Social finance tools for cooperation and development: the cooperative banking sector as a potential pillar for impact investments in Greece

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Manolis Tzouvelekas

PhD candidate, Panteion University, (Athens, Greece)

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Correspondence Address: Manolis Tzouvelekas, Email: manolis@mtzouvelekas.eu

Introduction

The purpose of this paper is to examine the philosophy, the methods, the tools and the impact of social finance and its potential implementation by cooperative banks.

Contemporary member-owned banks functioning under the six points of Paris Declaration trying continuously a) to offer sustainable solutions to the crisis b) support the Agenda 2020 goals and c) foster new thinking, without compromising the seven principles of Cooperatives. To that context social finance may meet these criteria and offer alternative solutions to a sustainable society. Additionally, there *is "a research gap in relation to banking and social innovation"* and this work will try to provide some evidence.

The literature is conducted to review the current academic thinking on social finance and impact investment and its potential appliance by the Greek coop-banking sector.

Recent research shows that "*sector's weaknesses can be dealt with innovative behavior, accumulated experience and inter-bank co-operation by co-operative banks*". To that extend, an innovative social collective investment scheme is presented as a vehicle of cooperation and development exceeding the local needs served by the cooperative banks and offering wider investment solutions to society, cooperatives and social enterprises by aligning demand and supply for social investment through the presence and the active role of cooperative banks as intermediaries.

Literature Review

In this section we portray a brief literature review on the relation between cooperative banking origins and values and the potential deployment of social finance tools.

Since Wolff's astounding work on Cooperative Banking (Wolff 1896, Wolff 1907) cooperative banks have paved a long way having offered alternative and innovative solutions to banking practice and societies.

According to Wolff "*There can be no uncertainty about the nature of the problem which a co-operative bank is called upon to grapple with. The man who joins a cooperative bank joins it because he requires a loan which he is not able to obtain it in other quarters except on terms which are either exceedingly onerous or else humiliating or in consequence demoralizing"*. (Wolff, 1907, p. 11).

The ability of Co-operative banks to adapt and to grow in highly diverse economic and institutional environments has made them a substantial part of the banking industry in many European countries (Alexopoulos, Goglio, 2009). Due to this economic and institutional adaptation the social finance toolbox could be implemented on an operational/strategic basis by cooperative banks. In essence, cooperative banks are using social finance methodologies since their establishment, regardless the financial nomenclature.

Social finance and social investment are deploying not only new banking product/services mix but a new philosophy and practice. Social investment is defined broadly as the group of resources (i.e. financial, social and human capital) required for empowering social and environmental change (Nicholls, Pharoah, 2007) or “money that blends financial return with social return” (Cabinet Office (2011).

Social Finance has various applications in the financial ecosystem, ranging from sustainable banking to social impact bonds and from micro-finance to pension funds investments and social capital markets. A whole set of new tools, methods and approaches, and metrics are used with the aim of establishing a new market, taking into consideration not only profits but also society, environment and economy.

The forms of “interactive” and “transactive” social capital[1] are of main importance (Emerson & Spitzer 2007) as they create the integrated social capital market. Although the contribution of the parts of social markets (demand, supply and intermediaries) is yet a fractal of the mainstream markets in volume, its qualitative characteristics are important for the design of a new society, more friendly to the environment and the people, and certainly more sustainable and resilient.

Notwithstanding the fact that cooperative banks brought in finance social capital and especially the transactive type, their presence and practice offers a new aspect on bank money and social impact. European Association of Cooperative Banks through Paris Declaration (EACB, 2013), emphasizes the competitiveness and stability effects of this banking model for Europe, its social responsibility along with the democratic governance and the affiliation with the local economies. The philosophy of putting people first instead of the profits without compromising efficiency is still of main importance nowadays, fostering simultaneously the EU Agenda 2020 for sustainable and inclusive growth for the social market economy and wider. Sustainability of societies and economies and the well being of members and citizens may be fostered by new thinking about the co-operative banking sector. To that degree, this long lasted philosophy and practice and the declared willingness of the EACB to be part of the solution can be merged with social finance innovations.

In regard to the social innovation sphere a functional definition could be “A novel solution to a social problem that is more effective, efficient, sustainable, or just than existing solutions and for which the value created accrues primarily to society as a whole rather than private individuals.” (Phills et al., 2008). A social innovation may be a product, production, process, or technology, but it may also be a principle, an idea, and a piece of legislation, a social movement, an intervention, or some combination of these.

Among other social innovators, the philosopher and social reformer Rudolf Steiner[2] in his immense and holistic series of seminars on “World Economy” (Steiner, 1922) mentioned the “impersonality” of the circulation of money and the loss of control of the man (people) over it. The expanding interest on the complementary currencies movement in the last two decades seems to adhere to Dr Steiner’s beliefs on permacultural rather than monoculture economy.

[1] “Interactive” social capital is the type that portrayed by Robert Putnam. It is the social glue that binds communities to live and work together, whereas “transactive” is the type explaining the financial transactions that occur among groups, teams, societies.

[2] One of Steiner’s famous social innovations is the Waldorf educational system

The pioneering work in social finance and social innovation finds its equal in the field of complementary currencies and free money. This field started initially at a praxis level and continued within an academic environment of scholars and researchers dealing with these currencies once claimed to be marginal and exotic. Lietaer et al. (2012) claim that a “blind spot” with regard to the money perception within the economy and the social system lies in three layers, namely the hegemony of the single currency thinking, the capitalist versus communist ideological war, and an institutional status quo. Furthermore, in Lietaer et al (2009) it is argued that *monetary and financial ecosystems are complex systems which become structurally unstable whenever efficiency is overemphasized at the expense of diversity interconnectivity and the crucial resilience they provide.* Consequently a rich mixture of diversifying existing and new currencies and (financial) institutions can increase the resilience and sustainable futures for institutions, societies and people.

According to Senft, Silvio Gessel offered the alternative paradigm of free economy currencies, a model that found practical ground before World War II and continued after its end. J.M Keynes and contemporary monetary streams on environmental and development policies confirmed rather than refuted Gessels’ theories in relation to scientifically oriented political economy (Senft 2008).

The work of Gessel constructed the basis for WIR Bank operations in Switzerland (founded 1934) and JAK Bank’s in Sweden (started initially in Denmark, in 1931, as a co-operative society named Jord Arbejde Kapital). These two banks are of cooperative character, WIR is mainly a reciprocal exchange network or barter ring (Martinogni 2012), whereas JAK is a profound paradigm of interest free co-operative finance. Evidence shows that the role of reciprocal exchange networks is counter cyclical and their counter cyclical credit policy offer economic stabilization.

Théret and Kalinowski (2012) suggest a way in which, while preserving the Eurozone, each state would put into circulation in its own territory a complementary currency guaranteed by tax revenue and pegged to the euro, what we call a “fiscal currency”. This parallel currency would be a “popular” currency, issued as bills in small denominations and intended for day-to-day purchases. The euro would continue to be used for large transactions, transactions occurring at the European level, and for savings.

Kalinowski (2013), claims that while financial crises and sovereign debt are on everyone’s lips today, there is not enough discussion of the specific role that currency plays in our economy. The euro-zone crisis has offered little in the way of new perspectives. What the debate is sorely lacking, with a few exceptions, is the concept of currency plurality, understood as the coexistence of several currencies on one territory i.e. local currencies used in specific cities, national currencies used in particular states, and the European currency used at the level of the European Union.

Impact Investing

Impact investing may be new terminology, but it is not a new concept. The term "impact investing" may be new, but the practice of investing in businesses that provide solutions to social challenges has been around for quite some time (O'Donohoe, et al, 2010). Clark C., et al (2013, p.13) [While it is popular to state that impact investing is "new" or an aberration from the norm, investors have long sought to use the power of capital to attain various social and environmental ends, including on the positive side of the ledger through practices such as socially responsible investment, community finance, microfinance, and international development. The latest evolution has simply taken us from incidental to intentional impact and the understanding that, while social and environmental factors may affect financial returns, the way in which we manage and allocate capital can also generate positive non-financial impacts that can be directed and measured]. According to Clark C., et al (2013) the four elements which constitute successful impact investing are namely: Policy Symbiosis, Catalytic Capital, multilingual leadership, mission first and last.

The pioneer of the social entrepreneurship field, the one that actually coined the term, and founder of Ashoka, Bill Drayton *pointed out that social entrepreneurs are in need of social investors who will bet on new ideas* (Sen, 2006). And indeed, new ideas and solutions to social problems – social innovation- needs solid finance for the evolution and thriving of the sector for the sake of societies.

Due to a continuous flow of innovations and technology evolution along with the increasing number of societal needs all over the world finance is not any more the privileged field of banks. Alternative sources of finance are in existence offering funding solutions to social entrepreneurs, social innovators or SMEs that are looking for funding pipelines in a restricted financial environment. Global banks like JP Morgan, Morgan Stanley, UBS, and Goldman Sachs initiated impact investment schemes, social finance initiatives or similar activities on a strategic framework, pioneering along with other funds of financial organisations the money pipeline on social investment. Hence social organisations have moved within time from grant finance to debt finance and recently to equity finance. Bank of England (2003) in its report on the financing of Social Enterprises offered a thorough picture of the social financial environment in UK demonstrated the complexity of the issues around finance for the social enterprise sector. Ten years later, the sector is still an emerging market with the potential to support actively, effectively and probably sustainably social ventures given the financial turmoil and the banking sector crisis.

According to a global survey (Saltuk et al, 2011), 52 Impact investors from a considerable number of financial organisations answered that impact investing market is its infancy and growing (75%), about to take off (19%) and a lot of talk, not much action (6%). In the three following graphs are portrayed a) the evolution of impact investment funding globally, b) the investing allocation by sector and c) the geography of impact investments where the reader can easily see the potential of impact investing

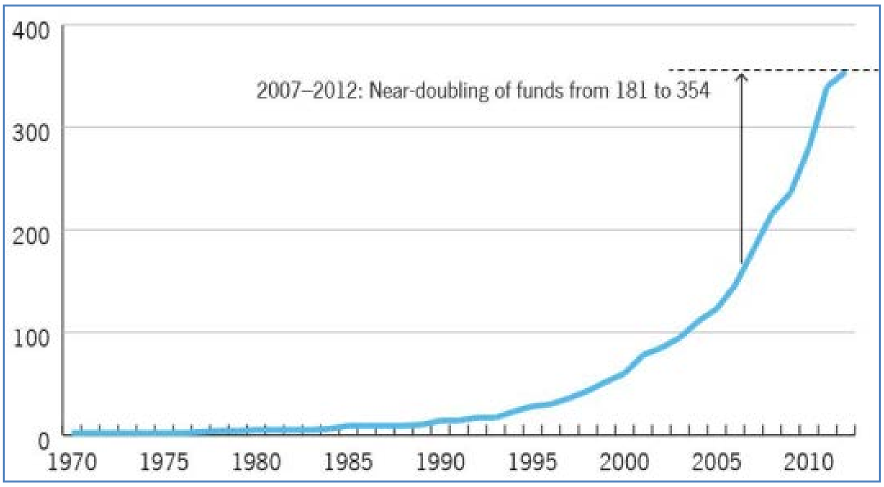

Figure 1: Cumulative number of impact investment funds globally

[Source: C Clark, J Emerson and B Thornley, A Market Emerges: The Six Dynamics of Impact Investing, The Impact Investor project, 2012]

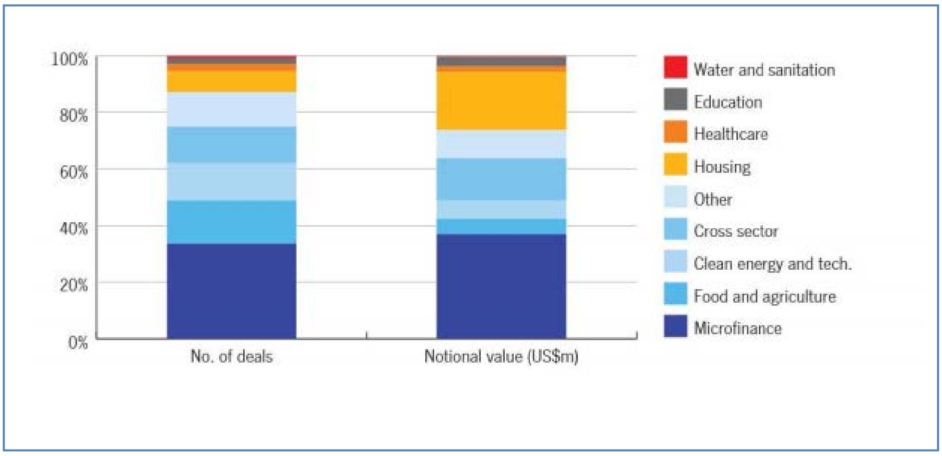

Figure 2:Global funds investment by sector during 2011

[Source: JP Morgan and the GIIN, 2011,Y Saltuk, A Bouri and G Leung, Insight into the Impact Investment Market]

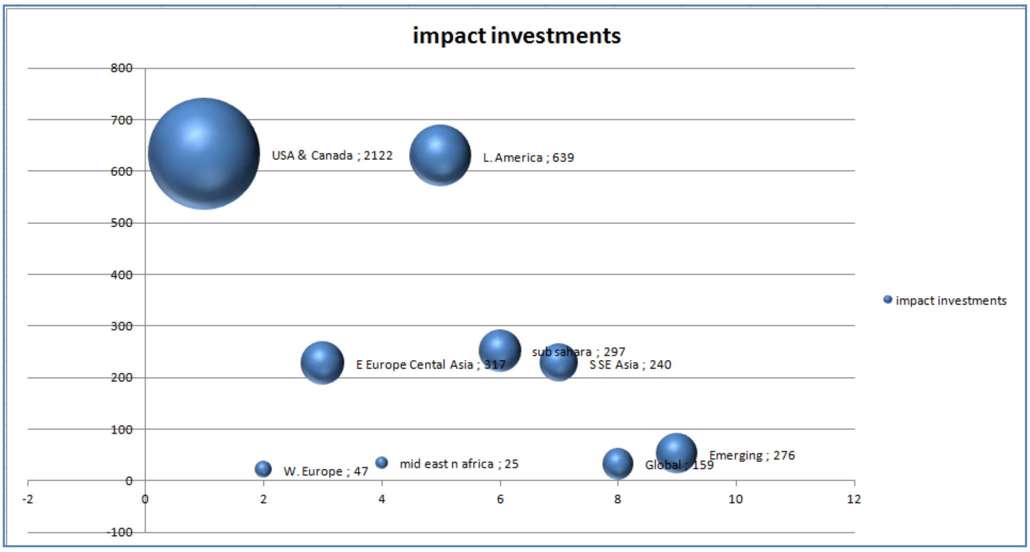

Figure 3: Geography of impact Investments

[Graph adapted by the author: Source: Table 7, JP Morgan and the GIIN, 2011,Y Saltuk, A Bouri and G Leung, Insight into the Impact Investment Market]

What could be the role of cooperative banking sector in this market? To what extend coop banks, either nationally or in a European context, could take advantage of the positive returns in society and economy by creating added value to their portfolios and their members? How could they increase their customer base and serve in a coherent strategy under the Paris Declaration?

Impact investing under the lens of Paris Declaration

On June 26th 2013, the European Association of Cooperative Banks issued the "Paris Declaration"[3] a fundamental strategic text and a roadmap for the European Cooperative banks in the 21st century.

According to declaration European coop banks aim:

a) Offering sustainable solutions to the crisis: *Sustainability of a complex system can be defined as the optimal balance between efficiency and resilience of its network (Lietaer et al, 2009).* Cooperative banks can play again a primary role in the revitalization of local and regional territories, by supporting social or other enterprises, funding local development projects in cooperation with European Union and its Social and Regional Funds. The acquired accumulated capital, shared knowledge and state of the art expertise can be a real economy's accelerator, not working on a vacuum, but through a systemic view will provide viable solutions by funneling impact capital to society. The notion and the practice of social impact

[3] EACB "Paris Declaration" In http://www.eacb.coop ~ available in http://bit.ly/1eOniCB

measurement (Social Return on Investment (SROI), Social Audit, and Social Reporting Standard[4] (SRS)) is essential to that extend.

b) Supporting the Agenda 2020 goals: namely, employment, R&D, climate change and energy sustainability, education and fighting poverty and social exclusion. Impact Investing can positively work towards these targets and assist the cause on European level. Globally, impact investing portfolios put money on these fields not only seemingly but essentially.

c) Fostering new thinking, without compromising the seven principles of Cooperatives: Given the complexity of the European political and economic venture, cooperative banks by being close to local societies and with their expanded networks they could act as attractors for growth, employment, social impact, and sustainability. New thinking might include the questioning on the nature of money not as a banking product or as information for profit but as a social tool, or a positively replicating *meme* providing solutions to discrete personal, entrepreneurial or societal needs. It would also include the notions of *complexity theory, fuzzy logic, action learning, systems theory, artificial intelligence* and *theory of change (ToC)*. To that extend Jackson (Jackson 2013) concludes that the application of ToC *in micro-level enables impact investing to make an even more significant contribution to the macro level, for effective innovations in development finance.* The multilayer stakeholders constitute a complex system of actors seeking for impact, having profit expectations, working with tradeoffs, and portraying emerging behaviors to name but a few.

Social Finance products and services may also fit to the context of the broadening of cooperative banks' services. Given the fact that banking sector is entering a new era after consecutive financial crises on a European and global level, cooperative banks have to realign their overall strategy by examining the opportunity to strategically implement social finance and impact investment schemes and products. Their business models should be revised by taking into account the continuously increased needs of their members, societal needs in general as well as the potential of emerging markets. McKinsey (2012) exhibits the trends that will transform the banking sector and how cooperative banks can provide answers to imperative questions on growth beyond borders, client proximity, bank and non bank competition, big data, coop unique attributes exploitation. These trends are: 1) right-sizing, 2) revenues and profits shift to emerging markets, 3) a multichannel customer experience, 4) new competitive threats, 5) big data and the transformation of banking products and pricing

The Social and Cooperative Finance Ecosystem in Greece

Social finance refers to the *deployment of financial resources primarily for social and environmental returns, as well as, in some cases, a financial return* (Moore 2012).

[4] The SRS model and guide have been translated by the author in Greek and is available at http://mtzouvelekas.eu ~ http://bit.ly/1ksclJx

The social entrepreneurship ecosystem in Greece is regulated mostly by the 1st law on Social Economy and Social Entrepreneurship Law 4019/2011. Profits of the Social Cooperative Enterprises (SCE) are not distributed to the members unless they are employed in the SCE. Profits are distributed as follows: 5% for reserves, 35% to the workers of the SCE as a productivity bonus, and the rest are given to operations or for new posts' creation.

With regard to the SCE assets, these can be drawn from cooperative equity, private donations, income from business activities, state grants from the national Public Investment Programme, the European Union, national or international organizations, Local Governments, trustee funds, etc.

Social Cooperative Enterprises, as well as Limited Liability Social Cooperatives, may have access to state funding from the Social Economy Fund as well as from the National Fund for Entrepreneurship and Development (both still inactive institutions). They also may apply for funding from Investment Incentives Law. Apart from national/EU funding, social cooperatives have the chance to receive capital from various private funding schemes and banks. Regardless of the source of funding, it is not easy for operational capital or other type of capital to reach the social cooperative enterprises or other types of social economy organizations.

Laws that apply for the cooperative banking sector are Law 2076/1992, Law 1667/1986. Recently, three cooperative Greek banks, namely "Dodekanisou", "Evoias" and "Dytikis Makedonias" ceased to operate due to a Decision of the Bank of Greece (Government Gazette, 3105/B/ 8.12.2013) in regard to inadequate funds, according to the BoG. A secure forecast is that situation will be more harsh and binding for cooperative banking sector.

It should be noted that the amount of the required minimum capital has been adjusted three times in recent years to levels that do not meet the economic and demographic data of several regions of the country, making it difficult in practice both creation and evolution of Credit Cooperatives in Banks. So the 1.76 million € (Presidential Decree /B.o.G 2258/2.11.93) were originally planned, according to the Presidential Decree /BoG 2413/9.7.97 and 2420/12/9/97 from 1/1/98 2 64 million € from 07/01/98 3.52 m €. Then the Presidential Decree /BoG 2471/10.4.2001 minimum capital increased to 6.0 million €. (Association of Cooperative Banks of Greece, official website). The Central Bank of Greece should reconsider its stance towards cooperative banking and weigh the position of European Commission on the field:

> *"Financial institutions build up the social finance market by designing debt and equity instruments for social enterprises and by creating new asset classes that will attract investors and mobilize savings by individuals.* ***Traditionally, cooperative banks were created to serve their communities, to provide full banking services to individuals, house- holds and neighborhood business.*** *Today, these are accompanied by numerous social banks that compete effectively with main- stream banking institutions. …. …show that these mastered the financial crisis better because of their prudential practices and links to the real economy. …"The social finance*

landscape is transforming rapidly. Institutional investors … are considering new investment opportunities that combine social and financial returns. Individual savers and investors … are seeking ethical alternatives in the wake of the financial crisis". (European Commission 2013).

So far, the social finance ecosystem in Greece is underdeveloped in comparison with other countries and there is a long path ahead. In general, for a market ecosystem to develop and thrive, stakeholders have to focus on both their own "slice of the pie" and the overall "size of the pie". If the focus is given to either the one or the other, the ecosystem will not emerge on a sustainable manner (CAF Venturesome 2009).

Cooperative banks as long lasting pillars of European social economy with all the accumulated knowledge and experience on local economies can and should play a serious role on the design and offering of social finance tools either as indermediaries or as sole financial service providers. That could evolve through cooperation with other organisations not necessarily financial, or by creating social finance business units within the banks.

A lack of tax support, high transaction costs, legal risks, and a lack of infrastructure supported by knowledgeable investors with experience in social finance, all contribute to creating conditions that limit society's investment in, and capacity for, social entrepreneurship and innovation. Additionally, the lack of agreed social performance metrics, a lack of capacity building support in the social finance ecosystem, a lack of deal flow and pipeline building institutions, a lack of absorptive capacity on the demand-side of social investees indicate the current market status (Nicholls and Pharoah 2007, Freireich and Fulton 2009, Canadian Task Force on Social Finance 2010). Reviewing the current situation of the social finance sector in Greece we may say that it is still underdeveloped and decisive steps have to been taken by the public, the private and the third sector.

The expert steering committee on social economy and social entrepreneurship (2013) in its proposal for a strategic plan for developing S.E in Greece delineated 3 Axes, with the 3rd Axis being "*establishing a social economy fund and developing a social finance infrastructure that would facilitate access to finance for developing, consolidating and scaling social enterprises*". Social finance has been described as "*one of the fundamental fields for the restructuring and re-orientation of social economy and social enterprise"*. The committee is mentioning the "*lack of social impact funds or social finance intermediaries" in comparison with other EU countries…. "Many organisations from the social economy and social finance sector across Europe have shown great willingness and engagement to do something to assist Greece….this interest often ends in frustration since there is significant fragmentation, no structure to capture this engagement, difficulties to understand the Greek situation and context as well whom to "trust"".*

The Greek Ministry of Labor issued the Strategic plan for social entrepreneurship in February 2013, having taken into consideration the proposals of the Steering Committee. Although the Steering Committee delineated the significance and the urgency to establish a Social Finance ecosystem (Funds, tools, education etc), the Ministry according to us has downgraded its importance and continue to use scattered approaches instead of a holistic one. The Ministry has given priority only on the establishment of Microfinance institutions, or MIFIs, and on grant giving. The Committee's proposals for Axis 3 haven't received any serious attention by the Ministry. One hint is that the phrase "social impact" is continuously mentioned in the Committee's proposal whereas in Greek Strategic Plan only twice. The same goes for "Social Finance" which is of course interconnected with social impact.

Monetary Innovation

The term of monetary innovation describes the process of inventing, developing and using new forms or other-than-conventional forms of money. Monies can be either people's or organizations' initiative. During the last years an expanding literature, following practitioners' initiatives has been produced (Lietaer 2012, Kennendy 2012, and Greco 2009).The main trigger for these approaches is the cultivation of a new healthy, sustainable and resilient ecosystem of financial and economic environment.

Conventional money and banking along with their financial tools create instability, perpetuating the vicious cycle of a bubble economy in global terms. The ongoing financial crisis in Europe and elsewhere is a result of an old money system's creation and allocation (Lietaer et al 2009, 2012). Monetary Innovation is indeed a social innovation bearing these fundamental characteristics that delineate innovation as a term and as a practice. Collaboration, creation of an active support system, agents of change and use of new technology are but a few triggers for (social) innovation that can be found inherently in monetary innovation schemes. More than 5,000 large and small schemes are operating globally both developing and developed countries through a permacultural economic ecosystem (Martignoni 2012).

Conceptual frameworks evolving from New Science (i.e. Complexity Theory, Systems Thinking, Fuzzy Logic) explain the dynamics and nexus of monetary innovation and social finance with social innovation (Lietaer 2012, Moore 2012). Systems[5] are everywhere and the interconnections between natural and human environment are so complex, dynamic and adaptive that they can no more be understood as Newton's pendulum working in a vacuum. Economic agents of all kinds cannot be seen as parts of homo economicus individualistic tribe but as knots and dots of a mega system following the sensitive dependence on initial conditions. Linearity is not actually the case for rational economic decisions, and cooperation instead of competition is nature's main pattern.

[5] A System is: "*a perceived Whole with compound elements, processing to a continuous mutual influences and acting for a common cause*" (Peter Senge) or "*a model of a whole entity; when applied to human activity the model is characterized fundamentally in terms of hierarchical structure, emergent properties, communication and control. An observer may choose to relate this model to real world activity. When applied to natural or man – made entities, the crucial characteristic is the emergent properties of the whole" (Peter Checkland).*

According to Lietaer (2012) the five negative systemic effects of conventional money and finance (growth pressure, built in instability, income disparity, short-terminism, impact on social capital and procyclicality) lead to an unsustainable future of people and communities. A new economic paradigm (Complementary Currencies movement), though marginalized for the moment, has to play a crucial role in resetting the game.

From small neighborhood currencies and local exchange economic networks to globally designed TERRA TRC™ and electronic currencies, monetary innovations seem to trailblaze experimental, optimistic alternatives to money as we know it. All of them address different problems of localities or major global issues aiming at matching unmet needs with unused resources. Scarcity as we know it is redefined in favor of sufficiency. It is the mental barrier that has to be overpassed and a new frontier to be reached, for the process by which banks create money is so simple that the mind is repelled, as J.K. Galbraith put it.

In European level a promising monetary project under the coordination of Social Trade Organization has been funded (2013) by the European Union through CIP-ICT PSP Call for experimenting through this pilot program in EMU 6 countries with 17 participant organizations ranging from non for profit organizations, Local Governments, cooperatives, universities. *The Digipay4Growth allows Governments, SMEs and consumers to make expenditures through a digital payment system that stimulates economic growth and job creation by increasing sales and access to credits for SMEs. The system increases and optimizes monetary flows in economically depressed regions… and among other positive impact aspects; it generates income for a credit guarantee fund that supports local banks and credit institutions to provide more credit to SMEs*[6].

Investment in time, effort and money can be either an individualistic or a collective decision. Financial tools have emerged over all these years giving the opportunity to small and big investors to put their money on the so called collective investment vehicles. In Greece a handful of complementary currencies have emerged, most notably the *TEM* in Volos and *Ovolos* in Patras, surrounded by various local exchange networks all over Greece based mostly on LETS system. Academics in Greece have started to argue on the necessity of Complementary Currencies and Social Bonds as financial tools[7].

[6] Digipay4Growth Project, data retrieved from personal communication with Henk van Arkel and Jaap Vink (coordinating team).

[7] The charm of ignorance and complementary currency (for Social Impact Bonds), Professor Dimitris Mardas, To Vima newspaper, article 8/8/2013, retrieved in http://bit.ly/16B465b (in Greek)

Collective Schemes – Mutual Funds

A mutual fund is a company that pools money from many investors and invests the money in stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. The combined holding the mutual fund owns is called Portfolio. Each share represents an investor's proportionate ownership of the fund's holdings and the income those holdings generate.

In Greece, according to updated information (30/9/2013), the total mutual fund market assets have reached 5.813,6 billion € from 5.947,7 billion € as of 1/1/2013[8]. There are 19 Mutual Fund Management Companies S.A managing 278 mutual funds as UCITS (Undertakings for Collective Investment in Transferable Securities) that can be freely marketed across the EU.

The global/European principle of Mutual Funds or UCITS is that they offer no guaranteed return and past performance does not guarantee future results.

After having presented in the previous sections the main theory behind collective investment schemes, monetary innovation solutions and social finance we are moving in presenting a proposed model of a financial tool that could combine financial theory and practice along with social finance and investment offering a new vision and potential outcomes in investment .

Social collective investment scheme: A proposal

The Social Mutual Fund[9]

The philosophy lying behind the model is the establishment of a social mutual fund (SMF) in order to fund social enterprises in Greece at an initial stage and scaling it if successful in other EU countries. SMF would act as an attractor for additional social investments.

At noted earlier, funding opportunities for Social Enterprises in Greece are limited (as is the case for SMEs or larger companies). The money drainage from the real economy due to continuous economic and financial crisis in Greece is astounding. Mainstream banks do not funnel liquidity to business. The unemployment rates break

[8] Mutual Funds, Market Overview, Hellenic Fund and Management Association in www.ethe.org.gr ~ http://goo.gl/B7LT9i (retrieved in 4.1.2014)
[9] The "Social Mutual Fund" is a proposed social innovation in author's PhD research. First presentation in EBS- Intel Summer School 2013, Frankfurt.

one record after another. European funding through NSRF[10] 2007-2013 has not reached the social enterprises yet.

Simultaneously with the launching of new schemes as a strategic approach to social entrepreneurship ecosystem, we expect that the investors' ecosystem and the banking ecosystem (or just a fraction of it) will respond positively. The experience of complementary currencies in Greece (digital or physical) would act positively to the understanding of the utility of SMF. We propose a mutual clearing system like C3 (STRO Foundation) creating money liquidity and business transactions among social enterprises at the initial stages. It should be clarified that the Social Mutual Fund could operate with or without the operation of an alternative economic network / complementary currency scheme. In the first case the financial and the social impact would be bigger especially for the social enterprises and their members, customers, suppliers.

A Social Mutual Fund Scheme could function as a stakeholders' attractor for connecting the stakeholders sustainably.

A. Stakeholders

The stakeholders of the model are as follow:

1. **The Social Enterprises:** The social enterprises (cooperatives included) are the main trigger for the development of the model. Due to inadequate funding since the launch of the Law 4019/2011 and the general condition of the Greek economy, social enterprises face difficulties in their working capital. Additionally, there is no social reporting/auditing framework for assessing their operations. To that extent, a venture capital, a potential donor or even a bank cannot easily assess their business volume and their quality of work. A business plan is usually inadequate at this stage. Social enterprises' role is twofold, as constituent parts for the SMF (shares in the SMF basket, through social audit, transparent procedures) and as receivers of the value of the other customers' investments portrayed in their shares profits. The Social Enterprises ecosystem apart from the already included cooperatives has to be populated with various business activities: Alternative Energy, recycling, upcycling, organic farming, forest preservation, sustainable tourism, complementary currencies networks (under the framework of a social enterprise).

2. The **Social Audit/Reporting Steering Committee**: it evaluates, according to the model design, which Social Enterprises will populate the Social Mutual Fund. The Steering Committee will be comprised of representatives of all stakeholders' parts in close cooperation with the Capital Market Commission.

3. The **Social Mutual Fund** is presented analytically in the next section.

[10] NSRF stands for National Strategic Reference Framework, the reference document for the programming of European Union Funds at national level for the 2007–2013 period. More in http://www.espa.gr/en/Pages/Default.aspx

4. **Cooperative Banks** are the counterpart of the mainstream banking institutions. The Association of Co-operative Banks of Greece (ACBG) was founded on 1995 upon the initiative of Co-operative Banks of Lamia, Ioannina, Pancretan and Achaia as well as of the Credit Co-operative of Corinth "HERMES". Today ACBG consists of 19 members 13 of which are Co-operative Banks, 5 Credit Co-operatives and 1 Financial Institution. An active participation of the Cooperative Banks in the field of social economy and social entrepreneurship has to emerge and solidify. Their main role, so far, is to manage funds either from NSRF (along with the mainstream banks) and the EQUAL EU funding program and to channel them to loan receivers.
   "The growth of Inter-cooperative partnership and the promotion of Social Economy in our country" is one of the operational axes of ACBG and should be adhered to drastically in order to assist the suffering economy. The CSR banking strategies that are followed by the majority of the Greek banks are not sustainable banking strategies and the Greek Coop Banks should take a lead in that field by altering this approach.

5. The **individual investors** will have the opportunity to participate in such a collective scheme in case they want to diversify their investing strategies and opportunities.

6. The **institutional investors,** especially the Public Pension Funds (PPFs), could diversify their portfolio opportunities by adding a long term sustainable investment vehicle. The role of PPFs is very important especially at this time.

7. The **role of Ministries of** a) Labour, b) Finance, c) Development (legal framework) is important for the legal and financial environment for the operation of such a mutual fund.

8. **The C3 Mutual Clearing System:** Strohalm's Foundation monetary innovation stands for Consumer and Commerce Circuits. According to the monetary innovators[11], "C3 is a hybrid of the internal administration and integrated bank-accounts that large companies use to diminish their financial costs, and the 'negative interest' or 'Liquidity-Tax' experiments realized in 1956 in Lignières en Berry in France and of course in the famous Wörgl experience. These experiments showed that forced local spending because of the use of a local currency, combined with accelerating the local circulation by charging the possession of currency, results in significant economic growth". The C3 model does not require new legislation or government approval according to Strohalm Foundation.

The opinion of Henk van Arkel on C3 in relation to social enterprises' usage is that "The social enterprise market might have many existing relations as supplier and client. That is good because it is easier to organize them. That is bad because only

[11] Henk van Arkel, Jaap Vink and Camilo Ramada, Methods for successful complementary currencies, available at http://bit.ly/19YfLOK

through complex relation one can expect enough depth in a C3 to get some robustness. The social enterprise market might find some investors more willingly and many others more scared for specific risk. To many people choosing for social enterprising refuse to think businesslike in moments that they really should. The type of companies forming the 100% cannot carry a viable transaction system, let alone one that generates income, because they have too few relations of customer/provider, compared with the overall commercial transactions they perform.

Creating a strong C3 is not easy. Excluding most businesses because they are not social enterprises makes it much harder. Of course it brings a lot of start-up capital that otherwise would not be available”[12].

C3 System implementation would save lots of money to the participating social enterprises and other cooperatives and cooperating companies on their daily business transactions, providing them with capital to operate, saving money from interests, increasing employment etc. A low commission fee is fair (i.e. 0.5% on the volume of exchanges). That money would be funneled into a current business account[13].

1. The ecosystem

Let us now briefly portray the evolved financial ecosystem for a Social Mutual Fund which is a subsystem of a greater financial ecosystem. It contains three distinctive but interwoven areas of stakeholders. A) The demand side that contains the social enterprises, b) the intermediaries’ side, which is comprised of the Social Mutual Fund itself, as well as existing institutions like cooperative banks. Finally the system is integrated with c) the supply side, hitherto the individual and the institutional investors.

Schematically the model is presented below:

[12] personal communication with Henk van Arkel

[13] More money would be funneled if an Energy/Environmental currency account was established (via Renewable Energy, and/or upcycling activities, forest preservation and tree implant activities currency).

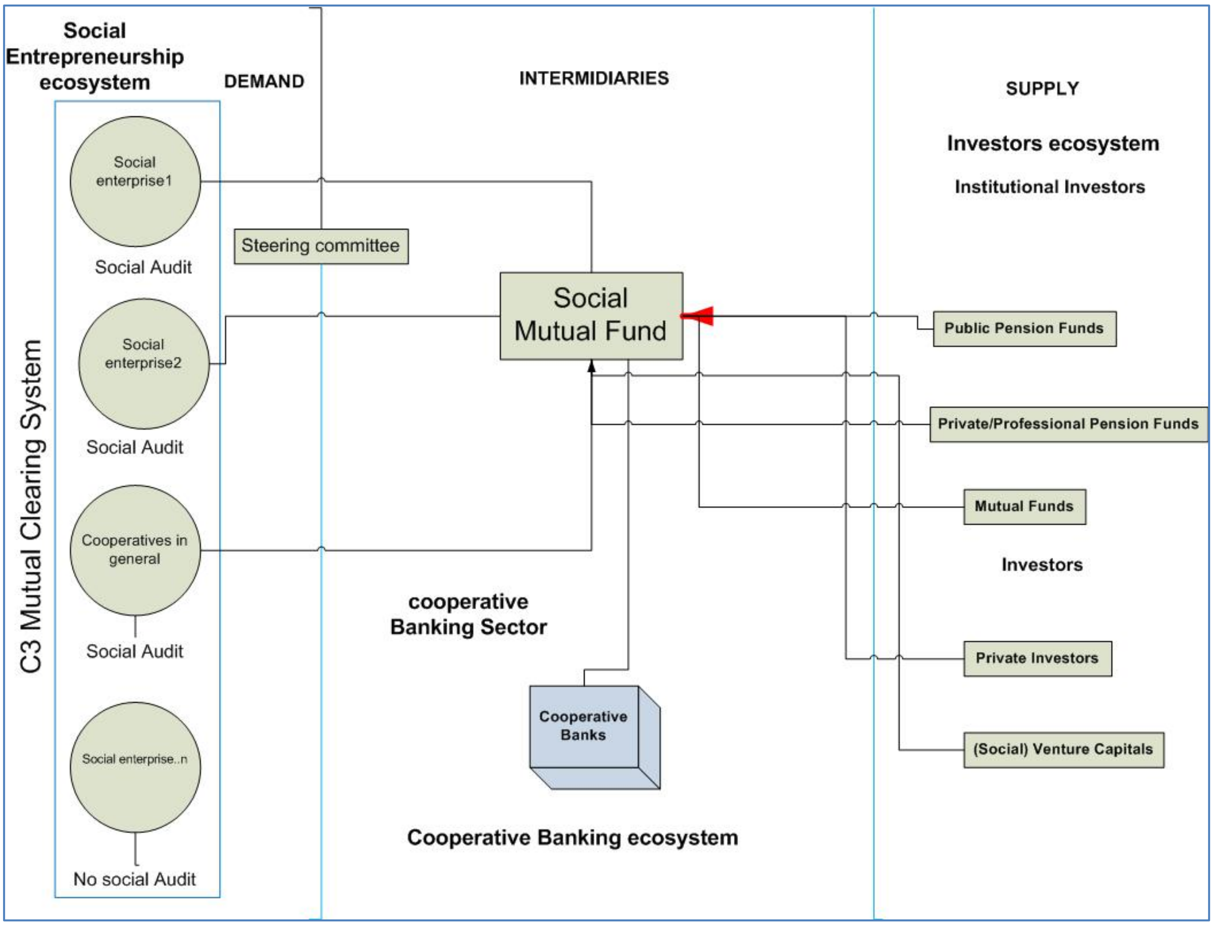

Figure 1: The Social Mutual Fund Model

The Social Mutual Fund could be registered as a UCIT. UCITS (Undertakings for Collective Investment in Transferable Securities) are investment funds that have been established in accordance with UCITS Directive (adopted in 1985). Once registered in one EU country, a UCITS fund can be freely marketed across the EU[14].In that way the Social Mutual Fund could be incorporated in the Greek market through Hellenic Pension Mutual Fund Management Company S.A and freely marketed across the EU. In the following lines up to the end of this section, we cope with model's characteristics, the business proposal, the value architecture, cost and revenue model and its social impact.

The **Social Mutual Fund** (either a new scheme from scratch in terms of organizing -privately or in cooperation with the state- or set up by the Ministry of Labor's Hellenic Pension Mutual Fund Management Company, HPMF Asset Management). The Custodian will either be the National Bank of Greece, in the case that the SMF has been set up by HPMF, or otherwise by another accredited bank.

The vision of the SMF is to provide social enterprises with a powerful financial tool.

The Reference or Base Currency will be the Euro and consequently currency risk is minimal. Valuation is daily and the suggested investment horizon is from 2 to 4 years.

[14] The EU Single Market, Investment Funds, http://ec.europa.eu/internal_market/investment/index_en.htm

The amount of the minimum initial investment should be reasonable enough for individual investors and social enterprises within the range of 1,500.00 – 2,000.00 €.

Subscription and redemption fees will be null in order to make the SMF attractive to small investors and social enterprises whenever they want to purchase or sell shares. Management fees are calculated at 0.5%.

The investment objective of the Fund is to invest its assets primarily in Social Enterprises and other types of sustainable social business that will be a boost to the social sector of the economy. The liquidity of the fund is daily. As for the investors profile, the SMF is suitable for investors with short & medium term horizon who seek to combine returns above money market rates, low volatility and immediate liquidity.

The Benchmark will be the Athens Stock Exchange and later, upon launch, the Social Stock Exchange. The Market Cap (Capitalization) ranges from small to medium.

Profits and revenues of the SMF will be reinvested.

1. The **value architecture** of the SMF is to empower social and monetary systemic change through socially innovative finance tools and institutions.

2. The steps taken to serve the customer

Step 1a: Training members & employees of the social enterprises in applying Social Audit & Accounting

Step 1b: Running for a whole year with Social Audit & Accounting methodology

Step 1c: Discussions & pitching Social Enterprises on C3 System

Step 1d: Implementing the C3 System

Step 2: Pitching strategically various stakeholders (investors) nationally and in the EU in regard to the S.M.F

Fundraising & deposit in bank account of a trustee scheme.

Step 3: Discussion in depth with legislators, Ministries, of Labor, Finance, Development & Competitiveness, along with members of the Capital Market Commission.

Step 4: Follow-up with comments; objections; enhancing the S.M.F. model.

Step 5: Setting up a virtual SMF e-platform (with formalities and processes) to screen its operations for 6 months under the eye of the Capital Market Commission. (Virtual investments in dividends, purchases and redemptions etc).

Step 5a: Final feedback and fixing deficiencies, promotional campaign.

Step 6: Setting up the Mutual Fund Management Company and finalization of all the necessary formalities.

Step 7: Initial stage organizational preparations.

Step 7a: Launch of the SMF.

(From step 2 onwards continuous pitching and prospect agreements on receiving funds for the SMF. Selection of a cooperative Bank as a Custodian).

3. **The created value for customers:** Collective investments raising social capital, a new scope and paradigm on investment (ethical, alternative, sustainable), will probably act as a catalyst for creating other Social Mutual Funds in Europe (to begin with) and a European Social Stock Exchange.

4. **The cost-structure of SMF:** Costs according to market Regulations and legislation in force in regard to mutual funds, plus taxation and operational costs.

5. **Revenue model:** The revenues of the model come from management fees, and reinvested profits.
6. **Impact**: The impact of the Social Mutual Fund is to empower social and monetary systemic change through socially innovative financial tools and institutions. During the first year of operations the aim is to incorporate 15-20 social enterprises and cooperatives in the Social Mutual Fund: also to attract two Cooperative Banks nationally, enlist 500 SMF unit-holders, and enlist 3 Public Pension Funds as institutional investors. Introduction of complementary currencies in an official financial tool (C3 System in SMF) will lead to the development of Social Capital.

7. The **proposed SMF portfolio composition** would contain businesses on organic farming, sustainable tourism, waste recycling, waste upcycling, Social Research and Development, social innovation and other types of activities provided by social cooperative enterprises, cooperatives or social enterprises. In full scale operation the SMF could contain social businesses shares, cash in Euros (€), cash in complementary currencies from various productive sectors such as alternative energy, organic farming, sustainable tourism.

This social innovation has been designed so as to be scaled in the future.

The approach is distinctive in that the combination of a long tested proved financial tool (Mutual Fund) with social impact investment makes it attractive to investors.

Essential to its success is the understanding of the need to create and operate a financial tool that will provide profits to its stakeholders and social value not only individually but collectively to society as well. The SMF social innovation will be set up as an organization either from scratch or operating through an existing scheme, ideally by the HPMF Assets Management in Greece or by others.

In the following Table 1 the reader may clearly see the system's stakeholders, the current and evolved status of the system, the changes that have to be initiated, the cases that require governmental approval and possible hindrances. It is obvious that when the new ecosystem evolves, new institutions and tools will be created, public revenues will increase, unemployment will fall and social impact will start to be differentiated from the current, non important status (column 2). In the field of legal framework, new institutions will emerge (column 4), government approval will be required for the establishment of the Social Mutual Fund. In column (8) the hindrances of the initialization of new institutions are depicted and their effects on revenues from taxes, unemployment and social impact. If these tools and institutions do not emerge due to the unwillingness of the potential market to participate and of the state's unwillingness to regulate this new market then the observed actual market dysfunctions will continue to undermine social economy and social entrepreneurship in Greece.

In brief, existing structures/stakeholders include **t**he following participants: Social Cooperatives, Social Enterprises, Cooperative Banks, Individual Investors, Institutional Investors (Pension Funds), HPMF Asset Management, Custodian (bank), other Mutual Funds Management Companies, Venture Capitals (VC) expanded as Social venture Capitals; all could play an important role on condition of cooperating and examining tangible solutions, whereas **new structures/frameworks** contain the Social Mutual Fund, the Social Audit/Reporting Committee, and the C3 Mutual Clearing System.

In Figure (2), the model stakeholders' correlations are depicted and from this matrix the reader can grasp the positive correlations that are evolving within this new ecosystem.

Table 1: Social Mutual Fund's Stakeholders and system status (Greece)

System's stakeholders	**status**	**status**	**legal framework**		**government approval**		**hindrances**	
	Current (1)	**New (2)**	**Current (3)**	**New (4)**	**Current (5)**	**New (6)**	**Current (7)**	**New (8)**
Social Enterprises/social cooperative enterprises/cooperatives	√		√		√		√	
Cooperative Banks	√		√		√			
Individual Investors	√		√					
Institutional Investors (Pension Funds)	√		√		√			
Custodian (bank)	√		√		√			
Mutual Funds Management Company	√		√		√			
Social Mutual Fund	∄	√		√		√	√	√
Social Audit/Social Reporting	∄	√		√			√	√
Social Audit Steering Committee	∄	√		√			√	√

C3 Mutual Clearing System	∄	√		√		no need	√	√
unemployment	>, (+)	<, (-)					√	√
Social Impact	little	average to big					√	√

∄ = does not exist in so far

	Social Enterprises	Cooperative Banks	Individual Investors	Institutional Investors (Pension Funds)	Custodian (bank)	Mutual Funds Management Company	Social Mutual Fund	Social Audit	Social Audit Committee	C3 Mutual Clearing System
Social Enterprises		.+	.+				.+	.+	.+	.+
Cooperative Banks	.+		.+	.+			.+			.+
Individual Investors	.+	.+					.+			.+
Institutional Investors (Pension Funds)		.+					.+			
Custodian (bank)		.+					.+			
Mutual Funds Management Company		.+			.+		.+		.+	
Social Mutual Fund	.+	.+	.+	.+	.+	.+			.+	.+
Social Impact Assesement	.+						.+		.+	
Social Audit Committee	.+						.+	.+		
C3 Mutual Clearing System	.+	.+					.+			
unemployment							.+			
insurance services		.+								.+
social impact	.+	.+	.+	.+			.+	.+		.+

.+ = positive correlation

Figure 2: Social Mutual Fund stakeholders' correlations

Conclusion

In this paper we have tried to shed some light on the field of social finance by examining the philosophy, the methods, the tools and the impact of social finance and its potential implementation by cooperative banks.

Social Finance or some specific tools regardless its followers or critiques (McHugh et al, 2013) are not a new idea. Societies within the arrow of time have tried through innovations or policy interventions or even without peaceful solutions to tackle social problems. In our time social innovations and social finance portray a dynamic and probably a sustainable way to provide societal solutions. Of course it has to be stated loud and clear that cooperative banking upon its birth was a social and a financial innovation with great social impact to the societies. Cooperatives as well have offered a lot on a global level to local economies and societies by putting people over profits trying continuously to raise and sustain social capital and providing solutions to problems of production and distribution.

Cooperative banks are of considerable size and volume of financial activities. Their role is important in regard to the viability of their members' entrepreneurial activities and must be fortified in the European Union context.

Cooperative Banks are the financial equivalent of Local Governance and its role to societies. To solve a social problem you have to have a society or a part of it, facing it. They are portraying a longstanding experience in providing not only capital but solutions to local societies and their role will emerge even more important in the years to come. The Paris Declaration paves a way that has to be followed.

To that end Social Finance tools and methodologies are proposed to be used along with the other cooperative banking products and services.

The social finance innovation that has been presented on this paper is the Social Mutual Fund, based on mainstream market investment solutions, (i.e Mutual Funds), Social Finance philosophy (social impact along with profits) and the monetary innovation (i.e C3 Mutual Clearing System). Cooperative banking is sustainable banking by default. By combining all three a collective investment scheme could emerge assisting the other finance solutions and add value to social finance and social entrepreneurship ecosystem on a European level.

A further proposed innovation could be a European cooperative banking social finance research center, for creating, developing and disseminating knowledge to coop banks in Europe. Additionally this institution may assist coherently the targets of EACB's Paris Declaration and the cause of the common Europe.

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