

CSR Finance

A Credit Union Backgrounder



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Solutions for a Sustainable World

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Servus Credit Union commissioned this report to inform the development of its CSR Strategy. The credit union has graciously agreed to share this information in the hope that it will benefit other credit unions seeking to understand how they, too, can enhance their CSR performance.

INTRODUCTION

Many Canadian credit unions are refreshing and renewing their CSR commitments, and implementing CSR strategies to improve their social and environmental impacts. This background paper – originally produced for Servus Credit Union – is designed to raise awareness of, and provide insight into, differing “CSR Finance” business models in operation outside of Canada. It is hoped the different ideas contained in this backgrounder will stimulate thinking and provoke discussion by board, management, staff, members and other stakeholders in order to generate creative and innovative options for consideration in credit union CSR vision and strategy processes.

METHODOLOGY

Four different banking models are profiled to provide a diverse perspective and a range of scenarios. All of these organizations are profitable and offer a range of competitively priced financial products and services. They have all seen recent growth and expansion – even during the economic downturn – through mergers and acquisitions, adding branches and products, and opening new markets.

The organizations profiled include:

- Triodos Bank, The Netherlands
- Self-Help Credit Union, North Carolina
- mecu Ltd., Australia (note: mecu’s name is officially spelled out in lower case. *In 2011, mecu reorganized as a co-operative bank under the name bankmecu.*)
- The Co-op Bank, UK

The research was based on a review of websites and sustainability reports accessed in December 2010, and the author’s previous research of these organizations. Self-Help, Triodos and The Co-op Bank information was largely drawn from their 2009 reports and data while mecu’s information was sourced from their 2009/2010 report. Some of the writing is original; other sections are copied directly from the internet source.

The paper is organized into three sections:

1. Insights: a high-level review of the CSR / sustainability finance roles of the case study organizations
2. Strategic questions: six questions which arise from the analysis of the case study organizations
3. Appendix: profiles of the four case study organizations

The paper uses CSR and sustainability interchangeably, generally defined as a company’s environmental, social and economic performance and the impact of the company on its internal and external stakeholders. CSR Finance refers to banking which incorporates social and environmental considerations in the business model.

INSIGHTS

The analysis below is a summary of over twenty comparative insights drawn from the four case studies. Many are verifiable observations and some are subjective interpretations. They are in no particular order.

1. None of these organizations are publicly traded corporations; two are credit unions (although mecu has since become a customer owned bank), one is a co-operative financial institution and one is a privately held bank. This structure has created an environment in which these organizations can focus on their mission, allowing them to innovate and flourish, rather than focus on delivering quarterly shareholder returns. However, all of them are operating successfully within the capital and retail markets, competing with other financial institutions for customers, depositors, mortgages, investments, loans, etc.
2. All have a values-driven agenda at the core of their mission.
3. The four case study financial institutions have different distinctive CSR features, which can be characterized as follows:

Model 1 (Triodos)

- Provides targeted financing for environmental, social and cultural sectors
- Transparent bank (discloses its lending portfolio)

Model 2 (The Co-op Bank)

- Customer-driven Ethical Policy
- Campaigns on public issues

Model 3 (Self-Help)

- Anti-poverty/social inclusion focus (underserved markets)
- Conglomerate structure (a group of diverse organizations under common ownership and operated as a single entity)

Model 4 (mecu)

- Integrated sustainable banking approach
 - UN-inspired sustainability framework – competing on a global scale with their sustainability approach
4. Two organizations were founded on sustainability or CSR principles (Triodos Bank and Self-Help Credit Union) and two evolved their mandates toward CSR (The Co-op Bank in 1992 and mecu in 2004) both as a result of strategic re-positioning. The social missions of the four organizations have all been developed over the past 30 years.
 5. The Co-op Bank and mecu engaged in their strategic reviews at a time when their respective banking sectors were facing reputational issues. Both were seeking to differentiate themselves from their traditional banking competitors and landed on the co-op brand. One (mecu) was able to study the CSR finance leaders, including two in this study, in order to inform their CSR finance model.

6. Those founded on CSR principles are niche banks (Triodos and Self-Help), with a more limited suite of financial products. The other two are national financial institutions with mainstream products (The Co-op Bank and mecu). These latter two have visions to be the most socially responsible bank in their country.
7. Two organizations perceive themselves to be the most sustainable financial institutions in the world – Co-op Bank and Triodos. Indeed Triodos received just such an award in 2009 followed by The Coop Bank in 2010.
8. Triodos and mecu are members/applying to be members of the Global Alliance for Banking on Values (GABV) which is a 13 member group of sustainable finance banks with a target to increase the number of people doing business with a sustainable finance bank to 2 billion by 2020.
9. One draws its inspiration and framework from the United Nations Environment Program (mecu); another from a strong UK ethical / co-operative customer base (The Co-op Bank); another from US community development finance principles focused on reaching underserved markets (Self-Help); and the fourth from European anthroposophical principles of ethical banking (Triodos Bank).
10. One of the organizations is focused on anti-poverty: 100% of its business advances this agenda (even its environmental priorities are seen through the lens of low-wealth people and communities) (Self-Help). Two are 100% in CSR finance, i.e., their entire portfolio is aimed at their mission (Self-Help and Triodos). Two are full service institutions following the traditional banking model, with a more modest portfolio allocation to CSR finance (mecu: 20% and The Co-op Bank: 24%). All offer CSR products to their members/customers.
11. Three organizations have ethical screens setting out who they will and will not finance (Triodos, The Co-op Bank and mecu).
12. Two have world-leading transparency commitments / track records (Triodos and Co-op Bank), one in its adherence to global reporting principles, as an international best practice reporter (Co-op Bank) and another which discloses 100% of its loans (Triodos).
13. Two have strong CSR reports (mecu and The Co-op Bank); the other two have emergent CSR reporting frameworks.
14. All benefit from and have collaborations with government, including tax credits, knowledge development, joint programming, etc. One even has a memorandum of understanding with its state government (a sustainability covenant) which sets out the joint efforts of both parties to advance sustainability at the organization (mecu).

15. They all offer socially responsible investments to some degree: Self-Help attracts deposits from national depositors to finance its community development efforts; Triodos attracts investments and deposits from European SRI investors for its international micro-finance and sustainability loans; the Co-operative Bank is affiliated with The Co-operative Asset Management, an institutional asset manager which incorporates an SRI investment approach; mecu is affiliated with a third party financial planner which offers SRI products. Two have created savings and investment products in order to attract customer deposits to finance their mission (Triodos and Self-Help); they have a track record of continuous product innovation in this area.
16. They are all social innovators and trend-setters in their regions and their sectors. They are opinion leaders and believe an important part of their role is to stimulate and lead public debate on issues including quality of life, social and environmental development and sustainable banking. They sponsor and contribute to innovation and collaboration in their sectors (e.g. Triodos – GAVB; Self-Help – Triple Bottom Line (TBL) Collaborative).
17. They all have centres of excellence/specialty units or staff (Triodos: specialist portfolio managers; The Co-op Bank: Co-operative Enterprise Hub and Social Banking Unit; mecu Community Banking Unit; Self-Help: Centre for Responsible Lending).
18. Two have strong advocacy roles: one is involved in finance advocacy on behalf of its members (Self-Help); and another campaigns on global public issues providing opportunities for its customers to participate through petitions and demonstrations (The Co-op Bank).
19. Three target charity, non-profit sectors as a market segment (Triodos, The Co-op Bank, mecu).
20. They are all committed to advancing social and environmental progress through their products and services.

APPENDIX

CASE STUDY 1

Triodos Bank

www.triodos.co.uk

Head office: Zeist, The Netherlands

Service Area: Belgium, UK, Spain, Germany

Founding year: 1980

Start of CSR program: 1980

Assets: 4,862 M EUR (6,495 M CAD) (2009)

Mission

“Our mission is to make money work for positive social, environmental and cultural change.”

History of CSR commitment

Sustainable (CSR) finance was the founding principle of Triodos Bank. An economist, tax law professor, banker and management consultant based in The Netherlands formed a study group in 1968 to consider how money could be managed sustainably. They established the Triodos Foundation for prosperous anthroposophists (followers of the Austrian social and spiritual thinker Rudolf Steiner, founder of Waldorf schools and biodynamic farming and advocate for the creation of economic associations to advance harmonious and socially responsible roles in the world economy) who wanted to use gifts and loans to support innovative and beneficial projects and companies. In 1980 they established Triodos Bank NV with EUR 540,000 in start-up share capital. In 1993 they began branching out of The Netherlands, opening branches in Belgium (1993), UK (1995), Spain (2004) and Germany (2009). It opened its international headquarters in the Netherlands in 2006.

Structure and services

The shares of the Triodos Bank are held by the Foundation for the Administration of Triodos BankShares. There are three arms of Triodos Bank: Retail Banking, Investment Management and Private Banking. Collectively the Triodos Group offers:

- Banking services
- Fund management
- Project development
- Investment management
- Venture capital funds
- Corporate finance
- Private banking

It targets the following sectors for lending:

- Nature and environment: sustainable environmental businesses and initiatives, from organic farms and food producers, through renewable energy companies, to eco-development schemes.
- Culture and welfare: businesses and initiatives that help people develop and act as free and responsible citizens. This can cover everything from schools and medical centres, through arts and cultural activities, to community projects.

- Social business: businesses whose key objectives are to add value to society or the environment, from fair trade retailers or wholesale traders, through housing associations and eco-tourism initiatives to manufacturers of environmentally responsible products.

Triodos does not lend to non-sustainable products and services (businesses involved in producing or trading in weapons, tobacco, pornography, fur or environmentally hazardous substance and the gambling industry) and non-sustainable working processes (covering everything from animal testing and inhumane farming methods, through corruption and support for dictatorial regimes, to breaches of fundamental labour rights).

Value proposition

Its core value proposition is to “connect savers and investors who want to change the world for the better with entrepreneurs and sustainable companies doing just that”. It lends customers' money to people and organisations working to make the world a better place, actively seeking out and promoting sustainable, entrepreneurial businesses driven by values and ideas. It is committed to “total transparency”: it believes that sustainable banking depends on trust, so it publishes details of every single organisation it lends to, allowing savers and investors to see who is receiving their money. (Searchable by key words and location; provides name of company, address, description, website and ability to like it.) Triodos Bank has an in-depth understanding of the ethical sector.

Recognition

In 2009, it won the prestigious international Financial Times Sustainable Bank of the Year Award for its pioneering banking model.

CSR products

The following is a sample of CSR products offered by Triodos:

- Triodos Renewables Europe Fund
- Triodos Renewables for Development Countries
- Triodos Culture Fund
- Triodos Microfinance Fund
- Triodos Sustainable Trade Fund to provide trade finance to certified organic and fair trade producers in developing countries and emerging markets
- Triodos Climate Change Two-Year Bond
- Organic Saver Account to support organic food and farming practices; Triodos donates 0.25% of the average annual balance of the account to the Soil Association, a leading environmental charity in the UK campaigning for a global shift to organic food and farming practices
- Charity Property Loan Fund (loan package from Triodos Bank in partnership with Social Investment Scotland offers third sector (charities, voluntary sector organizations and social enterprises) organizations looking to purchase freehold or long leasehold property the chance to borrow 95 – 100 % of the value of property helping the third sector to realize property ownership)

It specializes in five sustainability sectors:

- Organic Food and Agriculture

Triodos Bank finances the entire organic food chain, from producers and processors to retailers and restaurants and from beauty products to vegan chocolate. It loaned 144 million Euros to organic food and agriculture across Europe in 2009, financing 1,200 projects. 8.7% of all lending by Triodos Bank goes to organic businesses. It has specialist relationship managers with in-depth knowledge of organic businesses.

- Energy and Climate

At the end of 2009, Triodos Bank and its climate and energy funds were financing over 275 projects across Europe. This includes 175 wind farms, 85 solar plants, and various biomass and hydro projects which collectively produce around 2.25 billion kW a year of green energy, displacing over 800,000 tonnes of CO2 emissions annually.

- Arts and Culture

The bank currently finances 713 Arts and Culture projects, amounting to 68 million Euros. The bank believes that financing workshop spaces leads to synergies between artists and gives properties a new lease of life.

- Microfinance

Triodos Bank invests in microfinance to help develop a sustainable financial sector in developing countries. By the end of 2009 Triodos Bank was supporting microfinance in forty countries in Africa, Latin America, Asia and Eastern Europe through Triodos Investment Management. Its four funds with a total portfolio of 227 million Euros provided finance for 81 microfinance institutions by the end of 2009.

Partnerships

It operates through a number of strategic partnerships, such as an award-winning charity (Wasps Artists' Studios) which provides affordable studio space to support up to 750 visual artists; it is one of the largest studio providers in the UK. Triodos Bank works with the organization to provide loans to support the redevelopment of studio properties.

It is a founding member of [The Global Alliance for Banking on Values](#), a network of 13 of the world's leading sustainable banks which use finance to deliver sustainable development for people, communities and the environment not served or poorly served by other financial institutions. Members represent close to 10 million customers in 24 countries, with a combined balance sheet of over \$26 billion. They plan to meet in Lima in March 2011 to work on ambitious plans to change the face of modern banking. They intend to do it by collectively raising substantial new capital, training a new generation of sustainable bankers to use it, and developing a consistent way to measure the impact of sustainable banking globally. (Vancity Credit Union is a member.)

CASE STUDY 2

Center for Community Self-Help (Self-Help)

www.self-help.org

Head office: Durham, North Carolina

Service area: North Carolina, Washington, California

Founding year: 1980

Start of CSR program: 1980

Assets: 1.3 B USD (2009)

Mission

“Creating and protecting ownership and economic opportunity for minorities, women, rural residents and low-wealth families and communities.”

History of CSR commitment

A husband-wife team founded the Center for Community Self-Help, a non-profit organization, in 1980 to assist workers becoming unemployed from textile mill, sawmill and furniture factory closures due to soaring interest rates and a national recession. Their initial vision was to assist the workers to set up employee-owned factories to save their jobs. Self-Help provided management assistance to worker-cooperative businesses in low-income, primarily African-American communities.

They then shifted their focus to helping disadvantaged North Carolinians build wealth through home and small business ownership. In 1984, Self-Help established its financing affiliates – Self-Help Credit Union and Self-Help Ventures Fund – to advance this objective.

Today Self-Help is one of the largest [community development financial institutions](#) in the United States, and a leader in profitably lending to underserved borrowers and communities. It advances its mission by providing financing for minority, women-headed, rural and low-wealth families through home and small business lending.

Structure and services

The Center for Community Self-Help (Self-Help) is a non-profit organization that develops and coordinates Self-Help's programs, raises resources, and advocates for economic opportunity.

Self-Help Credit Union (1984)

The Credit Union is a member-owned, federally insured, state-chartered credit union. It raises market rate deposits from members to make commercial, consumer, and home loans. Its members include non-profit and religious organizations and other socially-responsible individuals and institutions. It is a community development credit union, lender and real estate developer. Under its community facilities lending program the credit union finances daycare centres, community health facilities, charter schools and other non-profits. It provides homeownership counselling and support to families and offers technical assistance to support business and non-profit borrowers.

Self-Help Federal Credit Union (2008)

Self-Help Federal Credit Union is a member-owned, federally chartered and federally insured credit union. Its mission is to increase access to responsible and affordable financial services in underserved communities, initially in California.

Self-Help Ventures Fund (1984)

The Ventures Fund is a non-profit organization funded with loans and grants from foundations, religious organizations, corporations, and government sources. It manages Self-Help's higher-risk business loans, real estate development, and home loan secondary market programs.

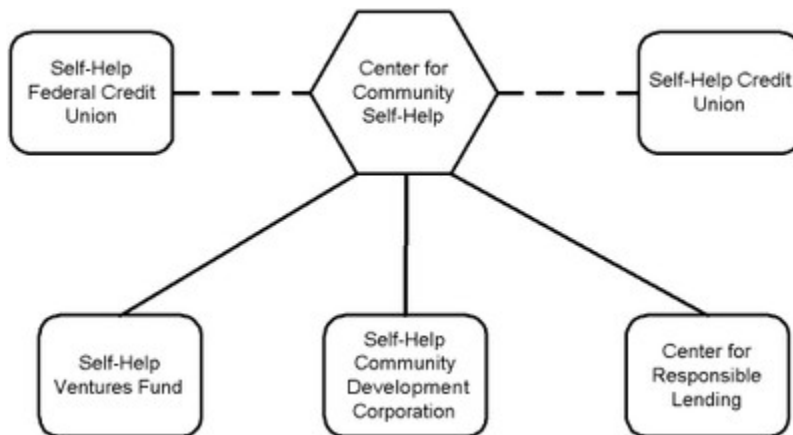
Self-Help Community Development Corporation (1996)

The Self-Help Community Development Corporation (CDC) is a non-profit entity that builds and sells affordable housing to first-time homebuyers and develops and leases commercial property to encourage downtown revitalization in cities across North Carolina.

Center for Responsible Lending (2002)

In response to predatory lending practices targeting low-wealth homeowners Self-Help in 1999 worked as part of the Coalition for Responsible Lending to enact North Carolina's landmark anti-predatory lending mortgage law. Self-Help then founded The [Center for Responsible Lending](#) (CRL), a national non-profit, non-partisan research and policy affiliate. CRL's mission is to protect home ownership and family wealth they have helped their constituents and communities build by working to eliminate abusive financial practices. It conducts research to quantify the extent and impact of abusive lending practices (predatory lending) and engages in public policy reform. Topics include foreclosure policies, overdraft fees, payday and car title loans, credit cards, etc. Recently CRL helped enact the first federal usury law in 25 years, protecting military personnel from abusive lending, published research that encouraged efforts to enact the Credit Card Act of 2009, and successfully campaigned for federal overdraft rules that could save consumers \$4 to \$6 billion per year.

Self-Help is structured as a non-profit "conglomerate":



Through Self-help Credit Union's direct home lending, secondary market program (enabling private lenders to make more loans in low-wealth communities), and commercial lending, it has provided \$5.66 billion in financing to 64,140 homeowners, small business owners, and other non-profits, nationwide since its inception. In 2009 it provided \$72 million worth of investments in 1,786 families, individuals, and organizations, with 81% low-income borrowers, 67% people of colour, 34% women, 34% loans to projects in depressed areas; and 34% loans to projects in rural areas. By year end 2009 it had built 132 homes and developed 21 commercial properties and provided \$419 million in loans to support 3,201 entrepreneurs and creating or maintaining 24,142 jobs. It had also provided \$26.6 million in loans to small businesses, supporting 139 entrepreneurs and

creating or maintaining 1,338 jobs; and provided \$26.6 million in community facilities loans, supporting 18 projects, creating or maintaining 183 jobs. It is a national institution with six regional offices and eighteen full-service credit union branches in North Carolina, California, and Washington, DC.

It offers Socially Responsible Investments nationwide to institutional and retail investors where their deposits are used to fund mortgages and small business loans to women, minorities, rural residents, and low-wealth families.

Value proposition

Self-Help is one of the largest [community development financial institutions](#) in the United States, and a leader in profitably lending to underserved borrowers and communities. It advances its mission by providing financing for minority, women-headed, rural and low-wealth families through home and small business lending.

Recognition

In June 2009, Self-Help won the [Dora Maxwell Social Responsibility Award](#), the country's top CSR award for credit unions offered annually by the Credit Union National Association (CUNA, the national credit union trade association), which recognizes and promotes credit unions' social responsibility efforts within the communities they serve.

Environmental Stewardship Initiative

Self-Help takes an "anti-poverty" lens to its environmental programs, prioritizing the environmental issues which could most benefit low wealth people and communities. Their analysis follows.

"The low-wealth people and communities served by Self-Help are often disproportionately impacted by environmental issues. Low-income people are more likely to live in energy inefficient homes, attend schools with poor indoor air quality, and live or work near waste dumps and industrial polluters. These conditions cause health problems such as asthma and cancer, increase the cost of living, decrease quality of life, and lead to general physical deterioration in communities". In Self-Help's assessment, solutions to national environmental problems, such as land preservation, sustainable business development, and renewable energy production often do not benefit disadvantaged communities.

In response to this disparity, Self-Help is increasing its efforts to implement Triple Bottom Line (TBL) solutions, which strive for community impact in three interrelated areas: 1) Social equity, by insuring benefits flow to low-wealth communities and people; 2) Economic development, in the form of wealth-and income-building opportunities; and 3) Environmental benefits, by building and financing more energy efficient and healthy homes, schools, and workplaces, and by supporting businesses working to sustain the environment.

Examples of Self-Help's Environmental Stewardship Initiatives:

- Environmental Deposits

It offers a federally-insured Environmental Certificate of Deposit, which earns a market-rate of return and supports its Environmental Stewardship Initiative, including lending to green businesses, Smart Growth (downtown revitalization and encouragement of infill and redevelopment of vacant and underutilized properties to combat urban sprawl) and healthy home development.

- Residential Real Estate Development

The affordable homes built by Self-Help meet state-of-the-art energy efficiency standards, resulting in very low heating and cooling costs. These energy savings add up to a substantial reduction in greenhouse gases, typically one tonne per year for every house built.

In addition, it focuses on the use of infill housing to avoid the negative impacts of sprawling development. Altogether, these strategies benefit the environment and low-wealth families by providing affordable mortgage payments, low utility bills, and savings on gasoline expenses due to shorter commutes.

In 2008 it piloted the development of a “sustainable design house”, which includes passive solar construction, water-efficient plumbing and landscaping, and attention to locally distributed and produced materials, all integrated in a design that blends with the existing neighbourhood.

- Commercial Lending

It provides business loans that enable low-wealth entrepreneurs to capitalize on sustainable business opportunities. In addition to significant environmental benefits, many of these businesses provide quality “green collar” jobs where workers can develop useful skills in growing industries. It provides loans and technical assistances to the following sectors:

- Recycling
- Sustainable agriculture and forestry
- Environmental technology
- Solar and renewable technology
- Land conservation
- Green retail
- Energy efficiency
- Sustainable service

Self-Help is also developing specialized energy efficiency lending programs that benefit disadvantaged communities. Its microenterprise, charter school, childcare, and non-profit borrowers are likely to occupy low-cost, aging facilities with energy inefficiency and indoor air quality problems. These buildings can sap business profits, endanger the health of students or employees, and divert scarce funds from non-profit missions. It is developing a program that provides affordable loans for energy efficient renovations, including heating/air system upgrades, improvements in lighting efficiency, solar thermal hot water systems, and modest improvements to modular classrooms.

- Natural Resource Preservation

To preserve a scenic woodland in Western North Carolina, Self-Help provided a \$3 million bridge loan, working within an initiative that included the Open Space Institute, the Carolina Mountain Land Conservancy, the Nature Conservancy, and private donors. The tract has been used to create a state park, ensuring that this land will be permanently accessible to the general public rather than developed for private use.

- Commercial Real Estate Development

It renovates buildings in distressed downtown areas, an initiative that improves blighted structures, reduces demolition waste, decreases the use of new building materials by reusing old

buildings, and supports pedestrian- and transit-friendly development. It has completed 15 projects totalling almost 500,000 square feet throughout North Carolina. Self-Help has a renovation program underway to improve the energy efficiency of the 17 buildings under its management and is seeking LEED (Leadership in Energy and Environmental Design) certification for a historic mill building project in rural North Carolina.

Partnerships

Self-Help advances its mission through strategic partnerships with a variety of organizations such as the Triple Bottom Line Collaborative (a group of eleven community development lenders that invest in projects with environmental, social equity and economic development impacts to share knowledge and resources with the goal of increasing environmental benefits for disadvantaged communities across the country) and through membership in networks such as The National Association of Development Companies, the Association for Enterprise Opportunity, the National Children's Facilities Network. Self-Help also hosted the first national Community Development Finance Institute to promote growth of community development financial institutions to catalyze the growth of this sector in the US.

CASE STUDY 3

Mecu

www.mecu.com.au

Head office: Kew, Victoria, Australia

Service area: National

Founding year: 1957 (Mecu was formed in 2003 by way of a merger.)

Start of CSR program: 2004

Assets: 2.4 B AUD (June 30 2010) (2.4 B CAD)

Mission (Ambition)

“mecu aims to become the pre-eminent socially responsible banking brand in Australia.”

History of CSR commitment (adapted from: “A Roadmap for the Development of a Sustainability Strategy”)

In the late 1990s and early 2000s, mecu grew exponentially as a result of a number of mergers. Due to this rapid growth, the credit union found itself unable to articulate its competitive advantage or core purpose. The credit union began to question what differentiated it from its traditional banking competitors. [It is notable that during this time Australian banks were facing anti-bank sentiment and consumer distrust; there were significant bank branch closures at the time and customers felt that banks provided poor problem resolution, and were being overcharged for once-free services. This was a ripe environment for credit union differentiation.]

In 2002 mecu set out to determine how the credit union created value for its members. An international study tour was conducted of leading sustainable finance institutions, including Vancity Credit Union, the Co-operative Bank in the UK, and Triodos in the Netherlands, in order to identify the member value proposition. The major conclusion of the best practice benchmarking was that it was possible and desirable to achieve scale while fulfilling the core principles that accompanied the creation of the co-operative and credit union movement: advancement of social capital and social activism to help advance progress in society.

Mecu then analyzed the key contemporary social and environmental issues that were relevant to its banking business—water conservation, climate change, high levels of personal indebtedness, affordable housing, and population growth and its impacts on biodiversity loss—and found these to be important leverage points for demonstrating the value and importance of the credit union business model. The credit union also studied the Body Shop, well known for its sustainability-focused products, and committed to embedding its values into its products, thereby helping its members align their values with their actions and investments.

The credit union joined the [United Nations Environment Program Finance Initiative](#) (UNEP FI) in 2003 and committed to follow its principles for sustainable finance. In 2005 it signed a covenant with the regional government, the State of Victoria, committing to improving their environmental practices.

Finally, mecu's interest in sustainability reporting connected it to the [Global Reporting Initiative](#) (GRI), an international standard for social and environmental reporting. These three frameworks—the GRI, the Sustainability Covenant, and UNEP FI principles—shaped mecu's approach to building its sustainability strategy and business model. Together, these commitments focused the credit union on taking a leadership position, identifying and managing its sustainability risks and

opportunities, product development and innovation for sustainability, and reducing its environmental footprint.

In 2004, mecu began the practice of integrating its sustainability objectives into its corporate strategy.

In 2010, mecu became a signatory to the [United Nations Global Compact](#) (UNGC) and [United Nations Principles for Responsible Investment](#) (UN PRI).

It is in the process of developing an Environmental Management System in line with the international ISO 14001 standard.

Structure and services

Mecu is structured as a credit union, with integrated banking, insurance and financial planning offerings.

It has a Community Banking unit which develops banking relationships with the not-for-profit and community-housing sectors and designs financing packages that specifically cater to their needs.

The ways mecu lends and invests members' money have been identified as key areas where the consequences of mecu failing to act ethically would have significant negative consequences for mecu and members. mecu thus developed an Ethical Lending and Investment Policy to minimise the risk of such occurrences. The Policy outlines mecu's key lending and investment issues relating to ethics and corporate responsibility, and details how mecu will ensure standards are maintained. This includes not lending money or investing funds in activities that would be economically, environmentally and socially irresponsible.

In 2010, mecu's board adopted a Financial Inclusion Policy to reduce financial exclusion and improve access to financial products and services across identified potentially disadvantaged groups.

Value proposition

- Socially Responsible Banking
- What makes us different to regular banks is our way of living and breathing our philosophy and in our ability to align our values with our stakeholders' expectations of sustainable economic wellbeing.
- We genuinely make sure we carve a sustainable approach to banking into everything that we do, from our organisational culture, to our operations and our innovative products and services.
- Our unique approach ensures that the economic, social and environmental performance expectations of our stakeholders are met, while at the same time recognising the opportunity we have to protect, sustain and enhance the financial, human and natural capital that's required to continue developing mecu into the future.

By 2008 87% of members agreed that mecu practiced socially responsible banking.

Recognition

Mecu received the Australian Ethical Investor Award for the most sustainable small company in 2010.

CSR products

As a financial services provider, mecu perceives that its major economic, environmental and social impacts are those resulting from the activities supported through its products and services. mecu seeks to invest its members' funds in products that make a contribution towards a responsible and sustainable society. mecu has developed a number of products with features to encourage members to be more environmentally responsible and to help alleviate social issues within the community.

mecu tracks and reports on the total value of its loans which have an environmental and social benefit as (i.e. lending to members and organisations where the outcome improves the environment and/or social capacity and circumstance). As of 2009/2010 2.38 % of its portfolio was in environmental loans (2,639 accounts); and 17.76% of its portfolio was in "social" loans (1,427 accounts).

mecu develops products that reflect mecu's socially responsible values, appeal to mecu's strategic markets and enhance economic, social and environmental wellbeing within mecu's communities of interest. This requirement is written into its formal product development process.

mecu regards climate change as a key social, environmental and economic issue. As a socially responsible provider of finance for houses and motor vehicles, both of which produce greenhouse gases, mecu is committed to making a positive contribution to finding long-term solutions to climate change. mecu has developed a number of loan products with features specifically designed to encourage borrowers to make more environmentally responsible choices:

- goGreen® Car Loan, providing pricing incentives for energy efficient cars as well as the offset of carbon emissions generated by all cars financed by mecu (889 loans in 2009/10)
- goGreen® Home Improvement Loan, providing pricing incentives for the installation of efficiency measures in the home (23 loans in 2009/10)
- goGreen® Home Loan, providing pricing incentives for the construction of highly energy efficient houses (15 loans in 2009/10)
- goGreen® Motor Insurance, in partnership with mecu's insurance underwriter (CGU), members can purchase goGreen® Motor Insurance. Premiums are calculated on the basis that the car insured will be driven by no more than two nominated drivers who are 25 years or over and will not be driven more than 10,000 km during the period for which it is insured.
- eco-pause, providing a home loan feature to encourage the installation of energy and water efficient appliances within the home (allows for a 3 month repayment delay or reduced repayments by half for six months to enable the purchase of home improvements to increase the energy and water efficiency of the home)
- biodiversity offsets for new home construction loans. The mecu Conservation Landbank helps mecu offset the loss of biodiversity resulting from new homes financed by mecu.
- environmentally responsible plastic debit and credit cards (uses PETG plastic rather than PVC, which enables the virtual elimination of chlorine and a range of other toxic chemicals from the card production process).

mecu also provides features with loan products that contribute to social welfare:

- Premium First Home Buyers Loan, providing a low ongoing interest rate and other socially responsible home loan features
- Project finance for community housing organisations
- Project finance for aged-care housing developments
- Family Loan Repayment Pause providing a loan pause when a new child enters a family
- 100% No More marketing Guarantee on all credit card products
- Exemptions from transaction fees and charges for community sector organisations and disadvantaged individuals.

Community program

Mecu revised its community granting program in 2009. The objective of mecu's Community Investment Program is to support activities which make a contribution to resolving economic, social and environmental problems thereby making a positive, measurable and sustainable difference to society. It has a formula to target 4 percent of its after tax annual profit projected for the year to its Community Investment Program.

Through this program it funds environmental efforts that improve the sustainable use of land, improve biodiversity, address climate change, advocate policy and behavioural changes which assist these aims and encourage households to live more sustainably. A second funding priority is housing (access to safe, secure and affordable housing), which focuses on encouraging the development of a strong community housing sector; encouraging the design, construction and renovation of environmentally efficient housing and enhancing the community's access to a greater range of safe, secure and more affordable housing options. It funds projects that enhance community resilience, its third priority funding area, particularly through education, non-profit board governance capacity building and financial literacy initiatives. The fourth theme in their granting program is international development, in which they work with the Credit Union Foundation of Australia and the World Council of Credit Unions in their efforts to assist communities in developing countries to achieve economic independence.

Funds can be provided through traditional grants or through non-interest earning loans for social enterprises. They specify a number of exclusions – projects ineligible for grants – including health care, arts initiatives and funding to sporting clubs/events.

Partnerships

The credit union has a goal to develop successful strategic partnerships focusing on sustainable outcomes. One of their partnerships is a micro-credit finance pilot with Charities Aid Foundation (CAF), an international charitable organisation founded in the UK. Investing in the Community Fund involves the two parties investigating the ability to offer low rate finance to not-for-profit organisations. When it proceeds, the credit union will provide the banking systems and other support, including loan assessment, distribution and collection of repayments, while [CAF](#) will provide the lending capital.

It is also partnering with a leading environmental education organization (Gould League) to enhance their Sustainable Schools Program to help schools reduce their environmental impact through the provision of low cost finance for energy and water-efficient retrofits.

Mecu formed a partnership with Landcare Australia and Trust for Nature to develop the concept of a Conservation Landbank. The Landbank helps mecu offset the loss of biodiversity resulting from new homes financed by mecu, offset the carbon emissions generated by cars financed by mecu and

assist mecu to achieve its commitment to become carbon neutral. Properties purchased by mecu and 'deposited' into the Landbank are protected against any future developments by Trust for Nature Conservation Covenants.

CASE STUDY 4

The Co-operative Bank

www.co-operativebank.co.uk

Head office: Manchester, UK

Service area: National

Founding year: 1872

Start of CSR program: 1992

Assets: 45.7 B GBP (June 30, 2010) (71.2 B CAD)

Mission

“Our purpose is to be a pioneering business delivering sustainable financial services for members and society.”

Our givens

- we champion co-operative values and principles and ethics;
- we are financially prudent and strong;
- we share profits with members; and
- we only do business consistent with our values and principles.

Our vision

To be the UK’s most admired financial services business.

History of CSR commitment

In the late 1980s, much of the UK banking industry suffered from a reputation crisis, and was, at the same time, experiencing profitability issues. The Co-operative Bank sought to address this by looking back to its co-operative heritage and reinvigorating its brand with a modern interpretation of co-operative values. A new Mission Statement was published in 1988 to reflect this move. Subsequently, research indicated that a small, but significant, proportion of customers stated that they joined the bank for ‘ethical reasons’. This finding proved to be a key driver for the development of an Ethical Policy to guide investments. The Ethical Policy was enthusiastically progressed by the then Managing Director, who, as well as regarding it as the right approach for a ‘co-operative’ bank, thought it provided the differentiator the business needed. In 1992, following a period of customer consultation, the first Ethical Policy was published. The Policy reflected customers’ views regarding how they wanted their money to be invested.

In its Ethical Policy, the bank promised to invest customers’ money in companies that avoid repeated damage to the environment and promised not to provide banking or loans to organisations that fail to implement basic labour rights or were involved in blood sports. The Policy also spelled out the bank’s commitment to using customers’ money to make a positive difference to society, whether through support for social enterprise, green technology or international development.

In 1996, the bank published an Ecological Mission Statement. This set out, in four rules, the Bank’s understanding of the minimum conditions for an ecologically sustainable society.

Structure and services

The Co-operative Financial Services (CFS) is part of The Co-operative Group, the UK’s largest consumer co-operative. CFS is the group of businesses that includes The Co-operative Insurance

Society (CIS) and The Co-operative Bank. Thus, the Co-operative Bank is wholly owned by [Co-operative Financial Services](#), whose sole shareholder is the (member-owned) [Co-operative Group](#).

The bank established the Co-operative Enterprise hub to invest £5 million to support UK co-operatives over three years. The Hub provides advice and training to help set up, run and grow sustainable co-operative businesses and can offer ethical, accessible loans through a fund supported by CFS.

It also set up a Social Banking Unit to consolidate banking services for charities, the social housing sector and renewable energy schemes, to provide over £2 billion of support to UK organizations.

A quarter of the bank's assets are deemed to "make a positive difference": of the loans and overdrafts offered by the bank, 24% support organizations with a distinctly ethical or social purpose such as public services, community and charitable sectors, co-operatives and environmental and social organizations.

The Bank has pledged to fund £400 million of positive green initiatives and £25 million for microfinance, in line with customers' expectations.

Value proposition

What distinguishes the Bank is its customer-driven ethical stance (80,000 took part in the most recent Ethical Policy consultation). Since 1992 it has turned away business in line with customers' ethical concerns, declining over £1 billion of finance. (This consisted of unsustainable ecological impact £465m; unacceptable impact on human rights or development £318m; poor animal welfare (e.g. cosmetic manufacturers using animal testing) £236m; other ethical concerns £109m; for a total of £1.128bn).

However, over the same period, the Bank's total commercial lending has grown from £571 million in 1992 to £4.4 billion in 2008 – an average of 14% per annum. The bank believes its Ethical Policy has contributed to this £3.8 billion net growth.

The bank asserts that sustainability is embedded in its DNA and is at the heart of everything it does, across its products, business operations, and employee and community activity.

Public opinion research reveals that the general public consistently identifies the bank as No. 1 for leadership in social responsibility compared to other financial services providers in its market.

Recognition

CFS outperformed 110 financial institutions from 44 countries to win the prestigious Financial Times Sustainable Bank of the Year Award in 2010. (Triodos won this award in 2009.)

CSR products

The Co-operative Bank offers a range of CSR products, such as:

- A number of credit cards in support of a variety of development charities, e.g. Action Aid, Children in Crisis, Christian Aid, Oxfam, Save the Children, Sightsavers International, as well as the human rights charities, Amnesty International UK and the Medical Foundation for the Victims of Torture. The bank makes a donation to each organisation when an account is opened, and further donations are made in proportion to the amount spent using the card.

- The “think credit card” supports ethical consumerism, whereby purchases from 17 specified ethical partners attract preferential rates of interest. The ethical partners have been identified as ‘ethical leaders’ in their sector. Upon activation of the card, the bank, in partnership with Europe’s largest wildlife conservation organization RSPB, arranges for a third of an acre of Indonesian rainforest to be purchased and protected in the customer’s name.
- Since 2007, CFS has committed £14.5m of shareholder capital to social private equity. Funds committed include:
 - £5m to support UK start-ups in deprived areas
 - £4.5m invested to support the solar, wind and waste sectors globally
 - £3m committed to support small businesses in former coalmining areas in the UK impacted by pit closures
 - £2m committed to a sustainable property fund
- Carbon offsetting is a standard feature of all The Co-operative Bank’s mortgages and virtually all new car insurance policies
- Sustainable Diversified Trust and Sustainable World Trust funds prioritize investments that make a positive contribution to society or the environment, such as those in healthcare, urban regeneration or climate change.

Community program

The Co-operative Community Plan (its community involvement program) prioritizes three areas: inspiring young people, tackling global poverty and combating climate change. Through “inspiring young people”, The Co-operative group (including The Co-op Bank) is opening up ways for young people to change their world for the better through co-operative education, opportunities and campaigning. Its target is to benefit over 250,000 young people across the UK; it has a vision to help bring about a cultural shift in the way young people are viewed and treated in the country.

Under its “tackling global poverty” theme, the bank supports developing countries and champions human rights. It has pledged £25m (through the creation of a fund) to support microfinance – financing for the development of small businesses in some of the world’s poorest countries.

To address climate change it has pledged £200 m for renewable finance in 2010. The bank is also going “beyond carbon neutral” by offsetting 100% of its net carbon emissions, plus an additional 10% to compensate for past GHG emissions. The bank is one of the world’s largest purchasers of renewable energy at 98% of electricity from renewable sources. The bank also owns UK’s largest solar power installation, a 25-storey landmark solar tower, which is its head office. The Co-op Bank is the only financial services organization to be accredited to the ISO 14001 environmental management standard across all its operations, products and services.

The bank invests about 4% of pre-tax profits on community initiatives (as part of The Co-operative Group).

As a financial services provider, the bank is committed to making finance more accessible to those who find it difficult to use traditional services, and supporting vulnerable groups. It supports small businesses in deprived areas – the proportionate value of the loans and overdrafts it supplies to businesses in deprived areas is double the industry average. Over 3,600 basic bank accounts for prisoners have been opened which can help facilitate employment and housing for offenders on leaving prison. This award-winning project has been shown to help reduce re-offending by around a third.

Customer campaigns are another distinctive feature of The Co-op Bank's sustainability program, first launched in 1994. Campaigns include a 2002 campaign with Landmine Action for international negotiations on cluster bombs, funding for research into the humanitarian effects of unexploded cluster munitions and fund-raising to help support clearance of explosive weapons in former war zones. The 2003 campaign with WWF-UK called for chemicals that are persistent in the environment and linked to long-term health concerns to be phased out and replaced with safer alternatives. In 2003 the bank worked with Amnesty International to call for a system to outlaw the illicit diamond trade which often funds civil wars and human rights abuses in conflict zones. 7,000 customers signed up to the Diamond Pledge in support of the campaign. Under the theme of Trade Justice, in 2005 the year of the "Make Poverty History" campaign, the bank called for trade justice for the world's poorest countries, and ran a national advertising campaign to raise awareness of this issue. Customers took part in the biggest ever lobby of the UK Parliament, where more than 8,000 people met with over 375 MPs. The bank also supported "The Wave" campaign, a family-friendly march in London which called for a safe and fair deal for developing countries ahead of UN climate change talks in 2009. Over 2,500 Co-operative members and their families were mobilised to attend the biggest climate change march ever seen in the UK.

Partnerships

The Co-operative Bank works through a number of strategic partnerships, such as that with Places for People which provides a shared equity scheme, assists key workers, social tenants and first-time buyers with household incomes of less than £60,000 per annum to purchase their own home, and provides funding for up to 100% of the value of a property. As at November 2009, the bank had processed 4,782 Ownhome applications, and completed 1,999 mortgages.

Another partner is Greater London Enterprise which launched the Wholesale Loan Fund, to which the bank provided a loan facility of £3m. The fund provides capital to locally-based Community Development Financial Institutions (CDFIs), which, in turn, lend to less advantaged entrepreneurs. As at November 2009, the fund had enabled 184 businesses to start up, maintain jobs, or grow. Approximately a third of all loans from the fund are made to businesses led by women, and half of all loans are made to business owners of an ethnic minority background.

