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Ethical Banking and Poverty Alleviation Banking: The Two Sides of the Same Solidary Coin

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Abstract: (1) Background: The growing number of banking entities linked to the field of banking since the 1980s requires a preliminary classification of this sector in order to identify the main stylized facts of this wide conglomerate of institutions oriented to financial sustainability as well as the establishment of an effective differentiation that can objectively distinguish the different types of institutions operating in this subfield of finance. The objective of this research is to obtain a frame of reference by determining the main defining characteristics of these entities and their differentiating elements, by verifying, on an analytical basis, the ways in which they provide a social service in the pursuit of financial inclusion. (2) Methods: A double methodological perspective is used jointly: Factor Analysis and Cluster Analysis. (3) Results: It was possible to delimit two significant groups: Ethical Banks per se and Poverty Alleviation Banks, defining their main differences and analogies. (4) The taxonomy conducted revealed that Ethical Banks per se are primarily established in developed countries, while Poverty Alleviation Banks focus their actions on developing nations. Based on this classification, we establish a series of practical policies that support the future deployment of sustainable banking.

Keywords: ethical banking; poverty alleviation banking; microcredits; global alliance for banking on values; poverty eradication

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1. Introduction

At the end of the 20th century, developed countries lived a presumptuous prosperity that was in no case shared with the poorest countries of the planet or with the most vulnerable social strata of the first world that Greenspan [1] metaphorically called "Irrational Exuberance". Indeed, the real foundations of that era of prosperity were very weak, and they meant a gradual distancing of investors from the Real Economy or, also metaphorically speaking, from the "Sweat Economy". Faced with non-speculative investment in real and tangible assets, increasingly sophisticated synthetic financial products proliferated, such as Subprime mortgages, which, in the opinion of Shiller [2], would end up giving rise to the Financial Crisis of 2007–2008, personalized in the collapse of Lehman Brothers.

As a result of the financial crisis, a great social discontent about the functioning of the financial system was forged due to the lack of transparency and inefficient financial regulation [3], which led certain financial institutions to carry out negligent practices lacking any ethical-moral component. For these reasons, bank users began to show interest in so-called "ethical banking", a relatively new set of banking practices that provides greater transparency and security in their operations compared with conventional banking. In addition, this combats key problems of today's society, such as climate change, social inequality, gender discrimination and environmental sustainability, facts that encouraged the interest of public opinion towards this area of finance [4].

The current place occupied by ethical banking in the financial context [5] has come to configure in the words of [6] "a new international Economic Order" in which the authors of the change are a series of credit interlocutors [7] who believe in the possibility of combining economic growth from a perspective in which moral values prevail over purely economic values. According to the basic scheme of Ethical Banking, the client is the center of the banking business, promoting through its actions a network of users in which the interests of savers and shareholders are matched with social mentalities fully focused on active solidarity [8].

In this way, the aim is to seek real solutions to the problems arising from the lack of access to the most essential economic goods, attempting to eradicate poverty, social inequalities, alleviate diseases or environmental degradation. The approach is simple and conclusive: All people must be economically interdependent and self-sufficient in order to preserve the planet for current and future generations. Hence, the need to pursue the fulfillment of a series of ethical-moral values that guarantee the improvement of people's quality of life [9].

Faced with the economic tensions caused by the Financial Crisis of 2007–2008, banks turned their eyes to the classic approach of Corporate Social Responsibility (CSR), attempting to strengthen their reputation in order to increase the trust of their clients by avoiding, as far as possible, the incorporation of financial products with speculative risks among the services offered, improving transparency in their operations and recovering their interests lost in the Real Economy by taking measures to evaluate the impact of their investments in the social and environmental sphere [10].

In other words: the approach provided by Ethical Banking served as a benchmark to assess the extent to which financial institutions are able to contribute to economic prosperity, environmental quality and the common welfare of all members of society [11] without creating any exclusion mechanisms between them.

In this research work, we analyzed the credit institutions that are part of "The Global Alliance for Banking on Values" (hereinafter, GABV) based on a twofold statistical analysis: Cluster Analysis and Factor Analysis to verify whether, a priori, there are significant differences in statistical terms between the two most representative prototypical institutions of this sector: Ethical Banks and Poverty Alleviation Banks. In short, the aim is to statistically test the following hypothesis:

Hypothesis 1. *There exist two different types of Ethical Banking: Ethical Banking per se and Poverty Alleviation Banking.*

Although ethical banks correspond to a single common initiative aimed at putting a definitive end to the financial exclusion; there is no single typology of "ethical bank". On the contrary, the range of ethical institutions is constantly widening and becoming more diverse. As Brau et al. [12] indicated, different types of microentrepreneurs have given rise to different ways of implementing the principles of ethical banking, regardless of whether the public opinion may consider that all ethical banks carry out the same kind of activities or that their implementation in countries with very different income levels is based on the same material resources.

This research work seeks to reduce this conceptual gap by means of a detailed analysis and classification of the main ethical banks established worldwide. Consequently, the theoretical implications of this research reveal a direct relationship between the type of demand for these financial services according to the minimum level of vital income, identifying Ethical Banks per se with developed countries (high levels of income in relative terms) and Poverty Alleviation Banks with underdeveloped or developing countries (low or meager levels of income).

The remainder part of this paper is organized as follows: Section 2, provides a global contextualization of Ethical Banking describing, among other points, its historical background, its operating principles and its area of development. Next, Section 3 describes the sample employed as well as the variables that have been taken into consideration, in addition to the methodological basis implemented: Cluster Analysis and Factor Analysis. Subsequently, Section 4 presents the results obtained comparing them with respect to Ethical Banking and Banking for Poverty Alleviation. Finally, Section 5 discusses the findings, defining possible lines of research arising from this work, and Section 6 concludes the manuscript by highlighting the main conclusions that can be drawn.

2. Contextualization of the Sustainable Banking Phenomenon

2.1. Foundations of the Ethical Banking

It can be asserted that banking from its beginnings has had a more or less direct link with the performance of ethical practices. In fact, Weber [13] indicated that, from the 16th century to the present day, every century witnessed movements that advocated the inclusion of ethics in the world of finance, starting with the Italian "Mounts of Piety" based on ethical-moral and religious precepts against usury. Similarly, the Cooperative Banks of the Second Industrial Revolution were intended to finance local projects in depressed areas as well as to promote the savings of the working classes.

In the 20th century, the Pax World Fund, the first Socially Responsible Mutual Fund in the United States, emerged in 1971 as part of the pacifist movements that emerged as a result of the Vietnam War [14]. It also appeared as a resounding response to the financial exclusion of people who did not have access to basic banking products to provide them with minimum financing to help them to undertake projects or businesses with a significant social impact, linked to the concepts of Socially Responsible Investment (SRI) and Corporate Social Responsibility (CSR) [15–17].

This innovative concept of ethical banking spread throughout Europe, where the first banks were set up to demonstrate that banking can be perfectly viable while preserving purely ethical-social criteria, which inspired the creation, in 1980, of the emblematic Triodos Bank [18–21]. In a certain sense, the concern for the conduct of a set of proper ethical practices is the primary raison d'être of Islamic Banking and Finance [19,22–25], and it was precisely in this context that the project of creating a "Bank of the Poors" in which the fundamental idea that governs the operation of microfinance and microcredits was outlined [26]. This fact would eventually be recognized in 2006 with the achievement of the Nobel Peace Prize and led to the creation of the Grameen Bank in Bangladesh [27].

Ethical banking adopts a business model in which the principles of integrity, responsibility and affinity prevail. Concerning the integrity principle, no entity may adopt actions or measures that exclude people or groups of people based on their social status, ethnicity, religion or the fact that they belong to marginalized areas where poverty is widespread. Consequently, ethical banks must be responsible for the social or economic consequences of their own behavior and decisions. In relation to the affinity, entities must embrace positive investment criteria through a closer relationship between fund depositors and borrowers, thus, requiring a high level of operational transparency, which can produce a higher social value added by ethical banking compared to conventional or ordinary banking. On the other hand, in reputational terms, social commitment to the clientele ensures that the projected image of ethical entities is not damaged by the behaviors or actions of banking as a whole [28].

The terminology used to refer to this set of banking practices is quite broad, e.g., "Sustainable banking", "Social banking", "Regenerative banking", "Value-based banking" or "Alternative banking" [14,29]. However, the term "Social banking" is much broader, as it includes savings banks [30], Cooperative banking [17,31] as well as ethical banking; all of them have a common link consisting of responding to the credit needs of any group affected by financial exclusion [17], in addition to focusing on environmental sustainability criteria, one of the cornerstones of these institutions. In their characterization as "green banking" [32], ethical banks cooperate by contributing to environmental restoration and usually conduct a prior environmental impact assessment of projects before their definitive financing [33].

While conventional banks establish the results of their operations according to the concepts of risk and profitability, tracing mainly short-term time horizons with the sole objective of maximizing shareholder profits, ethical banking also contemplates the impact of its operations in the long term, which means that, in some cases, the profitability of ethical banks may be reduced [20], given that their preferential aim is profitability of a social nature. Another differentiating aspect between ethical and conventional banking is the problem of financial exclusion, always present in commercial banking, which is not ascribed to ethical precepts but to material ones. Ethical banking configures credit as a right of any individual, regardless of whether the amounts granted have to be repaid, encouraging a more direct and participatory link through a social intermediation that combines solidarity and social inclusion.

In this sense, ethical banking can be perceived as a model in the field of financial intermediation that allows the generation of new frameworks of economic relations based on the solidarity within society [17,34]. From this perspective, several pioneering financial products have been generated, such as the residential Solar Loan programs. Table 1 shows the differentiating criteria between conventional and ethical banking. Note that the constitution of a bank as "ethical" is entirely voluntary, in the same way that there are no specific certificates or quality seals that identify a bank as ethical [35], and instead, primarily its social orientation identifies it [36].

Table 1. Main differences between conventional and ethical banking.

	Conventional Banking	Ethical Banking
Target	Profit maximization	Obtaining social and economic benefits
Customer preferences	Return and security	Use of money based on ethical criteria
Investment and financing	Unlimited, targeting those companies that provide the highest profitability.	Socially responsible companies or projects
Information on banking operations	Opacity of information provided to customers	Transparency about the way in which the money of clients who contribute funds is used
Customer participation	Practically nil	Power to decide on the purpose for which the money is to going to be invested
Credit terms and conditions	Commonly guarantees or equity guarantees	Feasibility of projects to be financed for social purposes
Product Model	Tailored to the preferences of the financial institution	Tailored to customer needs or preferences
Decision making	Executives and managers	Stakeholders

Source: Own elaboration.

2.2. The Global Alliance for Banking on Values (GABV)

Ethical banks are part of a global association denominated "The Global Alliance for Banking on Values", completely geared to provide a social, transparent, sustainable and viable alternative in the banking sector based on the beneficial action of a network of committed banking leaders, like M. Yunus or P. Blom. This associative network emerged in 2009 at the request of F. de Clerk, including more than 60 financial institutions of different typologies, mainly banks, cooperative banks and credit unions, microfinance institutions and community development banks, which share a common purpose, which consists in putting people and communities at the heart of their activities.

The financial institutions of this network seek to provide basic banking products to promote diverse projects, such as the development of the indigenous communities [37], the creation of Green Economy projects [38], direct support to gender equality [39] or contributing to the reduction of emigration from the most underprivileged areas of the planet [40].

Within the Alliance's members, two main subgroups can be differentiated: Ethical Banks and Poverty Alleviation Banks. The purpose of the former is to support the growth of companies, generally small and medium-sized enterprises, by providing financing for projects with strictly social, cultural and environmental purposes. The latter are aimed at granting financial assistance through the concession of microcredits to any marginalized individual located in disadvantaged countries that do not have any access to loans due to their social exclusion, in an attempt to contribute to enhance their development and to stimulate the growth of those communities stricken by poverty [14,41]. The representative principles of the GABV are summarized in Table 2:

Table 2. Principles or values of ethical banks associated with the Global Alliance for Banking on Values (GABV).

Principles	Description
Triple bottom line approach: People-Planet-Prosperity	The business model is based on environmental, social, sustainable and responsible impact. The products and services they offer are designed to meet the needs of society and have a positive impact on the environment.
Community-based and Real Economy-based	It seeks to meet the needs of communities and individuals by financing businesses and individuals in particular in responsible and sustainable economies.
Long-term relationships with its customers and direct knowledge of risks and business activities	Through the transparency they offer in their operations, they attempt to establish solid links with their clients, as it allows them to be involved in the understanding and analysis of economic activities.
Self-sufficiency and long-term resilience	Ensure that the operations can continue and withstand possible disruptions from the external environment.
Transparency and inclusion	Adopt a governance model that enjoys total transparency, as well as in the preparation and presentation of the corresponding reports. In terms of inclusion, they seek to maintain an active relationship with stakeholders in the bank and not only with shareholders or the Administration itself.

Source: Authors' own elaboration based on GABV [29,42] and GABV [43].

Today, Ethical Banks growth is reflected in the fact that they own US$200 billion in assets, sustaining activities with the support of a network of more than 77,000 collaborators who serve thousands of final customers distributed across all continents. It can be observed in Figure 1 that most of the GABV's clientele is located in Europe and North America and, to a lesser extent, in Latin America, Asia, Africa and Oceania. The reason for this geographical distribution may be explained by the fact that the main ethical banking initiatives have been carried out in Europe and North America, areas with consolidated democracies that are committed to transparency, in which the fostering of social and environmental goals has rooted, although the public participation in this type of banking activity is often indirect [34].

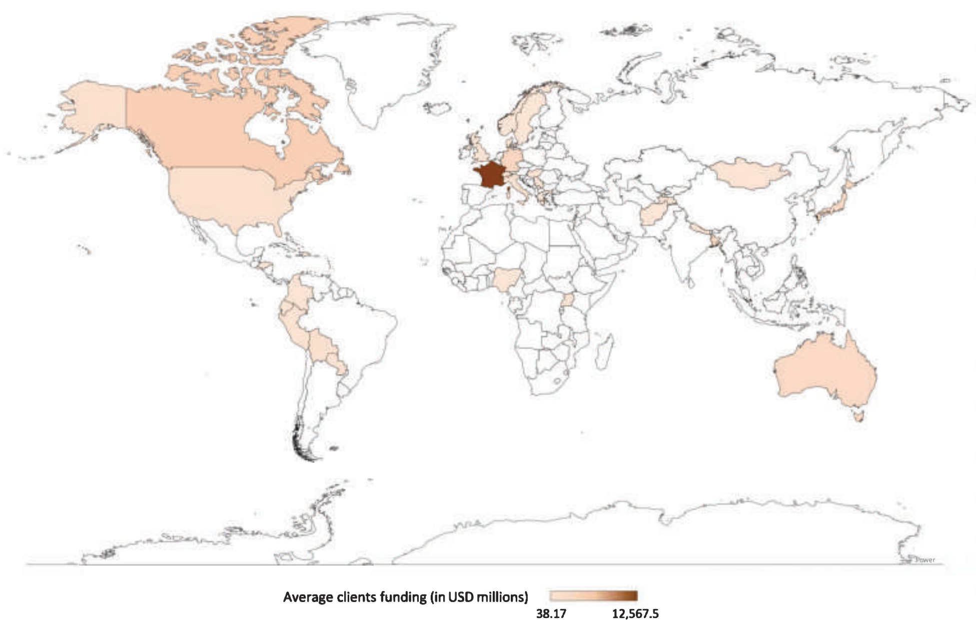

Figure 1. Scope covered by the ethical banking industry by continent based on the number of final customers per country. Source: Authors' own elaboration based on GABV [43].

2.3. Ethical Banks, Poverty Alleviation Banks and Microfinances

The main difference between conventional banks and ethical-social banks lies in the consideration that, while the former concentrate exclusively on maximizing their business profit, ethical banking applies a threefold principle in all its operations: profit–people–planet. Corporate Social Responsibility is of paramount importance for ethical banking, since its lending practices will depend on it; for this reason, it is commonly referred to as "cooperative banking" or "banking for social cohesion", in response to two key questions: what is going to be carried out with the funds provided to the customers? and to whom are they going to be granted? Ethical banks have three fundamental aspects that distinguish them from any other banking entity:

- Responsibility. Concern toward a mutual responsibility with its customers by granting credits destined to socially responsible purposes [44].
- Transparency. They examine the impact of their investments on society in general, i.e., they attempt to know for what purpose the money will be used [45].
- Sustainability. They attempt to invest in projects that can generate positive effects over a longer period of time [46].

It is important to differentiate two types of entities according to their objectives: Ethical banks per se and Poverty Alleviation Banks. The former are aimed at attracting customer deposits, which are basically used to finance projects of a social, cultural and ecological nature. They have a fairly centralized organizational structure, with a relatively limited number of branches, offices and employees, since their main source of funding is via the internet, serving the markets of savers and depositors through this channel. Their primary source of funding is capital and customer deposits, depending on the Interbank market.

However, due to the great repercussion that these entities have been having during recent times, some Ethical Banks have experienced certain inconveniences when converting their deposits into loans, resorting to a diversification process by expanding their activities toward the offer of ethical investment funds for investors, foundations and clients [41]. These financial instruments operate in a similar way to ordinary funds in terms of management structure and other regulatory aspects; however, their primary differentiation lies in the process of selecting investors to be allocated to the portfolio, since they do not invest in companies with a low rating or that are not considered ethically oriented [47].

For their part, Poverty Alleviation Banks, also known as microfinance banks, focus on fostering the development of the economic potential of individuals lacking economic resources, as well as on helping the development of communities located in marginal areas of generally underdeveloped countries by granting microcredits, thus, enabling their inclusion in society [14].

In this sense, there is a tight personal bond between fund depositors and borrowers, which explains why its organizational structure is usually quite atomized, as it involves a "public-facing" bank, with a wide network of branches and offices and a large number of employees to facilitate communication with customers, given that its customers are people located in countries immersed in poverty without internet access and located in marginal areas, with difficult access and mobility. In this case, they have an easier time converting deposits into loans, but are often faced with the problem that their deposits are not high enough to cope with the strong loan demands of borrowers.

Most Poverty Alleviation Banks rely heavily on the Interbank market to secure their funding, although they have institutional support from other Ethical Banks and ethical investment funds. The fact of performing this double differentiation in Ethical Banking on the basis of their final objectives, in no way implies that the banks for poverty alleviation do not address ethical, social, cultural and ecological aspects in the development of their activities since they have incorporated individuals with lower incomes into the financial system, especially poor women [39], allowing them to access credits to combat their condition of material poverty [48]. In Table 3, the main characteristics of microfinance, practically unchanged since its basic operating scheme was enunciated by Yunus [49], are highlighted:

Table 3. Characteristics of microcredits.

Loan amounts	These are small amounts of money granted to large numbers of people, typically in the range of a few hundred of dollars.
Maturity	Short term. Periods are usually less than or equal to one year.
Repayment periods and amounts repaid	Reduced in both cases. Usually limited to the repayment of the principal amount plus interest on a weekly or monthly basis.
Preliminary study of the loans	Carried out by the borrowers themselves. The result of providing these services is an increase in income and savings, contributing to an enhancement of the self-esteem and confidence in the most disadvantaged groups [50].

Source: Authors' own elaboration based on Lacalle Calderón [50].

In addition to being financially viable, the financial institutions included in "Ethical Banking" must also achieve a commercial orientation, and therefore, if they are to be successful in the financial markets, must have a lasting impact based on an adequate institutional structure that makes them sustainable in the long term [51]. Thus, the objective of microfinance is not only providing funds, materials or services to the most disadvantaged communities; however, it also pursues other intangible aspects based on equality so that any global citizen can be considered self-sufficient from a financial point of view, acquiring attitudes of self-confidence and social commitment [44].

3. Materials and Methods

The sample employed is formed by 50 ethical banks that are part of the GABV, distributed across the five continents from 15 global subregions determined according to 2021, as reported in Table A1 (see Appendix A), taking, as a reference, the period between 2013 and 2018. First, we considered the variable *HDI country* (Human Development Index, see UNDP [52]) since it is based on three key dimensions that are closely linked to the objectives pursued by the Ethical Banking: "Long and Healthy life", "Knowledge" and "Descent Standard of Living" [53]. Subsequently, financial data were obtained from GABV [43] from which the variables *Total Assets*, *Net Income* and *Nr. of Workers* were selected; afterwards, the following financial ratios were computed and incorporated into the group of variables analyzed: $^{Deposits}/_{Total\ Assets}$, $^{Loans\ Granted}/_{Deposits}$ and $^{Loans\ Received}/_{Total\ Assets}$.

HDI country has been characterized as a proxy variable for human development given that it efficiently synthesizes the degree of progress achieved by each of the 189 countries that comprise it as a function of a coefficient that ranges between 0 and 1, the higher the level of development as it approaches unity and vice versa [54]. Therefore, a first conclusion regarding the spatial distribution of this index can be gathered: those nations that predominantly present lower values of the variable *HDI country* are located in Asia, Africa or Latin America, while those with relatively high values are usually circumscribed to nations in Europe, North America and Oceania. This explains why the low values of the variable *HDI country* are related to banking for poverty alleviation, characterized by a high number of offices, branches and employees due to the lack of solid internet infrastructures or to its vocation to be present in remote areas, elements that make essential the face-to-face contact with the clientele.

On the other hand, the highest values tend to be identified with Ethical Banking, which generally employs on-line tools to interact with its customers, mainly coming from First World countries, which leads to a substantially lower requirement of offices and, in particular, a lower total number of employees than in the previous case, as can be observed in the bar chart displayed in Figure 2: From the 10 financial entities with the lowest number of employees, 9 correspond to ethical banks per se based in developed countries (see, e.g., Denmark, Greece, Norway, Sweden, Switzerland, United Kingdom and the USA). Conversely, 7 of the top 10 banks with the highest number of employees are Poverty Alleviation Banks located in underdeveloped or developing countries (see, e.g., Bangladesh, Bolivia, Colombia, Nigeria, Paraguay, Peru and Uganda).

Table 4 shows the major descriptive statistics of the variables analyzed, distinguishing the total of the sample and the nominal affiliation of the financial entities to both types of Ethical Banking analyzed, presenting several of the stylized facts that characterize both types of institutions. In relation to the Banking for Poverty Alleviation, in comparative terms, we again verified what was previously indicated about the presence of a larger contingent of workers and a predominant adherence to low values of the variable *HDI country*. Likewise, we confirmed that the total assets are clearly smaller than in Ethical Banking per se, being mainly financed by external contributions while presenting a much higher volume of loans granted. On the other hand, they usually receive a larger quota of deposits and obtain a smaller Net Profit.

Another aspect to consider is the higher degree of variability in all variables in the case of Poverty Alleviation Banking, as measured by the standard deviation and the Interquartile Range. Several reasons may explain such phenomenology. For example, this type of financial entities has a much more atomized clientele than Ethical Banks per se and includes institutions that are, in essence, very similar but relatively heterogeneous and correspond to very different socioeconomic profiles, an aspect that does not usually arise in developed countries whose living standards are becoming increasingly similar in relative terms [55].

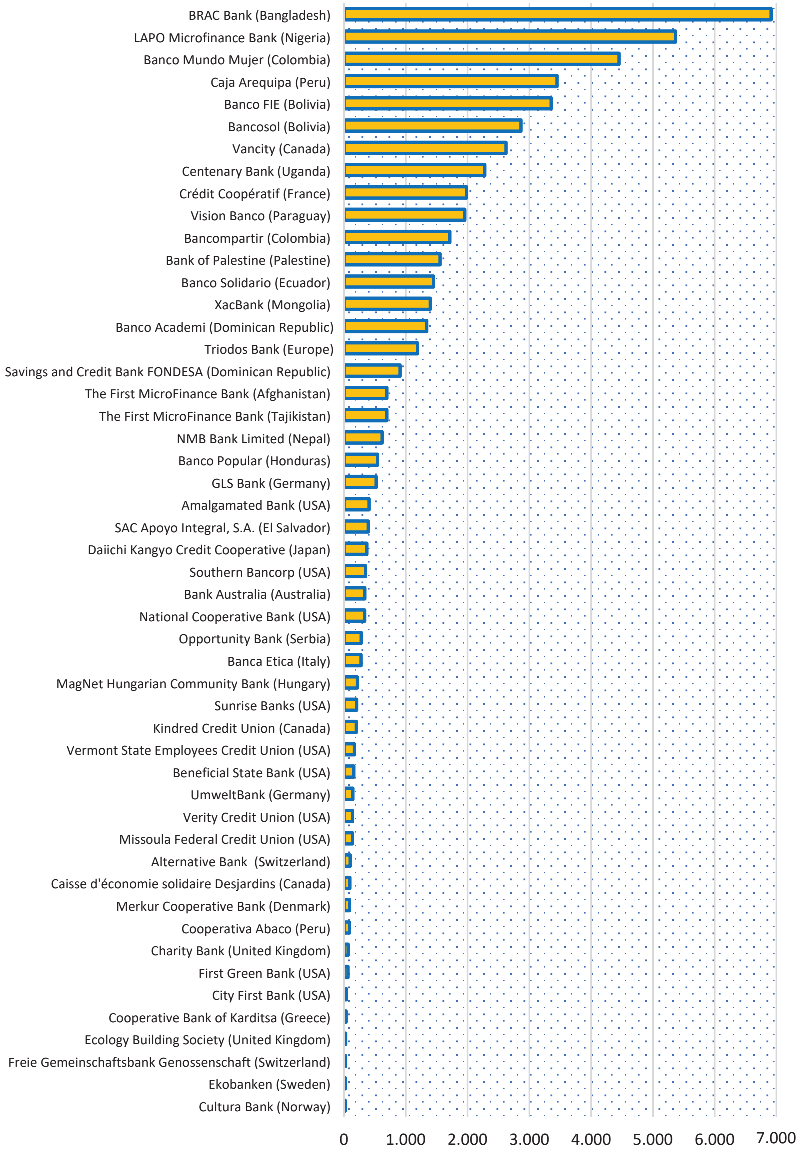

Figure 2. Average number of employees in the different ethical banks analyzed. Source: Authors' own elaboration based on GABV [43].

Table 4. Main descriptive statistics.

A. Total Population									
Variable	N	Mean	St. Dev.	Coef. Var.	Minimum	Q1	Q3	Maximum	I.Q.R.
HDI country	275	0.82	0.13	15.95	0.50	0.73	0.93	0.96	0.20
Total Assets	275	2055	3957	192.56	57	265	1773	23,674	1508
Deposits / Total Assets	275	0.76	0.15	19.65	0.15	0.68	0.87	0.96	0.19
Loans Granted / Deposits	275	0.98	0.50	50.81	0.38	0.74	10,493	60,000	0.30
Loans Received / Total Assets	275	0.14	0.14	100.54	346.00	0.03	0.22	0.77	0.19
Net Income	275	12.90	17.60	136.41	−28.30	1.60	17.30	92.80	15.70
Workers	273	1032.40	1480.90	143.43	15.00	109	1425	7700	1316

Table 4. *Cont.*

B. Ethical Banks									
Variable	N	Mean	St. Dev.	Coef. Var.	Minimum	Q1	Q3	Maximum	I.Q.R.
HDI country	152	0.93	0.02	1.74	0.87	0.92	0.94	0.96	0.02
Total Assets	152	2992	5068	169.40	85.00	282	3319	23,674	3037
$\frac{\textit{Deposits}}{\textit{Total Assets}}$	152	0.84	0.07	8.60	0.59	0.83	0.89	0.96	0.05
$\frac{\textit{Loans Granted}}{\textit{Deposits}}$	152	0.84	0.19	22.30	0.38	0.72	0.98	14,122	0.26
$\frac{\textit{Loans Received}}{\textit{Total Assets}}$	152	0.07	0.07	106.97	346.00	0.02	0.08	0.33	0.06
Net Income	152	11.98	19.42	162.17	−28.30	0.93	13.20	92.80	12.28
Workers	152	376.60	622.60	165.33	15.00	63.30	356.80	2853	293.50
C. Poverty Alleviation Banks									
Variable	N	Mean	St. Dev.	Coef. Var.	Minimum	Q1	Q3	Maximum	I.Q.R.
HDI country	123	0.70	0.10	14.22	0.50	0.65	0.76	0.89	0.11
Total Assets	123	897.70	968.20	107.86	57	189	1246	4885	1057
$\frac{\textit{Deposits}}{\textit{Total Assets}}$	123	0.66	0.16	23.60	0.15	0.57	0.76	0.90	0.19
$\frac{\textit{Loans Granted}}{\textit{Deposits}}$	123	11.524	0.68	58.64	0.48	0.77	12,075	60,000	0.43
$\frac{\textit{Loans Received}}{\textit{Total Assets}}$	123	0.22	0.15	68.67	0.01	0.10	0.27	0.77	0.17
Net Income	123	14.05	15.05	107.13	−1.60	2.70	19.00	66.80	16.30
Workers	121	1856	1804	97.17	73.00	424	2760	7700	2336

Source: Authors' own elaboration based on GABV [43] and UNStats [56].

Although, nominally, there are two types of entities attached to the area of Ethical Banking, their respective missions, motivations, and objectives are very similar, so that the line between Ethical Banking and Banking for Poverty Alleviation is often quite blurred. For this reason, and, taking into account the structural characteristics of each of them according to the variables mentioned above, two types of statistical analysis were conducted, complementary to each other, to differentiate them: Cluster Analysis and Factor Analysis.

The first analysis is especially indicated for the classification of variables according to the degree of association/similarity existing between the items of the same cluster [57], ensuring that each one of them is internally as homogeneous as possible and externally as heterogeneous as possible. On the other hand, Factor Analysis is a method that seeks to eliminate the redundant information arising from the interrelationships of an initial group of observed variables to a smaller number of latent or unobserved variables generically called "factors" [58].

4. Results

4.1. Cluster Analysis

Given that the size of the sample employed is not large (taking into account that the number of ethical banks is still not very numerous compared to traditional banking), we performed a hierarchical clustering according to the guidelines of Gan et al. [59], graphically displayed as a dendrogram in Figure 3. For this analysis, we used the average values of each financial institution throughout the holding period considered, corresponding to the variables: *HDI country*, *Total Assets*, *Deposits*/*Total Assets*, *Loans Granted*/*Deposits*, *Loans Received*/*Total Assets* and *Net Income*. In this way, two major clusters were generated relating to the totality of ethical banks included in the sample: Cluster 1, corresponding to ethical banking per se, and Cluster 2, grouping the poverty alleviation banking, as detailed in Table 5.

Table 5. The mean values of the considered variables for both groups of ethical banks.

Ward's Method	***HDI Country***	***Total Assets***	$\frac{\textit{Deposits}}{\textit{Total Assets}}$	$\frac{\textit{Loans Granted}}{\textit{Deposits}}$	$\frac{\textit{Loans Received}}{\textit{Total Assets}}$	***Net Income***
Cluster 1	0.925	2873.96	84.51	83.33	6.75	11.57
Cluster 2	0.697	861.28	65.45	118.39	21.77	13.75
Total	0.820	1948.13	75.74	99.46	13.67	12.57
Clusters validation: Levene's *t*-test for independent samples						
Nr. of entity workers		Cluster 1 363.280	Cluster 2 1875.560	*F* 17.232	*p*-value 0.002	

Source: Authors' own elaboration based on GABV [43] and UNStats [56].

As can be noticed, the similarity of the variances of each group obtained [60] was analyzed using Levene's test for equality of variances [61], assuming that the variables analyzed are not normally distributed on the basis that this measure is considerably more robust in such circumstances than other parametric tests usually used, such as the Bartlett test of homogeneity of variances [62]. In this regard, we concluded that clusters constructed according to Ward's method Ward [63] are optimal since Levene's test determines that variances are significantly different in both groups (p-value < 0.05). Table 5 reveals how variable *HDI country* is closer to unity in the banks of Cluster 1 than in those belonging to Cluster 2, in line with the figures indicated by UNDP [52]. Similarly, Cluster 1 detains higher values in variables *Total Assets* and *Deposits*/*Total Assets*, while it is significantly lower in *Loans Granted*/*Deposits* and y *Loans Received*/*Total Assets*.

Accordingly, Cluster 1 is identified with the Ethical Banking per se and Cluster 2 with the Poverty Alleviation Banking. Indeed, Ethical banking is mainly financed by the deposits collected from its clients (between 75.3% and 91.2%). On the other hand, if the total of capital and deposits is aggregated, its financing amounts to between 87.3% and 99.2%, which indicates that its dependency on the interbank market is limited [41].

However, because Poverty Alleviation Banks do not dispose of a robust client deposit structure to guarantee their funding, they depend to a large extent on loans granted by donors, as well as other financial and non-financial institutions, both public and private. Cluster 2 also shows a higher degree of conversion of deposits into loans, a behavior that is consistent with the main aim of the Poverty Alleviation Banks: offering micro-credits, i.e., small loans to poor citizens or low-size businesses located in developing countries [26,51,64]. Nevertheless, Cluster 1, which is associated with ethical banking, is presented as a subtype of savings banking that employs the funds from savings accounts to support ethical, ecological and social projects and initiatives.

With respect to the share of assets financed through loans, Cluster 2 shows a higher average value, which suggests that it relies more on borrowing, being classified as poverty alleviation banks. In fact, they must resort to investment in debt, distinguishing between commercial loans and subsidized loans, since they lack a solid structure of client deposits to ensure the functioning of their activity. The first requires interest payments at market rates, while the latter bear lower ones. Subsidized financing is often necessary at the inception of this type of banking to offset the issues derived from their initial non-profitability [65].

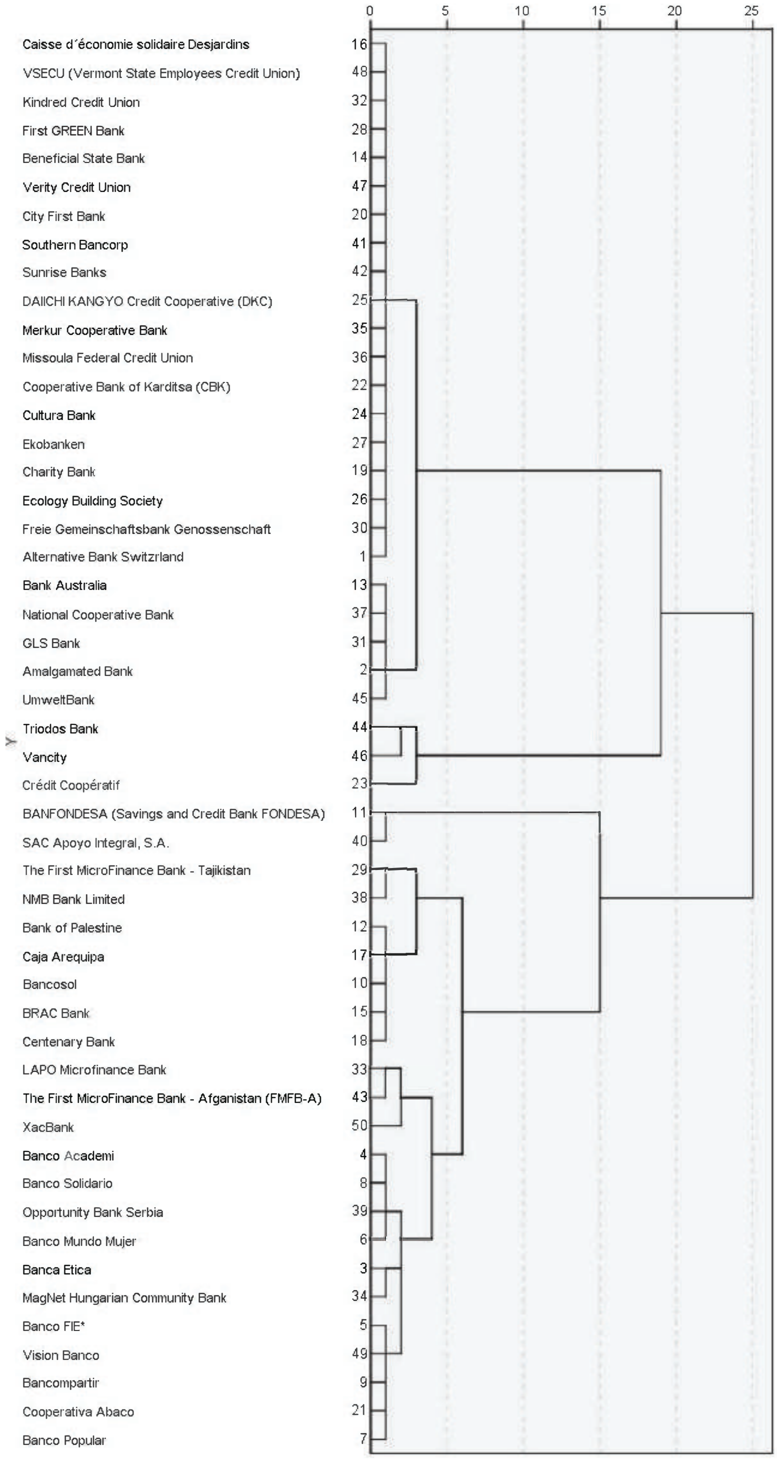

Figure 3. Cluster Analysis of ethical banks by distances based on the level of similarity. Source: Authors' own elaboration based on GABV [43].

In contrast, Cluster 1 has little loan funding, with funding primarily from customer deposits as a peculiar feature of ethical banking: they need economic profits to survive and, hence, it presents a positive net result. In fact, these institutions serve a population that presents significant risk; therefore, their credit assessment process is highly exigent [66]. Finally, a clear difference is also observed in the number of workers, confirming that the average number of workers in poverty alleviation banking is higher than the average number of workers employed in the group referred to as Ethical Banking (per se). We observed that the number of workers in banks located in countries from the South American, Asian, or African regions is considerably higher compared to banks located in Europe, North America, or Oceania.

This may be due to two factors: on the one hand, poor countries lack the resources needed to finance their own development. These societies also lack widespread internet access and their population is more dispersed, leading to the need for a greater number of physical branches close to the marginal areas most affected by poverty. On the other hand, banks located in developed countries follow a trend based on the digitalization of their financial services, which can be accessed through online platforms; specifically, the population with access to the internet represents 51.097% globally [67].

4.2. Factor Analysis

Based on the Exploratory Factor Analysis [68], the original set of initial variables has been reduced to only two factors or components, as shown in Table 6: The first component is clearly identified with Poverty Alleviation Banks and the second one with Ethical Banks per se, being the total variance explained after the reduction of the initial number of variables is very close to 80%. These values are in line with the ones obtained in the preliminary Cluster Analysis.

Table 6. Component Matrix.

Variable	Component 1	Component 2
HDI country	−0.644	0.131
Total assets	−0.13	0.950
Deposits/Total assets	−0.978	0.034
Loans granted/Deposits	0.851	−0.032
Loans received/Assets	0.944	0.044
Net income	0.127	0.920
Total variance explained	79.517%	

Source: Authors' own elaboration based on GABV [43] and UNStats [56].

The graphical representation of the different clusters of credit entities as a function of these two dimensions or factors is shown in Figure 4, where factor 1 is represented on the ordinate axis and component 2 on the abscissa axis.

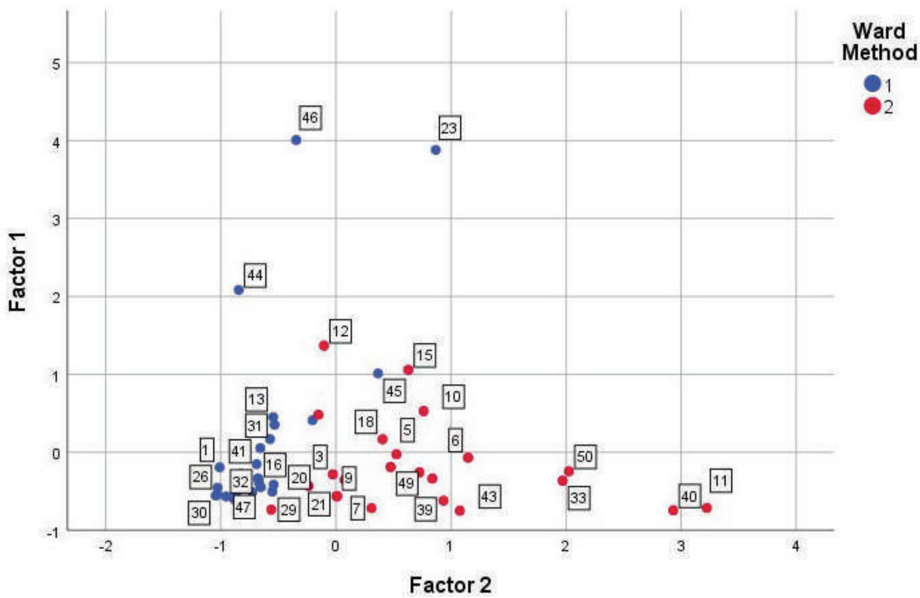

Figure 4. Scatter plot of the two resulting factors. Source: Authors' own elaboration based on GABV [43] and UNStats [56].

There is a full coincidence with the previously elaborated clusters, identifying Poverty Alleviation Banks (red color) and ethical banks (purple color). In any case, the starting hypothesis initially formulated in this manuscript is verified:

Hypothesis 2. *There exist two different types of Ethical Banking: . . . Ethical Banking per se and Poverty Alleviation Banking.*

5. Discussion

In the light of the findings obtained, this research presents common aspects with previous works. For example, we found that microfinance came to solve the differentiating "gap" that deprived the most disadvantaged members of the globalized society of the right to access financial services [12]. The fact of delimiting two large clusters (Ethical Banks vs. Poverty Alleviation Banks) verified the study of Bogan [48] given that the heterogeneity of the capital structure present in these types of entities is simply the result of the different objectives pursued by each one of them, which, roughly speaking, would correspond to two types of philanthropy-driven credit institutions.

These, in turn, are the consequence of two basic approaches that are as distinct as complementary: While Ethical Banks suppose primarily an ethical-moral perspective that aims to reformulate the conventional banking of first-world countries, the Poverty Alleviation Banks represents a step further, providing loans on-site in underdeveloped or developing countries, in which the principles of CSR in financial matters are materialized [69].

The application of the basic philosophy of these principles has been of great importance in some regions of the planet, such as Asia, having a positive impact on relieving four crucial problems pointed out by Yoshino and Taghizadeh-Hesary [70] in the performance of small and medium-sized enterprises (SMEs): difficulties in accessing finance, a lack of information infrastructure, a low level of business R&D and insufficient use of Information Technology. Thus, it is necessary to take into account models aimed at calculating the Optimal credit guarantee ratio for SMEs (see, e.g., Yoshino and Taghizadeh-Hesary [71]) in which government policies should be directed to the financial support of both banks in general and ethical banking in particular, setting, as an objective, the reduction of the guarantee ratio in assumable economic conditions for the borrowers.

The financial context outlined in this research will soon have to be joined by national banks at the global level to enhance the inherent stability of "ethical banking" and discourage the speculative practices that were at the center of most of the financial crises that occurred during the 20th century. Note that "Alternative Banking" is an element that invigorates the labor factor and whose main task is to ensure the necessary conditions for financial inclusion to expand throughout the world [72–76] while facilitating banking operations in various areas that were once alien to conventional banking, such as green finance and investment [77].

In other words, such is the importance that Ethical Banks have taken on that, according to Atkinson [78], it forms part of the basis for the Millennium Development Goals, one of the main aspirations of the future generations for cohesion in a just, clean and self-sustainable society.

Novel lines of investigation can be derived from this work. For instance, analyzing the possible ambivalent character of globalization in this sector, given that it has entailed the occurrence of positive elements, such as its worldwide dissemination, at the same time as it has meant an increase in the depletion of the natural resources of the poorest countries. In this sense, it would also be feasible to study the extent to which the average customer profile has changed over time or to infer whether, on the contrary, globalization has resulted in the virtual absence of significant socio-economic differences between the citizens of underdeveloped and developing countries (mainly in Latin America, Africa and Asia).

Finally, the incidence of COVID-19 in these areas would also merit a separate review, given that it has signified a very significant lapse in the growth of these nations [79], emphasizing how the philanthropic tasks of Ethical Banks can be a powerful instrument to contain the impacts of the pandemic in the most disadvantaged areas of the planet.

6. Conclusions

The aim of this paper was to analyze the banks associated with the GABV in order to identify key aspects of their functioning and fundamental characteristics that allow a clear differentiation to be made between "pure ethical banking" and "poverty alleviation banking". Initially, the two types of banking can be differentiated by looking at their respective missions. The GABV banks have come together to attempt to counteract the social, ecological and sustainability challenges that exist in society. However, each individually defines its own contribution to addressing social needs in light of the different socio-economic situations they face in their country or region [41].

These research results provide theoretical support for the dual Ethical Banks vs. Poverty Alleviation Banks differentiation, assuming that the existence of minimum levels of living income in developed countries implies that the demand for microcredit is, comparatively speaking, not excessively high in these economies, which is why this subtype of financial industry is precisely more relevant in underdeveloped or developing countries.

Poverty alleviation banking, or "microfinance", can be defined as a movement that envisions a world in which low-income households have permanent access to a range of affordable, high-quality financial services offered by a variety of retail providers to finance income-generating activities, build assets and stabilize consumption and protect against risks [80]. Ultimately, they are intended to foster economic development for low-income populations and enhance community development in marginalized areas.

Ethical banking aims to invest in and finance economic activities that have benefits for society and generate a positive environmental impact. In other words, the core of these banking activities has a triple bottom line approach: people, planet and profit [41]. Both agree on the absence of a profit-maximizing drive, incorporating full transparency in their funding arrangements, which adds to the bank's attractiveness to savers and depositors, since customers can know what their money is being used for.

We also found that all the banks belonging to the group defined as poverty alleviation banks were established in countries with a lower Human Development Index, essentially countries located in the continents of Asia, Africa and South America. On the other hand, the "pure" ethical banks tended to be located in countries in Europe, North America and Oceania [41]. From the study conducted, it could be demonstrated that the ratio of loans granted in relation to the volume of deposits was higher in South American, Asian and African countries in relation to Western banks, due to the fact that poverty alleviation banks aim at granting micro-credit to people with lack of resources to promote economic development in marginal areas.

This may be closely related to the fact that ethical banks are heavily funded by customer deposits, which stems from their mission as savings and loan banks that need to raise deposits to give to socially or environmentally conscious businesses or projects. In other words, in order to be able to lend to the companies and projects they want to support, these banks need to collect savings from the market of depositors.

In contrast, poverty alleviation banks rely heavily on other borrowed funds to finance their activities, i.e., they are more dependent on the interbank market, international institutions and microfinance investment funds. However, donors will only provide funds to those banks that are strong, well-managed, with reliable information systems, financial controls adapted to international standards and independent, that show sound financial performance, charging interest rates consistent with the market and that aim to reduce their dependence on the interbank system and increase their long-term operational and financial self-sufficiency [81].

Therefore, it can be said stated that poverty alleviation banks are overwhelmingly dependent on donor funds and subsidies, which means that they are not financially sustainable, thus, posing a problem to extend the financial services they offer. It is only financially sound organizations that have the capacity to compete, obtain commercial loans, receive deposits and, thus, grow in scale and influence [82–84].

One of the features present in the microfinance institution loan contract is the requirement that repayments must begin almost immediately after disbursement and proceed regularly thereafter. Thus, the terms for a one-year loan are determined by adding the total principal and interest due, dividing by 50 and, beginning weekly, collections a couple of weeks after disbursement [85].

The fact that poverty alleviation banking shows a small higher figure than ethical banking in terms of the average net income can be linked to the above, i.e., poverty alleviation banking with lending attempts to break down each loan into small amounts given in the form of credit to its clients [86]. This approach involves reducing barriers for (potential) clients to enter into a formal banking relationship by offering simple and transparent products and, in particular, to underserved target groups. In this way, it is diversifying the risk associated with the probability of default, as it provides small loans of small amounts to a large number of clients to be repaid over periods ranging from several weeks to a maximum of one year and at higher interest rates.

The lack of access to credit has led to the emergence of intermediaries, such as microfinance institutions in rural communities in many developing countries, mainly located in marginal areas where the poorest people in these countries live, with precarious resources, including the impossibility of accessing the internet. In fact, 80% of the majority of the poorest population in developing countries live in rural areas. The modalities for granting and repaying loans are fast and flexible.

Therefore, poverty alleviation banking is characterized by close proximity to the clientele, which implies having a larger number of workers who can attend to the needs of the clients without any difficulty [87]. In general, the application of mobile banking services has not had a great impact in the field of microfinance [88]. Another notable fact is that poverty alleviation loans are small in size, and thus the costs associated with the operation are high [82]. However, this banking has new contractual structures and organizational forms that reduce the risk and costs of providing small unsecured loans [89].

Reducing these costs implies that branches are located close to clients, requiring a large number of small branches for better control [64], as they aim to serve people living in marginal areas rather than in capital cities, where most banking services are centralized [41]. Similarly, microfinance faces challenges related to the possibilities of defaulting on loans given to clients. To this end, they have tried to use the capital of the group loans they provide as collateral, attempting to prevail the turnover of money for the benefit of other individual members of the group [80].

On the other hand, pure ethical banking opts for the development of mobile banking services application on smartphones, which allows customers to easily access their account information. The secure transaction web portals and e-billing allow customers to monitor the process of personalizing their banking services in real time and gradually reduce the need for paper [90]. This method of intermediating with customers means that a large number of workers are unnecessary, as it is not necessary to have a large number of physical branches. Internet access favors and speeds up the intermediation process between the client and the bank, as well as saving costs. All in all, Western ethical banks have a fairly centralized structure, with very few branches or offices and relatively few staff and relying heavily on internet banking for deposits and payment services [41].

In short, poverty alleviation banking has a greater number of branches and workers, given the great proximity required to provide its services to the target public, entailing a greater volume of costs. On the other hand, ethical banking, by marketing its services mainly through mobile banking, dispenses with a large number of branches and workers, streamlining its service and being able to save costs associated with its activity.

The differences between ethical banks and microfinance banks in terms of the number of branches, workers and offices are so great that it can be assumed that these types of banks have a completely different organizational structure. In addition, ethical banking has been able to achieve greater diversification of its products by offering its clients the opportunity to invest their savings in sustainable investment funds, i.e., funds that select their assets on the basis of ethical, social and ecological criteria. In contrast, poverty alleviation banking has not extended its activities to this extent.

However, some ethical banks are suffering from their success and growth and may struggle to convert the growing number of deposits into loans. Microfinance banks, on the other hand, are better able to convert deposits into loans. In reality, their problem is that their deposits are insufficient to meet the growing demand for loans, which leads to a heavy dependence on the interbank market for their operation. The success of banks in alleviating poverty may lie in the effective and efficient management of their loan portfolio. The risk of the same may prove to be a problem that challenges the performance and leads to the failure of many microfinance-focused banks [80].

All banks belonging to the GABV are relatively small but have experienced exponential growth in recent years, especially pure ethical banks, due to a surge in popularity following the financial crisis that began in 2008. Favored by an atmosphere of distrust toward conventional banking, these banks were able to attract a large number of customers with demands for services characterized by transparency, based on ethical values and the real economy and avoiding the speculation embedded in banking products.

The limitations of this research are mainly due to the fact that we included institutions of the largest relative size in financial terms, which, in turn, are the best known globally because of their belonging to the GAV, without taking into consideration smaller financial institutions or even NGOs that provide broadly similar services to the most underprivileged sectors of the community. In the same way, since this study deals exclusively with a differentiating analysis between types of ethical banks, the positive repercussions of these entities for society as a whole in terms of the environment, sustainability, culture or as mechanisms of social co-integration were not thoroughly explored.

In the future, multiple lines of research could be derived from this work. For example, the use of traditional banking determinants, such as profits earned on loans granted, could be included as the main keys to their analysis since, in theory, this is a benchmark measure that encompasses the differential profit margin of one bank over another.

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Abbreviations

The following abbreviations are used in this manuscript:

GABV	The Global Alliance for Banking on Values
SME	Small and Medium-Sized Enterprise
R&G	Research and Development

Appendix A

Table A1. Summary of the ethical banks analyzed according to their countries of origin, based on the United Nations geoscheme and corresponding continent.

Continent	Subregional Group	Country	Institution
Africa	East Africa	Uganda	Centenary Bank
	West Africa	Nigeria	LAPO Microfinance Bank
America	Caribbean	Dominican Republic	Banco Academi
			Savings and Credit Bank FONDESA
	Central America	El Salvador	SAC Apoyo Integral, S.A.
		Honduras	Banco Popular
	Northern America	Canada	Caisse d'économie solidaire Desjardins
			Kindred Credit Union
			Vancity
		USA	Amalgamated Bank
			Beneficial State Bank
			City First Bank
			First Green Bank
			Missoula Federal Credit Union
			National Cooperative Bank
			Southern Bancorp
			Sunrise Banks
			Verity Credit Union
			Vermont State Employees Credit Union
	South America	Bolivia	Banco FIE
			Bancosol
		Colombia	Banco Mundo Mujer
			Bancompartir
		Ecuador	Banco Solidario
		Paraguay	Vision Banco
		Peru	Caja Arequipa
			Cooperativa Abaco
Asia	Central Asia	Tajikistan	The First MicroFinance Bank
	East Asia	Japan	Daiichi Kangyo Credit Cooperative
		Mongolia	XacBank
	South Asia	Afghanistan	The First MicroFinance Bank
		Bangladesh	BRAC Bank
		Nepal	NMB Bank Limited
	Western Asia	Palestine	Bank of Palestine

Table A1. *Cont.*

Continent	Subregional Group	Country	Institution
Europe	Eastern Europe	Hungary	MagNet Hungarian Community Bank
	Northern Europe	Denmark	Merkur Cooperative Bank
		Norway	Cultura Bank
		Sweden	Ekobanken
		United Kingdom	Charity Bank
			Ecology Building Society
	Southern Europe	Greece	Cooperative Bank of Karditsa
		Italy	Banca Etica
		Serbia	Opportunity Bank
	Western Europe	France	Crédit Coopératif
		Germany	GLS Bank
			UmweltBank
		Switzerland	Alternative Bank
			Freie Gemeinschaftsbank Genossenschaft
Oceania	Australia and New Zealand	Australia	Bank Australia

Source: Authors' own elaboration based on GABV [43] and UNStats [56].

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