



Innovative Finance Inclusion

Teaching Notes

Ethical Banking: A case of impact investing

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Synopsis

In the context of evolving environmental, social, and governance standards (ESG) within the global financial landscape, this case study provides insights into alternative methods of impact investing and highlights the unique approach taken by Ethical Banking, a cooperative bank in South Tyrol, Italy. The institution's mission is to bridge the connection between ethically-conscious depositors/investors and sustainable initiatives, advancing societal welfare and sustainable development goals (SDGs). The case offers students an opportunity to access anecdotal evidence and apply their understanding of ESG and SDG concepts to evaluate real-world phenomena. This teaching note outlines key teaching objectives, suggested teaching strategies, discussion questions, and additional resources for instructors to incorporate this case study into their courses.

Target Audience

The case study is suitable for undergraduate and master students in finance, sustainability, business, and ethics, as well as other disciplines in the social sciences. The material is relevant for courses covering impact investing, sustainable finance, ESG, and responsible business practices. It can also prove beneficial for students and practitioners in the field of sustainable development, as well as those in the human rights-related sector seeking insights into ethical banking in practice.

Case Study Objectives

1. Understanding Impact Investing and ESG: To introduce students to the concept of impact investing, ESG and banking activities.
2. Understanding the Case Study: To introduce students to Ethical Banking as the chosen case in terms of the location, type of financial institution, the scope of work, the type of potential clients and characteristics of business model.
3. Transparency: To examine their commitment to transparency and its significance in the operation of Ethical Banking.
4. Environmental, Social and Governance Impacts: To discuss potential impacts that Ethical Banking offers to the deposit clients and the beneficiaries of funded projects through their financial services.
5. Impact on the Beneficiaries of Funded Projects: To discuss the challenges and opportunities of impact investing in different regions including developing countries, with a focus on Ethical Banking's Fair Trade initiatives.



Recommended Lesson Structure

1. Pre-Reading Assignment: Assign the case study and instruct students to thoroughly read it before the class. Ask them to identify key information, unique features of Ethical Banking, and characteristics of the target beneficiaries involved in Fair Trade. Check and discuss the answers related to Case Study Objectives 1 and 2.

2. In-class Discussion: Open the second stage by focusing on Case Study Objectives 3, 4, and 5. Deliver the main concepts and key features related to this banking practice, such as connecting depositors' willingness to be changing agents, impacts driven by borrowers' activity, the need for consistent IT and data management, the role of transparency and trust, and the shortlist of impact themes compared to other potential ones.

3. Small Group Analysis: Divide students into groups and allocate each group a specific aspect of Ethical Banking's operations (transparency, project selection, impact assessment, auditing, and control). Pose open-ended questions on each aspect to foster critical thinking and stimulate in-depth discussions. In the assignment, each group is tasked with analyzing the strengths and weaknesses of Ethical Banking and proposing ideas to enhance the bank's performance or practices.

4. Guest Speaker: If feasible, consider inviting a guest speaker with expertise in impact investing or ethical banking to provide valuable real-world insights and experiences. Additionally, if possible, invite a guest speaker knowledgeable in traditional banking business to present their, potentially contrasting, perspectives and experiences regarding investing in sustainability goals. Alternatively, you may choose to showcase an online video that captures diverse viewpoints on the topic.

Question bank for discussion

1. How does Ethical Banking differentiate itself from traditional investment banks? Explain the guiding principles embedded in the bank's operation since its establishment.
2. What is the business model of Ethical Banking? Provide at least three highlighted features at Ethical Banking.
3. What environmental, social and governance impacts has Ethical Banking potentially contributed to the society through its services?



4. What sustainable development goals has Ethical Banking actively contributed through their business with Fair Trade initiatives?
5. Explain how Ethical Banking facilitates transparency in the context of Fair Trade.
6. How does auditing play a role in Ethical Banking's operation, particularly in the area of Fair Trade?
7. What are challenges and opportunities associated with funding sustainable projects in the context of developing countries? How does Ethical Banking address these issues? Provide examples of their approach and outcomes.
8. Beyond impact investing, can Ethical Bank also be classified as an ESG case? Please explain your answer and offer alternative perspectives if applicable.

Additional Resources

1. Ethical Banking's homepage: <https://www.ethicalbanking.it/en/saving-an-financing-responsibly>
2. FEBEA podcast FINANCE4GOOD! This mini-series will help explain what ethical banks and financiers can do for society, and why they represent a fairer and more responsible place that conscious depositors can invest saving, and know capital will be used for. Available at: <https://febea.org/febea-podcast-finance4good/>
3. Suggested related academic paper: Climent F. (2018), Ethical versus conventional banking: A case study, *Sustainability*, 10 (7), art. no. 2152, DOI: 10.3390/su10072152