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Existing and potential solutions to reduce financial exclusion - theoretical considerations and practical initiatives at the meeting point of finance and ethics

by  
Zsuzsanna Győri

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## **Existing and potential solutions to reduce financial exclusion - theoretical considerations and practical initiatives at the meeting point of finance and ethics**

Zsuzsanna Gyóri PhD<sup>1</sup>

college associate professor

Management Department, Institute of Management and Business Information, Faculty of Finance and Accountancy, Budapest Business School

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### *Abstract*

Banks and financial intermediators are motivated in two ways in socially responsible activities: we call them moral and business case.

On the one hand, it is their moral obligation to serve the welfare and well-being of the whole society, as explained in the stakeholder theory: a company is not only responsible for its owners but must also consider and report its impact on other groups concerned. Expecting multi-dimensional value creation can be applied even more to financial intermediators than other economic actors, considering their important role as informal regulator and catalyst in the modern economy.

On the other hand, they also have a business interest in responding to social and environmental changes as they can increase their competitiveness and business position: they can reduce conflicts of interest between owners and managers, make consumers more committed, motivate employees, and co-operate with other business partners.

The state of the environment and society, the strengthening of the community's goals and the changing economic environment create a foundation and a pressure for the strengthening of ethical, values-based financial activities – based on both motivational factors – even in government regulations.

In this paper, I present the development of the CSR in banking sector, the theoretical and practical terms that have emerged from that, focusing on the initiatives that can be linked to financial inclusion in the practice of Global Alliance of Banking on Values' member banks.

### *JEL codes*

G21 – Banks

### *Keywords*

social banking, values-based banking, financial inclusion, GABV (Global Alliance of Banking on Values)

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<sup>1</sup> e-mail: [gyori.zsuzsanna@uni-bge.hu](mailto:gyori.zsuzsanna@uni-bge.hu)

## *Introduction*

European Commission defined Corporate Social Responsibility (CSR) in 2011 as “the responsibility of enterprises for their impacts on society”. “To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders” (EC, 2011, p 6). Responsibility is proportional to power. Companies can do more for sustainability, because of their economic power. That is why companies’ responsibility is crucial, but other economic actors should take their part as well.

The concept of CSR is the success story of business ethics. CSR has become the subject of political and economic dialogue and practice. More guidance, recommendations and international standards are being drawn up to evaluate, prioritize corporate responsibility and to formulate related policies. The three most significant are ISO 26000 (2010), United Nations Sustainable Development Goals (2015) and the Global Reporting Initiative Standard (1997, 2018). The last economic and present social and ecological crisis show that the mainstream logic of things does not work. More and more companies – large and small ones as well – deal with the topic, they emphasize their useful activities for society and the environment.

However, the banking sector is often ignored when it comes to responsibility, sustainability, especially environmental sustainability, as it is much “cleaner” in the environmental field than the energy sector or automotive industry.

At the same time, since financial sector is the backbone of the modern market economy, if we generally expect companies to take responsibility, we cannot leave the players in this industry in the traditional context.

### *CSR in banking sector*

Financial market is the mediator between economic actors with surpluses and shortages. Financial intermediators transform money by maturity, size, geographic location and risk, so have a major impact on the development of other economic actors. This effect is both quantitative and qualitative, influencing the size and direction of economic development, as funding and collecting activities catalyse and regulate the activities. That is why the role of the financial system in sustainable development is enormous (Goyal and Joshi, 2011).

Traditionally, in many countries, banks are the most important players in the financial markets, the link between savings and investment. In Europe, a revolutionary change in this pattern is not expected, although Anglo-Saxon funding is also gaining ground (disintermediation). As a result, interest income decreases sharply with competition, now more than half of the income of banks and financing companies comes from commissions.

This process has two impacts on innovation and the renewal of the competition for consumers. On the one hand, the traditional differences between financial intermediators are blurred, so the potential competitors have expanded. On the other hand, a new competitive asset has been placed in the hands of the intermediators. With the development of individual consumer responsibility, banks can influence depositors’ and borrowers’ decision making not only by more favourable interest rates, but also by moral premium (when clients can know that their money serves for good reasons).

Banks and financial intermediators are motivated in two ways (moral case and business case) in socially responsible activities.

On the one hand, it is their moral obligation to serve the welfare and well-being of the whole society, as explained in the stakeholder theory (Freeman, 1993): a company is not only responsible for its owners but must also consider and report its impact on other groups concerned like employees, consumers, local communities, broader society or natural environment. The company has huge impact on them, moreover these stakeholders also contribute to the achievement of company goals. The profit, purely in money and merely from the point of view of the company and its owners, cannot express the co-determinedness of human action, the separated and equally important profit and ethics-oriented motivations. Economic performance cannot be expressed with a scalar, but with only a vector that expresses the ethical value of the transaction (“moral premium”) in addition to the financial result. Expecting multi-dimensional value creation<sup>2</sup> can be applied even more to financial intermediators than other economic actors, considering their important role as informal regulator and catalyst in the modern economy.

On the other hand, they also have a business interest in responding to social and environmental changes as they can increase their competitiveness and business position: they can reduce conflicts of interest between owners and managers, make consumers more committed, motivate employees, and co-operate with other business partners (Frank, 2004). These business benefits were proved by Frank’s researches in the US, but in our 2008-2010 research, we also demonstrated them in Hungary (Györi, 2012).

O’Higgins (2002) distinguishes four levels of stakeholder-management by the instrumental and normative treatment of stakeholders. On the third, the “engaged” level, company takes into consideration both the moral and business case. This is the synthesis of normative and instrumental approach. Sen (1993) also suggests such a synthesis when he mentions the “incentive problem” of business ethics. He accepts the two different meaning of business ethics: first that business should build a better society beside profit creation, second that ethical business increases profit. In his opinion “moral business behaviour could have sense economically” (Sen, 1993, p 108.) in both ways, moreover it is difficult to divide the two effects, so we can consider both analysing the economic significance of business ethics. Naturally, government regulation can and should build on both as well.

#### *The levels of social responsibility of banks*

Bouma and Jeucken (2001) distinguished four phases of ethical banking – according to banks’ contribution to environmental sustainability. Based on this categorization we can categorize the complete sense of social responsibility of banks.

To understand it better we have to differentiate the direct and indirect environmental and social impact of banks. The direct effect comes from the bank’s own operation, in this sense the bank is a relatively pure shop. Energy, paper and water consumption of the sector is far under the economic average and working conditions are favourable. However, because of its size, the sector’s own environmental and social effect is not negligible. The banks’ indirect effects which are from the bank products are much larger. Financial constructions are not pollutant or socially

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<sup>2</sup> See also „Triple Bottom Line” (Elkington, 1997), where companies have to measure, evaluate, develop and disclose their results in every three dimension (economic, social and ecological) of sustainable development.

harming, but clients of the banks are even more. The banks traditionally influence the debited companies for financial purpose and ignore the other effects of financed investments.

Currently, in this economic paradigm the top two level of ethical banking seems to be feasible only for niche players, smaller, special banks. Large banks can develop such activities only parallel with the change of general business thinking.

Figure 1: Levels of responsibility



The first stage is defensive banking. At this level the bank is passive in environment protection and social responsibility. The potential cost savings and image building are not concerned at all, the care for the stakeholders increases costs and does not appear as an opportunity to earn money from. Sometimes the bank tries to use its lobby power to hinder and to go slow the legislation as a mean to avoid the costs of social and environmental consideration. Today we hardly find such a bank – leastwise who communicates such an approach – as every company in the market tries to achieve a good reputation. This level is neither responsible nor CSR activity.

At the second stage – called reactive or preventing banking – banks identify the potential cost savings and earnings from good reputation and integrate them to every day operation. This is the usual approach at present and it fundamentally differs from the first stage. The cost savings usually have internal character; they do not consider the ethical monitoring of their clients. They recognize the direct responsibility, but they do not consider their indirect responsibility. Most of the CSR programs of banks are related to this stage of responsibility. This approach is based on the independence of business actors to determine their own ethical preferences.

Third level – which includes the second one – means the consideration of both direct and indirect effect. Truthfully, responsibility begins here as the direct impact is dwarfed by the indirect one. These financial mediators – investment funds, commercial and investment banks – develop and offer environment-friendly or social purpose financial instruments and finance socially and environmentally sustainable projects. This attitude is proactive, creative and innovative. In stakeholder relations they look for win-win situations by creating new products based on common interest. This approach means a significantly different way of thinking.

Fourth level requires the integration of sustainable development's values to banking. This philosophy is ready to accept higher risk, lower return and longer payback time for serving moral goals. Sustainable banks do not choose the highest return investment; they look for the highest "sustainable" return to ensure long-term profit and value creation. As I mentioned the demand for sustainable, ethical credit and deposit possibilities is insufficient for larger banks

to achieve this level. They would not be financeable, but they can establish special ethical divisions.

*Definitions: Social banking – values-based banking*

Socially responsible banks are at the third or the fourth level of the previous categorization. Socially responsible banks have many topics of interest and therefore many names: social banking, ethical banking, green banking, responsible banking, alternative banking etc. However, the primary topic could be different (e.g. environmental problems or the financial inclusion of the poor), the main essence and philosophy of their activity is the same. Before formulating an own definition, I introduce some of the existing definitions.

“In Social Banking, the focus is on satisfying existing needs in the real economy and the society; whilst simultaneously taking into account their social, cultural, ecological, and economic sustainability”. (Masagani, 2017, p175)

“Social banking is conducted by social, ethical or alternative banks, financial cooperatives, and credit unions. In contrast to conventional banks, social banks conduct their business to create a positive social, environmental, or sustainability benefit”. (Weber, 2013, p3)

„Alternative Bank is a social, ethical, or alternative bank that offers products and services related to social banking such as loans for social enterprises, renewable energy projects or social housing. In contrast to conventional banks, social banks provide loans in order to create a social or environmental benefit.” (Weber, 2013, p2)

„Social banks define themselves as “banks with a conscience”. Social banks consider social and economic “sustainability” when making financial decisions...This is why social banking is often called “banking for social cohesion”, or “cooperative banking”, instead of the competitive banking approach that has dominated the banking world in past decades.” (Benedikter, 2011, p1)

According to the Global Alliance for Banking on Values (GABV), a global association of social banks, social banking follows the subsequent principles:

1. Triple bottom line approach at the heart of the business model;
2. Grounded in communities, serving the real economy and enabling new business models to meet the needs of both;
3. Long-term relationships with clients and a direct understanding of their economic activities and the risks involved;
4. Long-term, self-sustaining, and resilient to outside disruptions;
5. Transparent and inclusive governance;
6. All above principles embedded in the culture of the bank.<sup>3</sup>

By investigating the member banks of GABV we can find some alternative phrasing: different terms for different sustainability focuses. Here I list the used terms: microfinance bank, socially responsible bank, responsible bank, beneficial bank, bank on a mission, sustainable bank, inclusive bank, bank for the unbanked, community bank, opportunity bank or innovative bank.

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<sup>3</sup> <http://www.gabv.org/about-us/our-principles>

In my understanding „values-based banking” is the widest of the different terms, as it includes both social and environmental goals. Values-based banks formulate their ethical standards in relation to all relevant stakeholder groups and think on multi-dimensional value creation; however, the two most important principles in which we can summarize the “values-based banking” concept are:

1. Ecological principle: carrying out activities or in the case of a bank financing activities, which serves the conservation and restoring of natural, ecological values.
2. Social principle: carrying out and financing activities that enhance the positive freedom, ability and potential of stakeholders.

“Our members focus on a shared mission - to use finance to deliver sustainable economic, social and environmental development, and to help individuals fulfill their potential and build stronger communities.” (GABV, 2018)

A core financial service of values-based banks is providing loans for creating a social, environmental, or sustainability benefit. On the other side they collect deposits where they guarantee the sustainable, socially appropriate utilization of money.

#### *Financial inclusion*

A certain form of values-based banking is about the financial inclusion of the poor. These initiatives enable marginalised people to enhance their dignity, self-respect and social recognition. Inclusive banks develop capacities to make decisions and implement them, reduce their dependence on the elite, and become increasingly self-reliant over time. (Tilakarantna, 1993) This form of values-based banking, especially microfinance, as a subgroup of it, has been widely discussed since Nobel Peace Prize was awarded to one of the most well-known microfinance providers, Muhammad Yunus in 2006. Micro-enterprise loans are usually linked to inclusive banking as with their help poor people can begin income generating activities.

In case of financial inclusion, we can also identify the moral and the business case. On the one hand, it is a moral obligation to provide financial services to poor people as well. In our monetarized world it is almost impossible to work, purchase, live without financial accounts. Banks have huge impact on our lives, on the lives of the poor as well, at the same time stakeholders also contribute to the achievement of banks’ goals. E. g. Beneficial State Bank thinks that the banking system is quasi-public because it depends upon people’s deposits, relies on some state insurance (which is ultimately backed by taxpayers), and drives societal and not just economic outcomes. Therefore, banks must align ownership, lending practice, and corporate practice in the public interest. They designed a triple-bottom-line bank that produces social justice and environmental wellbeing, while demonstrating financial sustainability to chart the course toward a better banking system.

Because on the other hand, there is a business interest for providing financial services for the un- or underbanked people. The economic model that only serves the rich seems to be a failure. Values-based banks demonstrate that financial inclusion of low-income households can be done in a responsible, sustainable and profitable manner. Inclusive banking has viable markets if approached with business discipline and long-term commitment. These banks provide unsecured credits with minimum requirements, in exchange for it they get new clients with motivation and trust towards the bank. In most cases they take the responsibility in education

as well by providing financial literacy programmes, and various forms of assistance for the borrowers. Besides new and trusty clients they can attract other stakeholders as well: investors committed to equitable and inclusive development and other economic actors who have similar aims and goals – social and environmental sustainability, economic and social development: creating jobs and reducing poverty.

### *Financial inclusion at the member banks of Global Alliance for Banking on Values*

In March of 2009, twelve social banks from around the globe founded the Global Alliance for Banking on Values (GABV) in London. As the association declared at that meeting: “This Alliance is created in the belief that trends can be set to change the boundaries of mainstream finance, and contributions can be made to the growth and development of social innovation in the financial sector. The Alliance is a global alliance of innovative banking institutions, focused on delivering social finance products and basic financial services, while financing community based development initiatives and social entrepreneurs thereby fostering sustainable and environmentally sound enterprises, and fulfilling human development potential including poverty alleviation, while generating according to a triple principle: for People, Profit and the Planet”. (Scheire and De Maertelaere, 2009, p4)

At the end of 2018, there were 48 independent, successful and growing GABV members from Asia, the Middle East, Africa, Australia, Latin America, North America and Europe, with combined assets of USD 127 billion. Members include microfinance banks in emerging markets, credit unions, community banks and sustainable banks financing social, environmental and cultural enterprise. Together they touch the lives of people in 31 countries. (GABV, 2018) From Hungary, Magnet Hungarian Community Bank is the member of the organization.

Based on their mission statement profit maximization is not a goal for the members. They are “proud to put people before profit”. They would like to serve the un(der)served (banking for poor is explicitly mentioned in 20 member bank’s mission statement), maintain transparency, and provide a meeting place between responsible savers and borrowers.

All these banks have been set up because there was a certain need in society that was not fulfilled at that moment by the banking sector. In some cases, one of the drives for the foundation of a new bank was the fact that in certain regions there were no banking services and access to credit available for specific parts of the population, so they were unserved or at least underserved. Some banks even talk about an educational or emancipating impact of their activities.

In the following part I briefly introduce the best practices of financial inclusion based on the GABV member banks’ mission statements and their introduction on the GABV website<sup>4</sup>.

From the 48 members, 20 mention inclusive banking and banking for the poor in their mission statements. 8 of them operate in Middle- and South-America, 6 of them in the USA, 2-2 in Asia and Africa. One of them is based in Philippines and there is one from Serbia, Central and Eastern Europe.

They mainly refer to moral reasons for banking for the poor, nevertheless one from Ecuador and one from the USA give stress for the business case of reaching a niche market as well.

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<sup>4</sup> This part is based on the GABV website and the websites of the member banks.



	Name of the Bank	Date of establishment	Country	Short Description
1	New Resource Bank (merged with Amalgamated Bank in January 2018)	1923	USA	<p>Amalgamated Bank was founded in 1923 by the Amalgamated Clothing Workers of America with one primary goal: to provide working class people with the banking services they were refused by other banks. They developed unsecured credit products so that struggling workers could borrow money and made it easier for immigrants to send money back home.</p> <p>The bank supports reforms that protect the economy and enable everyone to participate fully in our financial system.</p> <p>Over time, Amalgamated became the go-to bank for unions and for progressive companies, organizations and individuals.</p> <ul style="list-style-type: none"> <li>• No-fee checking accounts with no minimum deposit to open an account or monthly maintenance fee;</li> </ul> <p>Second Chance Checking and Savings Accounts that give customers who have had financial challenges in the past an opportunity to start again.</p>
2	Banco FIE	1985	Bolivia	<p>Banco FIE's mission is to be the financial institution of choice for micro and small enterprises in Bolivia, based on a solid solvency position and quality services; and to attract investors committed to equitable and inclusive development in Bolivia.</p> <p>It was a pioneer and a leader in serving the financial demands of sectors of the population in greatest need. They provide access to financing for technical and university education and offer financial literacy programmes.</p> <p>Banco FIE has a Client Protection Certification by the Smart Campaign.</p>
3	Banco Mundo Mujer	1985	Colombia	<p>Mundo Mujer, since its beginning, has been characterized by ethical and responsible financial inclusion; each product and service offered by the bank is made with the intention of contributing to the economic and social development of the working communities.</p> <p>The bank is committed to its promise of value, which has four elements:</p> <ul style="list-style-type: none"> <li>• Easy: Minimum requirements to access financial products and services.</li> <li>• Fast: Service oriented to respond in the shortest time possible to the needs of our customers.</li> <li>• Personalized Service: Staff trained and available to provide permanent advice and to facilitate access to financial products and services.</li> <li>• Confidence: Staff support Colombians with their knowledge, experience and trajectory in microfinance and guarantee security and profitability in savings and investments.</li> </ul>
4	Banco Popular	2010	Honduras	<p>Banco Popular was born with the purpose of supporting the micro and small business, because it plays a fundamental role in creating jobs, reducing poverty, and economic growth of Honduran families and therefore the country.</p>

				<p>In addition to offering a range of credit products, they offer savings collection services, fixed-term deposits, checking accounts, sending and receiving remittances and payment of public services at the teller window.</p> <p>Banco Popular is certified by the Smart Campaign, it proofs their client protection scheme.</p>
5	Banco Solidario	1994	Ecuador	<p>This bank incorporated over 1.2 million salaried workers to the formal financial system, offering them products and services designed to help them organise and solve their daily needs. This model was likewise a pioneer for its specialisation and reach. It demonstrated that financial inclusion of low-income households can be done in a responsible, sustainable and profitable manner, thereby improving their quality of life.</p> <p>Solidario is concentrated on those who need services most: 43% of clients earn less than 1.5 times the monthly minimum wage. The average credit is USD 2650, among the lowest in the market. Besides Banco Solidario has been the leader in financial education since 2008. Micro-entrepreneurs receive extra help through their ongoing relationship with credit advisors. The bank has also been a local leader in terms of micro-insurance, a product that has proven vital for the economic stability and wellbeing of clients.</p>
6	Bancompartir	1985	Colombia	<p>The bank was born in 1985, giving a solidarity response to the reconstruction of hundreds of Colombian families who lost everything in the Armero´s tragedy, due to the eruption of the Nevado del Ruiz volcano. For more than 30 years Bancompartir has shared stories in neighbourhoods, villages and towns around the country making it easier for Colombians to access financial products: deposits and loans. Its aims are promotion and generation of employment, progress and well-being and social development.</p> <p>Bancompartir is certified by the Smart Campaign.</p>
7	Banfondesa	2015	Dominican Republic	<p>The Bank provides financial access to the poorer classes with the service of savings accounts, financial certificates, certificates of deposit and secured loans with deposit. It also supports micro-enterprises, agricultural producers, rural non-agricultural micro, small and medium-sized enterprises and low-income families with loans to cover basic health, education, housing, food and recreational needs.</p> <p>Their leading values are the respect for clients' needs and responsibility towards community.</p>
8	Beneficial State Bank	2007	USA	<p>According to the bank, the banking system is quasi-public because it depends upon people's deposits, relies on some state insurance (which is ultimately backed by taxpayers), and drives societal, not just economic, outcomes. Therefore, banks must align ownership, lending practice, and corporate practices in the public interest. They designed a triple-bottom-line bank that produces social justice and environmental wellbeing, while demonstrating financial sustainability, to chart the course toward a better banking system. Their vision is "beneficial banking" which means a banking industry:</p>

				<ul style="list-style-type: none"> <li>• that is fair to the person with the least bargaining power;</li> <li>• provides access to financial services for all communities, particularly the traditionally underserved;</li> <li>• results in the long-term prosperity of responsible consumers;</li> <li>• promotes financial system stability; and</li> <li>• contributes to the sustainability of the environmental commons.</li> </ul> <p>In addition to the bank's commercial lending, Beneficial State Bank provides robust deposit services to its communities, and transparent products such as values-aligned affinity credit cards, alternatives to predatory small-dollar loans, and incentivised savings programs.</p>
9	BRAC Bank	1974	Bangladesh	<p>BRAC works with people whose lives are dominated by extreme poverty, illiteracy, disease and other disadvantages. With a holistic approach, BRAC strives to bring about positive changes in the quality of life of the poor.</p> <p>BRAC's Microfinance Programme works to provide collateral-free financing to the poor, especially women, in both rural and urban areas, in a simple, efficient, and affordable manner. BRAC MF Programme offers two different microfinance products: micro-loans (group-based, exclusively for women) and micro-enterprise loans (individual loans for both men and women). Group-based small loans are particularly designed for the lower-end poor to assist them in undertaking income generating activities. Micro-enterprise loans are available for small entrepreneurs to offer scope for expanding their business and capital base.</p> <p>Moreover, BRAC utilizes a credit-plus approach where loans are accompanied by various forms of assistance for the borrowers. An important part of the credit operation is the collection of savings. Savings opportunities with BRAC provide members with funds for consumption, children's education and other investments. It also provides security for old age and serves as a contingency fund during natural disasters.</p>
10	CARD Bank	1997	Philippines	<p>CARD Bank, Inc. is a microfinance-oriented rural bank, which has been formed and guided with the commitment to work for the alleviation of poverty and empower the socially and economically challenged Filipino families through responsible financial services.</p> <p>This bank is focus in serving the low-income market, 60% of whom are below the \$2.50 a day. It offers wide range of affordable and appropriate products based on client needs. It includes loans, savings, remittances, bills payment and cross-selling of microinsurance. In addition, CARD Bank provides access to non-financial services such as business development and marketing support, educational support/scholarship program and health services. The bank advocates financial inclusivity. And to provide formal banking services to the unbanked and underserved, the bank takes digital transformation initiative – making financial services more convenient and more accessible to the clients.</p>

11	Centenary Bank	1985	Uganda	<p>The bank mainly serves economically disadvantaged people especially in rural areas. Centenary Bank has a variety of banking products which include deposit products, credit products, personal and business loans, agriculture financing, e-banking products and other services including money transfer, mobile money, e-payments, safe custody and treasury bills/bonds dealership service.</p> <p>To deliver as a socially responsible bank Centenary participates in four main areas:</p> <ul style="list-style-type: none"> <li>• Education: the bank's has a financial literacy series for small and medium enterprises, women and young people;</li> <li>• Health: the bank participates in breast, cervical and prostate cancer awareness and screening exercises all over the country in a campaign called 'Bridging the Cancer Gap';</li> <li>• Donations to worthy causes in different communities, which include nutrition, youth programs, child health;</li> <li>• Centenary Bank also supports the Social Mission of the Church by funding various church programmes.</li> </ul>
12	City First Bank of DC	1998	USA	<p>City First Bank of DC, mission is to support and strengthen underserved communities through the provision of high-quality banking and other services. To complement its mission, City First has three core goals:</p> <ul style="list-style-type: none"> <li>• Demonstrate that urban neighbourhoods are viable markets if approached with business discipline and long-term commitment;</li> <li>• Achieve sufficient lending and investment volume to affect overall market dynamics in the neighbourhoods served; and</li> <li>• Improve the individual economic lives of customers and their customers.</li> </ul> <p>The City First offers traditional commercial loans and other banking products, as well as flexible products that reduce the cost of borrowing. The bank is committed to:</p> <ul style="list-style-type: none"> <li>• Retail Banking Products: Operating as a full-service retail bank offering checking, savings, money market accounts and certificate of deposits at competitive market rates to businesses and individuals located in its primary market area;</li> <li>• Small Businesses: Offering a full range of banking services and financing to small businesses, including start-ups that help generate jobs and services in low-income communities; and Affordable Housing, Commercial Real Estate projects (that serve as catalyst and anchors to revitalisation low-income communities) and Community Facilities such as charter schools and health clinics.</li> </ul>
13	LAPO Microfinance Bank	2010	Nigeria	<p>LAPO Microfinance Bank is an off-shoot of Lift Above Poverty Organisation (LAPO), which was initiated in the late 1980s as a pro-poor development institution committed to the empowerment of</p>

				<p>low-income households through the provision of access to responsive financial services delivered on a sustainable basis.</p> <p>The bank believes that any improvement in the socio-economic situation of the poor would initially take place with available financial services; and with the added support of physical labour and skills. Thus, the bank's major concern is using finance to deliver sustainable economic, social and environmental development, with a focus on helping to eradicate poverty in society, as well as supporting individuals to fulfil their potentials.</p> <p>LAPO MFB's engagement in microfinance is much more than business as usual. It is about the development of people, particularly women. After several years of supporting the businesses of poor women, the bank's aim is to continuously provide women with the capacity to actively participate in the economy and ensure inclusion. The bank's desire is to reach the underbanked; this informs their wide network reach of 384 branches in rural communities.</p>
14	National Cooperative Bank	1978	USA	<p>Chartered by Congress in 1978, NCB was created to address the financial needs of an underserved market: cooperatively owned organizations that operate for the benefit of their members, not outside investors. In accordance with the congressional charter, NCB has a significant commitment to supporting community revitalization.</p> <p>National Cooperative Bank (NCB) provides comprehensive banking products and services to cooperatives, their members and other socially responsible organizations throughout the country. The bank was created to address the financial needs of an underserved market niche - people who join cooperatively to meet personal, social or business needs, especially in low-income communities.</p> <p>NCB's mission is to support and be an advocate for America's cooperatives and their members, especially in low-income communities, by providing innovative financial and related services. NCB's customers are cooperatives, such as grocery wholesaler co-ops, food co-ops, purchasing co-ops, credit unions or housing co-ops. Other customers share in the spirit of cooperation, driven by democratic organizing principles. Actually, NBC's impact is indirect as it serves for the cooperatives who serve the communities.</p>
15	Opportunity Bank Serbia	2002	Serbia	<p>Opportunity Bank Serbia (OBS) is a community bank specialized in microfinance providing micro, rural, agro and SME loans and other financial services to clients in Serbia with difficult access to financial services. Its mission is to empower underserved and financially excluded people to transform their lives, their children's futures and their communities, by providing financial solutions and training. Its vision is a world in which all people can build a fulfilling life of dignity and purpose.</p>

				<p>OBS is the currently the only relevant financial service provider in Serbia with the mission of financial inclusion. The bank's primary product – credit targets private entrepreneurs, small farmers and other underbanked clients in order to enable their economic and social transformation.</p> <p>OBS Mobile Client Advisers spend around 90% of their time traveling in order to serve rural businesses and households with low income and in that way, OBS can reach even the clients who live in the most remote areas in order to provide them with the much-needed financing. Close to 70% of OBS credit clients live in rural areas of the country, 41% are women (as of Sep 2017). The bank provides loans to 3 main client groups:</p> <ul style="list-style-type: none"> <li>• small businesses and entrepreneurs,</li> <li>• farmers and</li> <li>• micro personal clients.</li> </ul> <p>20% of the Bank's loan portfolio pertains to loans under EUR 1,000, and 60% to the loans between EUR 1,000 and 5,000. OBS also offers savings products to its clients, as well as current accounts and payment services. OBS has a Client Protection Certification by the Smart Campaign.</p>
16	SAC Apoyo Integral, S.A.	2011	El Salvador	<p>SAC Apoyo Integral is a specialised microfinance enterprise, socially committed to the sustainable development of its clients through quality products and services.</p> <p>The bank provides businesses growth opportunities and focuses on improving the quality of life of its clients, through initiatives such as free financial and environmental education, building technical assistance for home improvement loans, and other benefits such as micro-health and life insurance. The institution is committed to supporting the development of micro-entrepreneurs: without guarantees (or with insufficient guarantees); without access to financial resources (or with limited access); by investing in primary basic studies, female family heads, rural/semi urban residences and workspaces (local massive markets or informal low-income markets).</p>
17	Southern Bancorp	1986	USA	<p>Focusing on underserved communities, the bank combines traditional banking and lending services with financial development tools and public policy advocacy to help families and communities grow stronger.</p> <p>Southern Bancorp's mission is to create economic opportunity in rural America through increased access to capital as well as responsible and responsive financial services that empower individuals, families and communities. The main reason for the bank's operation is that economic challenges of rural America could in part be addressed through the creation of a financial organisation focused solely on serving the underserved.</p> <p>Southern concentrates efforts to increase individual net worth focus on three specific goals that help create a roadmap for success: entrepreneurship, housing and savings.</p> <p>They operate an Opportunity Center which is a central source of financial information and education for everyone in the community.</p>

18	Sunrise Bank	2013	USA	<p>Sunrise Banks' mission is to be the most innovative bank empowering the underserved to achieve. The bank seeks to radically change the way urban communities and underserved people thrive by empowering them to achieve their aspirations.</p> <p>Sunrise Banks' lending supports local small businesses, promotes economic development, and supports affordable housing development in communities hit hard by long-term poverty.</p> <p>The bank's Impact Deposit Fund (IDF) allows depositors the option to designate their funds to revitalize the urban landscape. The IDF deposits support loans for affordable housing, small business development, and not-for-profit entities.</p>
19	The First MicroFinance Bank Afghanistan	2004	Afghanistan	<p>FMFB-A has been operating in Afghanistan with the vision of contributing to poverty alleviation and economic development through the provision of sustainable financial services, primarily targeting micro and small businesses, and households.</p> <p>In June 2017, the Bank's Board of Supervisors approved FMFB-A's Sustainable Banking Framework Policy, establishing the management structures, commitments and reporting requirements and strategy for achieving its social and environmental objectives in Afghanistan.</p> <p>The bank's mission is encapsulated in the following statements:</p> <ul style="list-style-type: none"> <li>• The bank will focus on providing sustainable microfinance and banking services to poor and vulnerable populations, particularly women;</li> <li>• The bank will be sustainable by striving to cover all of its operational costs through revenues, while also generating a modest surplus to finance expansion;</li> <li>• The bank will fulfil its objectives in meeting international environmental and safety standards and social obligations, preventing the use of the bank's services for money laundering and terrorist financing, and discouraging drug production, trafficking and use.</li> </ul>
20	Vision Banco	1992	Paraguay	<p>Vision Banco is an inclusive Bank, committed to contributing in a positive manner to economic development, the generation of job opportunities, employment and wealth towards poverty relief by offering sustainable solutions designed to provide proper responses to the majority of people in each market and region of the country.</p> <p>The bank's target segments are people and families, micro, small and medium-sized enterprises and communities and organisations. It reaches them with inclusive products that are designed to provide better and broader access to the banking sector and financial services.</p> <p>The bank has reinforced transparency, financial customer protection and financial education programmes, strengthening its position as the leader in responsible banking with several inclusive financial products offered in the market. In 2012, Vision Banco implemented a "Good Practices Guide" pilot in transparency and customer protection.</p>

## *Conclusions - best practices to learn*

If we are engaged to enable financial inclusion in Hungary, we should learn from the best practices of the field. Let us see some of the main learning points.

1. Four of the 20 investigated banks attained the Client Protection Certification of the Smart Campaign international non-profit organization which is dedicated to promoting responsible microfinance practices and standards with the client. In order to confirm its seven core principles, 25 standards have been defined with 86 indicators that institutions must meet to achieve certification. The Smart Campaign has a worldwide certification program executed through 4 international risk rating agencies that have been specialized in the evaluation of these principles. The seven principles are:
  - Appropriate design and distribution of products: products and distribution channels are designed considering the customer characteristics, without causing damage to them.
  - Prevention of over-indebtedness: confirm in all phases of the credit process whether clients can pay their obligations without over-indebting them, monitor each of the internal systems that support the prevention of over-indebtedness and promote efforts to improve risky management.
  - Transparency: communicate in a clear, efficient and punctual way the product information and use a vocabulary that customers can understand to make informed decisions, highlighting the need to obtain transparent information about prices, terms and conditions of the products.
  - Responsible prices: the prices, terms and conditions are set in a way that is accessible to customers allowing them to be sustainable.
  - Fair and respectful treatment of clients: treat clients in a fair and respectful way without any discrimination, especially in the processes of placement and collection.
  - Privacy of customer data: customer data is respected according to laws and regulations; such data will be used only for the purposes allowed by law.
  - Solving complaints mechanisms: punctual mechanisms are maintained for the handling and resolution of complaints and problems; these mechanisms will be used both to solve problems and to improve products and services.<sup>5</sup>

Such a scheme should be followed by a financial inclusive Hungarian bank as well. Some of the principles are based on traditional banking ethics, but e.g. prevention of over-indebtedness and responsible prices are points where Hungarian banks and financial institutions could improve for the sake of financial inclusion.

2. We can especially raise the examples of three banks.
  - a. The first one is the Opportunity Bank Serbia (OBS) which is not far from Hungary in both geographical and cultural terms. The bank's primary product, micro-credit targets private entrepreneurs, small farmers and other underbanked clients in order to enable their economic and social transformation. The bank's Mobile Client Adviser network provides business and financial consulting and mentoring services for improving financial

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<sup>5</sup> <https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>



literacy. 20% of the Bank's loan portfolio pertains to loans under EUR 1,000, and 60% to the loans between EUR 1,000 and 5,000. OBS also offers savings products to its clients, as well as current accounts and payment services.

- b. Beneficial State Bank, USA is significant because of the grounding of its basic philosophy. Their vision is "beneficial banking" which means a banking industry:
    - that is fair to the person with the least bargaining power;
    - provides access to financial services for all the communities, particularly the traditionally underserved;
    - results in the long-term prosperity of responsible consumers;
    - promotes financial system stability; and
    - contributes to the sustainability of the environmental commons.
  - c. CARD Bank, from Philippines especially focus in serving the low-income market, 60% of whom are below the \$2.50 a day. It seems to be extreme among Hungarian income circumstances, but we should consider that they have been financially sustainable with these clients since 1997. The bank offers wide range of affordable and appropriate products based on client needs. It includes loans, savings, remittances, bill payment and cross-selling of microinsurance. In addition, CARD Bank provides access to non-financial services such as business development and marketing support, educational support/scholarship program and health services. And to provide formal banking services to the unbanked and underserved, the bank takes digital transformation initiative – making financial services more convenient and more accessible to the clients.
3. At City First Bank DC, USA one of the mentioned initiatives is tax credit equity to finance large-scale, high impact community development projects that help transform deeply distressed neighbourhoods and communities throughout Washington, DC, Maryland, Virginia, Pennsylvania, and Delaware. Until 2018, 40 projects have received flexible and below market financing for projects such as charter schools, health care facilities, performing arts centres, grocery stores, and social services. Such a scheme – subsidised by the state – could be a meaningful method for financial inclusion of poor communities in Hungary as well.

#### *Limitations, further research questions*

After raising these learning points, let us see the limitations and further research questions about this topic. This research is mainly based on the mission statements of the GABV banks – in the future a deeper analysis is needed in the case of best practices. By preparing proper case studies of three selected banks the following questions will be able to be answered:

1. How multi-dimensional value-creation and value-measurement (Triple Bottom Line) can be implemented within a bank?
2. How should a bank prioritize different social and environmental problems? Is financial inclusion a significant topic in Hungary as well?
3. How would financial inclusion be the part of values-based banking in Hungary? What kind of actors should participate in such an initiative?

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