



# COOPERATIVE SOCIAL FINANCE: BANK AS A SOCIAL ENTERPRISE?

Goran Jeras EUCLID Summit, Zagreb, 26th February 2016

#### CONTENT



- 1. Banks as a root of the economic development
- 2. Bank as a not-for-profit entity
- 3. Designing "profitable" not-for-profit bank
- 4. Crowdfunding bank from the scratch
- 5. Designing ecosystem of bank customers
- 6. Conclusions



### 1. BANK AS A ROOT OF THE ECONOMIC DEVELOPMENT



## BANKS ARE INSTITUTIONS OF PUBLIC INTEREST

- concentration of peoples' savings in the banks,
- with their investment policies banks determine direction in which economy develops
- control of money supply,
- non-discriminatory approach to financial services
- limitation of the concentration of power
- funding the government
- support to development of areas of special interest (agriculture, energy, housing,...)

### BANKS DETERMINE HOW ECONOMY DEVELOPS







### 2. BANK AS A NOT-FOR-PROFIT ENTITY

#### PURPOSE OF THE BANK



Reinvested profit

Efficient process (no leaks)

Added value

- Distribute funds from those with excess to those with lack of funds but good project ideas
- Bank is not creating new added value! But her clients DO create new added value
- Conclusion profit extraction taxes bank efficiency therefore decreasing competitiveness of bank customers and increasing systemic risk



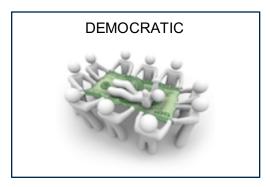
### DEVELOPMENT ORIENTED BANK MUST BE...

- not-for-profit reinvesting all of its surplus into improvement of the process, expansion of the services and reduction of prices
- able to approach, asses and manage projects and customers individually
- able to offer development-grade loans (max 4% interest rates)
- oriented towards proactive risk assessment and mitigation throughout continuous monitoring
- able to provide non-financial support to its beneficiaris

### **E**bank

# CHARACTERISTICS OF ETHICAL BANKS















## 3. DESIGNING PROFITABLE NOT-FOR-PROFIT BANK

#### MAIN CRITERIA

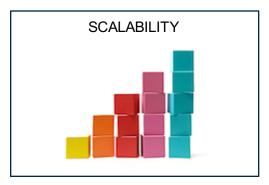


- bank needs to fulfill all legal requirements ->
  high operational costs
- automatization wherever possible (reporting)
- need to reduce non-performing-loans → better knowledge of customer businesses
- use of know-how of cooperative members for peer evaluation of projects
- no cash
- use of branches in the offices of cooperative members

#### <del>C</del>bank

### ADVANTAGES OF OPEN-SOURCE ETHICAL MODEL







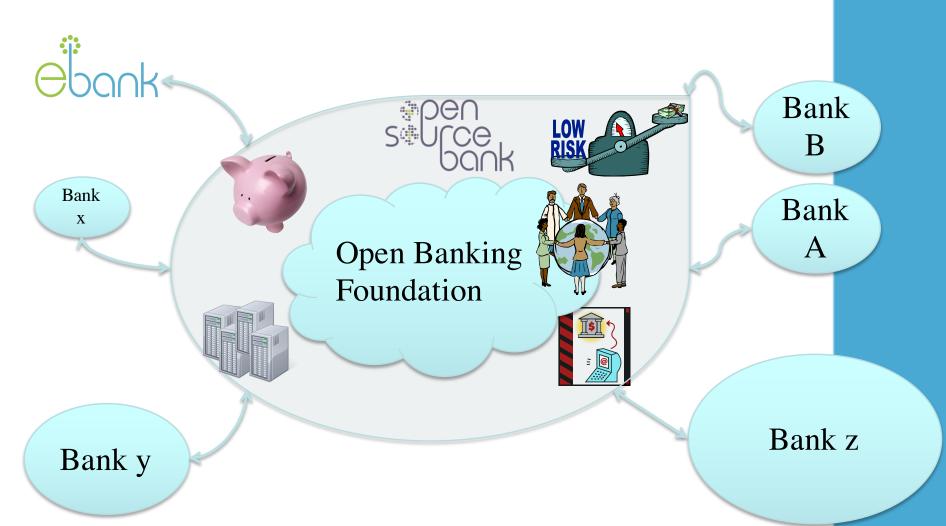








#### **OPEN SOURCE BANKING**





# 4. CROWDFUNDING BANK FROM THE SCRATCH

#### REGULATIONS



- 5M EU of capital required
- legal obstacles no cooperative banks allowed by law – all need to be
- management board only people with experience in banking (5 yrs and 7 yrs for president) eligible
- supervisory board
- use of open-source software?
- unknown concept of ethical banking
- issue of trust

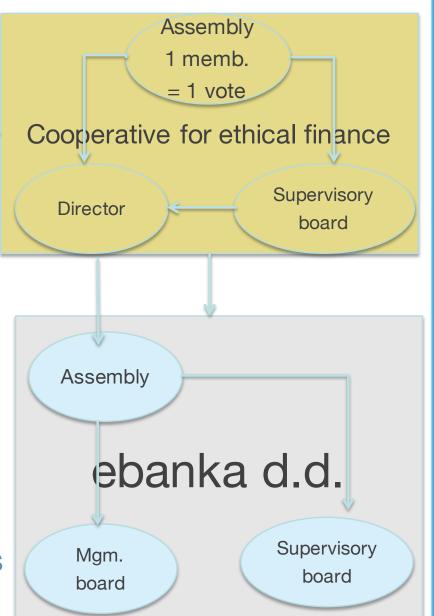
#### LEGAL STRUCTURE

**E**bank

LIBORA
(NGO) →
Open Banking
Foundation

Core-team: 15 people mathematics, physics, computing, law, economy, social sciences and some bankers

>400 cooperative members: individuals, SME's, Co-ops, municipalities, NGOs, unions



#### **IN THE NEXT 2 YEARS**





500.000 km



37 trips



1500 meetings



112 public presentations



43 newspapers and media apperances



400 cooperative members



### 5. DESIGNING ECOSYSTEM OF BANK CUSTOMERS

#### **SUSTAINABLE ECONOMY**

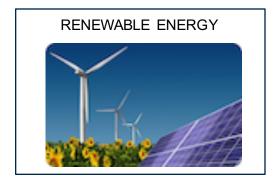
















## ADDED VALUE: FOR CITIZENS

#### **EXAMPLE**

Advantages for people

Benefits for the FI

#### CROWDFUNDING PLATFORM



- Flexibility to propose projects for funding
- Opportunities to invest in projects they believe in
- Helps development of communities
- Funding with bank guarantee

- Better insight in community needs
- Access to the interesting projects and business opportunities
- Reduces risks of investments
- Increases volume of transactions
- Good for development of economy

#### P2P LENDING



- Quick and efficient access to the capital
- Utilizes existing social relations more comfort
- Favorable lending terms

- Adds value to banking services
- Facilitates interaction among cooperative members
- Reduces risk
- Gives insight in social capital of the bank community



# ADDED VALUE: FOR COMMUNITY

#### **EXAMPLE**

Advantages for customers

Benefits for the bank



- More tools to support local economy
- Increase in number of local interactions
- Higher frequency of money turnover
- Increase in social capital
- Preservation of capital in the community

- Additional service to the customers
- Mapping of local interactions
- Better knowledge of local communities
- Reduced risk due to "hedging"



- Transaction doesn't depend on money supply
- Preservation of value
- Simplicity directly satisfies needs
- Reduction of waste

- Mapping of local production and resources
- Strong relation with needs of community
- Support for reuse models
- Reduction of monetary risks



### ADDED VALUE: SUSTAINABLE BANKING

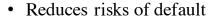
#### **EXAMPLE**

Advantages for customers

Benefits for the bank



- Cheaper higher quality homes
- Savings on energy
- Production of organic food
- · Waste disposal and recycling
- Additional source of income
- Higher quality of life



- House is returning the loan, not the customer
- Additional value in the management of surplases
- Higher value of property





- Sustainable form of investment
- Long term financial benefits
- Integral part of circular economy
- Benefit for the environment

- Mapping of local production and resources
- Strong relation with needs of community
- Support for reuse models
- Reduction of monetary risks

#### **EXAMPLE: POSITIVE HOMES**



Financial cooperative





Cooperative distribution (electric, food, ...)

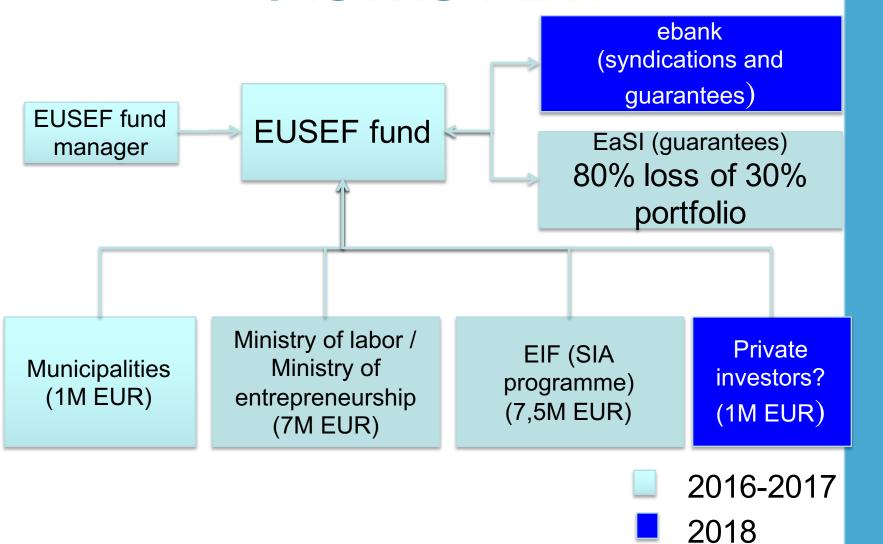
Heat +++ | Electricity +++

Waste +++



## EXAMPLE OF FINANCIAL INSTRUMENT





#### CONCLUSIONS



- Importance of clear vision and understanding of the role of banks and money in the society
- Network of organizations providing know-how and credibility
- Presentations visits to every village in Croatia
- Systematic apporoach
- Importance of semantics and perception
- TRUST is the key!
- Creation of trust requires time
- Bank is just a tool important thing is cooperative

#### Q&A?



#### Thank you for your attention!

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