



*European Association of Co-operative Banks
Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*



EACB comments on Commission's Communication on CSR-25th October 2011

The **European Association of Co-operative Banks** (EACB) is the voice of the cooperative banks in Europe. It represents, promotes and defends the common interests of its 28 member institutions and of co-operative banks in general. Co-operative banks form decentralised networks which are subject to banking as well as co-operative legislation. Democracy, transparency and proximity are the three key characteristics of the cooperative banks' business model. With 4.000 locally operating banks and 65.000 outlets co-operative banks are widely represented throughout the enlarged European Union, playing a major role in the financial and economic system. They have a long tradition in serving 176 million customers, mainly consumers, retailers and communities. The cooperative banks in Europe represent 50 million members and 750.000 employees and have a total average market share of about 20%. For further details, please visit www.eurocoopbanks.coop



General Comments

The members of the European Association of Co-operative Banks (EACB) are pleased to comment on the Commission's Communication on CSR published on the 25th of October 2011.

We would like to emphasize our view on different aspects suggested by the Commission in its paper. With respect to the scope of the initiative, it is first important to underline that the EACB members positively received this Communication on CSR and hope for a quick application of the 2011-2014 agenda as announced in this Commission's paper.

The EACB supports the efforts of the Commission that aim at developing the CSR initiative based on a non-"one size fits all" approach and the willingness that the voluntary implementation of the companies prevails. With a smart balance between the voluntary action of the companies to undertake a CSR policy (depending on their size (i.e. SMEs) and specificities) and the possible regulatory measures that could enhance the companies' societal responsibility, this CSR Communication is meeting the expectations of the EACB members in many aspects. The EACB members believe that the Commission has paved the way to enhance the development of the CSR policy within any type of companies.

Nevertheless, the EACB Members would like to provide the Commission with some comments of relevance for the co-operative banking sector. We trust that they will be taken into consideration.

Specific Comments

-3.1 A new definition:

The EACB and its members welcome the fact that in its new definition, the Commission highlights that enterprises have an impact on the society. Furthermore, the co-operative banks acknowledge the fact that they are quoted in the backbone of this document and are pleased to be taken as a reference in terms of CSR compliance with a specific type of business model.

Nevertheless, the EACB Members would like first to stress that the below comments should be taken into consideration by the Commission when referring to co-operatives.

"Certain types of enterprise, such as co-operatives, mutuals, and family-owned businesses, have ownership, governance structures and most often very long tradition and experience in sustainable and people-oriented activities that can be especially conducive to responsible business conduct."



Moreover, as noted in the Commission's Communication on the promotion of co-operative societies in Europe (COM (2004) 18 final, 2005.):

"Corporate social responsibility is not a new concept for co-operatives. By virtue of the fact that they pursue both economic and social objectives and the fact that their operating procedures are based on the individual and principles of internal democracy, co-operatives by their very nature accept CSR and put a lot of effort into promoting it." Opinion of the European Economic and Social Committee¹

From this perspective, the EACB and its members would like to seize this opportunity to highlight the characteristics of the co-operative banks' specific business model that has been recognized -by the International Monetary Fund and by the European authorities notably- as crucial for economic stability as demonstrated by the resilience of the co-operatives sector during the crisis. Indeed, their specific values and governance make the co-operative banks a unique and an alternative business model combining societal, economic and environmental objectives.

This view is reinforced by the President of the European Commission Mr. Jose Manuel Barroso who stated:

*"Cooperative businesses that have stayed faithful to co-operative values and principles and the co-operative banks which rely on members' funds and are controlled by local people have generally been able to resist the crisis very well."*²

Hence, the EACB members suggest that the economic dimension in addition to the ecological and social responsibility be added in the new definition proposed by the Commission. In this light, the EACB recommends to distinguish the Corporate Responsibility (CR) which encompasses the aspects of corporate governance, control and the civic engagement of companies from the usage of the concept of "CSR" which emphasises more on the ecological and social dimensions. The concept of CR develops the topic of sustainability in a more accurate way.

In the views of the EACB, this Corporate Responsibility concept is captured in the Commission's communication "Towards a Single Market Act-for a highly competitive social market economy"³.

"Co-operatives play a key role in the structure and dynamism of the economy. Moreover, they offer their members unique solidarity mechanisms, creating solid ownership structures conducive to a strong group ethos, shareholding and long-term investments."

¹Communication on the promotion of co-operative societies in Europe, COM (2004) 18 final, 2005.

² Source Co-operatives Europe, conference on financial crisis, <http://www.coopseurope.coop/spip.php?article686>, January 2009

³ Communication from the European Commission: "Towards a Single Market Act – for a highly competitive social market economy, 10/2010



The EACB members therefore believe that this economic dimension should clearly be mentioned and be an integral part of the definition of the CSR. Indeed, this would encourage enterprises to foresee their social responsibility as a strength, a value-added for the good running and profitability of any kind of business. This would also pave the way for an international role of the European Union as the vector in terms of CSR policy at the International Level, as also aspired by the Commission in point 4.8.1 of the Communication.

-3.2 Internationally recognised principles and guidelines

The EACB Members received positively the announcement of using existing international Standards at the European Level for developing the CSR policy within the companies. This will pave the way to an easier comparison between banks for instance. Nevertheless, the EACB members regret that the Commission puts forward the norm ISO 26000, which is mainly a referential and cannot be used in the way the Commission wishes companies to use it.

Indeed, as stated by the ISO 26000 itself on its website:

"ISO 26000:2010 is intended to provide organizations with guidance concerning social responsibility and can be used as part of public policy activities. However, for the purposes of the Marrakech Agreement establishing the World Trade Organization (WTO), it is not intended to be interpreted as an "international standard", "guideline" or "recommendation", nor is it intended to provide a basis for any presumption or finding that a measure is consistent with WTO obligations. Further, it is not intended to provide a basis for legal actions, complaints, defences or other claims in any international, domestic or other proceeding, nor is it intended to be cited as evidence of the evolution of customary international law⁴."

Finally, the EACB members would like to underline that it seems difficult to apply those principles when it appears that the ISO 26000 has not been ratified by all Members States (only 93%).

-3.5.CSR and the Social Business Initiative:

The co-operative banks would like to express their appreciation of this new initiative of the European Commission for the social business sector that was further developed in the Social Business Initiative Communication. The Commission is invited to read the EACB comments on this communication in annex to this document.

⁴ As stated on their website:

http://www.iso.org/iso/iso_catalogue/catalogue_tc/catalogue_detail.htm?csnumber=42546



The EACB and its members welcome positively the fact that co-operatives and by extension co-operative banks have been mentioned all along in the debate of social business because they are recognised as stakeholders value businesses. The EACB would like to seize this opportunity to remind to the Commission that the diversity of the business models contributes to the stability and recovery of the economy. Co-operatives banks have a unique business model with the specificities and values that should be fully acknowledged as follow:

"Corporate social responsibility is applicable to all enterprises. For this reason proposed solutions and developments should take into consideration diversity of business models and be suitable both for large global companies, as well as for those with a very strong foothold in the local communities and special openness for their needs, like co-operatives (banks)."

Moreover, the EACB members would like to point out that the definition of social enterprises⁵ set out by the Commission seems insufficiently developed and risks to be confusing. The EACB warns that this might lead to unintended consequences in this field. Moreover, it is important to underline that the co-operative (banking) formula has its own distinct characteristics and objectives, and it should not be assimilated "tel quel" with the concept of social enterprise. Co-operatives and co-operative banks have sustainable and long term approach to profitability, however this is rather a consequence of their primary goal that is promoting members value and welfare also in accordance with the European Co-operative Statute.

Finally, co-operative banks have a strong ethical, social and environmental impact and tradition in development of sustainable and responsible services, products, as well as relations with clients and local communities. As "financing partners" of NGO's, local non-profit association and social enterprises, they appreciate the new initiative of the Commission in improving access to finance for this sector.

-4. An Agenda for action 2011-2014

The EACB and its member organisations take note of the ambitious agenda 2011-2014 set by the European Commission in terms of CSR. We also positively welcome and support the non-mandatory and discretionary approach of this calendar.

⁵ "A social enterprise is an operator in the social economy whose main objective is to have a social impact rather than make profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involve employees, consumers and stakeholders affected by its commercial activities"; COM(2011) 682 Final, 25th October 2011, p2



-4.3 Improving self and co-regulation processes:

The EACB welcomes the principle of self-regulation. Some of the EACB members have already developed their own codes of good practices. However, the EACB and its members would like to warn the Commission on the “one size fits all” that this standardisation approach seems to entail. Indeed, in the light of the process described in the Communication, the Commission would tend to go for a standardisation of these self-regulation and co-regulation processes. Co-operative banks would like to draw the Commission attention on the risks for the diversity of the business models that is after all a strength for the economy. There is a fear that the special governance and values of the co-operative banks might not be respected with both processes.

-4.4.3 investment:

Owned by their members, co-operative banks have a long tradition and experience in sustainable and people-oriented activities. The development of their networks has always been built on people, on a long term relationship based on trust, communication and proximity. Furthermore, the EACB members would like to highlight the fact that co-operative banks offer the opportunity to become member/owner of their banks, and thus allow their clients/members to be fully involved in the governance, strategy, and risk management processes of their local banks. They co-operate together in the decision making process and in this way the value creation for the members and clients is at the core of the business as opposed to the profit maximisation. This economic and social democracy is the pillar of the co-operative banking sector in Europe. In this respect and as a general principle, the EACB members believe that their model responds to the information needs required by the Commission which is to inform all their clients (citizens, enterprises, public authorities etc) about any ethical or responsible investment criteria they apply or any standards and codes to which they adhere. As the clients/ members are the owners of their local/regional banks, they are generally aware of the investment policies and criteria.

However, concerning the application of more specific standards such as the UN principles for Responsible Investment, the EACB and its members would like to express their concerns about the potential extra-administrative costs and other burdensome consequences, especially for smaller co-operative banks.

-4.5: Improving company disclosure of social and environmental information and point 4.8: Better aligning European and global approaches to CSR

As already stated above in part 3.1 of this document, the EACB members believe that the economic aspect should also be included as part of the CSR definition. Against this backdrop, the co-operative banks would like to express their point of view on the Global



Reporting Initiative (GRI), put forward in paragraph 2 page 5 of the communication document. Indeed, it appears that the Commission is delighted with the increase of European enterprises publishing sustainability reports in the framework of these guidelines. In the views of the co-operative banks, this international standard for reporting on non-financial information, relying on the voluntary reporting of the companies with notably its reknown “comply or explain” principle is relevant. However, co-operative banks would like to warn the Commission about the potential administrative burden that might be heavy especially for smaller co-operative banks, should they be called to comply with new requirements.

Moreover, as it remains quite uncertain whether the co-operative banks could fully report on their specificities, values, in particular their governance principles, the EACB members invite the Commission to stick to the voluntary basis when reporting on non-financial information and allow for maximum flexibility. In addition to that, the EACB members express perplexities that a standardised reporting could annihilate what distinguishes them from mainstream or “shareholders –value” banks that are typically results and profits oriented. That is why, co-operative banks call for a voluntary approach on non-financial reporting in order to preserve the diversity of the banking model and thus the stability of the economy in general. This approach will certainly ease the CSR policy domain to move forward at a European level, and hopefully also at the international level.

-4.8.1 Focusing on internationally recognised CSR principles and guidelines:

In addition, the EACB members would like to stress that some opacity remains notably on several points of the paragraph dedicated to the recognised CSR principles and guidelines. Thus, the EACB and its members are eager to know how the Commission intends to “monitor the commitments” as suggested in point 10.A6 of the Communication’s document. In this perspective, they also invite the Commission to read point 3.2 of this EACB paper for their comment on the ISO 26000 standard and its compliance.

Secondly, the EACB and its members would recommend clarifying the definition of “*large European Enterprises*” as developed in the CSR Communication document, taking into account the different sectors and their characteristics. Indeed, the EACB recommends not to encompass under the same notion of “large European enterprise”, companies that are fundamentally different (e.g. large in the agricultural sector might be different than large in the banking sector). Therefore, the EACB and its members call for the Commission not to take the “*one size fits all*” approach.

Finally, the EACB members would like to raise concerns on the point 10.C of the Communication, which requests the commitment by 2014 of the European-based multinational enterprises to respect the ILO tri-partite Declaration. Indeed, the EACB and its

⁶ Page 13 point A



members fear that the application of this declaration might in reality engender non-desired costs and thus have a disastrous impact on their daily business.

-5. Conclusion:

We would like to remind that co-operative banks have demonstrated a certain resilience during the turmoil of the crisis, and have always been present and frontrunners in lending to SMEs and households, in bad and good times. Nevertheless, the fear has emerged that the new wave of post-crisis legislation of the past years that is designed for “shareholders banks” (PLC) will strongly hit co-operative banks and will also risk to modify or adulterate the EACB member’s unique and specific business model. In the light of what has been developed in this paper, the co-operative banks have always had stronger consumer, socially and economically responsible policies. The commitment towards the members, the local communities is in the DNA of the co-operative banks, and of this specific co-operative governance structure.

Contact

The EACB trusts that its comments will be taken into consideration. Should there be any need for further information any questions on this paper, please contact:

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