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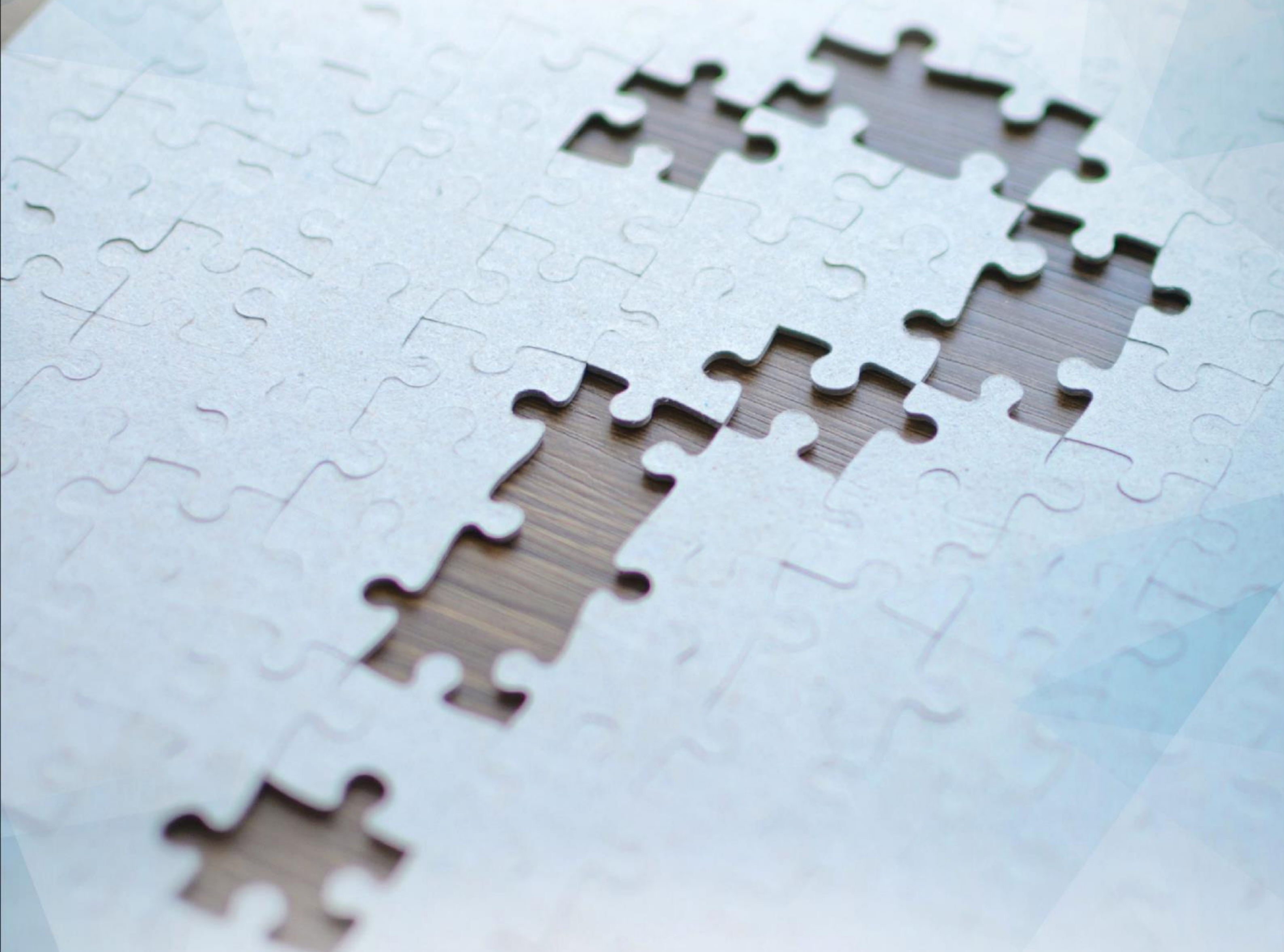
ESG and Credit Unions



Lucy Harr

June 2023

ESG and Credit Unions

By Lucy Harr

Published by the
Swoboda Research Centre
Dublin, Ireland

In collaboration with Liverpool John Moores University
June 2023

Publication #SWOBODA40, ISBN 978-1-913885-37-3

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The Centre is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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Contact the Swoboda Research Centre: paul.a.jones@swobodacentre.org

About the Author: Lucy Harr is a writer, consultant and credit union champion. She held a number of senior executive positions at Credit Union National Association, the primary national trade body for US credit unions. More recently, as an independent communicator, Lucy has authored and co-authored numerous books and articles on such credit union topics as lending, governance, public relations, community credit unions, and marketing to select employee groups. She currently serves on the Board of Directors and the Audit Committee of Orono, Maine-based University Credit Union, and previously served on board of directors for the Madison, Wisconsin-based Heartland Credit Union.

Contact: Lucy.Harr@gmail.com

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1. Introduction

If you were to ask a gathering of credit union people anywhere in the world to describe the tenets of credit union philosophy, you'd likely hear descriptions such as 'people helping people' or 'not for profit, not for charity, but for service' or 'where people mean more than profit' or 'the power of co-operation'. There's likely to be a shared vision of the purpose and mission of what it means to be a credit union. Google "credit union philosophy" and you'll get 113,000 results.

Googling 'ESG', on the other hand, nets you 397 million results and far less consensus. ESG – stands for:

> **E**nvironmental – how an organisation helps conserve the natural world,
>
> **S**ocial – its relationships with its people and communities, and
>
> **G**overnance – how it governs in a responsible way.

This paper examines how, although the ESG framework has provoked vigorous debate in business and political circles, it can serve to differentiate credit unions from other financial providers. ESG principles closely align with credit union philosophy and co-operative principles and may serve as a competitive advantage. This paper will describe how and why credit unions may wish to embrace ESG constructs to better serve their members and their communities. But first, some background.

1.1. What is ESG?

The initial mention of ESG was in a 2004 report invited by then United Nations Secretary Kofi Annan. The report, *Who Cares Wins*, was a joint initiative of 18 financial institutions from nine countries (UNEP, 2004). Notes the report:

> *"Endorsing institutions are convinced that a better consideration of* ***environmental, social and governance*** *factors will ultimately contribute to stronger and more resilient investment markets, as well as contribute to the sustainable development of societies." (UNEP, 2004)*

In 2015, the UN General Assembly adopted 17 sustainable development goals (SDGs), a collection of interlinked goals designed to be "a shared blueprint for peace and prosperity for people and the planet, now and into the future." (UN)

The SDGs are the pathway to put ESG principles into action. The 17 goals serve as a policy guide to tackle the world's environmental, economic and social challenges.

Although the concepts of ESG were introduced in 2004, it took until 2019 for the Business Roundtable (BRT), an association of chief executive officers of leading US companies, to redefine the purpose of a corporation to benefit **all** stakeholders – customers, employees, suppliers, communities and shareholders. Previously, its Principles of Corporate Governance had endorsed principles of shareholder primacy (BRT, 2019). But just three years later, notes *Fortune* magazine's Alan Murray in the CEO Daily newsletter,

"...for reasons not entirely clear to me, the BRT seems to have lost its environmental enthusiasm." In an anniversary post *"which was intended to reinforce the statement of three years ago (its Principles of Corporate Governance), the organization omitted any mention of the environment." (Murray, 2022)*

Yet at the same time, speaking to the 2022 COP 27, United Nations Secretary General António Guterres warned: "We are on a highway to climate hell with our foot still on the accelerator."[1]

ESG is gaining more attention as UK and Irish law require medium and large companies to provide a strategic report that includes it[2], and the US Securities and Exchange Commission is proposing disclosure rules for publicly traded US companies.

1.2. The ESG debate

ESG is a complicated and complex subject. For example, the data and analytics firm LexisNexis offers a compliance checklist that identifies a range of topics under the ESG umbrella. Its LexisNexis Regulatory Compliance Checklist (Baird, 2022) includes:

- greenhouse gas emissions
- climate change
- biodiversity
- waste
- human rights
- labour conditions
- privacy
- community engagement
- organisational governance and ownership
- board composition
- regulatory compliance
- business ethics and
- responsible investment.

This far-reaching set of criteria includes several issues where credit unions might see themselves as leaders or differentiated. For example, as financial co-operatives, the governance of credit unions is directed by member-owners. Many credit unions invest significant resources in community engagement and development activities – providing funds, volunteers, and/or in-kind donations to support education, food or housing security and more. But ESG is also an increasingly contentious subject. According to *The Economist*:

[1] Secretary-General's remarks to High-Level opening of COP27, 7 November 2022, https://www.un.org/sg/en/content/sg/speeches/2022-11-07/secretary-generals-remarks-high-level-opening-of-cop27

[2] Credit unions are considered small companies in this context, so are excluded – for now

"ESG – You might hope that big things would come from this. You would be wrong. Sadly those three letters have morphed into shorthand for hype and controversy ... Although ESG is often well-meaning, it is deeply flawed. It risks setting conflicting goals for firms, fleecing savers and distracting from the vital task of tackling climate change. It is an unholy mess that needs to be ruthlessly streamlined." (The Economist, 2022a)

The Economist notes that the wide array of objectives provides no coherent guide for making inevitable trade-offs.

"Closing down a coal mining firm is good for the climate but awful for its suppliers and workers. Is it really possible to build vast numbers of wind farms quickly without damaging local ecology? By suggesting that these conflicts do not exist or can be easily resolved, ESG fosters delusion." (Economist, ibid.)

Another issue swirling around ESG is 'greenwashing'. In July 2022 a lawsuit against Swedish fast-fashion company H&M accused it of engaging in false advertising about the sustainability of its clothing. The lawsuit alleges that clothing marked as 'conscious' wasn't, and several pieces of the brand's Conscious Collection products were advertised as using less water to manufacture, when they actually use more. The company claims the discrepancy was the result of technical issues. In the U.K., ASOS and Boohoo are being investigated by the Competition and Markets Authority for greenwashing because of their vague claims. (Wicker, 2022)

Reuters reports that regulators are investigating ESG claims and beginning to hold companies to account over greenwashing.[9] (Reuters, 2022) German and US officials are investigating claims that DWS exaggerated the green credentials of its funds. Notes a CNBC report:

"Today, companies who label their products or services as being ESG, sustainable or similar are finding their business practices and claims examined in great detail by lawyers, the public, environmental organisations and regulators...for example, an ad from consumer goods giant Unilever for its Persil brand of laundry products was banned by the U.K.'s Advertising Standards Authority." (CNBC, 2022)

According to *The Economist*, ESG also has a measurement problem.

"The ESG dream was that capital markets would penalise those firms that ignored the looming costs of climate change on their businesses. But in practice the costs are too uncertain and distant to play a big part in firms' or investors' financial calculus. Most companies can win the gains of appearing green while avoiding the cost of decarbonising by paying lip-service to green goals. According to Climate Action 100+, a group of investors, more than two-thirds of the world's 166 biggest greenhouse-gas emitters have promised to reach net zero by 2050 or sooner. But less than a fifth have medium-term targets; a similarly low share have set out quantified decarbonisation strategies." (The Economist, 2022b)

On the other hand, argue McKinsey & Company authors Lucy Perez et al, although valid questions have been raised about ESG, the need for companies to understand

and address their externalities is likely to become essential to maintaining their social license. They write,

> *"While the acronym ESG as a construct may have lost some of its luster, its underlying proposition remains essential at the level of principle. Names will come and go (ESG itself arose after CSR (corporate social responsibility), corporate engagement, and similar terms), and these undertakings are by nature difficult and can mature only after many iterations. But we believe that the importance of the underlying ideas has not peaked; indeed, the imperative for companies to earn their social license appears to be rising. Companies must approach externalities as a core strategic challenge, not only to help future-proof their organizations but to deliver meaningful impact over the long term."* (Perez et al, 2022)

And as a World Council of Credit Union's (WOCCU) report notes: "Issues surrounding climate change are imminent and far reaching. Whether this statement is debatable is irrelevant because global authorities have decided it to be true and are taking measures to address environmental issues related to climate change." (Monford, 2023)

Despite the confusion and controversies ESG can generate, it can serve as not only as a pathway to "peace and prosperity for people and the planet" (Monford, ibid.) but also as a competitive advantage. A 2022 McKinsey Climate Banking Survey found that for consumers in the US, there is a "meaningful and growing appetite for climate-related financial products." (Edwards et al, 2022) The authors note that consumers need further education and advice to make informed buying decisions, and providers need to differentiate themselves. "Generic environmental, social, and governance offers will not be enough to win in this changing landscape." (Edwards et al, 2022)

2. ESG and CU Philosophy

For credit unions, the seven Rochdale co-operative principles provide a philosophical blueprint to operating in a member-owned and controlled structure, serving members, and being socially responsible. According to the International Co-operative Alliance (ICA),

> *"Co-operatives are based on the values of **self-help**, **self-responsibility**, **democracy**, **equality**, **equity**, and **solidarity**. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others."*[3]

The seventh principle, 'concern for community', notes that co-operatives work for the sustainable development of their communities through policies approved by their members. (ICA, ibid.)

"The good news is that credit unions don't have to pivot to integrate ESG into their approach," according to Samira Salem, vice president of diversity, equity and inclusion for the US Credit Union National Association. "It is baked into our co-operative principles and is a natural fit." (Salem, 2022)

In its document, *Reporting on Sustainability by an Irish Credit Union*, the Irish League of Credit Unions (ILCU) describes how the Irish credit union operating principles are already closely aligned with the UN SDGs[4]. The **SDGs** (in bold) as aligned with the *Irish operating principles* (in italics) are as follows:

1. **No poverty**: *Limited dividends on equity capital; Return of surplus to member, Services to members*
2. **Zero hunger:** *Limited dividends on equity capital, Return of surplus to member, Services to members*
3. **Good health and well-being:** *Limited dividends on equity capital; Return of surplus to member, Services to members*
4. **Quality education:** *Ongoing education*
5. **Gender equity:** *Non-discrimination in race, religion and politics*
6. **Clean water and sanitation:** *Services to members*
7. **Affordable and clean energy:** *Services to members*
8. **Decent work and economic growth:** *Services to members*
9. **Industry innovation and infrastructure**
10. **Reduced inequalities:** *Open and voluntary membership*, *Non-discrimination in race, religion and politics, Return on savings and deposits*
11. **Sustainable cities and communities:** *Social responsibilities*
12. **Responsible consumption and production:** *Social responsibilities*
13. **Climate action:** *Social responsibilities*

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[3] International Co-operative Alliance, *Statement on the Co-operative Identity*, https://www.ica.coop/en/cooperatives/cooperative-identity/

[4] (2022), *Reporting on Sustainability by an Irish Credit Union*, representatives from ACCA, KPMG, TU Dublin, CUDA and the ILCU, with input from Ballinasloe, Naomh Breandán and Gort community Credit Unions, ILCU, October 2022

14. **Life below water:** *Social responsibilities*
15. **Life on land:** *Social responsibilities*
16. **Peace, justice and strong institutions:** *Open and voluntary membership, Democratic control, Return on savings and deposits, Co-operation amongst co-operatives*
17. **Partnerships for the goals:** *Co-operation amongst co-operatives*

In May 2023, the ILCU announced that credit unions have been appointed SDG Champions by the Department of the Environment, Climate and Communications for 2023 and 2024. According to ILCU, as an SDG Champion, credit unions will act as advocates and promoters of the SDGs and showcase how credit union operating principles align closely with the UN SDGs. Notes David Malone, ILCU CEO,

"This is a very significant appointment for credit unions and recognition of their importance to communities across Ireland. As the only financial institution in Ireland owned and governed by the members, credit unions are by their structure, designed to be sustainable. Our sectoral focus on sustainability is well established, with operating principles that map easily against the UN SDGs as well as our continued focus on social reporting. Building on this achievement, we will continue to support credit unions over the next twelve months and beyond, to foster knowledge sharing, and further embed sustainability within every aspect of their operations."[5]

[5] https://www.creditunion.ie/news/latest-news/credit-unions-announced-as-sustainable-development/, 3 May 2023

3. Why it matters

3.1. What are the benefits?

Despite many other pressing concerns, putting ESG and the SDGs on the agenda can benefit the credit union and its members.

For one, there's opportunity in green lending. Two-thirds of participants at the May 2022 Swoboda Research Centre Annual Conference assessed the green lending opportunity for credit unions as "big" and with 14% noting it as "massive." There with no votes for "close to zero" in the online poll. A second question asked participants to estimate when the green lending opportunity would likely take off, with the majority selecting "over 18 months" as the expected time frame. (Swoboda, 2022)

Speaking at the Conference, Billy Doyle, CEO of Ireland's Dundalk Credit Union, noted that a green agenda should be viewed as a natural fit for the credit union sector. He argued that "organisations with a clear sense of purpose are more successful, enduring and sustainable." He called on credit unions to focus on their purpose, providing credit unions the edge over competitors, helping them to differentiate through their co-operative values." (ibid.)

ESG also may be a way to attract employees, volunteers and younger members. Writing in CUInsight.com, Cameron Madill, CEO of PixelSpoke, an Oregon, USA-based credit union marketing firm, notes being known as an employer who prioritises diversity, equity and inclusion (DEI) and has a reputation for strong employee support can help attract and retain good employees and boost your reputation in the community. He writes

> *"A reputation for good governance and financial integrity will attract both a strong board and members looking for a financial partner they can trust. And building ESG into your metrics could uncover risks - whether financial, reputational or other - you wouldn't have thought of otherwise." (Madill, 2023).*

In addition, a study published in *The Lancet*[19] found of the 10,000 young people across 10 countries surveyed 59% were very or extremely worried about climate change and 84% were at least moderately worried. (Hickman et al, 2021)

More than half noted feeling the following emotions: sad, anxious, angry, powerless, helpless, and guilty, with more than 45% reporting that their feelings about climate change negatively affected their daily life and functioning. Many reported a high number of negative thoughts about climate change, for example, three of four respondents said that they think the future is frightening and 83% said that they think people have failed to take care of the planet. Respondents rated governmental responses to climate change negatively and reported greater feelings of betrayal than of reassurance. Climate anxiety and distress were correlated with perceived inadequate government response and associated feelings of betrayal. (ibid.)

A concerted effort to offer solutions might help attract a younger cohort of members, offering them not only practical environmentally friendly products and services, but also more hope for the future. As Prasad Surapaneni, senior vice president and Chief Information Officer at UNFCU, and the co-executive sponsor of the UNFCU Global Sustainability Program noted:

“Today, more than ever before, members are factoring ethical and social concerns into their decisions on where they want to do business. Young members in particular view sustainability as table stakes, not simply nice to have. They want to place their trust in financial providers that share their values, are accountable, communicate on progress, and are innovative with green products and services.”[6]

According to a study by First Insight and the Baker Retailing Center at the Wharton School of the University of Pennsylvania, a sizeable majority (75%) of Generation Z shoppers say sustainability is more important than brand name when making purchase decisions. In addition,

“Generation Z’s influence over their Generation X parents shows a significant increase over two years ago on preference to shop sustainable brands and willingness to pay more for sustainable products, and a majority of respondents across every generation expect retailers and brands to become more sustainable.” (First Insight, 2021)

3.2. Where are credit unions on this now?

In November 2021, the Central Bank of Ireland issued a letter to all regulated financial service providers with regard to its supervisory expectations of ESG issues. These supervisory expectations focussed on five key areas (CBI, 2021):

1. Governance: firms need to demonstrate clear ownership by the Board of climate risks affecting the firm.
2. Risk Management Framework: firms need to understand the impact of climate change on the risk profile of the firm and to enhance their existing risk management frameworks to ensure robust climate risk identification, measurement, monitoring and mitigation.
3. Scenario Analysis: scenario analysis and stress testing are critical to assess the impact of potential future climate outcomes, including impacts on capital adequacy.
4. Strategy and Business Model Risk: firms are expected to undertake business model analysis to determine the impacts of climate risks (and opportunities) on the firms’ overall risk profile, business strategy and sustainability, and to inform strategic planning.
5. Disclosures: the legal requirements on disclosure are clear that firms need to ensure they do not engage in ‘greenwashing’.

In 2022, the CBI engaged with credit unions regarding climate change, advising of a survey addressing the following (CBI, 2022):

- Level of awareness of the risks amongst credit unions;

[6] Reported by the author and published in Do What’s Right for People and Planet, *Credit Union National Association News*, news.cuna.org, 15 July 2020

- Exposure of credit unions to the risks; and
- Actions being taken by credit unions to manage/mitigate the risks.

The survey was distributed in December 2022.

According to CUNA's Salem,

> *"An ESG approach means credit unions explicitly consider both environmental risk mitigation and ways to maximize environment/climate-related opportunities in their strategies, planning and metrics."*

She points out that credit unions know environmental and climate risks well, often as the first responders when natural disasters occur.

> *"Nevertheless, we can do more, for example, proactively managing these risks and doing more to take advantages of opportunities to expand our green lending products." (Salem, 2022)*

James Berry, CEO of Bristol-based Great Western Credit Union in the UK, points out credit unions quite often do many things that are recognisable as part of ESG, but they don't know that's the framework to conceptualise it.[7]

Dr. Olive McCarthy of University College Cork, Ireland, notes that credit unions have the potential to play a leadership role in the ESG space as an agent for change and development in their local communities. "Because of their principles, they could be important players," she says.[8i] According to CUNA's Salem, "ESG factors can be a competitive differentiator and a means to advance the communities we (credit unions) serve." (Salem, 2022)

Adds Dundalk Credit Union's Doyle,

> *"I am really excited about the potential for credit unions to reconnect with our co-operative heritage and self-help values and lead the ESG agenda/transition in our communities and regions. There is an inherent business sustainability benefit and motivation for all organisations to embrace the sustainability/ESG agenda."*[9]

As Paul Polman, former CEO of Unilever, noted 'Businesses cannot succeed in societies that fail'." Although it's not a view widely shared, Doyle notes, it's getting greater traction.

> *"However, credit unions, too, have to be careful about greenwashing and using hollow feel-good slogans. Credit unions can make a real difference in this space, but it has to be strategic, authentic and purpose-led – not a marketing bolt-on to the current 'banking light' business model." (ibid.)*

PixelSpoke's Madill points out,

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[7] Interview with the author, 11 January 2023

[8] Interview with the author, 9 January 2023

[9] Email correspondence with the author, 14 December 2022 and 9 February 2023

“Your credit union can’t begin to tell your ESG story until you’ve defined who you are and why you exist - and come up with a cohesive, comprehensive marketing plan to share it with the marketplace. Make sure the ESG story you’re telling is the ESG story you’re living. Tying your messages around ESG to your core ‘why’ will reduce the risk of appearing ‘trendy’ or performative.” (Madill, 2023)

He goes on to note that ESG needs to be fully integrated into every aspect of credit union operations on an ongoing basis.

The WOCCU report on sustainable finance points out all aspects of a credit union’s operations, including investments, governance, products and services, supervision, disclosures, accounting and more are being transformed by developments in sustainable finance and climate change regulations (Monford, 2022).

“The challenge for the industry is ensuring that regulatory frameworks contemplate the unique credit union co-operative model that plays a unique role in benefiting the environment, both from a financial standpoint and a social standpoint. The opportunities are endless for credit unions to be the catalyst for responsible change while addressing sustainable finance and climate issues.” (Monford, 2023)

The report notes that:

“Credit unions should stay informed of the new and emerging regulations and get ahead of them to avoid hasty decision-making and increased operational costs.“ (Monford, 2023)

The Corporate Sustainable Report Directive (CSRD) was first proposed by the European Commission (EC) in April 2021, and according to David Malone, CEO, ILCU,

“It does not appear likely that credit unions will come within scope of this Directive in the short term, however, some guidance in relation to regulatory expectations has been provided to credit unions in Ireland by both the Central Bank of Ireland and the Prudential Regulatory Authority”.

Malone also notes that:

“We are reflecting on the CSRD and its implications, and it is our intention to develop further guidance to assist credit unions to align their sustainability information disclosures, in the context of a not-for-profit organisation, as far as possible with those required by the CSRD in large commercial companies.”[10]

McCarthy believes that it may only be a matter of time before ESG regulations for credit unions are promulgated: “Do credit unions want to drive that train, or sit in the carriage?”[11]

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[10] Email correspondence with the author, 8 February 2023

[11] Ibid. interview with the author

4. Measuring Success

Most credit unions are adept at measuring how they are doing financially: capital ratios, return on assets, delinquency rates, efficiency and so on. But few have become proficient in calculating their impact in the context of ESG. "Formal social impact measurement and reporting by credit unions is not that common," notes Dr. McCarthy.

"Social impact measurement for credit unions involve clarifying their social objectives and identifying the measures that best reflect the outputs and outcomes of credit union activities in pursuit of these objectives." (McCarthy, 2020)

On its website, Great Western Credit Union reports that over the last 20 years the credit union has:

- Helped more than 33,000 people in the community start saving
- Approved 42,820 loan applications and lent £30m in affordable loans often, according to Berry, to those who would otherwise have struggled to be able to borrow at fair and reasonable rates of interest, if they could borrow at all
- Saved members at least £17.4m in loan interest charge

Great Western has significant 'social investment' from third party institutions, e.g. local government, that are supportive of the credit union's objectives. Great Western reports on its social impacts to these funders (Berry, ibid.).

In 2020, Donore Credit Union became the first in Ireland to publish a detailed social impact study. In his address to the 2022 WOCCU Conference, Donore's CEO David McAuley said:

"Why did we do that? We fundamentally know we make an impact, but we had difficulty in determining how much that impact was actually worth. So, we used a methodology to determine how much our credit union is worth to our community and our members. And our members deserve that information. They need to know how worthwhile the credit union is and why it is needed."[12]

The report found that for every €1 equivalent invested in the credit union, €10 of social value was created, a total social dividend of €25 million in the 2018-19 financial year (Donore Credit Union, 2020)

The credit union's report gained assurance from Social Value International (SVI, socialvalueint.org), a global network focused on social impact and social value. According to SVI, "social value is about respecting people, listening to them, and using the insights to optimize value for both people and the planet." It purports a broader definition of value than just financial impacts by considering the effects of decisions on people and the planet and whether activities can create the changes needed for a more sustainable planet and just society. SVI offers 'Principles of Social Value' as the basic building blocks of decision making that take into account a wider definition of value, in order to increase equality, improve wellbeing and increase environmental sustainability.

[12] Reported in CUToday.info, 20 July 2022

The principles are:

1. Involve Stakeholders
2. Understand What Changes
3. Value the Things That Matter
4. Only Include What Is Material
5. Do Not Overclaim
6. Be Transparent
7. Verify the Result
8. Be Responsive

A resource available at https://www.socialvalueint.org/self-assessment-tool addresses the Principles of Social Value. Answering 19 questions provides a score SVI asserts reflects how well the principles are being applied.

According to SVI, completing the framework can produce an account of all material social outcomes caused by business activities. This account can be mapped against the most appropriate SDGs and can show how a business is creating impact/value and how it is contributing to the global goals. (SVI and EY, 2019) Notes Dundalk's Doyle:

> *"A small number of credit unions have embraced the community impact reporting methodology, incorporating aspects of the Social Return on Investment model."*[13]

Fittingly, the United Nations Federal Credit Union (UNFCU) is purposely pursuing an agenda to fight climate change, poverty and inequality. Its 2021 Impact Report notes that

> *"In alignment with our sponsor, the United Nations, practicing sustainability and embracing diversity are part of our core values. We take strategic action across our operations to continuously make progress toward the United Nations Sustainable Development Goals." (UNFCU, 2022)*

For example, the credit union reports being 100% climate neutral for six years running and advancing 14 SDGs in 2021 (UNFCU, 2022).

According to ILCU's Malone, to support the role of credit unions as SDG champions, an internal ESG roadmap for ILCU and an external ESG roadmap for credit unions are being developed. Malone reports

> *"This will include practical steps for credit unions for ESG including environmental/climate, our people, our members/communities and a governance framework."*[14]

ILCU is also looking to develop a 'Green CU' accreditation programme.

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[13] Ibid. email correspondence with the author

[14] Email correspondence with the author, 29 May 2023

5. It starts with G

According to financial services research and analytics firm S&P Global, "When analysing environmental, social, and governance factors, the 'G' element is often forgotten amid considerations over climate risk, societal implications and other 'E' and 'S' risks and opportunities. However, understanding governance risks and opportunities in decision-making is critical, as poor corporate governance practices have stood at the core of some of the biggest corporate scandals." (S&P Global, 2020)

A credit union's board of directors must ensure the credit union is fulfilling its mission of service to members. First and foremost, directors must satisfy their fiduciary responsibilities, ensuring the credit union is functioning in a safe and sound manner – that it is in compliance with laws and regulations and adequately managing risk. Directors are also responsible for setting the credit union's strategic direction, determining the 'why', providing counsel to management on the 'how', and evaluating the results.

S&P Global defines the 'G' in ESG as the governance factors of decision-making, from sovereigns' policymaking to the distribution of rights and responsibilities among different participants including the board of directors, managers, shareholders and stakeholders.

"A corporation's purpose, the role and makeup of boards of directors, shareholder rights and how corporate performance is measured are core elements of corporate governance structures." (Perez et al, 2022)

According to Oxford University visiting professor Robert G. Eccles et al (2020),

"The concept of 'corporate purpose' provides the impetus that boards need to increase their focus on ESG concerns and manage their firms for long-term success."

They write in the *Harvard Business Review* that a clear and compelling mission should be at the heart of every company's efforts to enhance its positive impacts on the environment and society.

Generating Good Governance

Matt Fullbrook defines corporate governance as the way decisions get made and good governance "as actively creating conditions that are likely to result in an effective decision." (Fullbrook, 2022)

To make that happen, he suggests the following be in place:

- Managing 'confirmation bias'
- Generating multiple options (no binary choices, if possible)
- Ensuring experts in the room ask questions rather than making statements or predictions
- Slowing down so immediate emotional reactions (including embarrassment) don't overly influence interaction.

Emphasising inclusion: every person needs slightly different conditions to feel confident and engaged.

See also: Jones et al, *Credit union strategic governance*, 2017

"Without such a purpose, a company cannot have a sustainable corporate strategy, and investors cannot earn sustainable returns. And the ultimate responsibility for defining that purpose must rest with the board, because it has a duty to take an intergenerational perspective that extends beyond the tenure of any management team." (Eccles et al, 2020)

ESG is becoming a way of doing business not just a passing fad, according to the consulting firm Korn Ferry

"In the future, it will be increasingly difficult for companies to hire great talent, attract investment, manage liquidity, optimize their supply chain, and bring in customers if they are not actively tackling their material ESG opportunities and risks. This need for ESG strategies and measurement is real, but appears to be still relatively immature in the boardroom and C-suite compared with the work being done by investors in their own firms. Done well, ESG requires both short- and long-term strategic thinking, short- and long-term accountabilities, and short- and long-term solutions that are intrinsically bound together."[15]

As noted in the publication *Directors and Boards*, Michael Sneed, a director of Wayfair and Robert Wood Johnson Foundation and vice chairman of Thomas Jefferson University's board of trustees, believes that governance might finally be ready for its boardroom close-up.

"Governance is now a much bigger part of the ESG equation. I think that has been good. Without strong governance, which I believe is the cornerstone of good organizations, one does not get the other parts of ESG. As such, the evolution of ESG is healthy for organizations." (Hayes, 2023)

Dundalk Credit Union's Doyle believes that for Irish credit unions, governance has a lot of traction around regulation and business direction. But in the context of ESG, "credit unions are very much in the foothills of this journey."[16]

As McKinsey & Co. authors Perez et al note: Because ESG efforts are a journey, bumps along the way are to be expected. No company is perfect. Key trends can be overlooked, errors can be made, rogue behaviours can manifest themselves, and actions can have unintended consequences. But since social license is corporate 'oxygen' - thus impossible to survive without it - companies cannot just wait and hope that things will all work out. Instead, they need to get ahead of future issues and events by building purpose into their business models and demonstrating that they benefit multiple stakeholders and the broader public. (Perez et al, 2022)

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[15] https://www.kornferry.com/insights/featured-topics/people-planet-profit/board-and-investors-talk-esg-views-on-governance

[16] Email correspondence with the author, December 14, 2022

6. Conclusions

As the English poet John Donne wrote:

"No man is an island, entire of itself, every man is a piece of the continent, a part of the main. If a clod be washed away by the sea, Europe is the less."

Those words from the 16th century ring ever truer, as economic and political forces cross international boundaries, affecting all entities, including credit unions. Their fate is inexplicably linked with the state of the world. And as noted in the guide to *Business Reporting on the SDGs* from GRI and the UN Global Compact

"Business cannot thrive in a world of poverty, inequality, unrest and environmental stress, and so it has a vital interest in ensuring that the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs or Global Goals) are delivered. By upholding recognized standards and principles on human rights, labour, the environment and anti-corruption, business makes an essential contribution to the SDGs." (GRI and UN Global Compact, 2018)

The Guide details a three step process for achieving the SDGs:

Step 1: Define priority SDG targets: • Understand the SDGs and their targets • Conduct principled prioritisation of SDG targets • Define SDG-related report content	Step 2: Measure and analyse • Set business objectives • Select appropriate disclosures • Collect and analyse data	Step 3: Report, integrate and implement change • Consider general features of good practice when reporting on the SDGs • Consider data users' information needs • Report and implement change

As noted, ESG can be a complex subject. The SDGs may seem overwhelming. Yet the Chinese proverb that asserts a journey of a thousand miles begins with a single step provides guidance. And the journey can begin close to home. Advises PixelSpoke's Madill:

"Involve your members and community: Audit your community's core needs, and use the information to set metric- and performance-goals that are embedded directly into your broader organizational strategy. A member survey is a great place to start. By actively involving credit union and community members in your goal-setting process, they will feel more invested in your ESG efforts and may be less likely to dismiss or belittle them. Continue to engage them by sharing member stories that capture your ESG goals and how you're working to attain them … Don't be afraid to acknowledge that ESG is hard work and that you're not always successful." (Madill, 2023)

7. International organisations that offer resources on ESG

The **Net Zero Banking Alliance** from the UNEP Finance Initiative represents 40% of global banking assets that are committed to aligning lending and investment portfolios with net-zero emissions by 2050. According to its website it,

"reinforces, accelerates and supports the implementation of decarbonisation strategies, providing an internationally coherent framework and guidelines in which to operate, supported by peer-learning from pioneering banks." *https://www.unepfi.org/banking/bankingprinciples/*

British Columbia-Canada-based Vancity Credit Union is a founding signatory of the Alliance, and B.C.-based Coast Capital is a member. www.unepfi.org/net-zero-banking/resources/ .

The UN Environment Programme Finance Initiative also works with the banking community through the **UN Principles for Responsible Banking** (https://www.unepfi.org/banking/bankingprinciples/) including Canadian credit unions Vancity, First West, and Innovation,

"to accelerate a positive global transition for people and the planet. Through the Principles, banks take action to align their core strategy, decision-making, lending and investment with the UN Sustainable Development Goals, and [other] international agreements."

The Principles for Responsible Banking Academy training provides tools to apply a responsible banking lens to professional practice (https://www.charteredbanker.com/prbacademy.html). Credit union personnel are eligible to enrol (advised to author by email 12 January 2023). Online courses are 10-15 hours and cover topics such as 'Getting Started in Responsible Banking'.

The Global Alliance for Banking on Values (GABV) is an international network of "front runner organisations and leaders in the banking industry that use finance to serve people and the planet." (www.gabv.org/about-us/). GABV's members, including several US and Canadian credit unions,

"have a shared commitment to find local solutions to global problems – and to promote a positive, viable alternative to the current financial system … recognising that we are economically interdependent and responsible to current and future generations."

Annually, UN Federal Credit Union and OAS Federal Credit Union host a hybrid United in Sustainability Conference. Sessions from previous conferences are available on YouTube: https://www.youtube.com/@unitedinsustainabilitynetw1801.

Contact, info@uisnetwork.org or https://www.linkedin.com/groups/8988497/.

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SWOBODA RESEARCH CENTRE

Swoboda Research Centre CLG

1 Kingsley Mews, Raglan Road, Dublin 4, Ireland

email: nick.money@swoboda.org

www.swobodacentre.org