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Ethical Banks – European Experiences and Croatian Perspectives

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Abstract. After the spread of financial crisis to the entire global economy, there has been an increasing emphasis on ethics and morality in business. This emphasis is placed particularly on banks which are perceived as a major cause of the global crisis by the general public. Alongside with the growth of distrust in traditional banks, a form of banking, neglected until now, is becoming stronger. Although it is not easy to define it, ethical banking essentially rejects profitability as the sole objective of its existence. Ethical banks keep to the principles of economic sustainability, environmental responsibility, social inclusion, ethics and transparency and can rightly be regarded as a new approach on banking. This new approach has been present in Croatia since 2014 when the project of first Croatian ethical bank was started. As this trend is present in Europe for a much longer time, gaining importance especially after the crisis broke out, there has been a lot of research that is dedicated to this form of banking. In fact, some European studies have dealt with issues regarding the riskiness of such banking and its differences when compared to traditional banking. Therefore, the aim of this paper was to explore the experiences and the current state of ethical banking in Europe and to compare them with the current Croatian situation and perspective. This detailed review and analysis of European experiences was carried out by using comparative and descriptive methods. Apart from European experiences, the paper also aimed to examine and analyse the attitude of the wider Croatian public towards ethical banking and perspectives of its development in both Croatia and abroad. Analysis showed that, due to the financial illiteracy of the population and the bad reputation of traditional banks in Croatia, ethical banking is still not recognized as a new banking approach.

Keywords: ethical banks, sustainability, Europe, Croatia, perspectives

1 Introduction

The global economic crisis has deeply affected economies all around the world. Growing rate of unemployment, bankruptcies and spreading of poverty are some of the consequences of the recent crisis which had not originated from the real economy. This global economic crisis began as a financial crisis which quickly spread to every sector of the real economy. Due to this fact, the financial sector is widely seen by general public around the world as a source of immorality, gambling and irresponsibility. Gradual recovery from the adverse effects of crisis was followed by increasing emphasis on the ethics and morality in business which should be restored as a basic principle. Among all financial institutions, banks are considered to be the guiltiest party for economic crisis. Therefore, the distrust in conventional banks grew. On the other side, the emphasis put on the ethics in business supported the development of a new form of banking - ethical one. Profitability is not the sole objective of banks' existence and this is the essential newness ethical banking brings. This new approach to banking has been initiated in Croatia in 2014 when the project of first Croatian ethical bank was started. Ethical banking is present in Europe for a much longer time and a lot of research has already been made. Some European studies have already analysed the riskiness of such banking and compared it thoroughly to conventional banking. Driven by these experiences and current state of ethical banking in Europe, this paper aimed to explore them and to compare them with the current Croatian situation and perspectives. This detailed review and analysis of European experiences was carried out by using comparative and descriptive methods. In addition, this paper also aimed to examine and analyse the attitude of the Croatian general public towards ethical banking and perspective of its development in Croatia and abroad.

2 Theoretical background of ethical banking

Ethical banking is a phenomenon which is not easy to define. As it is also known as alternative, social or sustainable banking, it could be generally described as a type of banking which considers broader impacts of its loan or investment activities, with social and environmental impacts being the most important ones. Ethical banks are making socially and economically sustainable, as well as ecologically acceptable investments, and thereby focusing on the wellbeing of people and the quality of life instead on the profit. Although every ethical bank can have somewhat different policy or can differ in size, according to Financial web (2016) and E-banka (2016) all of them have some basic characteristics in common. The most important among them are transparency, solidarity, sustainability, user and employee participation in the bank management, profit being reinvested back to the local community, local community involvement, more flexible loan guarantee policy and focus on the real economy financing. Ethical banks focus on the quality management of the community resources to improve the life quality of people in such communities. (E-banka, 2016) Ethical banks improve its local community welfare by funding scholarships, housing projects, community events and environmentally-friendly activities. To be ethical in the true sense of the word, an ethical bank does client screening to make sure it doesn't approve a loan or enter into business cooperation with organizations, corporations or individuals behaving unethically and immorally. In addition, to be consistent, an ethical bank operates internally according to the same ethical principles it demands its clients to stick to. Ethical banks are trying to raise public awareness on important features of financial markets as well. As far as business subjects are concerned, the ethical bank is an interesting partner especially to organizations that could not receive the satisfactory service at the commercial banks. They include organizations that do not have a high profit level, small companies and start-up companies, enterprises that are involved in innovations and have an unusual business processes and needs, agriculturists and all those who do not need buildings and machinery for their work, which could normally be used as a guarantee for the commercial banks. That is the reason why ethical banks invest in social entrepreneurship, organic farming, non-profit sector, renewable energies, self-employment initiatives and Fair Trade movement.

When it comes to differences between conventional and ethical banks, Paulet et al. (2015) found them in many banking practices. As complex financial instruments imply both high profits and high risks, ethical banks prefer non-speculative and long-term operations. They found speculative operations responsible for social inequalities and economic crises. These non-speculative operations, that ethical banks are focused on, include collecting savings and granting loans, businesses for which banking was originally designed for. Therefore, financing of real economy is what ethical banks are primarily concerned with. Furthermore, ethical banks remove barriers between depositors and borrowers, by proposing solidarity in terms of loans with reduced interest rates for projects with ethical, social and environmental importance. Opposite to commercial banks' practice, ethical banks have a transparency policy, meaning that given loans are published along with all of the characteristics such as name of the client and the approved amount of money. This policy shows that difference between conventional and ethical banks is definitely structural. Relano (2008) suggested that ethical banks have higher operational costs than conventional ones. As a consequence, ethical banks operate mostly by phone, internet or email with only a few offices. Finally, Paulet et al. (2015) noted that ethical banks consciously restricted their activities to a local level, which is interesting when taken into account how globalized the financial sector is becoming. This focus on local community helps to economically and socially revitalize local areas and foster employment and social integration. Comparisons between ethical banking and Islamic banking have often been made. Although there are some similarities and common practices, Islamic banking has many special features. Čihák and Hesse (2008) define Islamic or Shari'ah-compliant banking as providing of financial services in a way that satisfies Islamic laws and religious practices. Namely, it is forbidden to pay and receive interest at a fixed or predetermined rate in Islamic financial services, but purchase and resale, profit-and-loss sharing arrangements (PLS) and the fee-based provision of services are allowed types of contracts. Another special characteristic is that trading in financial risk is considered to be a form of gambling which is thus prohibited.

According to FEBEA's Charter (2016), ethical banks systematically assess projects, not just economically but socially and environmentally as well, taking into consideration overall impact that activities they finance have on community. This systematic assessment of project's impacts results in a very low risk level that ethical banks are faced with. Actually, risk management in ethical banks differs significantly when compared to the one applied by conventional banks. Ethical banks start conventional credit assessment only if a project satisfies social and environmental aspects and if it is clear that it will really and meaningfully benefit the whole local community. Due to the fact that ethical banks have a very good insight in its members and their needs, such long term partnership approach results in higher stability of ethical banks as well as their lesser exposure to market risks. As the risk represents a measure of information deficiency, the number of project uncertainties increases the risk. To reduce the risks of certain projects, the ethical bank will, by using conventional methods, give a lot of attention on getting to know the project, that is being financed, as well as its tracking through all the stages of development. This can be accomplished by fieldwork, getting to know the client needs and using the peer-to-peer network of experts, who will, during the evaluation of the project, try to identify the possibility of interlinking it with other projects found in the cooperative system of the ethical bank. However, as social responsibility can lower the financial performance, it would be wise to consider this fact when trying to evaluate financial performance of ethical banks. Basso and Funari (2003) measured the performance of ethical mutual funds and took the ethical component into consideration. They used data envelopment analysis (DEA) approach and proposed a performance measure that considers the expected return, the investment risk, the ethical component and the subscription and redemption costs all together. They concluded the proposed model to be appropriate. It is wrongly thought, by some, that ethical banks do not make profit. The truth is that ethical banks see profit not as a purpose for itself but as an effect of a successful operating. The profit is mainly reinvested in the improvement of business processes, the expansion of the investment areas and projects useful to the local community. A certain level of profit is necessary to ensure the economical sustainability of the bank and it comes primarily from the interests on the given loans. The main purpose of profit use in ethical banking is its reinvesting in community welfare – an ethical bank will reinvest almost all of its profit in new projects which will create new value. They consider this approach to be more profitable in long term.

An important element in the analysis of ethical banks and their differences from the conventional ones is its social impact. But it is not easy to measure this social impact in a transparent, valid and reliable way, which creates an additional problem in determining the purposefulness of ethical banks. Namely, there is no standardized procedure for reporting on social value creation. According to Pedrini et al. (2014) when observed from a social, environmental and economical point of view, the goal of ethical banks' social impact measurement is to determine what kind of change has a certain activity of the bank had in the lives of the shareholders. In the last 20 years several social impact measuring methods were developed that vary in structure. Nevertheless, it is possible to single out a few methods that are most frequently used such as the Social Return on Investment (SROI), the B Impact Assessment (BIA) and the Impact Reporting and Investment Standards (IRIS). Of the methods previously mentioned it is important to single out the Social Return on Investment (SROI) as the most developed one that includes both financial and social aspects and also quantifies and monetizes values like environmental and social ones which are by themselves non-monetary values. This method is very similar to social accounting practices and cost-benefit analysis as it tries to quantify change that bank's actions have on stakeholders. As it is based on measuring outcomes, both financial and social, they are represented in their monetary terms and compared to investment that is required for obtaining this social impact. This is not an easy procedure for many of those outcomes do not have market value by themselves and there are no reasonable proxies for a significant part of them. Another problem concerning this method is the amount of resources involved in its performance. Smaller ethical banks could make it difficult to engage all necessary labor and financial resources to adequately carry this analysis out as it is necessary to collect detailed data for every loan granted. However, taken all the mentioned limitations in respect, the Social Return on Investment (SROI) is definitely the most developed and most common method for measuring social impact of ethical banks. This conclusion is in line with findings of Bosheim (2012) who stated that recent developments in this field leaded toward the logic model approach, such as the SROI method.

According to Paulet et al. (2015), ethical banks appeared in the late 1970s and early 1980s due to unfulfilled market niche. As the disappointment by the unrealistic and unfulfilled intentions of the Corporate Social Responsibility (CSR) policies grew, so did the number of those who wanted to make their money really useful to society. Actually, it has been since 1930s that banking has been losing its original social involvement and ethical features. This movement started out in Europe mainly in the Anglo-Saxon countries. When comparing ethical and conventional banks, it is necessary to emphasize that they do not directly compete with one another, although it looks that way. Namely, experiences from the countries in which ethical banks exist for a longer period of time, show that they take a completely different position on the market and focus on areas that were, until recently, considered unappealing by the commercial banks, such as start-up companies and small companies, social enterprises, cooperatives and non-profit organizations. It is shown, however, that in the last few years those areas are the ones that are growing and that more and more companies are turning to that kind of operating for it is proven more stable in the times of crisis and also more sustainable for the local community. Such organizations and individuals are looking for a different approach in banking, and at the moment ethical banks are the kind of institution that provides such a possibility. Experiences from the countries in which ethical banks exist show that they are not a replacement for commercial banks but a supplement that finds its market through an offer of a different business model for those who are not satisfied with the services provided by conventional banks. Such an approach of ethical banks strongly resembles the Green Ocean strategy. Namely, this strategy has been implemented by enterprises that are not trying to find a market niche in which there is no competition (Blue Ocean strategy). Contrary, they are trying to compete on the existing market by providing customers with substantially differentiated product. In this case, differentiated products are banking services.

3 Previous researches on European experiences

As it was already mentioned, ethical banking is present in Europe for a longer period of time. This movement has been developing for some forty years up to now and there are significant institutions, associations and networks founded. The most important European association concerning ethical banking is definitely European Federation of Ethical and Alternative Banks and Financiers (FEBEA). Basic aim of FEBEA members is providing help and supporting initiatives concerning alternative forms of banking and financing by creating new financial tools and practices. Since its foundation in 2001, this association has grown up to currently 27 members. They are financial institutions including 13 ethical banks, 6 savings and loan cooperatives, 5 investment companies and 3 foundations. According to data provided by FEBEA and ZEF, their overall balance sheet of 30 billion EUR and more than half a million shareholders and clients show their significance on European financial markets. Furthermore, if banks that are not members of the FEBEA, but are working on principles very similar to the ones implemented by ethical banks, are taken in concern, it is obvious that their number and share in the world banking sector is growing considerably. For example, Global Alliance for Banking on Values (GABV) is a global organisation that gathers 28 banks with more than 20 million clients worldwide. GABV is an association of different financial institutions, including the world's leading sustainable banks, banking cooperatives, credit unions, microfinance institutions and community development banks, as well as several strategic partners from all over the world. The network's members have combined assets of over 70 billion USD. They are changing the banking system since 2009 to make it more transparent and economically, socially and environmentally sustainable to serve the real economy truly.

This developing model of banking is attracting attention of the scientific community as well, and there is a lot of research dedicated to this form of banking. Main areas of interest of those European studies are issues of impact of financial crisis on their performance, riskiness of such type of banking and its differences and performance when compared with traditional banking. When it comes to effects of recent financial crisis, Paulet et al. (2015) found that the last financial crisis didn't affect ethical banks. They examined differences in banking behaviour shown by different bank types. Based on the econometric results, conventional banks have adjusted their management and are more careful when dealing with possible external shocks and treatment of risk-weighted assets. However, previously mentioned adjustments of conventional banks are not real internal changes in the way of doing business, but are externally imposed by the new government regulations in order to stabilize the financial market. On the other hand, there are crucial differences in reaction of ethical banks. They have not experienced major changes during the financial crisis because of their policy of giving loans locally. Actually, ethical banks integrated the new regulatory requirements long before this recent subprime crisis began and they are much ahead of these recent reforms when it comes to the social, environmental and financial responsibility. These findings are in line with some previous researches on this topic. Namely, Barbu and Boitan (2009) studied quantitative dimension of the ethical banks' efficiency. They concluded that ethical banks possessed sufficient liquid assets and therefore reduced exposure to insolvency risk even during the 2008 turmoil. Based on positive experiences of ethical banks, San-Jose et al. (2009) suggested that conventional financial intermediaries could solve their problematic financial situation, caused by financial crisis, by sticking to ethical values and principles. Finally, as there are some similarities between ethical and Islamic banks, it is useful to see how Islamic banks managed the financial crisis. Hasan and Dridi (2010) studied performance of Islamic and conventional banks during the recent global crisis by analysing its impact on profitability, external ratings and both credit and asset growth. Results obtained suggest that they are affected differently. Specific business model of Islamic banking limited the adverse impact of crisis on profitability in 2008 when compared to conventional banks. However, risk management in some Islamic banks was not adequate and led to a larger decline in profitability in 2009 During analysed period of 2008 and 2009, Islamic banks registered larger credit and asset growth which contributed to their economic and financial stability. Finally, external rating agencies evaluated riskiness of Islamic banks as lower than those of conventional banks.

When it comes to studying differences between conventional and ethical banks, there are several interesting researches. San-Jose et al. (2011) tried to differentiate ethical banks from other banks by using the Radical Affinity Index (RAI) which could also be used to differentiate ethical banks by themselves. This index groups banks in terms of their commitment to ethical principles, like placement of assets, information transparency, guarantees and participation. Authors used sample of 114 European banks and concluded that transparency of information and placement of assets are crucial factors of differentiation between conventional and ethical banks. Chew et al. (2016) conceptualized the Co-operative Bank operations into a solid Ethical Banking Operations Framework (EBOF) which could be empirically disseminated and practically adopted by other banks. Purpose of this framework is to direct local banking industry to more ethical principles based on the best practice on the market. This framework emphasizes social and environmental benefits leaving usual approach of sole profit maximization. In addition, this new framework is a useful contribution to the overall knowledge about ethical banking. It is also interesting to see how previously mentioned Islamic banks differ from conventional commercial banks. Čihák and Hesse (2008) were the first to empirically analyse financial stability of Islamic banks. They used z-scores to measure stability and found that small Islamic banks tend to be financially stronger than both small commercial banks and large Islamic banks, but large commercial banks tend to be financially stronger than large Islamic banks.

Another important issue studied is the riskiness of ethical banking. Karl (2015) studied whether alternative banks differ from conventional banks in terms of riskiness by using mean comparison and panel regression techniques. Author was motivated to analyse ethical, social and sustainable banks in EU and OECD countries by lack of research on their stability although their approach is often seen as an example how to deal with financial crisis. Analysis showed that alternative banks are significantly more stable (in terms of z-score), they have lower loan to asset ratios and higher customer deposit ratios. It is important to stress that these results are robust to different estimation methods and data specifications. These findings are in line with Italian example provided by The Economist (2013) which stated that ethical bank Banca Etica is among best-run Italian banks. This statement is based on several measures including low levels of loans in default (0.4%) and problematic loans (4.9%). Research carried out by Cornee and Szafarz (2013) apparently gave evidence that there is reciprocity in the credit market. Namely, authors used dataset released by one French social bank which charges below-market interest rates for social projects. Borrowers motivated by these low interest rates respond by significantly lower probability of default. Authors concluded that well-run motivated firms actually can decrease their cost of capital by borrowing from a social bank. As it was mentioned earlier, there is no standardized way on how to report the social impact of ethical banks. Pulejo et al. (2015) investigated these social reporting practices of 13 European ethical banks. They eventually found that reporting and communicating with stakeholders on use of financial resources increased information transparency and enable control over ethical aims of each ethical bank. Authors concluded that shared and widely used standard would raise reliability and comparability of these reports.

Differences in performance of ethical banks when compared to conventional banks deserve special attention. According to survey carried by GABV (2015), ethical banks were equally profitable on global level even before recent financial crisis with similar returns on assets obtained. During the world economic crisis and after it, ethical banks have become even more profitable when compared with the commercial ones. Accordingly, the perception of ethical banks as non-profitable is wrong. This study analysed key financial information to enable comparison of the world's biggest banks (called Global Systemically Important Financial Institutions – GSIFIs in aforementioned survey) and the world's leading sustainable banks (called Sustainability-focused Banks – SFBs in this survey). For purpose of this paper, it is important to stress that only European GSIFIs and SFBs are analysed in this chapter. As data in Table 1 clearly shows, there are some significant differences registered continually.

Table 1: Comparison of European ethical and conventional banks' performance ratios

	2014		2011		2008		2005	
	SFBs	GSIFIs	SFBs	GSIFIs	SFBs	GSIFIs	SFBs	GSIFIs
Real Economy								
Loans/Assets	71.7%	44.2%	76.4%	43.8%	70.3%	42.5%	65.0%	43.6%
Deposits/Assets	72.6%	39.1%	69.6%	34.4%	63.6%	30.3%	61.5%	34.0%
Capital Strength								
Equity/Assets	8.4%	5.6%	9.2%	4.7%	8.4%	3.5%	7.1%	4.0%
Tier 1 Ratio	12.4%	12.4%	11.7%	12.0%	11.1%	8.5%	10.0%	7.7%
RWAs/Total Assets	68.8%	30.5%	72.0%	32.8%	69.1%	32.3%	67.7%	37.8%

Adapted from GABV (2015)

The results are actually consistent with previous research taken by GABV in 2013. Portion of assets that some bank devotes to lending shows to which extent this bank is willing to finance the real economy. Sustainable banks lend almost twice as much of their assets on their balance sheet, when compared with the big banks (71.7% compared to 44.2% in 2014). It is obvious that lending remains core activity for ethical banks. Furthermore, sustainable banks rely on customer deposits to a much greater degree to fund their balance sheets (72.6% versus 39.1% in 2014). Focusing on deposit taking shows once more the commitment of ethical banks to address real needs of the real economy, both entrepreneurs and enterprises. In addition, they are reducing the liquidity risk by this reliance on customer deposits and thus keeping to the basic purpose of banking – intermediation between those who have excess and those who have lack of capital. Finally, sustainable banks maintained stronger capital positions when compared to large conventional banks, especially when measured by equity to total assets ratio (8.4% versus 5.6% in 2014).

Table 2: Comparison of European ethical and conventional banks' returns and growth rates

	5 years (2010-2014)		10 years (2005-2014)	
	SFBs	GSIFIs	SFBs	GSIFIs
Financial Returns and Volatility				
Return on Assets	0.32%	0.23%	0.35%	0.33%
Return on Assets - Standard Deviation	0.11%	0.21%	0.16%	0.35%
Return on Equity	3.5%	4.8%	4.1%	7.3%
Return on Equity - Standard Deviation	1.3%	4.0%	2.0%	9.1%
Compound Annual Growth Rates				
Loans	11.6%	0.3%	13.3%	6.0%
Deposits	12.2%	3.1%	13.4%	6.2%
Assets	11.7%	0.3%	12.3%	5.8%
Equity	10.6%	4.0%	14.5%	8.9%
Total Income	8.8%	-2.0%	11.1%	2.8%

Adapted from GABV (2015)

According to data provided in Table 2, during the last ten years, sustainable banks achieved comparable returns on assets (0.35% versus 0.33%) with lower volatility. In addition, they achieved even better returns in period after crisis (0.32% versus 0.23%). It is important to emphasise the fact that annual growth rates for ethical banks are superiorly higher in all aspects analysed, from loans and deposits to assets, equity and total income. It could be concluded that sustainable banks have more proportional credit policy and stronger capital base. They also make the full use of benefits resulting from funding based on customer deposits. These results support aspirations towards more sustainable, diverse and transparent banking practices in the future.

4 Analysis of Croatian perspectives

There are still no ethical banks operating in Croatia. However, on April 22nd 2014, Cooperative for Ethical Financing (ZEF) was established in Croatia and it was the first step in founding of the first Croatian ethical bank. ZEF gathers individuals and legal entities interested in the development of economy based on democracy, social responsibility, transparency and solidarity. Besides the interested individuals, members of ZEF are primarily enterprises, cooperatives, crafts, family farm businesses, associations, trade unions, local action groups, local government units and development agencies. The members of ZEF are co-owners of its assets and can democratically decide on all matters regarding the operations of ZEF. All of the members have an equal voting right regardless of the share in the banks' capital. Based on the criteria of regional affiliation, business specialization and areas of activity, the members are divided into regions and sections within which they have the right to participate in the shaping of the corresponding programs and policies of ZEF. Cooperative for Ethical Financing (ZEF) is going to be the sole owner of the bank, so all of ZEF members will become its co-owners. ZEF became a member of the European Federation of Ethical and Alternative Banks and Financiers (FEBEA) on May the 13th 2014. The members of FEBEA actively support the development of ethical bank in Croatia.

The ethical bank is currently in the process of obtaining the license from the Croatian National Bank (HNB) and could start operating in 2017, for the license should, according to the assessments, be obtained till the end of 2016. All of the necessary documentation has been collected, the people for the management and supervisory board have been suggested and partnerships with other ethical banks in Europe have been made. At this moment, Cooperative for Ethical Financing (ZEF) accounts for 500 members that dispose with more capital than necessary to found the bank. However, the founders of Croatian ethical bank assess that a bank becomes self-sustainable with about 15.000 members – clients and plan to have such a number in the first three years of doing business. In their opinion, the number of 1.500 members – clients is sufficient to found a bank. As soon as that number, which continuously grows, is reached a request will be delivered to HNB. Experiences show that a minimal share capital prescribed by law (40 million HRK) is usually not sufficient for a long term bank operating in accordance with the regulations. Therefore, the founders of the ethical bank intend to collect a higher amount than the necessary one and aim it to be 150 million HRK. Although such an amount may seem high, it is in fact a negligible amount in comparison to current savings of citizens and enterprises placed on the accounts of commercial banks. Overall savings, in the end of 2015, were about 257 billion HRK (about 34 billion EUR). According to HNB, when deciding about a request for a license made by a new credit institution, criteria are the suitability of the founders, business plan and foremost the financial stability and readiness to support the banks' growth with capital when necessary. Therefore, the cautious reaction of Croatian ethical bank founders is not surprising.

The ethical bank's investment policy will concentrate on projects that are often not recognized by commercial banks although they are crucial for the sustainable social development. Such projects are mainly related to small and medium companies oriented on production, processing and professional services, computerization and new technologies, agriculture (especially ecological one), social entrepreneurship, renewable energy sources and start-up companies. All the projects that receive a positive grade by the criteria of economical sustainability, ecological acceptability and social beneficence could be applied for financing. However, the profitability is not a priority. If a certain project brings a greater profit, but hires less people and has a lesser social benefit, such project will not be favoured. Although trying to make such projects competitive by charging lower interests, the founders of Croatian ethical bank do not consider themselves to be a competition to commercial banks. They have completely different market made primarily of those who currently have no access to finances. Such an approach coincides with previously mentioned Green Ocean strategy. Whereas ethical banks know their clients better, the rates of uncollectible loans are lower. This fact is the guideline to the founders of Croatian ethical bank stating that the average of problematic financing in similar European banks is somewhere between 1% and 2%, while Croatian commercial banks, according to Croatian National Bank – HNB (2016), have a rate of about 12.2% partially or completely uncollectible loans with citizens and even 30.1% with enterprises in 2015.

According to media, it can be concluded that general public is not sufficiently acquainted with this new model of banking or expresses a doubt in the possibility of implementing such a model in reality. Namely, it is a fact that the Croatian economy has been severely affected by the recent economic crisis. The large part of the society considers that banks are the main culprit for such situation. This attitude and antagonism towards the banks that has been poured into Croatia form the rest of the world, is additionally reinforced with the fact that the banks operated profitably even during the most difficult years. On the other hand, a significant part of the population has a great problem with unfavourable loans, with high interests, that turned them to debtors for almost their entire lives. The doubt in the projects' success is additionally boosted by the low financial literacy of the Croatian population. Although aware of this public disbelief, the founders of the Croatian ethical bank are convinced that the project will succeed as successful experiences of European ethical banks show. Both Croatia and Europe are struggling with the high rate of unemployment of young people, high indebtedness, and depopulation of rural parts, environmental pollution and social inequality. These problems are dealt with by development of social economy that has become one of the pillars and priorities of EU development. Such economic model needs adequate financial institutions which will support it. The founders of the ethical bank see this as an opportunity for ethical banking development as a part of a structural policies of the EU. The Socinnovethics conference (Synergy of ethical financing with social and technological innovations) held in June 2016 in Croatia, helped to raise awareness about this project. It was organized by ZEF and FEBEA and topics like the use of innovative informatics' technologies in banking and technological innovations and ethical banking as an initiators of social changes were discussed. Alongside previously mentioned facts, the ethical bank project has been also supported by some of the relevant state institutions. At the mentioned conference, the deputy of the minister of finance has emphasized that the ethical bank business model works well abroad and brings results that reflects positively on the economy of the country. Thus, he expects such results in Croatia as well. Beside the growing number of ZEF members, additional proof that this project has evoked a significant interest in broader public, is a fact that, according to E-banka (2016), a similar cooperative for ethical financing is going to be founded in Slovenia, whose main goal, like the one of Croatian ZEF, will be to found an ethical bank in Slovenia.

5 Conclusion

Ethical banking in Europe is successfully developing during the last forty years. Ethical banks differentiated banking services that they offer and found a niche in the financial market which is not taken by conventional banks. This niche are primarily clients that wish to invest in socially beneficial and sustainable projects, and those who want to accomplish such projects but could not find financial support at conventional banks. European researches showed that ethical banking is not riskier and not less profitable when compared to conventional banks, although it implements a different business model. However, there are many issues that are not adequately addressed yet. The lack of standardization of reports on the social impact of the financed projects is a good example that this dynamic phenomenon is still in development and is yet to reach its full potential. Taking in concern that the Croatian financial sector is still relatively undeveloped, it is not surprising that the idea of starting an ethical bank appeared only two years ago. Economic problems resembling those in Europe were an additional motive for trying this new approach on banking. Its development is also supported by experts as well as some relevant state institutions. However, the financial illiteracy of the population and the bad reputation of traditional banks in Croatia are the main obstacles which prevent ethical banking to become broadly recognized as a new banking approach. Nevertheless, if the ethical bank starts to operate in a short period of time, the distrust and doubt shown by the general public should not be prevailing attitude any more. Therefore, the future researches on ethical banking in Croatia should concentrate on possible partnerships between an ethical bank and all other stakeholders of economic growth and development in Croatia.

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