing unemployment) that has hit Europe and draws a vision of a Europe that should become "*a new sustainable social market economy, a smarter, greener economy, where our prosperity will come from innovation and from using resources better, and where the key input will be knowledge*". It proposes three themes as key "drivers" for attaining these objectives, which are: (1) basing growth on a knowledge economy, (2) empowering people notably through better skills and through entrepreneurship, and finally (3) "creating a competitive, connected and greener economy".

While the document gives a series of useful orientations as to how these themes should be put into action, it is striking at the same time how little it connects them with the financial sector itself. Finance is mainly seen as a cause of constraint (the financial crisis restricts government budgets needed for stimulating the economy), but also as a cause of regulatory concern (needing efficient supervision) and as a needed source of finance both for economic recovery and for financing the "*transition to a value economy*"².

It is our purpose here to emphasise the European Commission's role as the regulator of banking and finance in Europe, a role that is not only about managing risk, but also, or even more so about the allocation of capital in the economy and with it: the orientation of society. Indeed, **finance used to be an active part of the European model of a social market economy, a dynamic contributor to social cohesion. As the designer of our banking infrastructure, we think that the EC is in the position to make finance and banking contribute to the EU 2020 agenda far more actively than the strategy document seems to imply.** To illustrate our point, we would like to give two examples in line with two of the strategy themes of EU 2020:

- **Empowerment** has been an essential component of Europe's "banking model" for a very long time, at least for the last 150 years since Raiffeisen and Schulze-Delitzsch invented savings and credit co-operatives. These enabled local and rural communities, workers and artisans to create financial self-help organisations where no other banking institutions would be interested in serving them, except for the usual usurers. But there were also other forms of savings and loans associations, created by employers, communes, parishes and professional associations with the same enabling purpose for local communities. All taken

¹ www.sofi.be

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together these forms of financial structures have over the decades become an essential ingredient of our security and prosperity in Europe, delivering affordable financial services, re-distributing the profits and protecting against the hazards of life as well as against wider economic downturns. Indeed, in times of financial crises they would offer a vital buffer, upholding some degree of financial short circuits, when the wider financial circuits would fail.

- **A green and sustainable economy:** Europe has stood out in the last 25 years for its truly innovative and pioneering green sector. Yet the formidable technological advances obtained for instance in our internationally competitive wind energy sector today has a lot to do with the resolute initiative of citizens and local communities who decided to put their savings together to finance such projects at their beginnings, when no other investors would do so. It is thanks to these financial initiatives, out of which grew a unique environmental banking sector, that organic farming, eco-housing, green technologies and other renewable energies in general could develop to levels still largely unequalled on the other continents.

These two examples show how banking can be used, and has been used in the past, by individuals and groups of people as a means of self-help on the one hand to defend themselves against economic, financial and environmental risks and on the other hand to give themselves a means of building a more sustainable and viable future, for themselves, their communities and for future generations.

Beyond the benefit these banking initiatives had for the people involved themselves there is the impact that these initiatives had on the wider banking sector. **Through the people's ability to associate financially and to take their fates into their own hands, banks were kept alert on the one hand to the needs of the least well off (social regulation) and on the other hand to the needs of emerging sectors (emulation effect).** In fact this form of socially disciplining banking through competition from the fringes of society is part of the European banking model at least since the first social banks, the Monte di Pietà, were created in the 15th century in Italy, who were meant to compete with the usurers of that time in order to drive them out of the market or to discipline them into practicing more reasonable financial conditions.³

However **this social market model in the banking sector was terminated at the end of the 1980s with the passing of the second EU Banking Directive.** This directive indeed defined that all banking activities (i.e. all deposit-taking activities) would henceforth only be carried out by banks, and that one of the conditions of obtaining this license was to have a minimum capital of € million.

The level of minimum capital was too high for ordinary people to attain and meant de facto an end to the people's ability to form their own self-help financial initiatives. Since then, savings and credit co-operatives have been created only in very few Member States, i.e. mainly in those countries where an exemption from the

³ to see how such a disciplining mechanism of banking "from below" can work nowadays, see the "move your money" campaign started since January 2010 in the USA (www.moveyourmoney.info) that encourages Americans to use their power of choice by moving their savings away from the banks that are too-big-to-fail into the smaller community banks and credit unions located in their neighbourhoods.

Banking Directive was obtained (e.g. in Ireland, the UK, Poland ...) and to a far lesser extent in those countries where it was decided to tolerate the existence of member-based financial organisations outside of the banking regulation. In all other countries where no such possibilities existed, the majority of the Member States, the creation of any new people's banking initiative has been almost nil.⁴

Similarly **the creation of new environmental banks has almost entirely stopped since the implementation of the Second Banking Directive.** To our knowledge merely one bank has been created since then (which is also significantly the most profit-driven of them all, driven by the amount of capital it had to attract to be able to start) in contrast to a dozen such created banks before the Directive came to be. No such bank exists in the new Member States, whose accession came after the second Banking Directive. Meanwhile, it is the rest of the planet that is now copying our successful model of eco-banking while even our own mainstream banks have now followed this inspiration and are proposing many new environmental financial instruments (emulation effect). Yet we have denied ourselves the opportunity to continue developing such banking initiatives and have ceased to be pioneers.⁵

The mutual banking and green banking serve mainly as examples of a wider people-banking movement that has been stopped by **the Second Banking Directive. Since its implementation the negative social effects have grown continuously.** For the first time in 150 years there is a growing trend to people being denied access to bank accounts. Bank branches are closed in local communities that are considered too remote or not profitable enough, minimum credit thresholds for investment in small enterprises have steadily increased and so have guarantee requirements. Small entrepreneurs and the self-employed have seen their access to professional loans being replaced by lower-quality consumer credits, an increasing number financing their investments with expensive credit cards.

The effect in the new Member States has been worst and especially felt with the ongoing financial crisis. With the majority of the national banks being foreign-owned, these countries are strongly exposed to the international financial turmoil. But it is in particular the lack of protection of the local economy that should attract attention. The remarkable though still small credit-coop and microfinance sectors that have emerged over the last decade are, even in the best cases such as in Poland, far from being the financial buffers, big and diversified enough, to offset these effects.

The case of the new Member States in Central and Eastern Europe illustrates in itself the effect of reducing the diversity of our banking sector. By eliminating de facto one essential drive behind banking, the one based on people's drive for mutual help, **the second Banking Directive has, while creating the competitive level playing field,**

⁴ This statement does not ignore the creation and existence of a multitude of microfinance organisations that have emerged both in the former and especially in the new Member States, that are delivering valuable financial services to micro-entrepreneurs. Their existence is due however in the majority of cases to donor aid. They are rarely, if at all, set up as people's initiative. While by no means this reduces the value and the need for such organisations as such, this merely underlines how difficult it has become to create people's finance initiatives without external support.

⁵ This again is said in the knowledge of several ethical banks being created after the implementation of second Banking Directive, either with funds from Christian congregations or with the backing of a major bank foundation. This underlines again that such initiatives tend to be born nowadays entirely with the backing of larger funding sources, and not on the basis of contributions from citizens alone.

also created a situation that looks like putting all ones eggs in the same basket. This has especially from a financial security perspective never been considered to be very reasonable. By cancelling people's ability to associate and to (re)act, Europe's social immune system has been weakened. Europe's difficulties in coping with the present day financial crisis are to some degree home-made. And our chances of reaching *an inclusive, greener and smarter economy* are greatly impeded for the same reasons.

For these reasons, it is our wish and the suggestion made herewith to regenerate the freedom of association in the field of finance and banking, by evaluating and enabling, at the European level, financial mechanisms through which people, local communities, associations ... would be given the chance of creating financial initiatives below the minimum capital threshold of €5 million.

About SOFI:

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