

Co-operative and Alternative Finance for Agricultural/Food Communities

European Developments

2015

Interim Report for the Knowledge Transfer Partnership
Scottish Agricultural Organisation Society Ltd and University of Aberdeen



This document has been produced within the context of a Knowledge Transfer Partnership: 'To embed a capability enabling SAOS to establish new financial intermediaries for UK agricultural/food communities providing direct access to affordable, ethical financial services.'



www.abdn.ac.uk/saos

This Partnership received financial support from the Knowledge Transfer Partnerships programme (KTP), which is funded by InnovateUK along with the other government funding organisations. Knowledge Transfer Partnerships aims to help businesses to improve their competitiveness and productivity through better use of knowledge, technology and skills that reside within UK universities and colleges.

Author, researcher and translator:
Dr Elizabeth Chalmers Macknight

Correspondence address:
Department of History
University of Aberdeen
King's College
Aberdeen AB24 3FX
Scotland
e.macknight@abdn.ac.uk

© University of Aberdeen 2015

The University of Aberdeen has no responsibility for the persistence or accuracy of URLs for any external or third party Internet websites referred to in this report, and does not guarantee that any content on such websites is, or will remain, accurate or appropriate.

Table of Contents

Abbreviations

Introduction 5

Part 1

1.1 France 8

1.2 Germany 11

1.3 Italy 14

1.4 The Netherlands 17

1.5 Portugal 19

1.6 Spain 21

1.7 Sweden 26

Part 2

2.1 Banking regulation 29

2.2 Alternative finance 32

Concluding remarks 33

Appendix 34

Selected sources 37

Abbreviations

BCC Banche di Credito Cooperativo

BRRD Bank Recovery and Resolution Directive

BVR Bundesverband der Deutschen Volksbanken und Raiffeisenbanken

CEPS Centre for European Policy Studies

CET1 Common Equity Tier 1

CIAP Coopérative d'Installation en Agriculture Paysanne

COGECA General Confederation of Agricultural Co-operatives in the EU

CONSOB Commissione Nazionale per le Società e la Borsa

CRD IV - CRR Capital Requirement Legislative Package

DDGS Directive on Deposit Guarantee Schemes

DGVR Deutscher Genossenschafts- und Raiffeisenverband e.V.

EACB European Association of Co-operative Banks

ESS L'Économie Sociale et Solidaire

EURICSE European Research Institute on Co-operative and Social Enterprises

FENECAM Federação Nacional das Caixas de Crédito Agrícola Mútuo

FEP Fondo de Educación y Promoción

FRO Fondo de Reserva Obligatorio

ICA International Co-operative Alliance

ICAB International Co-operative Banking Association

ICURN International Credit Union Regulators' Network

IRU International Raiffeisen Union

NCR Nationale Co-operatieve Raad Voor Land-e en Tuinbouw

SCIC Société Coopérative d'Intérêt Collectif

SEK Swedish Krona

SME Small and Medium Enterprise

UNACC Unión Nacional de Cooperativas de Crédito

Introduction

On 3 December 2014 the General Confederation of Agricultural Co-operatives in the European Union (COGECA) hosted a business forum in Brussels. Innovation was the theme for the forum in which representatives from Sweden, Finland, the Netherlands and France explained the diverse ways and markets in which European agricultural co-operatives show a capacity to innovate. Many examples exist of technical innovation. The importance of financial innovation for improving the competitiveness of co-operatives was highlighted in a presentation given by Professor Pennings of the University of Maastricht. Financial innovation is a broad and topical subject encompassing new methods for organising finance and managing risk, new mechanisms for payment and settlement, the use of emerging technologies for marketing or transactions, and transformations in financial markets that stimulate the design of new products and bring about change in the institutions that deliver those products.

In Scotland demand for financial innovation to enable farmers and agricultural co-operatives to access targeted credit efficiently has prompted the Scottish Agricultural Organisation Society to investigate the potential for establishing new financial intermediaries. Initial discussion focussed on the formation of a credit union to serve farming families and rural businesses across Scotland. Subsequent research has widened the range of possible options as information

has been gathered on different forms of financial intermediary and specialised lending for farmers in the UK, Quebec, and Australia. This report turns attention toward continental Europe where credit co-operatives first emerged during the nineteenth century to serve rural and urban communities. Now in the twenty-first century it has become clear that in order to recover fully from economic crisis Europe must strengthen its small and medium enterprises that can only thrive when there is ready access to credit.

Co-operative financial institutions have long provided tailored lending to SMEs and to families. Established on the concept of mutuality, these institutions have specific capitalization schemes, liquidity management systems and governance structures that differentiate them from other banks. Through periods of economic crisis they have continued to operate as an essential source of credit for families and for SMEs, thus playing a key role in economic recovery and ensuring diversity of enterprise types in the banking sector. If at first glance co-operative financial institutions seem rather less innovative than alternative finance methods, such as crowdfunding, it should be remembered that these institutions' longevity reflects their capacity to evolve and grow in a dynamic competitive market.

Research and networking with continental European contacts on behalf of the Scottish Agricultural Organisation Society aims to provide wider perspectives on access to finance

for Scotland's farmers and agricultural co-operatives, as well as to deepen understanding and learn from experiences of financing abroad through exchange of knowledge and information. There are good reasons to suppose that co-operative financial intermediaries and agricultural co-operatives would make natural partners, and while this can be the case there are also constraints and challenges in the respective sectors.

The situation for agricultural co-operatives, and rural enterprises more broadly, with respect to financing varies greatly across Europe. In the same way that there are differences between EU member states in the legal structures, tax regimes, and rules on membership, capital, and board governance that apply to co-operatives, so too financing is an area where generalisations should be avoided. A range of factors shape access to finance for farmers and agricultural co-operatives, from national economic circumstances to co-operatives' local rules, legal form and business model. Problems in accessing finance are not necessarily absent in countries where there is a dense network of co-operative financial institutions.

Investigation for COGECA revealed that, where information was provided, financing for agricultural co-operatives is reported to be problematic in Belgium, Spain, Croatia, Italy, Lithuania, Portugal, Romania, and Sweden. By contrast, financing for agricultural co-operatives is reported to be not problematic or seldom problematic in

the Czech Republic, Germany, Ireland, France, Cyprus, Slovenia, and Finland. It is not always clear from the reporting the precise factors behind difficulties or lack of difficulties in access to financing in each country; rather, a broad spectrum of contributing factors is apparent. There are some commonly shared concerns: 'the lack of trust of the banking sector in cooperative entrepreneurship', 'banks do not comprehend [co-operatives'] budgetary system', and 'the financial system and its entities do not favour granting credit to these types of joint member-responsibility corporations'. There is also some commonly expressed recognition of 'difficulties relating to the legal form' and 'business related problems and co-operatives' specific legal form'. In some countries: 'co-operatives didn't modify their governance structures in order to allow diverse/ proportional finance from members'. Meanwhile in other countries: 'if there was a need for capital the co-operatives rather changed their structure, for example, into Limited Liability Company' or 'some co-operatives have established "shares with particular benefits" for their members, which grant them a priority return' (COGECA, 2014).

Part 1 of this report provides case studies of seven European countries where co-operative financial institutions and alternative finance methods are used by the agricultural sector. Part 2 outlines changes in European regulatory frameworks that are of consequence for the viability of co-operative financial institutions and alternative finance.

Part 1

Across Europe there are some 3,700 locally operating co-operative financial institutions that serve more than 215 million customers and work in partnership with SMEs. Historically many of these co-operative financial institutions were set up to serve rural communities and although today the largest institutions have customer bases and business activities that are diverse and global there continues to be an emphasis on the provision of banking in rural areas with specific products and services tailored to the agricultural sector. The proportion of the membership drawn from farming families or rural businesses varies from institution to institution, but in many cases remains high.

There are a number of organisations that operate at the supranational level and their role will feature more in the second part of this report. To represent, promote, and defend the common interests of co-operative financial intermediaries, the European Association of Co-operative Banks (EACB) was founded in 1970. Based in Brussels the EACB currently has twenty-nine member institutions (see appendix) that it represents in dialogues with the European Commission, the European Parliament and international supervisory bodies. The founding of the EACB coincided with the First European Banking Directive, an important step towards greater coordination and harmonisation within the sector. Unico Banking Group is a commercial partnership of eight institutions (see

appendix) so it is smaller and less representative than the EACB. Unico was founded in 1977, at a time when the internationalisation of the financial sector was gathering pace, and it allowed for sharing of expertise and collaboration on projects among the eight. Differences in culture and in national markets for financial services have meant the network structure of Unico has been retained rather than attempt mergers. The International Co-operative Banking Association (ICBA) was founded in 1922 as an arm of the International Co-operative Alliance (ICA). ICBA's aim is to foster collaboration between institutions worldwide and to promote understanding of co-operative finance in relation to global developments.

1.1 France

In this section we look at some developments in access to finance for farmers in France including the work of a French co-operative dedicated to assisting those who are starting out in farming, crowdfunding in the Pays de la Loire, France's ethical bank La Nef and civic organisation Terre de Liens.

L'Économie Sociale et Solidaire

In France the term *l'économie sociale et solidaire* (social and solidarity economy) describes the ensemble of enterprises organised under the forms of co-operatives, mutuals, associations or foundations that function according to principles of solidarity and social utility with democratic and participatory forms of management. In 2010 the ESS employed around 2.34 million people in France. The French government's new law relative to the ESS was adopted on 31 July 2014. It became effective on 2 August 2014 to help further develop this sector of the national economy by setting clear juridical and financial frameworks.

Over the past seven years the month of November has been declared Le Mois de l'ESS. During November all kinds of awareness raising activities take place such as conferences, film screenings, forums, and workshops. *Le Monde* newspaper and Finansol organised in 2014 the fifth round of the Grands prix de la finance solidaire. The general public was invited to vote online for their favourite of four new enterprises. This year one of the four shortlisted was

the Coopérative d'installation en agriculture paysanne (CIAP).

Coopérative d'installation en agriculture paysanne (CIAP)

Based in Nantes since 2012 CIAP gives practical support to people with a defined project to establish themselves as farmers but who are lacking some of the necessary 'tools', whether in terms of access to capital, particular training, contacts, or knowledge. Many of these people are aged in their thirties and do not necessarily have a family background in agriculture.

CIAP offers many types of services. One service is a training programme called *Paysan créatif* comprising 200 hours of theoretical learning and 1,620 hours of practical learning. Other complementary training, specifically for those starting out with the aim of producing vegetable crops, can be arranged through the Lycée Agricole de Saint Herblain that has three hectares of land plus equipment.

A second service offered is known as *portage* by which CIAP provides assistance and technical know-how on the legal, administrative and commercial fronts, and also start-up funds to a maximum of €40,000. CIAP's status as a *société coopérative d'intérêt collectif* (SCIC) permits local communes to provide up to 10 per cent capital for projects and there are close ties with other solidarity finance organisations namely the Cigales network, Fonds de Confiance de France Active, and the civic association Terre de Liens. The

financial assistance is described as follows: 'The material purchased on the new farmer's behalf remains the property of the CIAP while the new farmer is getting established until it is later bought back by that farmer.' Cases of financial support engineered by CIAP have sometimes unblocked an impasse with the banks that were initially reticent to provide loans to an applicant new to farming.

A third service is to assist with building connections with other organisations that might prove useful to those starting out in agriculture. For example, the CIAP can refer those looking to become established as tenant farmers to one of its partner organisations, Terre de Liens.

Terre de Liens

Terre de Liens is a civic association in France that was founded in 2003 to assist organic and peasant farmers in gaining access to land. Terre de Liens uses two financial tools: a solidarity investment company known as La Foncière, and an endowment trust to collect investment funds and donations. It also runs educational events and initiatives to inform the public about land access and agriculture.

In 2006 Terre de Liens discovered the potential to use the business status of 'private company limited by shares' and this led to the creation of La Foncière Terre de Liens the following year. La Foncière Terre de Liens can undertake public share issues in order to raise capital. As a company limited by shares, it has two categories of participants:

first, the shareholders who provide capital and are liable only to the extent of the capital provided; second, the managing partners who run the company and are jointly and severally liable for the debt. This status means that those participants who own the capital are separate from those participants who decide on how to invest the capital and run the company. In the case of La Foncière Terre de Liens this separation means that the land bought is perpetually owned and managed to serve the overarching goal of the association to preserve agricultural land and sustainable production in the interest of future generations.

La Foncière Terre de Liens was founded with capital of €57,200 contributed by forty-seven shareholders. Its first public issue of shares in the five month period between October 2008 and March 2009 raised €4 million from 2,200 shareholders. A second public issue of shares from October 2009 to June 2010 raised an additional €6 million. The Foncière continues to organise one public issue of shares every year. In addition, it also receives individual subscriptions for shares at any time of the year. A share costs €100.

La Nef - France's ethical bank

La Nef (Nouvelle économie fraternelle) was begun in 1979 by a group of men and women who were inspired by ethical banks in Germany and Holland and formed a civic association to meet a need for 'financial tools for alternative innovative projects'. The first project

supported in 1980 was for a biodynamic agricultural initiative.

In 1984 the civic association was transformed into a co-operative and four years later in 1988 changed status again to become the Société financière anonyme coopérative de la Nef. Its values were and remain centred upon ethical decision-making, transparency, and fraternity (solidarity between persons). In 2008 La Nef was a signatory to a Manifesto for a European Ethical Bank along with La Banco Popolare Etica (Italy) and FIARE (Spain).

La Nef has around 33,400 members and in 2013 accorded €108 million in loans. French public interest in this ethical bank has risen markedly since the Global Financial Crisis. Deposits have increased between 15 per cent to 20 per cent each year. Members come from a wide variety of backgrounds. A new member must deposit €90 to open an account. Around 80 per cent of all funds deposited have come from 15 per cent of the membership. On 24 May 2014 at its Annual General Meeting members voted for La Nef to change status to become 'La Première Banque Ethique' in France. Previously La Nef worked in close partnership with Crédit coopératif but the members' vote to revise La Nef's status means that henceforward it will operate more autonomously and be able to offer a wider range of services to members.

Crowdfunding for French agriculture

In the Pays de la Loire, surrounding Nantes, there are moves by regional

politicians to create a local crowdfunding mark or label. This initiative is not designed to replace or be in competition with the expanding range of privately established crowdfunding platforms, but rather as a mechanism to signal the support of public authorities for local initiatives and funding pitches, and also to signal that a watching brief is kept on the ethics of crowdfunding and guarantees to savers.

My New Start Up is a crowdfunding pitch by En Direct des Eleveurs. Three milk producers based near Nantes are turning out two million litres per year with a 'new generation' project they describe as: 'to produce, transform and sell a healthy ecological product from the producer to the consumer'. The Ecolean packaging is lightweight and fabricated in an environmentally friendly manner. En Direct des Eleveurs is looking to raise €800,000 to €1million.

Crédit Agricole and innovation

The developments outlined above raise the question of how the major co-operative financial intermediaries in France have been innovating in recent times. Two examples might be cited briefly from Crédit Agricole. The first is the creation of an online resource, Pleinchamp.com, for members in the agricultural sector. The site includes simulators for credit and investment products. The second is the 2013 launch of Aveo, which represents a core part of Crédit Agricole's strategy to facilitate electronic payments and data management.

1.2 Germany

In this section we look at German co-operatives, especially the co-operative financial network (*Finanzverbund*) that developed through the work of nineteenth-century leaders whose influence and innovative thinking has been of long-term international significance.

Deutscher Genossenschafts- und Raiffeisenverband e.V.

Germany's co-operative sector is one of the nation's largest economic organisations with over 20 million members. It has five segments: co-operative banks, rural co-operatives, buying and marketing and service co-operatives, consumer co-operatives and housing co-operatives. With the exception of housing co-operatives, which have a distinct association, the GdW Bundesverband deutscher Wohnungs- und Immobilienunternehmen, all other segments of the co-operative sector belong to the confederation Deutscher Genossenschafts- und Raiffeisenverband e.V. (DGRV).

Origins of a movement

The historical roots of German co-operation lie in the work of Hermann Schulze-Delitzsche, founder of the earliest commercial credit co-operatives, and Friedrich Wilhelm Raiffeisen, founder of the first rural co-operatives. In 1850 Schulze-Delitzsche set up a *Vorschussverein* or disbursement society that was a

forerunner of what would become known as Volksbanken. The early 1860s saw the creation of a central office followed by a general association of purchasing and commercial co-operatives.

Whilst Schulze-Delitzsche's Volksbanken flourished in towns and amongst craftsmen, a separate movement started up in rural areas. In 1864 Raiffeisen founded the Heddesdorfer Darlehnskassen-Verein. Rather than join Schulze-Delitzsche's general association, this rural co-operative movement developed its own national body, known from 1917 as Generalverband der deutschen Raiffeisengenossenschaften. It also had its own bank, the Landwirtschaftliche Zentral-Darlehnskasse, that was renamed the Deutsche Raiffeisenbank in 1923.

Raiffeisen was not alone in promoting rural co-operation. From 1872 William Haas set up and managed consumer co-operatives and purchasing co-operatives within the state of Hesse. The association of Hessian agricultural co-operative purchasing societies brought all of these societies together. In Darmstadt Haas and his collaborators led the development of a new specialised bank for managing liquidity compensation and providing a payments and collection system for joint procurement of agricultural commodities. Founded as a mutual bank the Landwirtschaftliche Genossenschaftsbank AG was intended to serve and strengthen rural co-operation in Hesse (Guinnane et al., 2013).

The models of mutual finance pioneered by Schulze-Delitzsche, Raiffeisen and Haas in Germany have evolved in response to changing domestic circumstances and as they have been exported to other parts of the world. Those models form the heritage of twenty-first century co-operative financial institutions that operate in global markets. The International Raiffeisen Union (IRU) was founded in 1968 on the occasion of the 150th anniversary of Raiffeisen's birthday. It is a globally active association of co-operative organisations that operate according to Raiffeisen's principles of self-help, self-responsibility and self-administration (*Selbsthilfe, Verantwortung und Selbstverwaltung*).

In Germany today the co-operative financial network (*Finanzverbund*) consists of over 1,000 local people's banks and Raiffeisen banks (Volksbanken and Raiffeisenbanken) with around 16 million members, over 30 million customers, and 190,000 employees. The national federation is the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR) and there are also regional federations. Local organisation, partnership with SMEs, and member relations with their co-operative bank are strongly developed. The advantages for agricultural co-operatives in Germany are spelled out in COGECA's findings: 'Co-operative banks play an important role in financing, providing small and medium-sized companies with access to capital' (COGECA, 2014).

Deutsche Zentral-Genossenschaftsbank

Deutsche Zentral-Genossenschaftsbank (known as DZ Bank AG) performs the central clearing bank function for more than three quarters of German co-operative financial institutions. Based in Frankfurt am Main, its network stretches over the geographic area of Baden-Württemberg, Bavaria, Berlin, Brandenburg, Bremen Hamburg, Hesse, Mecklenburg-Western Pomerania, Lower Saxony, Rhineland-Palatinate, Saarland, Saxony, Saxony-Anhalt, Schleswig-Holstein and Thuringia.

The role of DZ Bank AG is to manage liquidity and to provide products and services more efficiently than would be the case if these were developed at the local level. For SMEs DZ Bank AG provides corporate finance products to fund operations and investment that stimulate growth while making the most of synergies within the wider co-operative sector.

European Banker of the Year

On an annual basis since 1994 an association of international finance and business journalists, known as the Group of 20+1, has issued the award of European Banker of the Year. In 2013, Wolfgang Kirsch, chair of the Management Board of DZ Bank AG, was selected for this award. Kirsch, a business management graduate of the University of Cologne, became a member of the board in 2002 after a career at Deutsche Bank. He was appointed chair on 15 September 2006.

The jury accounted for their decision in these terms: 'Wolfgang Kirsch took over responsibility for the central institution of the Volks- and Raiffeisen Banks in Germany before the global financial and government-debt crisis began and was able to guide them through and back out of the crisis well, despite all the challenges. ... While the DZ Bank did benefit from the general relaxation of the euro debt crisis, it was also able to significantly improve its operational business. This development was reflected in the Group being given one of the best and most stable ratings in the European bank sector. The DZ Bank Group, which includes companies such as Bausparkasse Schwäbisch Hall, R+V Versicherung and the Union Investment Group, can therefore be seen as real "co-operative success story" from Europe.'

1.3 Italy

In this section we look at the functioning of Italy's network of Banche di Credito Cooperativo with a case study of these rural banks in the mountainous region of Trentino-Alto Adige.

Co-operation in the agri-food sector

Among the 8,100 agri-food co-operatives in Italy around one half deal with the supply of agricultural products and livestock and just over a quarter are agricultural labour co-operatives. From 1 January 2015 Italy's three agri-co-operative associations (FedAgri-Confcooperative, Legacoop Agroalimentare, and Agci Agrital) delegated their representation in COGECA to Alleanza Cooperative Italiane (ACE), for which the headquarters are the Palazzo della Cooperazione in Rome.

Banche di Credito Cooperativo

Banche di Credito Cooperativo (BCCs) constitute more than one half of all Italian banks. These are small entities that over recent decades have recorded steady growth and been recognised for the positive role they play in the financial sector. From 1995 to 2010 BCCs increased their market share in loans to Italian households (from 6 per cent to 9 per cent); to medium and large firms (2 per cent to 7 per cent); and to small and medium enterprises (11 per cent to 19 per cent). The number of BCC branches has increased by 4 per cent each year over the same period and the number of employees has risen from

20,000 to 32,000. These growth figures contrast with the pattern of decline in Italy's banking system as a whole, which lost 40,000 employees and in 2009 recorded a decrease of 3 per cent in loans to firms (Zago and Dongili, 2014).

The 1993 Italian Banking Act, *Testo unico delle leggi in materia bancaria e creditizia*, contains various articles with economic implications for Italy's credit co-operative system. A minimum of two hundred members is necessary for a BCC to operate and the democratic principle of one member, one vote applies (article 34); if the number of members falls below two hundred then one year is granted in which to regain the requisite threshold. There are regional limits to membership so that a BCC may only expand into a neighbouring region if there will be two hundred members in that region (article 35). The policy on allocation of annual net profits requires that 70 per cent be allocated to reserves and 3 per cent be allocated to the mutual aid fund, Fondo Sviluppo, so that it can be used for the promotion and development of co-operation (article 37).

Mutual aid

Generally BCCs pass on most of their returns to members and customers; however, if an individual institution is failing then the funds collected by other institutions through the mutual aid fund may be directed toward helping the one in difficulty. This mutual support mechanism or co-operative behaviour in banking serves to enforce trust within the system and is regarded by analysts

as one of the competitive advantages of BCCs.

The governance and business model of BCCs are specifically designed for operations at the regional and national levels consistent with the co-operative purpose of maximising value for members. These are not institutions that could compete in international markets and they do not make large high-risk investments in the manner of commercial banks. Their key features are high levels of capitalisation, stable levels of profit, a conservative business strategy based on retail banking, and staff with a deep knowledge of the needs of local borrowers. Credit provision is primarily directed towards individuals, households and SMEs, especially from the agricultural sector and non-profit organisations.

Disadvantages

Of course some of the features that make BCCs distinctive and serve as advantages can also have their drawbacks. It might be argued that a strong co-operative branch network becomes less of a priority for customers given the rapidity of developments in information technologies and new devices for accessing services. Heavy reliance on a loyal customer base may not lead to new opportunities for business and attracting new customers from different segments of the regional population. Most seriously, many proposals for improving the governance and management of BCCs have not been successful or practical in recent years. Local connections tend to matter

a great deal, especially for rural banks, and this can impede efforts to appraise the effectiveness of senior executives according to the institution's performance. Without the resources to have a dedicated and appropriately qualified HR team, the necessary support, tools, and expertise for selecting and recruiting the best managers, and dealing with underperformance, is a challenge for BCCs.

Impact of the financial crisis

Since 2008 the hard-hitting effects of the financial crisis on Italy's economy can certainly be seen in the credit market. Using data for BCCs over the period from 2003 to 2012 academic analysis shows in detail the variation in interest paid on borrowed funds and the ratio of loans over borrowed funds, as well as how an increase in bad loans has affected the performance of these co-operative financial intermediaries. The study reveals the higher incidence of bad loans among non-member clients of BCCs compared with member clients, which possibly relates to the way that 'as commercial banks were more reluctant to give credit to customers, many clients (presumably non-members) went to look for loans at BCCs' (Zago and Dongili, 2014). Without a comparison of BCCs with other banks, however, it is impossible to get closer to an understanding of the difference in incidence of bad loans to members versus non-members, and what that might indicate about relationship banking. There are considerable regional differences in the impact of the

financial crisis on the BCC system with BCCs in the North registering lower levels of performance than those in the South and Islands. These differences might be attributed to the bigger increase of bad loans in the North but also to the greater magnitude of the crisis in that territory.

Trentino-Alto Adige

The autonomous northern region of Trentino-Alto Adige is often used as a case study for analysis of co-operation, in part owing to some of its distinctive historical and geographical features as a mountainous, sparsely populated rural territory with a deeply embedded culture of co-operative enterprise. Trentino-Alto Adige represents just 2 per cent of Italian national territory but its population of 500,000 encompasses four different language groups (Italian, Ladin, Cimbri and Mocheno). The historical origins of co-operation in this region can be traced back to the work of don Lorenzo Guetti who in 1881 led the development of Consiglio Provinciale dell'Agricoltura made up of twenty-seven district agricultural consortia. In 1890 the first *famiglia cooperativa* was founded for retail business, followed in 1892 by the first *cassa rurale*, or rural co-operative bank. The Federazione Trentina della Cooperazione was established in 1895.

In December 2013 the province of Trentino counted forty-three *casse rurali*, with 378 branches, plus the central bank, Cassa Centrale delle Casse Rurali, that was founded in 1974 on the consortium model. There were branches

in 187 of Trentino's 217 municipalities, and in 133 of those municipalities the rural bank was the only provider of financial services. The rural banks' market share for direct deposits was 59 per cent and 56.8 per cent for loans to residents of the province. Across the period 2000–13 there has been a decline in the numbers of *casse rurali* from sixty-five to forty-three. Conversely, the numbers of employees has witnessed modest growth from 1,930 to 2,294 and there has been a very considerable rise in membership from 76,862 to 125,153.

Various approaches have been taken to improving information technologies and automated services. In 1986 Informatica Bancaria Trentina (IBT) began supplying the IT system that has been adopted by over eighty small institutions. IBT and rural bank partners jointly founded Società Informatica Bancaria Trentina in 1998 to provide technical assistance and outsourcing. Software and web infrastructure for Internet banking is now the focus of a joint stock company known as Phoenix that was founded in 2002. Originally its purpose was to provide services to members in the form of ATMs and document storage, and to help the rural banks with hardware investments. Phoenix now has an annual turnover of €71 million. It facilitates self-service in areas such as payment of utility bills, municipal taxes and fines, as well as the purchase of transport tickets and school meal cards (OECD, 2014).

1.4 The Netherlands

In this section we look at Dutch co-operation and a major international player in co-operative finance, Rabobank of the Netherlands.

National Co-operative Council

The Nationale Co-operatieve Raad Voor Land-e en Tuinbouw (NCR) acts as a hub for the promotion of co-operation in the Netherlands. Most of its sixty-five members are agricultural or horticultural co-operatives although since 2014 membership has been open to all kinds of co-ops. NCR runs professional development activities and interacts with stakeholders to strengthen co-operative identity and create opportunities for sharing knowledge and expertise. With its headquarters in Utrecht, NCR represents Dutch co-operatives in COGECA and in Co-operatives Europe.

An important aspect of NCR's role is to help Dutch co-operatives maintain strong democratic governance through active participation of a committed membership and ensure professional management and effective supervision. Recent efforts in this area include the publication of the NCR Governance Code for Co-operatives in November 2011. This code was subject to evaluation by managers and board members with input from lawyers and other experts in 2014.

In 2012 a study of the importance of co-operatives in the Dutch economy, Coöperatie+, was published that

included a list of the top 100 co-operatives in the Netherlands ranked by annual turnover. These top 100 co-ops, owned by nearly 24 million members had a combined turnover of over €108 billion and employed 156,000 people. Heading the list were: Achmea, the Rabobank Group, Coöperatie VGZ, Friesland Campina, and the CZ Group.

Rabobank: local, national and international

Rabobank Group is among the largest organisations in the Dutch co-operative sector. Through the different levels of its structure the Group offers various types of services from retail banking and wholesale banking to asset management, leasing, and real estate. At the primary level are 139 local Rabobanks that form a network of 853 branches and nearly 2,900 ATMs. Customers can become members of their local Rabobank. At the secondary level is Rabobank Nederland that supervises the solvency, liquidity and internal control systems of the local institutions on behalf of the Dutch Central Bank. Rabobank Nederland also acts as a holding company for specialist subsidiaries. Each local Rabobank is a member and shareholder of Rabobank Nederland. At the tertiary level is Rabobank International that comprises the wholesale banking and globally dispersed retail banking divisions of the Rabobank Group. There are international desks in major trading countries of Europe and all other continents. Rabobank Group employs some 61,000 people in forty-four countries.

As well as belonging to the Dutch Banking Association and the Dutch Confederation of Netherlands Industry and Employers, the Rabobank Group participates in various co-operative partnerships. For example Rabobank Group was a founding member of the European Association of Co-operative Banks (EACB) and it also belongs to Unico Banking Group and the International Co-operative Banking Association (ICBA). Rabobank Group is also a member of the Nationale Co-operative Raad Voor Land- en Tuinbouw (NCR) and the International Raiffeisen Union.

Changing characteristics

According to COGECA's investigation Rabobank continues to be 'the main provider of loans to farmers' but there have been some alterations in this organisation that 'has its roots in rural credit'. First, the number of local Rabobanks has declined by nearly three quarters since 2000 when there were some four hundred of these institutions. Second, growth in certain areas of financial services such as provision of mortgages in the Dutch housing market means the customer profile and proportions of different groups in the membership are evolving. While Rabobank's membership includes 'most of the 75,000 farmers in the Netherlands' the total numbers of members is close to 1.9 million. The size of this co-operative financial institution, and links to the international capital market, mean that in the Netherlands capital has been 'relatively cheap'. Rabobank 'integrated farmers in the

capital market and its access to rural savings made it a big player in the mortgage market in the Netherlands as well as in financing international agribusiness' (COGECA, 2014).

1.5 Portugal

In this section we look at a Portuguese co-operative financial institution that has been in operation for just over a century. The Crédito Agrícola Group, comprising eighty-two local banks in 2013, has around 400,000 members and 1.2 million customers.

Crédito Agrícola

Crédito Agrícola was founded in 1911. For over one hundred years it has retained a co-operative identity whilst growing its market share for deposits and loans within Portugal and beginning a strategy of international business activity. Lending to Portuguese farmers in need of funds was facilitated by the creation of the nation's first agricultural co-operative credit law in 1896. Some three decades later in 1929 control over agricultural loans and other specialised forms of credit was transferred to a state-owned financial institution. The revolution in 1974 led to the nationalisation of all private financial institutions except for Crédito Agrícola.

During the early 1980s Crédito Agrícola became autonomous from the state-owned bank and reached a peak number of 223 local banks within its network. In 1984 Caixa Central was created as the head body of Crédito Agrícola Group. The following decade saw Caixa Central start to broaden the scope of its activities and to invest in businesses beyond its traditional sphere of retail banking.

The Caixa Central's responsibilities

include coordination and strategic development for the Group, institutional representation, supervision and guidance through powers granted to it by the Central Bank, treasury and liquidity management, and shared services. Alongside the Caixa Central there is the Federação Nacional das Caixas de Crédito Agrícola Mútuo (FENECAM) to represent and defend local banks' interests.

Within the Crédito Agrícola Group structure there are other integrated bodies including non-life and life insurance companies (CA Seguros SA and CA Vida SA), a software/IT development section for shared services provision (CA Informática SA), and a private equity company that manages risk capital funds invested in agricultural and forestry industries (Agrocapital SCR, SA).

The Crédito Agrícola Group serves most of continental Portugal and the Azores Islands. There has been a trend for internal mergers in order to align operational structures and capital structure with the demand for financing corporate projects at the regional level. Across the period 2003–13 the number of local banks in the Crédito Agrícola Group shrank from 120 to 83 and the average net assets per local bank rose from €67 million to €143 million. The Group's overall net assets grew from €8.29 billion to €14.38 billion. Mergers have not reduced Crédito Agrícola's local presence; in fact, from 2003 to 2013 the number of branches grew from 598 to 698. The Group has branches and/or ATMs in 94 per cent of

Portuguese municipalities. In hundreds of those municipalities Crédito Agrícola provides the sole ATM.

In 2012 benchmarking of eight major financial groups in Portugal revealed that Crédito Agrícola Group ranked fourth in terms of numbers of branches and had the lowest loans to deposits ratio at 82 per cent. Its market share for deposits stood at 6.4 per cent and its market share for loans stood at 3.4 per cent across the whole of Portugal, although there are variations between regions.

Importantly, for its aim 'to be recognised as a role model in the financial industry among members, customers, regulatory bodies, partners, employees and the other stakeholders' the Crédito Agrícola Group did not undergo public recapitalisation in 2011–12 when four other banks in Portugal accepted the State's financial aid and submitted restructuring plans. Throughout the Global Financial Crisis, Crédito Agrícola maintained a strong ability to generate capital internally and to exceed the regulatory capital ratio requirements.

1.6 Spain

In this section we look at the functioning of Spain's credit co-operatives and the Spanish national organisation for agri-food co-operatives, Cooperativas Agro-alimentarias.

Credit co-operatives in Spain

In Spain credit co-operatives are affiliated to the Unión Nacional de Cooperativas de Crédito (UNACC). There are three types: people's credit co-operatives, professionals' credit co-operatives, and rural credit co-operatives.

The main purpose of a rural credit co-operative or *caja rural* is to create value for members by providing financial services in rural areas. A *caja rural* must fulfill the condition of having at least one agricultural co-operative as a founding member or fifty members who are individual farm owners. Detailed understanding of members' needs and knowledge of the local socio-economic environment in which members live and work are essential for the staff of a *caja rural*.

According to UNACC figures for 2012, 35 per cent of credit co-operative branches were located in communities with less than 5,000 inhabitants and 22 per cent were located in communities with less than 25,000 inhabitants. Only 12 per cent were located in cities with a population larger than 300,000.

Operational strength depends greatly

upon territorial links and networking within the co-operative sector. Although at the national level banks hold the dominant market share, the reverse is true in various provinces where credit co-operatives are the market leaders for both deposits and loans. In a credit co-operative the set of active transactions with third parties, in other words with non-members, must not exceed 50 per cent of total assets; however, transactions with members of associated co-operatives are not included within this percentage.

Legislation

Under the terms of the Spanish Constitution the state has exclusive powers to set the principles and general legal framework of credit and banking regulation. This means that credit co-operatives must observe, for example: Law 13/1985 on investment ratios and information obligations of financial intermediaries, and Law 19/1988 on the annual auditing of balance sheets and income statements. In addition credit co-operatives must abide by sector specific legislation, notably Law 13/1989 on credit co-operatives and Law 17/1999 on co-operatives. Like banks, credit co-operatives must be authorised to operate by the Ministry of Economy and Competitiveness and be registered as a credit institution in the Bank of Spain Registry.

Deposit Guarantee Fund for Credit Institutions

Prior to 2011 all Spanish credit co-operatives adhered to the Credit Co-

operatives Deposit Guarantee Fund. The Royal Decree-Law 16/2011 dissolved this fund, as well as an equivalent fund that applied to banks, in order to integrate assets into a single Deposit Guarantee Fund for Credit Institutions. The Fund guarantees deposits in banks and credit co-operatives up to a maximum of €100,000 per depositor. To protect depositors the Fund can also carry out actions to strengthen the solvency and operations of a failing institution.

Governance

Democratic decision-making in a credit co-operative is the responsibility of members via a General Assembly. A Governing Council functions like a board of directors to assist the management. To enhance the representation and participation of members in the General Assembly, business is conducted in two stages: the Preparatory Board and the Assembly of Delegates. Members meet first at the Preparatory Board where they are able to deliberate and vote on matters that have been listed on the agenda as well as to appoint their representatives for the Assembly of Delegates. The latter individuals are tasked with direct involvement in the Assembly of Delegates to discuss and reach agreement on matters affecting the credit co-operative.

Reserves, Education and Promotion

There are two compulsory funds in a Spanish credit co-operative. The Fondo de Reserva Obligatorio (FRO) is for the financial consolidation and

development of the co-operative and it receives at least 20 per cent of the available annual surplus as explained below. The Fondo de Educación y Promoción (FEP) is for the social aims of training, education and the promotion of co-operative values, as well as activities for the cultural, social, and environmental welfare of the local community. This fund, regulated by Law 27/1999 on co-operatives, cannot be subject to seizure and cannot be distributed to members.

Allocation of surplus

Spain's Law 13/1989 on credit co-operatives regulates the allocation of annual net surplus, after the deduction of payable taxes and capital interest and the coverage of any losses from the previous year's activity. The net surplus is divided up and allotted proportionally as follows: at least 20 per cent goes into the Fondo de Reserva Obligatorio (FRO), at least 10 per cent goes into the Fondo de Educación y Promoción (FEP), and the remainder is at the disposal of the General Assembly. The Assembly may decide for example upon a return to members, an allocation to voluntary reserve funds, or an employee share in the profit depending on the solvency ratio and certain rules applicable to the first three years of the co-operative's operation.

Sector restructuring

Since the Global Financial Crisis there have been profound alterations in the Spanish financial system. Javier Aríztegui, deputy governor of the Bank

of Spain, explains: 'The reform has covered all entities of the banking sector and it has addressed many different aspects of the business organisation.' Restructuring of savings banks began with the approval of Royal Decree-Law 9/2009, followed by reform of the Savings Law, then a recapitalisation process launched by Royal Decree-Law 2/2011.

Strikingly, credit co-operatives demonstrated far greater capacity than banks to meet the more stringent regulations. In 2011, on the Bank of Spain's list of entities able to meet the new capital requirements, 60 out of 110 entities were credit co-operatives, representing 100 per cent of all consolidated groups containing all of Spain's credit co-operatives. To understand this success requires a closer look at how Spanish credit co-operatives have consolidated.

Article 78 of the Law 17/1989 sets the requirements for the establishment of a 'co-operative group', made up of 'several co-operative societies, whatever their class' whose incorporation into a group is formally recognised in the statutes. From a regulatory point of view, especially with regard to solvency, it is the consolidated group that matters. From 2009 to 2012 in a process UNACC describes as 'quiet consolidation' the emergence of consolidated co-operative groups reduced by one half the number of individual entities. The two mechanisms used have been mergers and institutional protection schemes.

Four of the consolidated groups of credit co-operatives created over recent years in Spain are: Grupo Cooperativo Cajamar (2009), Grupo Cooperativo Cajas Rurales del Mediterráneo (2010), Grupo Cooperativo Ibérico (2011) and Grupo Cooperativo Solventia (2011). In each case the pattern has been broadly similar whereby numerous individual entities have merged and integrated into the group. For example, the creation of Grupo Cooperativo Cajas Rurales del Mediterráneo was instigated through merger of the rural credit co-operatives of Alicante, Elche, Valencia and Credicoop from Castellón. More *cajas rurales* became involved in merger and incorporation that meant this group continued to grow and concentrate assets.

It is important to note that the phenomenon of credit co-operative mergers was apparent in Spain before the Global Financial Crisis. This is not a new trend but rather one that has accelerated over recent years. Over the two decades 1991–2011 the number of Spanish credit co-operatives shrank from 108 to 74. Concurrently there has been overall growth and unprecedented concentration of assets in the sector. By the end of 2011 the top ten credit co-operatives managed more than €96.5 billion and, of this amount, the ten largest consolidated groups managed four out of every five euros.

Effects of consolidation

There are all kinds of ways in which the effects of consolidation might be studied and measured, not least in

terms of member participation in decision-making and member satisfaction that value is created by their credit co-operative. Without entering into detailed analysis some quantitative data from UNACC for the period 2008–11 allows us to see at a basic level the impact of sector restructuring in financial and operational terms.

In 2008 a fragmented credit co-operative sector of eighty-one existing entities managed a total set of assets amounting to just over €113 billion or 3.68 per cent of the total assets held by all deposit-taking institutions in Spain. The average volume of assets held by a credit co-operative was about €1.39 billion. In 2011 the number of credit co-operatives stood at seventy-four but more significantly there were forty-eight consolidated groups. The total set of assets managed amounted to €127 billion, an increase of 12 per cent from the 2008 figure. The average volume of assets per credit co-operative was over €1.7 billion, an increase of 23 per cent from the 2008 figure.

The achievement of social aims in the sector occurs through activities undertaken using the Fondo de Educación y Promoción (FEP) to which over €20 million were allocated in 2011. Credit co-operatives created jobs for some 20,000 people, 42 per cent of whom were women, and the geographical spread of branch offices showed a high rural proportion with one in three branch offices in municipalities with a population of less than 5,000.

Across a period of acute economic stress, bank failures, and regulatory reform, the membership of Spanish credit co-operatives grew by half a million in five years to reach nearly two and half million in 2011. Spanish people have reason to trust in the credit co-operative model because, unlike banks, these institutions have not transferred losses to government but rather continued to create and preserve wealth for future generations.

Cooperativas Agro-alimentarias

Since 2009 Cooperativas Agro-alimentarias has been the body that represents the interests of Spain's agricultural co-operative movement. It encompasses sixteen federations and territorial unions of agri co-ops as well as Agrocantabria, which is a secondary co-operative. Cooperativas Agro-alimentarias provides training and advisory services through its offices in Madrid and Brussels. Through interaction with Spain's national administration and the European Union, it defends the social and economic interests of over 3,840 agricultural co-operatives with a combined annual turnover of €25.6 million.

The origins of this body go back to the Freedom of Association Act passed shortly after the creation of Spain's constitutional monarchy that facilitated the work of two national organisations, AECA and UCAE, which merged in 1989 to become the Spanish Confederation of Agricultural Co-operatives. Two decades on, the change in name to Cooperativas Agro-alimentarias was intended to

promote agricultural co-operatives as a dynamic integrated force adapting to current markets.

Cooperativas Agro-alimentarias has a General Assembly that meets once per year, plus an Executive Council, Cross-sectoral Council, Sectoral Councils and Management Board of the Federations and Territorial Unions. Of the latter bodies those that meet most regularly are the Sectoral Councils, which manage and represent co-ops within distinct areas of trading activity, and the Management Board, which makes budgetary decisions, puts into action, and follows up the execution of common projects of the Federations and Territorial Unions.

At the international level Cooperativas Agro-alimentarias represents Spain's agricultural co-operatives in COGECA. Eduardo Baamonde, the general manager of Cooperativas Agro-alimentarias, was the COGECA's chairman for two years until December 2005.

Cooperativas Agro-alimentarias defines its responsibility as being to champion agricultural co-operation as an entrepreneurial model enabling arable farmers and livestock keepers to participate more fully in the added value of their products, thus bringing more transparency and stability to agricultural markets. It argues for the social advantages of the co-operative formula in creating and maintaining employment and contributing to the sustainability of rural development. Cooperativas Agro-alimentarias also

emphasises the benefit of co-operation as a control mechanism for the traceability, quality and safety of agri-food goods right along the chain from producer to consumer.

1.7 Sweden

In this section we look at Sweden's Landshypotek Bank founded with the aim and promise of 'a richer life in the country'.

Landshypotek Bank

Landshypotek Bank is a member-owned bank that specialises in lending to Swedish agriculture and forestry. Its historical origins go back to 1836 when a rural building society was formed in Skåne to provide farmers with loans secured by mortgages in agricultural properties. Twenty-five years later Sveriges Allmänna Hypoteksbank was founded to facilitate building societies' borrowing. Then in 1995 ten rural building societies merged into a single owner association and the association's subsidiary Landshypotek AB was created.

In November 2012 the Swedish Financial Supervisory Authority granted a licence to Landshypotek AB to conduct banking operations. In April 2013 registration as a bank was completed under the name Landshypotek Bank AB (publ). The past year has seen continued development to meet the growing regulatory requirements and increasing capital requirements.

The co-operative parent association

Landshypotek Bank is a wholly owned subsidiary of Landshypotek ekonomisk förening, a co-operative association owned by its 45,000 members. All borrowers from Landshypotek Bank

become members of Landshypotek ekonomisk förening. Each member has one vote at the association's annual general meeting.

Lars Öhman, chairman of Landshypotek ekonomisk förening, explains: 'Having our own bank is important for us as farmers and foresters. Favourable financing terms enable us to develop our operations and continue to live and run businesses in the countryside, which is crucial for a thriving countryside.'

There are ten regions within the co-operative association and the board of each region has up to eight elected representatives. Owners' control of the association is exercised through regional meetings and the association meetings. In March 2014 the regional meetings were organised on the theme 'The Countryside's Future'.

Code of Governance

The statutes of Landshypotek ekonomisk förening were adopted most recently on 5 May 2012. These statutes set out the purpose of the co-operative association and stipulate regulations about who can be appointed as a board member.

In December 2004 the Swedish Corporate Governance Code was published. The following year the Federation of Swedish Farmers drafted the Code of Governance of Co-operative Agricultural Associations and Association Enterprises to correspond with the special conditions that prevail in the agricultural co-operative sector.

At Landshypotek ekonomisk förening the board of directors and managing director serve in accordance with the Swedish Association Act, the statutes, the Code of Governance for Co-operative Agricultural Associations and Association Enterprises as well as adopted policies, guidelines and instructions. The board comprises twelve members, one of whom is also a board member of Landshypotek Bank AB. Two members are employee representatives.

External auditors are appointed annually at the association meeting. Any surpluses in Landshypotek Bank are reinvested in operations and distributed to loan customers who are members of Landshypotek ekonomisk förening. Based on earnings for 2013 it was proposed to return SEK 142 million distributed to members of Landshypotek ekonomisk förening.

Local presence and expertise

In addition to its head office in Stockholm and customer service centre in Linköping, there are nineteen sales offices for Landshypotek Bank across Sweden. These offices are located in Falkenberg, Gävle, Gothenburg, Härnösand, Jönköping, Kalmar, Karlstad, Kristianstad, Linköping, Lund, Nyköping, Skara, Skellefteå, Stockholm, Uppsala, Visby, Växjö, Örebro, and Östersund. All account managers at the offices have a background in agriculture and forestry.

The sales organisation has access to a network of elected representatives who run agricultural businesses themselves,

serve as ambassadors for the bank, and carry out valuations. This local presence and expertise in agriculture and forestry are viewed as essential to the bank's operations.

Products and services

In 2013 Landshypotek Bank's lending to the agriculture and forestry sectors amounted to slightly more than SEK 60 billion. The bank offers farmers and foresters first lien mortgage loans up to 75 per cent of the appraised market value against real property as collateral. It owns a subsidiary Landshypotek Jordbrukskredit AB that offers other types of loans to farmers and foresters.

Over the past two years Landshypotek Bank has replaced its entire IT platform. The new platform has been designed to support the possibilities for developing a digital bank for savers in 2014. A forest account is being introduced and this initiative is part of expanding the range of specialist savings products to meet the needs of customers.

During 2013 Landshypotek Bank increased its net lending by SEK 1.8 billion and demand for credit from Sweden's farmers and foresters remained high. The primary driver for this demand was property transactions in the agricultural and forestry sectors. Deposits amounted to SEK 2.1 billion at the end of 2013. Whilst the main purpose of Landshypotek Bank is to provide financial services to Sweden's farmers and foresters, it has recently introduced savings accounts that offer competitive interest rates for the

general public in Sweden.

In 2013 Landshypotek Bank received an A rating from Standard & Poor's and an A+ rating with stable prospects from Fitch that confirmed the bank's healthy capital position and leading market position for financing agriculture and forestry.

To help raise the bank's profile among the general public, Landshypotek Bank took part in the TV programme 'Sveriges Skönaste Gårdar' (Sweden's Most Beautiful Farms) that showcases dedicated farmers with a passionate interest for their products.

Part 2

2.1 Banking regulation

Since 1988 the Basel Committee on Banking Supervision, an intergovernmental group with its secretariat based in Basel, Switzerland, has set capital standards for commercial banks that pursue activity internationally. The Committee's rules, known as the Basel Accords, have now reached their third version. The Basel III Accords provide correctives to some of the weaknesses identified in the Basel II Accords in the wake of the Global Financial Crisis.

Capital requirements

With respect to regulatory capital, Basel III revises the previous three-tier system by eliminating the former tier 3 type of regulatory capital and splitting tier 1 into two categories. In Basel III the most desirable classification for a capital instrument, reflecting its degree of permanence and ability to absorb losses, is Common Equity Tier 1 (CET1), which includes retained earnings, disclosed reserves, common shares issued by joint stock companies, and co-operative shares that meet certain terms and conditions. Basel III sets the minimum percentages that a financial institution must have for different types of capital recorded as risk-weighted assets. It also introduces a method for testing whether a capital instrument is Basel III-compliant.

Because co-operative financial institutions engage in lending, deposit

taking, payments services and other business activities that banks engage in, the Basel Accords are applicable to them. Originally there were no separate international standards for co-operative finance and countries such as Australia, Brazil, Bolivia, and Canada implemented rules for regulatory capital in credit unions that are based on the Basel Accords. In developing and updating regulation the Basel Committee's intention was to allow co-operative shares with a high degree of permanence and ability to absorb losses to qualify as CET1 capital, but there was little attempt by the committee to specify how this would work in practice.

In 2011, however, the International Credit Union Regulators' Network (ICURN) published its document *Guiding Principles: Effective Prudential Supervision of Co-operative Financial Institutions*. On the subject of capital adequacy the ICURN emphasised the need for 'rules for an appropriate capital framework' that 'should balance co-operative principles and objectives with the need to protect depositors.' The ICURN recommendations are to adopt a simplified approach for small co-operative financial institutions that are not allowed to hold complex financial instruments and for which very advanced risk measurement techniques would be beyond their resources to implement.

Economic and Monetary Union

From May 2012 member states of the European Council were in agreement on the need to proceed towards making

economic union commensurate with monetary union. The proposal for future Economic and Monetary Union (EMU) that the president of the European Council Herman Rompuy presented in June 2012 had four planned components: an integrated financial framework or banking union, an integrated budgetary framework, an integrated economic policy framework, and democratic legitimacy and accountability. In November 2012 the European Parliament adopted the report *Towards a Genuine Economic and Monetary Union* and the following month the European Council confirmed the setting up of a Single Supervisory Mechanism for all banks in the Eurozone.

Representations

Coinciding with the United Nations International Year of Co-operatives, there were efforts to encourage policy makers and regulators to recognise the specificities that distinguish local co-operative financial institutions from other banks. An appeal was addressed to heads of states and governments in the European Union, to the presidents of the European Commission, European Parliament and European Council, and to the presidents of the European Systemic Risk Board, European Banking Authority, European Securities and Markets Authority, and European Insurance and Occupational Pensions Authority.

This appeal, written by participants in the conference 'Promoting the Understanding of Co-operatives for a

Better World', stressed that the new regulations and supervisory requirements would impose disproportionate costs on most co-operative financial institutions, and that the requirements were inconsistent with the co-operative business model and governance structure. There were recommendations to estimate the impact of the new regulations on different types of banking models and enterprises, and to re-evaluate the timescale for their introduction.

Single Rulebook

The creation of a Single Rulebook for banks in the European Union is one of the main steps on the path to Economic and Monetary Union. It has three core legislative components and two new mechanisms designed to bring about banking union: the Capital Requirement Legislative Package (known as CRD IV - CRR), the Bank Recovery and Resolution Directive (BRRD), the Directive on Deposit Guarantee Schemes (DDGS), the Single Supervisory Mechanism, and the Single Resolution Mechanism.

With its remit to represent, promote, and defend the common interests of co-operative financial intermediaries, the European Association of Co-operative Banks (EACB) has developed various position papers in response to the legislation and mechanisms for the Single Rulebook. In summary, on the Capital Requirement Legislative Package (CRD IV - CRR), that began to be phased in from 1 January 2014, the EACB's overall aim was to ensure proportionate regulation that recognised the way in

which co-operative financial institutions operated as decentralised networks embedded in local communities with very particular liquidity systems. The EACB contributed to defining the treatment of co-operative groups and provisions designed for co-operatives in the definition of capital (common equity).

On the Bank Recovery and Resolution Directive (BRRD), that applies from 1 January 2015 and introduces a framework for restructuring failing banks by requiring shareholders and creditors to bear losses by converting debt to equity (known as 'bail-in'), the EACB highlighted the difficulties of 'bail-in' and accessing resources for resolution for co-operative financial institutions.

On the Directive on Deposit Guarantee Schemes (DDGS), that applies from 2015 and preserves the harmonised coverage of €100,000 per depositor and per bank, the EACB welcomed the continuation of keeping Deposit Guarantee Schemes national, in acknowledgement of the different models that operate among EU member states.

With the shifting of ultimate responsibility for the supervision of banks to the European Central Bank, co-operative financial institutions must adjust to a new supervisory architecture. The EACB welcomed the prospect of more direct supervision for large banks with national bodies continuing to play a role in supervising smaller banks. From November 2014 the European Central Bank began

preparation for comprehensive assessment of banks' balance sheets that was recognised to be a major challenge but essential to foster transparency and restore confidence in the stability of the banking sector.

Banking Business Models Monitor

In December 2014 the Banking Business Models Monitor was launched at the European Parliament. This Monitor is a joint publication by the Centre for European Policy Studies (CEPS), the International Research Centre on Financial Co-operatives and the International Observatory on Co-operatives at HEC Montréal. Among the findings are that co-operative financial institutions that follow the retail and diversified banking business models have performed relatively well compared to savings and commercial banks and shown resilience in the face of external shocks. According to Rym Ayadi, senior research fellow at CEPS and Professor of International Banking and Financial Systems, these institutions 'weathered well the financial and economic crises due to their high capitalisation levels, continued to lend to the real economy and overall remained largely resilient and robust'.

Further discussion on the performance of co-operative financial institutions was expected at the sixth EACB convention in Brussels on 3 March 2015, The Co-operative banking difference: towards economic growth.

2.2 Alternative finance

The authors of *Understanding Alternative Finance* (Nesta, 2014), a report that examines the trends and underpinning dynamics of the alternative finance industry in the UK, offer some pointers to aspects of this industry that as yet remain unexplored by researchers. For example, until there is sufficient data on the life cycles of businesses that have benefited from equity based and reward based crowdfunding, it will be impossible to track and document business performance and longevity. Similarly not enough is known at present about relationships between institutional and non-institutional investors, or about how alternative finance is being leveraged by social enterprises, community organisations and voluntary groups. Future lines of research may also provide answers to questions about cross-border investment activities and funding. 'Given the amount of transnational financing flow already being facilitated on many platforms, there is a need to further the alternative finance research within a European and global context.'

Italy has been an early starter for legislative developments in equity crowdfunding within Europe. At the end of 2012 a taskforce of experts for the Minister of Economic Development issued the white paper *Restart Italia* that led the Italian Parliament to pass a new law concerning start-ups. Six months later Italy's Commissione Nazionale per le Società e la Borsa (CONSOB) introduced a regulation for

raising risk capital for 'innovative start-ups' via online platforms. Within a year nine platforms had been registered in Italy; the first three were Unicaseed, StarsUp and Assiteca Crowd.

Agricultural and forestry ventures are starting to make appearances on these crowdfunding platforms but not in a big way. Paulownia Social Project, SFR, a Short Rotation Forestry proposal, was funded on the Assiteca Crowd platform for €520,000. There were twelve investors and the average contribution amounted to €34,000.

Prospects for developing the market for equity crowdfunding in Italy will depend upon a number of factors. Perhaps the most critical of those factors are the strict limitations imposed by the legislation and Italian investors' appetite for risk. As Milan hosts the 2015 Global Entrepreneurship Congress and Expo it is likely to be an interesting year in which to watch the progress of equity crowdfunding in Italy.

Concluding remarks

In Europe it will continue to be important for co-operative enterprises and academia to share knowledge of banking sector developments and financial innovations. Occasions such as the COGECA business forum in Brussels help bring issues to light and stimulate debate but the exchange should be ongoing outside such special events. Theory and practice need to be explored as fresh data is gathered on the impacts of financial innovation within businesses, which in turn will expand opportunities for subsequent research on the wider impacts upon the economy and society.

In June 2015 the European Research Institute on Co-operative and Social Enterprises (EURICSE) will host the Sixth International Workshop on Co-operative Finance and Sustainable Development in Trento, Italy. As the organisers of the workshop write: 'Both structural changes and the recent financial crisis have created a context where, at least at the local level, the model of financial intermediation that credit co-operatives follow is encouraged to flourish: some peripheral communities and sectors are confronted with a more restricted set of options, while certain sections of the population face increased difficulties to gain access to the financial system. Such a context is indicative of the role that credit co-operatives can play in "plugging the gap between local need and the mainstream services".'

Challenges for co-operative financial institutions include the steps towards

introduction of the Eurozone banking union, their modest capacity to diversify credit risk, the requirement to weigh the options for scaling up capital, and the pros and cons of equity coming from financial investors that threaten to divert these institutions from their mission to serve members' needs and support local communities.

Opportunities include a refocussing of attention on co-operative financial institutions' multi-faceted purpose and performance, analysis of governance issues in mutual finance, research into solutions for diversifying credit risk, and discussion about how to make co-operative membership meaningful for those who choose to 'bank differently'.

Appendix

Members of the European Association of Co-operative Banks (EACB)

Austria

Fachverband der Raiffeisenbanken

Am Stadtpark 9
A - 1030 WIEN
Tel.: +43 1 717 07 12 70
Fax: +43 1 717 07 24 96
www.raiffeisen.at

Österreichischer Genossenschaftsverband (Schulze-Delitzsch)

Löwelstrasse 14-16
A - 1013 WIEN
Tel.: +43 1 313 28 0
Fax: +43 1 313 28 450
www.oegv.volksbank.at

Bulgaria

Central Co-operative Bank

103, G.S. Rakovski Street
BG - 1000 SOFIA
Tel.: +359 2 92 66 107/122
Fax: +359 2 98 88 107
www.ccbank.bg

Cyprus

Co-operative Central Bank Ltd.

8, Gregory Afxentiou Street
CY-1096 NICOSIA
Tel.: +357 22 74 30 00
Fax: +357 22 67 02 61
www.coopbank.com.cy

Finland

OP-Pohjola Group

Teollisuuskatu 1b - P.O. BOX 308
FIN - 00101 HELSINKI
Tel. : +358 10 252 011
www.op.fi

France

Confédération Nationale du Crédit Mutuel

88-90, rue Cardinet
F - 75017 PARIS
Tel.: +33 1 44 01 10 10
Fax: +33 1 44 01 12 30
www.creditmutuel.fr

Fédération Nationale du Crédit Agricole

48, rue La Boétie
F - 75008 PARIS
Tel.: +33 1 49 53 43 23
Fax: +33 1 49 53 44 81
www.credit-agricole.fr

BPCE

50, avenue Pierre Mendès
F - 75201 PARIS Cedex 13
Tel.: +33 1 58 40 41 42
Fax: +33 1 40 39 60 01
www.bpce.fr

Germany

Bundesverband der Deutschen Volksbanken und Raiffeisenbanken – BVR

Schellingstrasse 4
D – 10785 BERLIN
Tel.: +49 30 20 21 0
Fax: +49 30 20 21 19 00
www.bvr.de

DZ BANK AG

Platz der Republik

D - 60265 FRANKFURT AM MAIN 1
 Tel.: +49 69 74 47 01
 Fax: +49 69 74 47 16 85
 www.dzbank.de

Greece

Association of Co-operative Banks of Greece

50, Skoufa Str Kolonaki
 GR - 106 82 ATHENS
 Tel.: +30 1 36 36 311
 Fax: +30 1 36 10 210
 www.este.gr

Hungary

National Federation of Savings Co-operatives

Fogaskerekü u. 4-6
 H – 1125 BUDAPEST
 Tel.: +36 1 488 08 73
 Fax: +36 1 488 08 61
 www.takarekszovetkezetek.hu

Italy

Associazione Nazionale fra le Banche Popolari

Piazza Venezia 11
 I - 00187 ROMA
 Tel.: +39 06 69 535 203
 Fax: +39 06 679 55 58
 www.assocpopolari.it

Federazione Italiana delle Banche di Credito Co-operativo- Casse Rurali ed Artigiane

Via Lucrezia Romana, 41 – 47
 I - 00178 ROMA
 Tel.: +39 06 7207 1
 Fax: +39 06 7207 2790
 www.creditcooperativo.it

Luxembourg

Banque Raiffeisen Luxembourg

Rue Charles Martel, 46
 L - 2134 MERL
 Tel.: +352 24 50 1
 Fax: +352 22 75 41
 www.raiffeisen.lu

The Netherlands

Rabobank Nederland

Croeselaan 18
 NL - 3500 HG UTRECHT
 Tel.: +31 30 216 18 54
 Fax: +31 30 216 00 00
 www.rabobank.nl

Portugal

FENACAM – Federação Nacional das Caixas de Crédito Agrícola Mútuo, F.C.R.L.

R. Professor Henrique Barros, Nº 4, 7º
 P - 2685-338 PRIOR VELHO
 Tel.: +351 (21) 313 69 00
 Fax: +351 (21) 313 69 91
 E-mail:
 fenacam.direccao@creditoagricola.pt
 www.fenacam.pt
 www.creditoagricola.pt

Romania

Central Co-operatist Bank Creditco-op

Plevnei Way 200
 Sector 6
 RO - BUCHAREST
 Tel.: +40 21 317.74.05
 Fax: +40 21 317 74 86
 www.creditcoop.ro

Slovenia

Deželna banka Slovenije d.d.

Kolodvorska ulica 9
SI-1000 LJUBLJANA
Tel.: +386 1 4727 100
Fax: +386 1 4727 405
www.dbs.si

Spain

**Unión Nacional de Cooperativas de
Crédito**

Alcalá 55, 3º derecha
E - 28014 MADRID
Tel.: +34 91 781 94 18
Fax: +34 91 578 38 24
www.unacc.com

Sweden

Landshypotek AB

Strandvägen 1, 1st floor
S – 10441 STOCKHOLM
Tel.: +46 8 459 04 00
Fax: +46 8 459 01 21
www.landshypotek.se

Members of Unico Banking Group

Crédit Agricole
DZ Bank
Raiffeisen Bank International
Rabobank
Iccrea Banking Group
OP-Pohjola
Banco Cooperativo Español
Raiffeisen Group

Selected sources

Books and reports

Carini, C. and S. Depedri (2012). *La Cooperazione sociale agricola in Italia: Una panoramica dai dati camerali*. EURICSE Research report. Trento.

Coop de France (2013). *Coopératives agricoles 2013 l'essentiel*. Paris.

Cooperazione Trentina (2014). *Guida alla Cooperazione Trentina: storia, valori e regole del movimento cooperativo nel contesto internazionale*. 5 ed. Trento.

EURICSE (2011). Raiffeisenverband Südtirol and Cooperazione Trentina. *Mountain Agriculture and the Common Agricultural Policy: Position Paper on the CAP post-2013*. Trento.

European Commission (2012). *Support for Farmers' Co-operatives: Final Report*. Wageningen.

European Agri-co-operatives (COGECA) (2014). *Development of Agricultural Co-operatives in the EU*. Brussels.

Guinnane, T., S. Paul, T. Theurl, H. Wixforth, J. Schltzyseck, and P. Bormann (2013). *Die Geschichte der DZ Bank: Das genossenschaftliche Zentralbankwesen in Deutschland vom 19. Jahrhundert bis heute*. Munich.

International Credit Union Regulators' Network (ICURN) (2011). *Guiding Principles: Effective Prudential Supervision of Co-operative Financial Institutions*. Madison.

Köhn, D. ed. (2014) *Finance for Food: Towards New Agricultural and Rural Finance*. Heidelberg.

Moore, J. (2012). 'Alternative Financing Methods' In K. H. Baker and L. A. Riddick, *International Finance: A Survey*. Oxford: Oxford University Press, ch. 26.

Nesta (2014). *Understanding Alternative Finance: The UK Alternative Finance Industry*. London.

Organisation for Economic Co-operation and Development (OECD) (2014). *The Co-operative Model in Trentino - Italy*. Paris.

Zago, A. and P. Dongili (2014). 'Financial Crisis, Business Model and the Technical Efficiency of Italian Banche di Credito Cooperativo' Quaderni Ricerca del Credito Cooperativo No. 4. Verona.

Websites

France

www.coopdefrance.coop

www.credit-agricole.fr

www.lemois-ess.org

www.terredeliens.org

www.lanef.com

Germany

www.dgrv.de

www.bvr.de

www.dzbank.de

Italy

www.creditocooperativo.it

www.cooperazionetrentina.it

The Netherlands

www.cooperatie.nl

www.rabobank.nl

Portugal

www.creditoagricola.pt

Spain

www.unacc.com

www.agro-alimentarias.coop/inicio

Sweden

www.landshypotek.se

European Association of Co-operative Banks (EACB)

www.eacb.coop

European Research Institute on Co-operative and Social Enterprises (EURICSE)

www.euricse.eu

General Confederation of Agricultural Co-operatives in the European Union (COGECA)

www.copa-cogeca.eu/Menu.aspx

International Co-operative Banking Association (ICBA)

www.icba.coop

International Credit Union Regulators' Network (ICURN)

http://curegulators.org/curegulators_about

International Raiffeisen Union (IRU)

www.iru.de

Nesta - Innovation in the UK

www.nesta.org.uk

Unico Banking Group

www.unicobankinggroup.eu

World Council of Credit Unions (WOCCU)

www.woccu.org



University of Aberdeen
King's College
Aberdeen AB24 3FX
Scotland
www.abdn.ac.uk

Scottish Agricultural Organisation
Society Ltd
The Rural Centre
West Mains, Ingliston
Newbridge EH28 8NZ
Scotland
www.saos.coop