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EACB comments on the European Commission Roadmap on European action plan for social economy

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The members of the European Association of Cooperative Banks welcome the plans of the European Commission for an Action Plan on Social Economy.

Cooperative Banks with about 60 million members, around 190 million clients and about 650000 employees stand for one of the strongest cooperative sectors in the EU.

While not all of our members would understand themselves as a part of an economy they would call "social", they all strongly support and adhere to the cooperative principles.

For cooperative banks, one of the priorities of the action plan should be to enhance the visibility of cooperatives as well as understanding of their specific features and positive impact on society and the environment among the general public, policy makers and also regulators.

An important element would be to strongly promote that the cooperative form of enterprise is integrated into the relevant curricula for economic education in schools and universities. Our conclusion from decades of advocacy for cooperatives is that the knowledge on cooperatives in wide parts of the population (and all levels of education) is rather poor. Overcoming this ignorance would be crucial.

This would also be an important precondition to ensure that the legal form of a cooperative is accepted as fully equivalent to other forms of companies. As regulated entities cooperative banks see themselves again and again in a struggle for the acceptance of cooperative particularities and for adjusted rules. As the knowledge about cooperatives and the awareness of their existence is not so common, hardly anybody thinks of cooperatives when new rules are made. However, it is this ignorance that discriminates.

In particular, it must be ensured that that the Single European Rulebook as the foundation of the Banking Union does not promote a single business form or corporate governance model.

We also strongly support the idea that the understanding of the positive impact of cooperatives on society and environment should be enhanced. However, this is not enough. The current discussions on sustainability, e.g. related to a "social taxonomy", should be used to definitely determine that the cooperative legal form, i.e. the cooperative governance elements are by themselves contributing to a sustainable and people-oriented economy and thereby contribute to the Sustainable Development Goals (SDGs). In fact, we realized repeatedly that inherent elements of cooperative governance are seen negative, like the member involvement in the boards of cooperatives (as board members are not independent) or the broad ownership combined with democratic voting ("weak" governance, no reference shareholder). These approaches see the price of cooperative governance, but not its values. We therefore believe that it is important to get this fixed.

We also believe that the cooperative model should be promoted through international fora and networks, and especially its contribution to the Sustainable Development Goals (SDGs).

In fact, idea and practice of organizing shared interests in cooperatives was inscribed on the Representative List of the Intangible Cultural Heritage of Humanity. This acknowledgment underlines the universality of the cooperative model and the value it can create in societies around the world. We therefore encourage the European Commission to promote it also on a global level, where suitable.

Please find in the annex a paragraph on the legal form of cooperatives and the advantages of the specific cooperative governance.

Annex to the EACB comments on the European Commission Roadmap on European action plan for social economy

- The Cooperative Banking Model and long-term orientation -

The cooperative business model is a developed and established company model. Cooperatives are mentioned in Article 54 of the Treaty. Council Regulation (EC) No 1435/2003 on the Statute for a European Cooperative Society (SCE) even provides a specific European company statute for cooperatives. The SCE-regulation points out that *"Cooperatives are … legal entities with particular operating principles that are different from those of other economic agents."* The regulation, as well as national cooperative law lay down the basic operating principles.

These operating principles ensure a specific, sustainable economic approach. This implies the following for Europe's cooperative banks:

1. The principal object of a cooperative is the satisfaction of its members' needs and/or the development of their economic activities.
2. The cooperative model provides a tool for citizens to join forces in order to find solutions for the improvement of their economic, social or cultural situation under their own responsibility (self-help, self-governance, and self-responsibility) "Achieving one's goals better together than alone" has always been the fundamental idea of every cooperative.
3. The generation of profit is a basis – like for any other undertaking - but not the primary purpose.
4. Membership is normally open to all citizens living in the business area of the cooperative bank. Cooperative banks count about 60 Million members of cooperative banks in the EU. The aim (and often the reality) is a life-long relationship of the member/customer with his bank. Typically, cooperative banks are deeply rooted in their local communities. A delocalisation of a cooperative is hardly possible.
5. Members vote in the general meeting on the major matters related to the cooperative, generally on the basis of the democratic principle (one member, one vote) and independent of the capital distribution. There are no "lead shareholders" that drive the policy, but the policy is determined by the community of member/customers.
6. Via member representatives in governance bodies, cooperative banks possess precious and valuable networks in society. This social capital differentiates cooperative banks from banks with other ownership structures. With sufficient member participation in democratic processes, cooperative banks create loyalty in society and legitimacy of aiming at social purposes.
7. In most cases, membership requires the acquisition of a (limited) amount of cooperative capital. This amount is relatively moderate in most cases. By consequence,

the shareholder structure of cooperatives is characterized by a very high number of micro-holdings of capital.

8. Most cooperative banks practice “open membership” so that any citizen can join.
9. Remuneration of capital is limited: members receive dividends for their shares, which in some jurisdictions are even subject to a cap. Generally, dividend payments are moderate and stable over long periods. However, usually the biggest part of the profit is transferred to the reserves of the cooperative bank (retained earnings) to enhance the capital base.
10. Members acquire shares at face value and (when leaving the cooperative) never get more than the face value back (even less in the case of serious losses). Thus, share prices remain unchanged over decades, what excludes any speculation with cooperative shares. At the same time, since losses affect retained earnings in the first place, members of cooperatives do not have to fear for their (usually moderate) investments, when the economic environment becomes more difficult. Thus, during the financial crisis, there was no sell-off of the shares of cooperative banks as this was the case for other banks.

The aforementioned factors, everyone for itself, but especially in their interaction, provide for a governance structure that favours a long-term orientation and a (long-term) customer-focus (customer relationship) of cooperative banks.

Open membership, broad membership and democratic vote also ensure to involve a broad base of stakeholders (as shareholders) in the decision process of the cooperative bank.

Cooperative banks cannot simply change their business policy or product range or drop certain customer categories without due consideration of the long-term impact of such choices on their (wide) membership base.

They are not driven by investors to maximize profit, but have to ensure a stable, long-term profitability and high-quality services for a large number of owners at reasonable prices in order to ensure their mission. This certainly is in strong contrast to the pressure on public companies from financial markets to maximize short-term results.

The performance of cooperative bank-managers can hardly be measured by the share price (which never changes) and thus they are not under the pressure to increase the share value.

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