

Case Study: Cooperative for Ethical Finance - Zadruga za Etično Financiranje (ZEF)

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Introduction and background

The Cooperative for Ethical Finance (Zadruga za Etično Financiranje, or “ZEF”) in Croatia is an exemplar of innovation in cooperative governance within the complex social, geopolitical, and economic context of the Western Balkans. ZEF was incorporated as a multistakeholder cooperative in 2014 with the purpose of creating an ethical bank as an engine for sustainable regional development in Croatia. The Cooperative’s vision was to unite key stakeholders (individuals and organizations) across geographical, political, economic, religious, and cultural lines by providing affordable financial services through a jointly owned and democratically controlled financial institution while investing collective wealth towards the generation and distribution of long-term benefits across Croatian society (Jeras, 2022¹). ZEF’s mission to transform the economic and social relationships of the financial ecosystem in Croatia by “redefining wealth [and] defining its purpose as [a] vehicle for community and economic development” (Miner & Novkovic, 2020) makes it a classic example of Type 2 cooperation.²

Despite facing numerous regulatory barriers to officially operating a bank, ZEF has built a strong foundation of support from a wide range of actors across Croatian society – membership has grown from an initial group of 101 founding members to over 2,800 today – and the Cooperative has focused on strengthening and mobilizing these relationships through participatory and networked approaches to cooperative governance. ZEF has evolved a unique multistakeholder governance system that they call *designed fractionalism* (Figure 1), which ZEF General Manager Goran Jeras defines as a system where representation is distributed across different “regions” and interest groups (known as “sections”) and where members can freely associate to form new “fractions” to represent certain interests. ZEF’s founders saw the multistakeholder cooperative structure as a “guarantee of the sustainability of the business model. So that through a cooperative model

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¹ All subsequent references from Goran Jeras are sourced from Jeras (2022).

² Miner and Novkovic (2020) define a Type 2 cooperative as one whose purpose goes beyond providing economic benefit to members (Type 1 cooperation) to “take the much broader view reflected in the ICA Statement [on Cooperative Identity (ICA 2015)] and implicat[es] economic, social, environmental or cultural motivations for cooperative formation”.

all different interests will be properly addressed and managed". This case study highlights the governance structures, processes, and dynamics that have evolved at ZEF over time to support its cooperative purpose and enterprise model, with particular attention given to innovative practices that cultivate active participation, equitable representation, shared accountability, and solidarity among a diverse membership.

Cooperative Enterprise Model and ethos

The founders of ZEF chose a cooperative structure because of its humanistic nature as an association of members rather than an association of capital, which reflected the social and redistributive goals of the enterprise. They have been deliberate in modeling the organization according to cooperative values and principles from the early beginnings. This was both an

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ideological and a strategic choice, closely reflecting all major components of the Cooperative Enterprise Model.³ Jeras cites his personal background as a corporate banking consultant as a key factor in his decision to pursue a democratic alternative to the existing financial system. He shares that "through a search for an alternative that could be better aligned to my personal values, but also to the role that I expect that the bank should have in the society, the whole model was developed". Certain key features of the ICA Statement on the Cooperative Identity⁴ directly connect into ZEF's purpose of economic inclusion, limited return on investment, redistribution of wealth across the broader community, and democratic control by user-members. Each of the seven cooperative principles is reflected in various aspects of the organizational model and ethos.

Although the Croatian cooperative law does not formally recognize multistakeholder cooperatives or discriminate between different types of members,⁵ diversity and inclusivity through voluntary and open membership was a key value for ZEF from the beginning. Jeras shares that "we have a co-op in which we have LGBTQ+ organizations sitting next to church-based organizations and people from all political parties represented in the spectrum, and the labor unions and employers' unions" also sitting side by side. These diverse interests are

³ Miner & Novkovic (2020).

⁴ International Cooperative Alliance (ICA) (2015).

⁵ Novkovic & Golja (2014).

given voice through the participatory democratic structures of ZEF's *designed fractionalism* governance system. ZEF strives to embody autonomy and independence by not relying on government subsidies and political support, and by barring political parties from becoming members of the Co-op (though their members can join as individuals).

ZEF leans heavily into education, training and information as part of its member engagement and long-term sustainability strategy. ZEF's educational efforts have included webinars, panels, conferences, and informational materials spanning

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a wide range of topics: the basics of the cooperative model, social entrepreneurship, the origins of money, its management and role in society, banking, crypto currencies, organic agriculture, and so forth. Jeras shares his feeling that "all these communications helped to create some kind of

... common set of values that people are not just adopting or taking [for] granted, but startling] thinking about what it really means to be [a] member of [the] Co-op". ZEF has also developed strategic education partnerships with some of its organizational members including a university in Split, Croatia, and has a formal education "section" represented on its General Assembly (GA). The cooperative principles of cooperation among cooperatives and concern for community are integral to ZEF's mission of sustainable regional development. The Cooperative sees its role as a leader and champion of the cooperative movement in Croatia, explains Jeras: "We very much wanted to develop the ecosystem of cooperatives that would be ... having different roles in this economic ecosystem ... [and to promote this mutual collaboration among co-ops because we really believed that [this] kind of ... system would create more benefits for the local community". ZEF has also been an active participant in and convener of international cooperation, including through regional and international cooperative networks such as the

MOBA Cooperative Housing Network and specifically within the ethical banking space, having organized an annual international conference of ethical banks. Through a strong integration of cooperative and civil society partnerships into its enterprise model, ZEF strengthens both its value to

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Member and stakeholder participation

ZEF's early success and growth since 2014 is largely attributed to its extensive engagement with its membership and the broader community, and their active participation in the Cooperative as a result. In the several years prior to ZEF's incorporation, the organization's founders spoke at length with individuals and organizations from across Croatian society, in both villages and cities, in the non-profit sector, in citizen organizations, in labour unions, and in public and private companies. This approach was aligned with their vision of creating a decentralized, member-driven organization that could serve as a trusted institution for serving community needs. Jeras shares his reflection that the cooperative model was a way of organizing all of these stakeholders and facilitating their active collaboration towards a common goal of sustainable regional development.

ZEF's founding membership consisted of a group of 101 individuals and organizations who would participate as user-members of the Cooperative, accessing various kinds of services, advice, and support, and eventually gaining access to financial services through an ethical bank. The Co-op's membership grew between 2014-2021 to around 2,800 members, roughly composed of 60 percent individual user-members from all over Croatia (including a small group of internationally-based members made up of foreign citizens and members of the Croatian diaspora), and 40 percent legal entities, one third of which are non-profit entities (religious organizations, citizen groups, etc.). With such a cross section of members, ZEF is presently one of the most geographically, politically, economically, religiously, and culturally diverse organizations in Croatia.

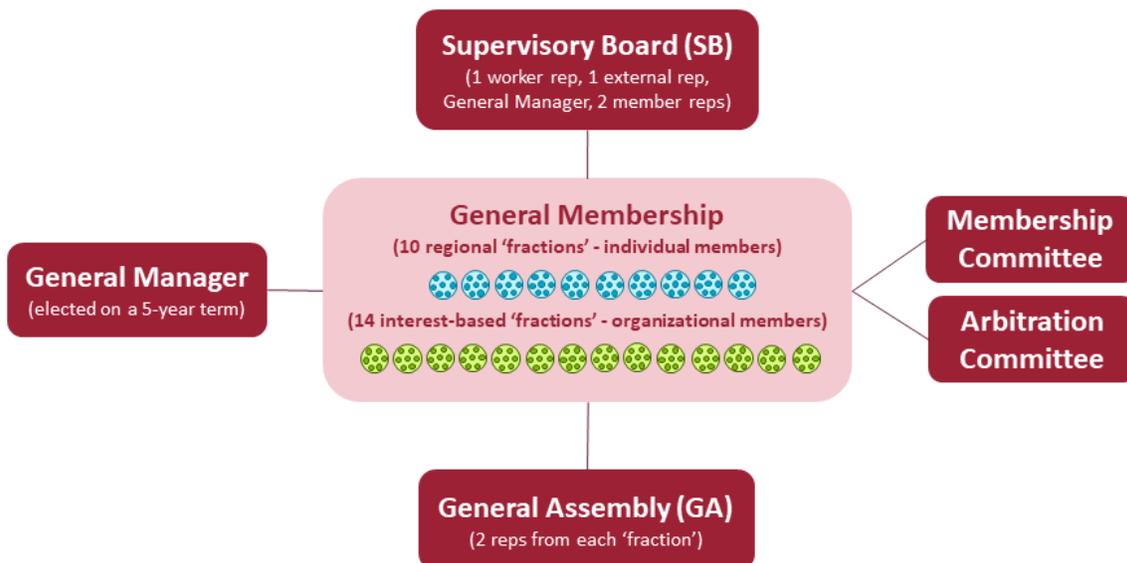
Jeras shares several key insights about the strengths and challenges of membership and participation at ZEF over the years. He notes that a significant portion of user-members became involved in ZEF for reasons that go beyond economic benefit, seeing ZEF's model as "a kind of tool or mechanism that could lead to more profound changes in society". This reflects a spirit of transformative cooperation. Involving a large and diverse multi-stakeholder membership has been key to achieving this transformative purpose of the ethical bank as an engine for sustainable regional development in Croatia. Jeras also reflects on some of the challenges of this approach: "If I would be . . . initiating it again I'm

not sure that I would have [made] the same choice. It somehow maybe is better to have . . . [a] smaller group with [a] higher degree of cohesion than [a] diverse group". ZEF's membership and participation structure are evolving over time to address some of these challenges and lean into opportunities to strengthen membership engagement as a strategic advantage for the Cooperative.

Governance system

ZEF *designed fractionalism* governance system emerged over time in response to the evolving challenges and opportunities of multistakeholder governance, as well as through continual effort to advance the Cooperative's purpose, values and principles. While *designed fractionalism* is a term that ZEF has come up with to describe their unique approach to cooperative governance, the model shares many key features with parallel frameworks of participatory governance and networked governance.⁶ The following sections explore the organizational structure, participatory processes, and dynamics of change at ZEF in detail, painting a picture of an innovative organization that is constantly reinventing itself in the face of new challenges and opportunities, and continually deepening its commitment to the cooperative identity.⁷

Figure 1. ZEF's *designed fractionalism* representational structure.



⁶ Pirson & Turnbull (2011).

⁷ International Cooperative Alliance (ICA) (2015).

Networked governance structure

ZEF's *designed fractionalism* model incorporates a network of representational mechanisms that distribute decision making across multiple control centers – this kind of polycentricity⁸ is a recognizable characteristic of networked governance structures. The Cooperative's governance system was designed with the primary goal of equitably representing the diverse interests and needs of its membership by enabling members to self-organize into geographic and interest-based "fractions" as needed, each of which can elect two representatives to the General Assembly (GA).

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ZEF's GA is presently composed of representatives of each of 10 geographic regions (composed of individual members) and 14 interest-based sections (composed of organizational members), though these numbers are frequently changing. For example, fractions have formed at ZEF to represent the interests of rural communities, women, LGBTQ+ communities, environmental protection groups, religious groups and others, as well as to advance certain cooperative policies, strategies, and tactics to their benefit. The result is a polycentric governance system that distributes decision making and control among multiple autonomous stakeholder councils.⁷ The GA only has the power to ratify the vote of the general membership or veto it and propose an alternative that must again be voted on. As a counterbalance to the flexibility in terms of the number and diversity of interests represented on the GA, the demand for accountability is high – if the alternative vote does not pass, the GA must face fresh elections as it is deemed that the presently elected individuals are no longer able to represent the voice of members. The GA is required to meet at least twice annually but has tended to meet on a more frequent basis, especially in the early cooperative start-up phase and during periods of turbulence or rapid growth. ZEF's GA meetings have historically been open to the public, except

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⁸ Novkovic & Miner (2015).

when necessary to restrict attendance to co-op members due to privacy.

The GA elects other bodies to ensure accountability and cohesion within ZEF's ecosystem of control centers. There is a membership committee which sets membership policies and approves or denies membership requests as well as an arbitration council which manages disagreements between members. Both are elected by the GA. The Supervisory Board (SB) oversees all decision making across the various elected bodies and has the exclusive power to challenge decisions by the GA, membership committee, and arbitration council. This SB consists of five seats, three of which are designated for a worker representative, an external stakeholder (not formally connected to the Cooperative), and the General Manager (GM) who is elected on a five-year term by the general membership. The two remaining seats can be elected from the broader membership. The SB normally meets once per quarter but has likewise met more frequently and played a more active role during recent periods of turbulence.

Participatory processes

One of the critical functions of ZEF's *designed fractionalism* model is to inform the investment priorities of the bank and align them with the diverse investment priorities of the respective interest groups. Jeras shares that *designed fractionalism* serves as a system to "make sure that the assets are distributed according to the wishes and values of individual members and member groups", while also allowing for collective alignment to develop around certain community investment areas. While this deliberation process can be slow at times, it does lead to more informed decision making that is supported by a wider base of members and better risk management.

The deliberative democratic dialogue at ZEF primarily takes place within the framework of the decision-making and electoral process. All members vote directly on all issues related to Cooperative governance, and ZEF has developed a sophisticated process for ensuring effective, informed, and representative decision making within the *designed fractionalism* framework. When an issue is brought to the table, a date is scheduled for an initial meeting of the GA, during which the GA scopes out initial options and creates a draft proposal document which is then circulated for feedback to all regions and sections. A sub-committee is appointed by the GA to summarize feedback and formulate a final proposal document which is then put to a vote.

Upcoming votes are announced on an online member portal which functions as a hub for member communications, and a secure voting platform. The platform was custom-built by an IT company which is a member of ZEF, and designed to facilitate security, transparency, and efficiency of the voting process within a complex multistakeholder governance framework. All

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documents and instructions are made accessible for review; and reminders are sent regularly throughout a two-week voting process. Members vote directly through the online voting platform and receive an encrypted receipt acknowledging that their votes were received and accounted for. The GA must ratify the results of the general membership vote, or else propose an amendment which must then be voted on again through a similar process. As previously mentioned, if the GA's amended proposal does not pass in the second general membership vote, the GA must undergo a re-election process to ensure that the interests of the general membership are accurately being reflected. While this situation has never occurred, this measure is an important assurance of the accountability of the GA as a representative body of the general membership.

Elections at ZEF follow a similar proposal, review, and voting process. An election for any representative position can be called in three ways: by the GM, by the SB, or by one or more representatives of the GA with at least 50 signatures from the general membership. The general membership is then invited to participate in a commission process to outline the requirements for the position to be filled, its mandate, and a set of questions to be answered in the application process. Then there is a call for applicants, which is usually extended to the entire membership, unless the application is for a designated position as on the SB. Applicants submit a resume, a short video highlighting their motivations to serve in the elected position, and their responses to the set of questions developed by members. Application packages for all candidates are then compiled and published on an online member portal which functions as a hub for member communications, and a secure voting platform. Jeras shares that, "In our system the candidate with most votes wins in all cases except in the elections for the President of the [General] Assembly and for the [General] Manager. In those two elections we need to repeat the process until one candidate gets [a] majority of votes, so over 50 percent. And then . . . the online vote of the members is

accepted or confirmed by representatives of all the regions and sections [at] . . . the official . . . [in-person] General Assembly".

Beyond the formal decision-making and electoral processes, ZEF has created informal opportunities for members and employees to participate in deliberative dialogue. The Cooperative has hosted a number of online consultations, educational events, and Q&A sessions with members and employees during the COVID-19 pandemic, which have served as important touch points to understand evolving membership needs and priorities and capture employee insights. Input has been channeled to inform both operational and strategic directions for the Cooperative, often laying the foundation for proposed resolutions and votes taking place through more formal decision-making bodies. In addition to consultation opportunities, ZEF's small group of employees enjoy a direct channel for communication with the SB through the provision of a monthly report, which is an opportunity to voice concerns and propose ideas.

Dynamics of organizational change

ZEF is constantly evolving and improving its systems, structures, and processes for participatory governance, as well as the composition of the GA and the regions and sections that are represented within it. Just as fractions (i.e. regions and sections) have been created over time to represent the interests of a self-organized group of members, fractions have also been discontinued over time as the needs of members have changed, or as their original purpose in forming the fraction was fulfilled. This reflects a dynamic organization, responsive to changing member needs and priorities.

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A strong driving force of change has always come from “activist” members within the Cooperative. Jeras comments that “we . . . were very open to all initiatives of members . . . that would help us also to [better] . . . reflect our values. For example, one of those was [an] initiative from several members . . . at the moment when we were changing the cooperative statutes . . . they came with the initiative to write the new statute into female gender forms”. The participatory governance structures and processes that ZEF has developed provide a mechanism through which members can effectively and democratically propose, accept and implement such initiatives. At the same time, Jeras recognizes that “the management processes were very dependent on the people who were fulfilling the roles in that moment” – for example, prior to the election of the current President of the GA, who is herself very active in organizing new initiatives and motions, most new ideas and initiatives were coming from employees and management.

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Jeras reflects that communication with members has been the determining factor for securing their active engagement, which has often required significant organizational resources to sustain. Thus, at a few moments of crisis when ZEF most needed the engagement and support of its members, it often was least able to resource effective communication with members, resulting in a compounded negative impact for the Cooperative. One example of such a period was when Jeras' first five-year term as GM came to an end. Having made a personal commitment to pass on the leadership of ZEF to a new GM, Jeras did not run for re-election. Members were unsuccessful in electing a new GM as there were no suitable candidates, and approximately one third of members left the Cooperative at this time, interpreting Jeras' resignation as a sign of failure or abandonment.

Jeras reflects that better communication with members around the intentions of a five-year policy for the GM, and better succession planning could have made a crucial difference in the outcomes of this situation. In the end, Jeras had to reconcile some of his own idealist notions of horizontality and democratic governance with the realities of the situation. He was re-elected for a second term as GM of ZEF and is actively working to improve the process for the next election.

The challenge of operating within the legal, political, and economic environment of Croatia remains a determining factor for ZEF in a number of ways. The Cooperative faces many

challenges to achieving its desired impact, and even to serving the core interests of its members, as initially proposed with the idea of forming an ethical bank. In fact, ZEF has not yet been able to establish a cooperative bank due to legal barriers and a strong lobby against the proposal from the Croatian Central Bank and existing banking service providers in Croatia (mostly foreign banks). Each of the Cooperative's attempts at forming a bank or acquiring an existing one have been rejected by the Central Bank, and ZEF was subject to defamatory press on numerous occasions, painting the Cooperative as incompetent and a bad investment. ZEF's leadership handled this situation very effectively by publicly addressing and challenging these remarks, and they were able to garner strong support from their membership and alternative press.

Unfortunately, many such disappointments over the years have created tensions within ZEF's membership and led to a reduction in membership numbers and member engagement. Jeras reflects that "we were trying to implement [the] cooperative model in an environment that is generally quite negative or hostile towards cooperatives, because they [are] associated with [the] socialist past [or] with some old-fashioned structures". However, he acknowledges that ZEF has managed to shape "the narrative which is now quite widely accepted that the co-ops are also modern structures that have . . . [an] essential place in today's economy".

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Meanwhile, ZEF has innovated alternative ways of creating value for members and sustaining a business model by providing "a platform for networking, cooperation and placement of your goods and services, access to education and business consulting". ZEF has been leaning into regional and international partnerships to establish parallel financing and sustainable development ecosystems, reveals Jeras, reflecting the strategies that other multistakeholder cooperative networks – such as the Namaste Solar⁹ network and Mondragon Cooperative Experience¹⁰ – have used to scale and

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⁹ Rodrigues, & Schneider (2022).

¹⁰ Freundlich (2015).

achieve strategic advantage. For example, ZEF has received support and insight from cooperatives and ethical banking initiatives and in other countries and is currently exploring establishing their ethical bank outside of Croatia through an international partner, which will certainly expand their membership base and impact their governance system. Furthermore, ZEF plays an active role in regional cooperative organizing in Eastern Europe through its participation as a financial partner in the MOBA Cooperative Housing Network.¹¹ Through involvements such as these, and by playing an active role in the local community, ZEF has been influential in building interest in ethical business, social enterprise, and the cooperative model in Croatia. Jeras shares that "there is [a] slowly emerging community of . . . new co-ops that were founded, many of them with our support and initiative, but also other co-ops totally independently, so we see that this cooperativism is slowly getting a revival".

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Future prospects

In the coming years, the most pressing challenges for ZEF will be strengthening leadership capacity, financial stabilization, and rebuilding member commitment and engagement. Jeras shares that "one of the still major tasks . . . is somehow to find the way how to distribute these responsibilities and [remove the] pressure from me as kind of the initiator". Croatian law is restrictive in terms of the structure of the executive team, encouraging concentration of control in a single manager. Therefore, ZEF is exploring incorporating as a European-level cooperative (European Cooperative Society) to allow greater flexibility and distribution of executive power in line with the networked and participatory governance approach.

The second priority for ZEF will be financial recovery and stabilization after experiencing a withdrawal of member capital and a decrease of revenue during the COVID-19 pandemic. Jeras comments that during the pandemic, "we were not able to do what was one of our major strengths, and [that] is just being present everywhere". Many members were financially challenged at this time, and several attempted to withdraw their shares. Faced with the risk of losing a significant portion of its assets at once, the Cooperative adopted a

¹¹ MOBA Cooperative Housing Network. (n.d.).

policy of a three-year share pay-back period to manage the outflow of its assets over time. They have since decided to allocate 30 percent of yearly surplus to an indivisible reserve fund, five percent of which is specifically reserved for redeeming member shares as needed. While the core need and value proposition for ZEF members remains finance, ZEF has also been successful in providing other kinds of value and meeting other needs for members through providing information, advice, services, and partnership development support. Further developing these offerings will be essential to sustaining revenue generation, and in bridging ZEF financially to the point where it is finally able to open up banking services to its members.

A third priority related to both leadership capacity and financial stabilization for ZEF will be to improve member engagement and participation in the Cooperative and rebuild its member base. Jeras returns to the central role of communication in this process, identifying a need to "renew, establish, and maybe even modernize the communication channels with members", with the goal of building a greater sense of ownership and accountability among members. This will be needed to secure a strong base of funding, support, organizational capacity, and committed partnerships from which the Co-operative can move forward into new directions.

ZEF's leadership continues to research and experiment with best practices and models for cooperative governance and management, while embracing the ideas and expertise that many members bring from their work in civil society sectors, such as participatory budgeting and direct democracy models. There may be further opportunities for the Cooperative to gain insight and inspiration from theories and examples of multistakeholder cooperative networking in other parts of the world in order to focus and strengthen ZEF's ethical banking business model and support the Cooperative's broader mission of building an ethical, cooperative ecosystem.

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Conclusion

Despite enduring a great deal of turbulence and barriers to growth throughout its existence, ZEF continues to push forward on its original purpose of establishing an ethical bank as an engine for sustainable regional development while continually deepening its commitment to the cooperative identity and cooperative movement. The Cooperative has embraced an iterative, responsive approach to building out its *designed fractionalism* system of governance – encompassing democratic organizational structures and participatory decision-making processes – over time. However, ZEF's founding member and GM, Goran Jeras, reflects that "we still haven't found [a] stable model that I would say would last for a long time". The Cooperative's developmental journey has been a "continuous process in which we all are trying to learn what it really means to have cooperative values, and how they could be reflected not only in our organizational form, but in [our] everyday approach to things". Jeras credits the cooperative identity as a guiding light and source of inspiration for himself and for ZEF throughout periods of both success and difficulty, and a continual affirmation of commitment to a broader universal social goal of channelling economic activity in service of the common good.

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