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EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS

The Co-operative Difference : Sustainability, Proximity, Governance

EACB Newsletter

Message from the CEO, Nina Schindler

Cooperative banks present clear advantages when it comes to supporting a just transition – their specific governance with a focus on members, and their proximity to local communities and businesses. Against the current legislative background, which is translating into increasingly stringent reporting obligations and industry-wide standards, it is crucial that legislators are aware of the cooperative difference and take it into consideration. In fact, when we approach environmental and wider sustainability challenges, cooperative banks stand out as powerful agents of change. Our business model is based on mutual assistance, democratic decision-making, and shared responsibility. It combines a local attachment, member-driven strategies with a long-term perspective, a collaborative approach, and ethical values. The present movement toward greater sustainability is a great opportunity for cooperative banks to put forward their identity, showcase their unique approach, and demonstrate their positive impact on societies.

As precursors to the ESG movement, cooperative financial institutions and their sustainable governance design should not be harmed by rules that are not adapted. For this reason, it is crucial to collect evidence and empirical research to illustrate the cooperative difference, which can then be effectively communicated in order to spread awareness among the public as well as policy-makers. In a next step, such findings should lay the foundation for a systematic reporting on cooperative advantages and benefits.

3 Questions to
Nazik BEISHENALY,
Researcher, Centre of Expertise for Cooperative Entrepreneurship, Katholieke Universiteit Leuven

Nazik Beishenaly is a researcher at the Faculty of Business and Economics of KU Leuven. As part of the Centre of Expertise for Cooperative Entrepreneurship (KCO), she works on the role of cooperative enterprises in sustainable development. Having solid policy background, her recent research focusses on the ecosystems for cooperative entrepreneurship. Prior to joining the KCO, she worked in the international development field with governments and UN agencies in different regions. In Kyrgyzstan, she served as the President of the Cooperatives' Union of Kyrgyzstan and advisor to the Prime-minister.

The interview focuses on a study published by the Centre of Expertise for Cooperative Entrepreurship of the KU Leuven:
"How do cooperative financial institutions contribute to the SDG's?"

What are the main findings of your recent research project about the contribution of cooperative financial institutions to 2030 Sustainable Development Goals of the United Nations, in which dimensions is their contribution particularly relevant?

The research project was conducted on the pool of 46 apex cooperative financial institutions (CFI) that are members of the International Cooperative Banking Association (ICBA) in different regions of the world. The study allowed us to explore through interviews with CFIs representatives how cooperatives contribute to different dimensions of sustainable development. CFIs contribute to all SDG areas: they uphold social goals by supporting local communities, promoting financial inclusion, education and employment of member communities. They generate an economic impact by providing access to finance, creating jobs and decent work, empowering vulnerable groups – in many countries they are the bulk of member-users of cooperative credit institutions. They also contribute to environmental goals by engaging in green and sustainable finance in addition to integrating environment and climate issues in their strategies and policies and partnerships. Few CFIs report specifically on the cooperative dimension by focusing on the service to their member community, promotion of cooperative values and principles, and coop-to-coop cooperation, among other. Yet, many CFIs also experience challenges with measuring and identifying indicators, collecting data, showcasing the cooperative difference, raising awareness and obtaining endorsement from their member community, board and stakeholders.

According to your research, what are the key assets and the main challenges for cooperative banks in the area of sustainability? What are the key drivers of their contribution and what the most relevant obstacles?

From our study, we could see that sustainability-oriented activities are driven and enabled by a range of CFIs' internal and external factors. Internal factors are related to CFIs' cooperative nature, economic and social significance in their respective sectors and national economies, their democratic governance model and member-ownership. Cooperatives are also driven by the fact that they are community-based organisations with principles and values that prioritise long-term commitment to sustainable development goals. As for the external factors, they include regulatory incentives, market pressure, and ongoing societal trends, such as digitalisation of the banking sector, gender development, the changing nature of work, and other current issues also translate active involvement of the CFIs into sustainable development.

Sustainable development is recognised as an opportunity for cooperatives to affirm their cooperative identity and demonstrate their social impact and difference. If you could chart a medium-term vision, where do you think the focus should be?

We found that despite the increasing awareness of CFIs regarding the Sustainable Development Goals (SDGs) and the importance of sustainability-related disclosures, most of the CFIs have not yet integrated the SDGs into their reporting and communication. These challenges are related to the lack of knowledge, resources, and capacity necessary to implement a sustainability reporting system, especially in developing countries. In Europe, CFIs are encouraged by the national and regional regulators, especially in the context of ESG reporting requirements. While the role of supervisory authorities is key for sustainability disclosures, there were also concerns whether the over-standardization of the reporting requirements would not diminish the importance of the organizational particularities of cooperatives, the cooperative difference. The reporting systems focus primarily on the result-level parameters, while cooperatives demonstrate features that distinguishes them also at other levels such as operations and activities, ownership and organizational structure. Cooperatives are member-based organisations that are democratically governed, prioritize the equality of rights over primacy of the capital, and represent the voice of local communities all over the world. These are important prerequisites for engaging communities in sustainable development, but they are hard to capture and report within standardized schemes.

Second Opinion from
Sergio GATTI,

General Manager, Federcasse & Member of the General Assembly, EACB

Sergio Gatti is General Manager of Federcasse, the Italian Federation of BCC and Rural Banks, since 2009. A graduate in Political Science from the University of Rome "La Sapienza" with a specialisation in International Relations, he holds a master's degree in Communication from the University of Florence. He has been working with Credito Cooperativo since 1986 and has held the position of Manager in charge of the Communications Area of Federcasse (from 1999 to 2008) before being appointed Deputy General Manager of Federcasse in 2008. He is President of the publishing house ECRA and Vice President of Fondosviluppo (Fund for the Development of Cooperation).

Sustainable development is what cooperative banking is all about. The vision behind the birth of the European cooperative banks more than 100 years ago - financial inclusion, local long-term development, economic democracy - is still at the heart of their current actions and strategies. Indeed, the cooperative governance is a particularly effective mean to achieving the goals of sustainable growth. The basic rules of a cooperative bank have important consequences in fostering alignment between behaviour and goals. For example: maximizing members, customers and community benefits is not hampered by the need to maximize the return on equity (to make profits for cooperative banks is a constraint not a goal in itself; it is necessary to increase capitalization and the ability to expand credit); economic democracy and social inclusion results from the equal weight of each member in decision making regardless of income and wealth; territorial proximity grants a strong connection with the local needs of households and firms; stability is preserved and enhanced through the prevailing capitalization of profits and organizational innovation (IPSs and cooperative banking groups); and a long-term view approach arises from the member's and community's interest in maintaining access to the bank's services over time.

Therefore, the UN Sustainable Development Goals, are not only embedded in the vision but their pursuit is also supported by the specific governance characteristics of cooperative banks.

Indeed, also recent academic studies have started to show evidence on the beneficial effect of the presence of cooperative financial institutions where they operate: lower income inequality; higher economic growth; more support to firms in times of economic crisis increasing financial stability.

Hence, collecting, systematizing and communicating the specific impact of cooperative banking in term of sustainable development and explaining why the cooperative governance is a particularly effective mean to pursue this goal is a challenge we have to address. Increasing EU regulation on disclosure and reporting, although unavoidable and understandable, may not help in this direction since it brings about a homogenization of models and indicators aimed at comparing very different financial institutions. Instead, we should try elaborating specific metrics, able to highlight and capture the common denominators in term of SGDs activity carried out by the very rich variety of cooperative financial institutions in Europe and to communicate the positive impact of the cooperative diversity. This may also help our dialogue with the regulatory and supervisory authorities when trying to convey the cooperative specificities. In this context the role and the experience of EACB can be very valuable.

In the pursuit of a sustainable and inclusive economic development the contribution of cooperative banking is too important not to be properly valued and communicated.

EACB latest publications:

- Recommendations from Europe's cooperative banks for a Digital Euro
- EACB comments on EBA draft Guidelines on overall recovery capacity in recovery planning
- EACB responds to EBA consultation on AML/CFT risk factors and the effective
- PRESS RELEASE - Key Statistics for Cooperative Banks are out!
- EACB Answer to ESMA's consultation on Guidelines on funds' names using ESG or sustainability-related terms
- EACB Comments on the European Commission's public consultation on

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- Joint industry position paper on exemption from EMIR margin requirements for equity options

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