



Co-operative banks:

*Catalysts for economic and social cohesion in Europe*



EUROPEAN ASSOCIATION OF CO-OPERATIVE BANKS  
GROUPEMENT EUROPÉEN DES BANQUES COOPÉRATIVES  
EUROPÄISCHE VEREINIGUNG DER GENOSSENSCHAFTSBANKEN

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# The European Association of *Co-operative Banks*

The Association of Co-operative Banks was established in 1970. It represents, promotes and defends the interests of its members and co-operative banks in general. In this role, the Association is the official spokesman vis-à-vis the European institutions. With a view to fulfilling these objectives, the mission of the Association is:

- To provide information to members on all initiatives and measures taken by the European Union that affect the banking sector;
- To organize an exchange of views and experiences and to co-ordinate member organisations' positions on issues of common interest;
- To carry out efficient and active lobbying of European institutions;
- To develop positions on issues of common interest.

The European Association of Co-operative Banks fosters co-operation between co-operative banking groups. Furthermore, with the other representative co-operative organisations, the Association promotes the spirit of co-operation throughout the banking sector and beyond. In order to fulfil these goals, the Association is one of the founding members of the European Banking Industry Committee (EBIC), the European Payments Council (EPC), the former European Committee for Banking Standards (ECBS) and the European Financial Reporting Advisory Group (EFRAG). The Association also maintains close contacts with UNICO and the International Confederation of Popular Banks (Confédération Internationale des Banques Populaires: CIBP). It is a founding member of Co-operative Europe. The Association furthermore chairs the European Regional Committee of the International Co-operative Banking Association (ICBA). The Association maintains close links with the International Raiffeisen Union (IRU), the Confédération Internationale du Crédit Agricole (CICA) and the World Council of Credit Unions (WOCCU).





# Executive Summary

**The European Union has made strengthening social cohesion a clear priority and the European co-operative banks also focus considerable attention on the topic.**

The EU carries out policy in numerous areas that is aimed at strengthening cohesion by reducing the disparities in the income levels

between regions, stimulating employment and enterprise and reducing exclusion and discrimination of specific groups. This year also marks the fiftieth anniversary of the Treaty of Rome. The mission of strengthening the economic and social structure in Europe that government leaders adopted with the Treaty of Rome remains relevant and topical today. Substantial differences remain between the regions and poverty in Europe has still not been eradicated. The expansion of the European Union has made the issue even more relevant.

This report outlines initiatives of co-operative banks in the field of local development, stimulating enterprise, providing access to financial services and supporting local organisations.

It has been drafted in connection with the Second Co-operative Convention of Co-operative Banks that centres on the theme

‘Co-operative Banks: Catalysts for economic and social cohesion in Europe’. The report is based on practical examples from the members of the European Association of Co-operative Banks (EACB) and on literature research.

*(...) a meaningful contribution towards strengthening economic development and social cohesion.*

*(...) because their members live and work in the local community.*

The report reveals that co-operative banks make and also wish to make a meaningful contribution towards strengthening economic development

and social cohesion. They perform a far-reaching role in the regional and local economy both as financiers of the SME sector and as retail banks that have large networks for retail customers. Co-operative banks go further

than commercial banks in this regard. They provide access to finance to customers in regions which would typically not be served by other players of the credit sector due to decisions based on profitability criteria alone. Both co-operative banks and policy makers can learn a great deal from the diverse range of initiatives from the local co-operative banks in Europe.

Several key policy messages can be derived from this report. The most important message is that the co-operative banks that are united in the EACB are requesting that more attention be given to the way in

which co-operative banks are organised and how the business model operates. Local networks and the diversity of the business models ensure strong embedding into the local economy and create considerable flexibility. While co-operative banks are also

not immune to consolidation and globalisation, they also acknowledge the importance of the counter development of regionalisation and the need to promote diversity and local culture. This reflects the fact that co-operative banks listen carefully to the needs of the community in which they operate. This is because their members live and work in the local community.



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# Introduction

Social cohesion can broadly be defined as the relationships among groups. It is a highly current issue within the European Union and within the individual Member States. The topicality of social cohesion is illustrated by the fact that the current German chairmanship<sup>1</sup> of the European Union is based on the motto 'Europe - Succeeding together'. The main focus will be on increased co-operation and unity within Europe. In today's enlarged European Union that comprises 27 Member States, new agreements are required regarding the institutional future in order to remain effective. The distance between citizens and European institutions must also be reduced in order to strengthen support for European co-operation.

The Second Convention of Co-operative Banks will focus on the following theme: 'Co-operative Banks: Catalysts for economic and social cohesion in Europe'. In connection with this Convention, the European Association of Co-operative Banks (EACB) has commissioned a study of the current and future contribution that co-operative banks can make towards strengthening social cohesion. The objective of this report is to clarify the important role that the local networks of co-operative banks can play with regard to social cohesion and to provide an overview of the policies that co-operative banks follow in this area.

The first chapter of the report looks at the definitions of the term social cohesion and examines the topic within the context of policy. The second chapter describes the contribution of co-operative banks to social and economic cohesion and addresses the subtopics of access to finance, affordability of mortgages for first-time homebuyers and low income groups, promotion of SME finance, microcredits, support for the integration of vulnerable groups, investment in education and training and support for non-profit organisations. It examines these topics by presenting examples of activities that local member banks carry out at the local level. The third chapter provides an explanation of two aspects of the business model of co-operative banks that are especially noteworthy within the context of social cohesion policies. The final chapter examines the conclusions that can be drawn from the study of social cohesion.

# Definition of social cohesion

## Social cohesion encompasses economic, social and cultural aspects

Social cohesion is a complex concept that cannot be defined in simple terms. Social cohesion encompasses economic, social and cultural aspects. The economic aspect involves disparities in income and employment from region to region and varying opportunities for development, for example through education. The social aspect of social cohesion includes participation in society, social relations among people, integration, quality of life, living standards and, for example, safety. The cultural side of social cohesion embodies factors such as identity, cultural diversity and differences in norms and values. For instance, different cultures hold very different views on issues relating to emancipation, such as women's participation in the workforce and the division of tasks between men and women with regard to raising children.

The Council of Europe employs the following definition of social cohesion that centres on the aspects of welfare, preventing exclusion and human rights. It defines social cohesion as the: 'Capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation. Social cohesion must be firmly based both on human rights (as codified in the European Convention on Human Rights and the Revised European Social Charter) and on an acceptance of shared responsibility for the welfare of all members of society, especially those who are at risk of poverty or exclusion.'<sup>2</sup>

A definition that, in particular, corresponds well with the structure and activities of co-operative banks is the definition put forward by the Canadian government. The Canadian government defines social cohesion as a 'permanent process made up of common values and common challenges, as well as equal opportunities, based on ideals of trust, hope and reciprocity among all individuals (...) social cohesion is centrally about the willingness of people to co-operate and engage in voluntary partnerships. It is manifested directly in socially cohesive activities and practices: such as participation in formal and informal social networks, group activities and associations and participation in

civic life. The dimension of active participation in society is key.'<sup>3</sup> This definition corresponds well to that of the co-operative banks because the members of the co-operative banks are also part of the local communities and there are different links among the members. The elected directors of local member banks, for example, generally also hold manager/officer positions at local businesses and at municipal or provincial government bodies.

*(...) The dimension of active participation in society is key. (...)*

## Strengthening social cohesion is a top priority for Europe

The Treaty of Rome emphasises the disparities in development among regions and the disadvantaged position of weak regions. The Treaty clearly states that it is the responsibility of the European Community to strengthen the economic and social structure within the Community<sup>4</sup>:

'In order to promote its overall harmonious development, the Community shall develop and pursue its actions in leading to the strengthening of its economic and social cohesion. In particular,

the Community shall aim at reducing the disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas.'

*(...) minimising disparities and avoiding polarisation.*



# and the related policy context

More recently, the Lisbon Agenda also designates reducing poverty, income disparities and exclusion as top priorities. In defining the Lisbon Strategy at the European Summit in Lisbon in 2000, the European heads of State set themselves an ambitious agenda to turn Europe into 'the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion within a decade.' The Lisbon strategy promotes the idea of a positive interaction between economic, employment and social policies and aims to promote a model of sustainable development for the Union.

The fight against poverty and social exclusion remains a major challenge for the European Union and its Member States. According to a 2005 study conducted by the European Commission, more than 68 million EU inhabitants or 15% of the EU population were living below poverty level in 2002. This figure ranges from 10% or less in the Czech Republic, Sweden, Denmark, Hungary and Slovenia to 20% or more in Ireland, the Slovak Republic, Greece and Portugal. The study further illustrates that unemployment is a very important factor for social exclusion. Improving employment is therefore one of the main objectives of the social and economic policies.<sup>5</sup>



The Council determines the budget for the social and economic policies in the Financial Perspectives. In order to gain an idea of the amounts involved, according to a December 2005 Commission financial proposal, 0.37% of Gross National Income will be allocated to cohesion policies (structural funds and the Cohesion fund). This means that a figure of € 307 billion has been earmarked for the period of 2007-2013 (calculated in 2004 prices).<sup>6</sup> Furthermore, the European Investment Bank (EIB) provides € 45 billion for loans to projects in the EU. Two thirds of this amount are aimed at strengthening social cohesion. The European Commission is also a partner in many of the projects that the EIB finances.<sup>7</sup>

According to the Joint Report on Social Protection and Social Inclusion<sup>8</sup>, the European Union has placed high importance on the following seven key policy priorities:

- 1 **Increasing labour market participation**
- 2 **Modernising social protection systems**
- 3 **Tackling disadvantages in education and training**
- 4 **Eliminating child poverty**
- 5 **Ensuring decent accommodation**
- 6 **Improving access to quality services**
- 7 **Overcoming discrimination and increasing the integration of people with disabilities, ethnic minorities and immigrants**

These policy objectives will now be related to the co-operative banks. What is their contribution to attaining these goals? What are the differences vis-à-vis commercial banks? What are the key conditions for future success?

- 1) German chairmanship of the European Union: January-June 2007
- 2) Council of Europe (2004), Revised strategy for Social Cohesion, a report from the European Committee for Social Cohesion.
- 3) Canadian Council on Social Development (2000), Social Cohesion in Canada: possible indicators.
- 4) Cf Article 158 of the Treaty, introducing the Title XVII on economic and social cohesion.
- 5) Joint Report on Social Protection and Social Inclusion, Communication of the European Commission to the Council, the European Parliament (...), COM (2005) 14.
- 6) Council of the European Union, Financial Perspective 2007-2013, December 2005 (15915/05). The Financial Perspective has been approved in the meeting of the European Council of 15 and 16 December 2005.
- 7) Financieele Dagblad, 10 Febr. 2006, The EIB invests € 45 billion a year in the EU
- 8) European Commission, Directorate-General for Employment, Social Affairs and Equal Opportunities (2005), Joint Report on Social Protection and Social Inclusion.

# The contributions to economic and

Co-operative banks were historically founded to improve the access to finance for their co-operative members, who would have otherwise had limited access to financial services based on reasonable conditions. The co-operative banks have traditionally promoted entrepreneurship through fostering self-help, responsibility, co-operation and solidarity, while emphasising the common good of society at large. As co-operative networks established at local level, co-operative banks are integrated into their local environments. This characteristic proximity means that the credits collected are reinvested at the local level and as a result the co-operative banks play a key role in local and regional development.

With nearly 60,000 branches in the EU-27, co-operative banks provide EU-wide coverage, from the inner cities up to some of the most remote and smallest villages on the continent. This presence is illustrated by the fact that the market shares held by co-operative banks in rural areas range from approximately 41% in Germany to up to 85% in France (all three co-operative banking groups

combined).<sup>9</sup> 37% of the German population is a customer of a co-operative bank, while 40% of the population of Austria banks with Raiffeisen Bank or Volksbanken. In France, co-operative banks serve urban, suburban and rural areas: The Crédit Mutuel network services 70% of the publicly declared problematic areas (Zones Franches Urbaines), while, in contrast, the commercial banks serve only 5% of these areas. 90% of professional French farmers are customers of Crédit Agricole.

*The co-operative banks have traditionally promoted entrepreneurship through fostering self-help, responsibility, co-operation and solidarity, (...)*



# of the co-operative banks

## *social cohesion*

Table Examples of the extensive networks of co-operative banks, 2005

	Full member organisations	Regional/ local banks	Banking outlets	Members (x1000)	Customers (x1000)	Staff	Total assets (€ million)
Austria	Österreichische Raiffeisenbanken	574	1,611	1,655,153	3,600,000	30,900	176,008
	Österreichischer Genossenschaftsverband (c)68		611	650,000	700,000	6,684	33,773
Belgium	Crédit Professionnel	n/a	n/a	9	n/a	44	2,046
Bulgaria	Central Co-operative Bank	n/a	179	5,311	603,608	1,111	414
Cyprus	Co-operative Central Bank	347	476	536	600,000	2,112	8,448
Denmark	Sammenslutningen Danske Andelskasser	29	80	64,000	122,000	483	1,221
Finland	OKOBANK	238	680	1,133,000	3,100,000	11,974	52,845
France	Crédit Agricole	41	9,100	5,700,000	21,000,000	134,000	1,170,000
	Crédit Mutuel	18	5,020	6,700,000	14,200,000	57,000	436,400
	Banques Populaires (a)	22	2,692	2,800,000	6,600,000	44,509	250,404
Germany	BVR/DZ BANK	1,290	14,122	15,724,909	30,000,000	188,435*	909,179*
Greece	Association of Cooperative Banks of Greece	16	128	160,136	160,136	892	2,042
Hungary	National Fed, of Savings Co-operatives (b)	152	1,635	500,000	1,000,000	7,787	4,150
Ireland	Irish Sea Fisheries Board	1	1	n/a	15	94	7393
Italy	Assoc, Nazionale fra le Banche Popolari	90	7,593	1,070,000	8,050,000	72,144	365,200
	FEDERCASSE	439	3,617	776,224	1,463,584	26,850	126,400
Luxemburg	Banque Raiffeisen	16	63	4,509	117,700	433	3,372
Lithuania	Association of Lithuanian credit unions	56	111	55,042	55,458	281	107
Netherlands	Rabobank Nederland	248	1,575	1,551,000	9,000,000	50,988	506,234
Poland	Krajowy Związek Banków Spółdzielczych	588	3,597	2,500,000	10,500,000	28,283	8,786
Portugal	FENACAM (d)	132	592	300,000	1,600,000	3,670	7501
Romania	Creditcoop	124	785	760	1,006,112	2,600	121,000
Spain	Unión Nacional de Cooperativas de Crédito	83	4,715	1,799,474	9,715,710	18,335	80,548
Sweden	Landshypotek (e)	10	10	69,216	69,216	107	3,787
UK	The Co-operative Bank	n/a	119	n/a	2,200,000	4,271	16,452
<b>TOTAL (EU-27)</b>		<b>4,582</b>	<b>59,012</b>	<b>43,219</b>	<b>125,464</b>	<b>693,987</b>	<b>4,172,831</b>

Key statistics as on 31/12/2005 - (a): 2004 figures - (b): including Takarékbank - (c): 2004 figures - (d): 2001 figures - (e): 2000 figures - (1): Estimate

\* Addition Kreditgenossenschaften+ DZ BANK-Konzern+WGZ-Bank-Konzern+MHB eG - n/a: Not applicable



## Co-operative banks *improve access to finance*

Co-operative banks' strong commitment to local stakeholders and communities is demonstrated by the examples on these pages. They reveal that co-operative banks operate nearby where their members and customers live and work. Co-operative banks are committed to participating in finding answers and solutions to social problems and changes in society. In doing so, co-operative banks look for the best solutions at the local level.

### Crédit Mutuel

Groupe Crédit Mutuel has nearly 1,100 branches in rural areas (towns/villages with less than 2,000 residents). Crédit Mutuel holds the number-two position in the French banking sector in terms of the number of branches in rural areas. In contrast, it holds the number-three position when measured by the total number of branches nationwide. And it is first in terms of the ratio of rural branches number/total branches number. At the end of 2005, Crédit Mutuel had a total of 5,020 branches and 6,750 ATMs. Crédit Mutuel covers 72% of the regions defined as problem areas (suburbs with low income or low economic activity). These regions are classified as 'zones franches urbaines' (abbreviated as ZFU). This means that 63 of the bank's branches are located in one of the 87 towns within a ZFU. In comparison, commercial banks in France have only less than 5% of their total branches number in rural areas and very few branches in problem areas.

### Nord Est: Launch of the 'boutiques vertes' – Crédit Agricole

Crédit Agricole du Nord Est has launched an innovative new concept for bringing support to businesses and local services in rural areas. Its 'boutiques vertes' seek to maintain services for long-standing rural residents and help those who want to move into the countryside. The project is designed to strengthen the bank's presence in areas in which the business volumes or population density would not ordinarily justify opening a branch. 'Boutiques vertes' can be installed in new or existing businesses and offer a broad mix of services. Customers will be able to do their banking, such as transfers and withdrawals, but also be able to access non-banking services such as photocopying, sending and receiving faxes and emails, free internet access, etc. 'Boutiques vertes' will also serve as a community meeting place and will be tailored to meet local needs. The first 'Boutique Verte' opened in the Ardennes. This was followed by another in La Marne, as part of a new greengrocer's, and a third in Aisne, in a bakery. Around a hundred are planned for 2006.

### **Rabobank Service Shops: a full range of services under one roof**

Municipal government services, schools, grocers, bakers, greengrocers, chemists and other services have increasingly been closing down their operations in small towns in recent years. There is also a decreasing range of services offered in certain city districts. This situation is due to a combination of insufficient economic perspectives and lacking prospects for employment and entrepreneurship and the high costs related to operating an independent branch office. Co-operative banks are also confronted with this issue as branch offices are faced with high costs and unacceptably low returns. Closing a branch office is often seen as the only solution. But this does not necessarily always have to be the case. Rabobank has found a solution in which the bank offers services in partnership with local entrepreneurs. This makes it possible to retain quality services in small towns. Local residents can visit a service shop to receive information and to purchase products and services from Rabobank, a temporary employment agency, a power company, a postal service, a healthcare group, a pharmacy and the local municipality. There were 69 service shops operating in small Dutch towns in 2006.



Service shops for small town accessibility to finance

### **Volksbanken Austria**

During a period in which the commercial banks are closing branches in regions that have lower populations, the Volksbanken in Austria conversely wish to increase the number of branches in these regions and to guarantee the provision of financial services for both retail and SME customers in the region. In fulfilling this role, the Volksbanken minimise the risk of social deprivation. The Volksbanken's concept consequently constitutes the best guarantee for social coherence within a region. However, it is naturally not possible to avoid all kinds of social problems within a region via the engagement of the business community (SME) and people involved in business. This is why the Volksbanken also participate in specific social activities. The main focus, however, remains on providing benefits to its members on the basis of a self-help mechanism.

### **UNACC - Spain**

Co-operative banking holds a prominent position among public corporations and in the social economy in Spain, both due to its economic significance and by means of leading, promoting and constituting a financial pillar for certain business groups within the social economy.

Spanish agricultural banks have traditionally concentrated their activities in the rural environment, linked to agricultural co-operatives and other farming and forestry operations. However, their share in other business sectors involving SMEs and larger companies has been growing in recent years.

The original links of Spanish co-operative banks to the rest of the social economy remain intact to this day, even though a profound

process of transformation has taken place both in the social economy and co-operative banking itself (as part of the social economy).

A study of Spanish agricultural credit banks reveals that their customers consider the following factors to be the most positive: proximity through the network of branches, the speed at which credit is authorised, the provision of

competitive products and services and, naturally, also the ability to quickly resolve any problems that might arise in the relationship between the bank and the customer.

Banco Cooperativo Español, the central banking organisation of the Grupo Caja Rural [agricultural credit banks group], has entered into a partnership agreement with the Spanish Ministry of Labour and Social Security to develop a financial assistance programme to promote employment among companies and associations in the social economy, as well as to support the self-employed and local initiatives for the employment and integration of the disabled.

# Co-operative banks *improve affordability of mortgages* for first-time homebuyers and low income groups

Co-operative banks also endeavour to make mortgages affordable for first-time homebuyers and people with low incomes. They recognise the difficulties that first-time homebuyers encounter due to high house prices when attempting to take out their first mortgage and the co-operative banks have developed several solutions. Crédit Mutuel, for example, offers a government-backed rental purchase loan to lower-income families and

Rabobank has developed the so-called 'generation mortgage'. Through these projects, co-operative banks contribute to achieving the fifth and sixth policy goals (ensuring decent accommodation, improving access to quality services) of the European institutions as set forth in the Joint Report on Social Protection and Social Cohesion. More examples are given in the boxes below.

## **Housing services: important in OP Bank Group's activities.**

The market share of financial institutions' euro-denominated housing loans was 34 per cent at the end of year 2005. The OP Bank Group has also brought out on the market long fixed-rate home mortgages. Until now this is not customary in Finland. The customer can take out a mortgage or part of it such that the length of the fixed-interest period can be up to 20 years. Insurance security is another part of the OP Bank Group's housing services. The bank takes an active part in offering home mortgage customers comprehensive payment protection insurance. This is an aid in repaying a loan if the customer's income suddenly drops for example because of illness or unemployment. If the insured party dies or becomes seriously disabled, the payment protection insurance will be applied to the repayment of the entire remaining principal.

## **Wohnbau-Stufen-Darlehen - The Raiffeisen Banking Group, Austria**

The Raiffeisen Bausparkasse (Raiffeisen Building Society) has introduced a special product called Wohnbau-Stufen-Darlehen. This product offers customers the advantage of being able to pay low monthly payments at the beginning of the mortgage. The monthly payments then increase every five years. This form of home financing is particularly attractive for borrowers who do not have sufficient financial resources at the start of the mortgage. The initial monthly payment is € 360 for a € 100,000 mortgage loan. The personalised advice and close proximity to customers enable the lender to grant the appropriate mortgage loan and this consequently provides access to affordable housing.

## **Crédit Mutuel, France**

Crédit Mutuel is the second largest home loan provider in France and the leading provider of 'Prêts sociaux de location-accession (PSLA)', which are government-backed rental-purchase loans designed to help lower-income families buy their own home. Regional federations of Crédit Mutuel are also engaged in wide-ranging partnerships with professionals in the subsidised housing sector. Regional federations of Crédit Mutuel have also continued to finance homes with subsidised loans (Prêts locatifs sociaux and Prêts locatifs intermédiaires) within the framework of the Solidarity and Urban Renewal Act (Loi SRU).

## **Rabobank, the Netherlands**

Rabobank has introduced the Generation Mortgage that is designed for customers who encounter difficulties in the housing market. This group is primarily comprised of first-time homebuyers and single-income families. Assistance provided by parents and/or grandparents plays a central role in the solutions the bank offers. This is because the customers' income is often just below the amount needed to gain the required financing independently. Parents and/or grandparents are consequently prepared to lend a helping hand by either giving money or co-signing the mortgage.



# Co-operative banks promote *SME finance*

The provision of effective financing for the SME sector is crucial for Europe's economy. According to EU sources, 99.8% of private companies are craft or small- and medium-sized enterprises (SME) and these enterprises employ more than 53% of Europe's workforce and are responsible for half of Europe's total annual turnover. These enterprises are acknowledged as a key source of employment and serve as a dynamic factor for both innovation and employment and social and local integration in Europe.

## Knowledge of the local community

SMEs form part of the very core business of co-operative banks and the market shares of co-operative banks in the EU Member States are considerable. In Italy, for instance, Banche Popolari's loans to SMEs account for approximately 75% of their total lending. The co-operative banks' knowledge of the local community gives them a competitive advantage in assessing and properly handling SME loans. It enables them to propose loan products that are adapted to the needs of their SME customers, including advice on available public support programmes.

### **GÉNO-STAR - German co-operative banks**

GÉNO-STAR is an internet-based system that has been developed by the German co-operative banking group. In co-operation with the local co-operative banks, GÉNO-STAR helps SMEs to find the ideal investment strategy that takes into account all the available support programmes, even for specific sectors. GÉNO-STAR uses the customer's data to draft a financial plan that presents the applicable financial support schemes, calculates the suitable amount of bank financing with a detailed repayment plan and outlines the application requirements for the support programmes at the local, national and EU level, with the aim of keeping the financing requirements of the SME as low as possible. The automated nature of the programme allows the information to be available instantaneously. Applications for public support programmes are handled on-line, which further shortens the credit application processing time. Together with the integral guidance of the local co-operative bank, which due to its local anchorage has the necessary knowledge of all relevant requirements of the SME, this renders the best solution for the intended investment.

This example vividly illustrates the advantages of general, automatically generated information combined with individualised and qualified advice provided by local experts. This particularly represents added value for small- and medium-sized enterprises that, due to their size, would otherwise face countless difficulties in obtaining the complex information needed concerning public support programmes.

More information: <http://www.foerderberater.de/de>



Platform business succession

### **'Nexxt-change' business transfers exchange platform**

#### **German co-operative banks**

On the joint initiative of the National Association of German Co-operative Banks, the German Federal Ministry of Economics and Technology and others, the business exchange platform 'nexxt-change' was established in 2006. It has now emerged as the largest marketplace for business transfers in Germany and matches old and young entrepreneurs for business transfers. More than 70,000 enterprises in Germany alone are faced with the challenge of financing a suitable successor each year. An average of 40 enterprises a week successfully find a 'match' by using 'nexxt-change'. The platform contains more than 10,000 profiles of potential succession candidates that can be examined by companies that are looking for new leadership. In addition, business founders who

are interested in taking over an enterprise can search more than 7,000 profiles of SMEs. Senior managers and entrepreneurs who are unable to find a successor in the family can place their company's profile on the platform and consequently come into contact with a broad range of regional partners. These partners – especially co-operative banks – provide support through individual coaching and by giving professional advice regarding a successful hand-over from the older generation to the next generation. The co-operative banks consider themselves to be natural partners of SMEs. They have consequently made supporting entrepreneurs before, during and after this difficult phase of handing over their businesses a core part of their business policies. Since its launch in January 2006, 'nexxt-change' has logged more than 10 million visitors.

More information at: <http://www.nexxt.org>

## Effective finance solutions, specialised support services

Co-operative banks enter into lasting relationship with their SME customers that span the entire life-cycle of the business. They provide specialised support services and documentation to their SME customers. The process of transferring a business from a retiring entrepreneur to his or her successor is a critical phase in the business cycle that requires particular attention and finance. These situations are characterised by both greater business risk and a more particular financing need. Failed business transfers result in great losses both in terms of jobs and crucial

infrastructure. Co-operative banks assist their customers throughout this complex period by both providing effective finance solutions and specialised support services, e.g. an exchange platform for business successions that enables the respective candidates to be matched. Two examples will be provided below that illustrate this: GENO-STAR and Nexxt (*box A and B on previous page*)

Nexxt is a business transfers exchange platform that has been developed by the German co-operative banks to facilitate the matching of old and young entrepreneurs for business transfers. 'Nexxt-change' has had more than 10 million visitors since its launch in January 2006 (*box B*).

C

### Groupe Banques Populaires leader in France for SMEs Finance

In 2006, Groupe Banque Populaire supported more than 60,000 new individual entrepreneurs to establish new businesses or to take over existing SMEs from retiring owners. The group also supports the development of SMEs via an innovative scheme that involves sharing the related risks with the associated mutual guarantee funds that are called the SOCAMAs (SOCIÉTÉS de CAUTIONNEMENT Mutuel Artisanales).

Those mutual funds were originally created on the basis of the same law as the Banques Populaires in 1917. The SOCAMAs unite craftsmen, shopkeepers and individual entrepreneurs from the region. They provide counter guarantees to loans granted by regional Banques Populaires after reviewing the projects according to their technical and commercial feasibility. The mutual funds are funded by contributions from members and their final solvency is secured by the Banques Populaires. The loans are granted after parallel reviews by the competent SOCAMAs and Banque Populaire via a simplified procedure and require either no or only limited personal collateral from the entrepreneur.

The EIF (European Investment Fund) has agreed to participate in this scheme on an annual programme basis by sharing up to 50% of the final non-payment risk.

In 2006, the Banques Populaires extended € 912 million in new loans backed by SOCAMAs (a 10% increase in comparison to 2005). 42% of these new loans involved EIF and 25% were related to transmission operations.



Volksbanken Austria introduces Fit for Business

## Attractive conditions loans for start-ups

Co-operative banks have also designated loans for start-ups as a key focus area. One example of an innovative product in this area is the 'Tremplin' loan. This loan has been devised by Crédit Agricole and is offered without collateral and interest. In France alone, 159,720 of the total number of 220,000 start-ups in 2004 were financed by co-operative banks. This means that co-operative banks account for 72.6% of the total market share for start-ups (*box C*). In addition to the example of loans based on attractive conditions, starting enterprises can also benefit from training and the experience of other entrepreneurs. Co-operative banks offer various programmes in this respect. One example is the 'Fit for Business' programme provided by the Volksbanken in Austria (*box D*).

D

### Fit for Business - Volksbanken Austria

In 2006, the Volksbanken initiated an important training programme for SMEs in Austria. The aim is to provide additional useful information to the SME sector and at the same time to increase their knowledge and skills regarding day-to-day business through advanced training courses. Through sixteen different events at locations throughout Austria, the Volksbanken had professional trainers convey specific know-how to the SME sector. More than 600 SMEs attended these events at ten different venues in Austria in 2006 (<http://www.unternehmer-net.at>).

The Volksbanken are also organising a summer academy programme to be held from 22 to 26 of May 2007 in Antalya/Turkey. The 'Fit for Business' project will be continued in 2007.

# Co-operative banks are leading providers of *microcredit*

Co-operative banks are one of the leading providers of microcredits. This prominent position has developed through history as co-operative banks were the first to begin offering small credits to agricultural businesses in the nineteenth century. They then also began providing loans to small retail businesses. Today there are also many other providers of microcredit. This is an advantageous development because it will accelerate the development of the market. At present only a small percentage of enterprises turn to banks for external business financing.<sup>10</sup> The majority of new business owners use their own financial resources to start the business, in some cases by taking out a mortgage or personal loan. Microfinancing provides people with improved access to credit.

Microcredit and SME finance play an essential role within the framework of the European policies that are aimed at fostering economic and social development. Microcredit enables people starting small businesses to get their enterprises off the ground. It also promotes independence and supports new business owners. Part of this group has an immigrant background and/or are women. Microfinance therefore supports financial inclusion. In a more general sense, both micro-enterprises and people starting businesses also play a key role in ensuring a dynamic economy, local entrepreneurship and innovation.

In accordance with the definition of the European Commission, microcredits to small enterprises are defined as credits up to € 25,000. Loans in excess of € 25,000<sup>11</sup> that are provided by banks to small

## Innovating to help, the CMNE Caisse Solidaire Crédit Mutuel, France

Crédit Mutuel Nord Europe (CMNE) has taken a new direction with its Caisse Solidaire that it has set up to provide consumer loans from € 500 and home loans from € 40,000. These loans are backed by varied assistance for borrowers through partnerships, of which there are over 20 so far, and with welfare associations that are able to provide personal support when needed. As Philippe Vasseur, Chairman of the CMNE, explains, 'The aim is to help people with limited resources or facing temporary difficulties as a result of a divorce, the loss of a job or other upsets gain access to the financing they need.'



Microcredits for students

## Microcredits for student entrepreneurs Rabobank Rotterdam, the Netherlands

Students at the INHOLLAND College can now obtain a microcredit to start their own business. They can receive a maximum of € 18,000 in funding, providing that they present a good business plan. The students must then repay the full amount within two years. This programme ensues from a partnership between INHOLLAND College and Rabobank Rotterdam. Both parties are committed to leveraging the microcredit programme to achieve two core objectives: to provide an impulse to the regional economy and to increase the attractiveness of higher vocational education. The microcredit is a combination of financial aid and coaching. The college will coach the students who have received a microcredit throughout the full first year of their new business venture. The loans will be offered under attractive terms and conditions.

businesses fall under 'standard' SME credit lending. The distinction is gradual and micro-enterprises can also be partially viewed as starting SMEs. Microcredit consequently consists of making small loans. The borrowers are low income earners who usually do not have access to bank loans because they are insufficiently solvent and/or because banks consider the cost of managing such loans to be too high. Microcredit loans enable the recipients to create or expand micro-enterprises or income-generating activities.<sup>12</sup>

Microcredit in Europe, however, is not fully comparable to microcredit in developing countries. In developing countries, microcredit is backed by guarantee funds to a larger extent. These funds are formed with contributions from the government, social organisations and third parties, for example banks. Only a smaller proportion of the loans in Europe is backed by a guarantee fund. Guarantee funds do, however, also benefit people starting small enterprises in Europe because they mean that financial institutions are more likely to provide credit to these enterprises. This consequently improves the access to financing.



Improving access to financing helps start-ups

### Microfinance and microcredit

#### Crédit Agricole, Credit Mutuel and Banque Populaire, France

The co-operative banks Crédit Agricole, Crédit Mutuel and Banque Populaire promote the economic integration of the poorest members of society and those without access to the banking system by providing access to credit. Several regional banks have been running a programme since the 1990s that provides loans to support customers through difficult periods. As part of their commitment to the economic development of their local communities, they have also devised microcredit systems to support people who found that their ventures were handicapped due to a lack of capital.

The wide range of the activities undertaken is a reflection of the variety within the French co-operative banking groups: initiatives supported by one or more banks, with or without an initial injection from solidarity funds, such as Crédit Agricole Solidarité et Développement, national partnerships and agreements with the large national organisations for supporting economic integration.

While co-operative banks are committed to expanding the provision of microcredit and loans to small businesses, government support is vital in order to achieve this aim. This is why the co-operative banks are calling on EU institutions and Member States to adopt a clear and unified policy on mutual guarantee funds. They are also calling on the national Member States to raise their contributions for this purpose in order to make it possible to use this instrument more extensively. While banks stimulate microfinancing on the basis of social objectives, it is imperative in order to achieve genuine success that it be possible to provide microfinancing profitably. A mutual guarantee fund provides a crucial helping hand.

There are numerous illustrative examples of microfinance and start-up schemes. Three examples are given in the boxes on the left.

10) According to research, in the Netherlands this percentage is approximately 20%.

Source: FACET BV, Microcredits in the Netherlands, a report commissioned by the Dutch Ministry of Economic Affairs.

11) European Commission, DG Enterprise, Microcredit for small business and business creation: Bridging a market gap, November 2003.

12) EUROFI, 2006.

# Co-operative banks support *integration of vulnerable groups*

As has been demonstrated, co-operative banks undertake numerous initiatives aimed at improving access to finance. They also undertake specific policies tailored for disabled groups and ethnic minorities. For example, co-operative banks are committed to introducing recruitment policies that foster a workforce that is a good reflection of the diversity of the community. Co-operative banks located in urban centres have more staff members from different cultural backgrounds in comparison to those located in small towns. These city banks can speak the language of minority groups and have a better understanding of the local population's needs. Translations of product information and advice on services are

also provided. Many of the initiatives are based on improving mutual understanding, creating a basis of trust and investing in long-term relationships. While co-operative banks are naturally not unique in this, they do focus a great deal of attention on this area and consequently contribute to integration.

The examples presented below are from the Banche di Credito Cooperativo in Italy, Crédit Agricole in France, a Volksbank in Austria and the Groupe Banque Populaire in France. The BCC provides special services for immigrants and this is becoming increasingly important in view of the increasing levels of immigration in Europe. These groups of newcomers want to integrate into our society and have specific needs. A regional bank of Crédit Agricole has developed university bank assurance

## **Providing assistance for the victims of flood disasters**

### **The Raiffeisen Banking Group, Austria**

Austria has suffered a number of storms and floods in recent years that have caused extensive damage. The river Inn in the Tyrol region overflowed its banks in the summer of 2005. The March, Thaya and Danube rivers in the Lower Austria region flooded in the spring of 2006. These floods forced the evacuation of several villages. The Raiffeisen Banking Group provides people who have been affected by these natural disasters with both quick and unbureaucratic assistance. The Raiffeisen Banking Group opened donation accounts and contributed to them generously. The group also enables victims to receive credit free of charges and costs. These services have been provided within the context of a partnership between Raiffeisen, the Austrian Federal Armed Forces and a large Austrian construction company and this alliance has proved to be sustainable. The partnership provides the affected population with the required aid, engines and food.

## **The Progetto Radici: Special services for immigrants**

### **Banche di Credito Cooperativo, Italy**

The Italian Banche di Credito Cooperativo focuses special attention on immigrants, who are often excluded from access to certain financial products and services. It currently has approximately 90,000 customers who are members of the immigrant community. The bank recently developed a special product range called the Progetto Radici to address their specific needs. It includes a multi-service bank account that combines the traditional features of a bank account (ATM, POS, mortgage loans, loans to start new businesses, etc.) with special dedicated services such as money transfers, a prepaid credit card and ethical leasing. Radici is generally a social banking tool that has been designed in association with Bologna University (Economic Department) and immigrant associations and that is characterised by a comprehensive approach that provides business, cultural and other relevant information, such as information regarding Italian Immigration Law. An intensive training programme has been organised in order to provide 250 commercial and front office members of staff with the skills and knowledge required to provide Radici. Tailored informational materials have been distributed through several trade unions, immigrant associations, public agencies, NGOs, Catholic churches and associations, and via the bank's own network. Posters and leaflets are available in five languages: Italian, English, French, Spanish and Arabic.

## **Solidarkredit – Solidarity loans by Volksbank Weiz, Austria**

The Solidarkredit is a project of Volksbank Weiz. Based on this project SMEs in the Weiz district in Upper Austria can apply for raised loans that enable the creation of jobs for people aged over 50 according to public procurement regulations. The bank works in partnership with the Austrian employment office (AMS) and the Austrian Chamber of Commerce (WKÖ) for this project. SMEs can receive a € 30,000 loan if they create a new full-time job for at least three years. The Volksbank does not earn a margin on these loans.

courses for disabled people. The Austrian Raiffeisen bank provides assistance with flood disasters in Austria. The Austrian Volksbank Weiz provides solidarity loans to SMEs that create jobs for people aged over 50 in accordance with the public procurement regulations. The regional Banques Populaires support the creation and activities of co-operative members' associations 'Clubs de Sociétaires' that bring together members who would like to undertake activities in their community.

The examples in the boxes on these pages reflect the variety of initiatives that can be taken at the local level. The examples provided reveal that these activities are started by the banks and their members on the basis of their perception of the needs at the local level. Their activities clearly make a meaningful contribution to supporting local cohesion.

### University education for students with disabilities

#### Crédit Agricole, France, Sud Méditerranée:

Six disabled people under block-release professional training contracts will begin taking purpose-designed university bank assurance courses in October. The Sud Méditerranée regional bank has just introduced this unique programme that has developed out of its partnership with Agefiph (Association for the management of funds for the professional integration of people with disabilities), local employment organisations, organisations for the professional integration of disabled persons and the University of Perpignan. Block-release training means that students can build up the full set of skills that will allow them to take on a permanent contract in the first commercial grade of the regional bank. The head of human resources at the bank has been particularly impressed by the motivation of the people taking part in the programme.



Block-release training for disabled students in France

### Integration projects for vulnerable groups

#### Groupe Banques Populaires, France

The regional Banques Populaires support the establishment and activities of co-operative members' associations (also called Clubs de Sociétaires) that bring together members who wish to carry out a range of activities to support their local communities. The regional Banques Populaires frequently support these clubs by allowing them to use the bank's name, providing them with volunteering staff members, giving staff members time off to assist the associations, providing space for their meetings and donating cash contributions to cover their operating expenses.

Banque Populaire du Nord in Lille, for example, supports several associations or clubs in their region including:

- An association that is designing a map of the town of Lonne in consultation with handicapped residents in order to enhance the mobility of handicapped people within the city. A map will even be printed in Braille for the blind. The local authorities will study this map to determine where there is room for improvement.
- An association in Arras that has established an internet welcome service for foreign students.
- An association that brings together young people who require housing and elderly people who are afraid to be alone and wish to share their home.
- An association in Tourcoing that helps to train handicapped people with specially equipped computers in order to help them find employment.
- An association in Arras that runs a shelter for young women who have been abused and that provides a safe haven where they can regain their independence.
- An association in Abbeville that has developed a programme to help overweight people learn how to lead a healthier lifestyle.
- An association in Lille that organises performances for children in order to draw their attention to environmental issues.

## Co-operative banks invest

### Training young people - Volksbanken Austria

The Volksbanken have launched programmes for young people and intensified their activities in recent years. The Volksbanken, in association with schools, help to provide young people with training on how to manage money responsibly and this reflects the bank's belief that properly managing money is a skill that must be learned. The banks also provide lectures for students regarding career paths or job applications or on more financially specific matters such as securities. The excellent feedback that has been received from teachers and students has reassured the Volksbanken that this form of engagement is very useful for young people and society.

### 'Gaztempresa Foundation' - UNACC, Spain

Social projects of this initiative focus on promoting employment and supporting the creation of enterprises involving young people. Its efforts concentrate on two principal activities: supporting new business initiatives and entrepreneurial projects promoted by entities in the 'third sector'. These activities have to date created 282 new micro-enterprises and generated 659 jobs.

**Co-operative banks also invest in training and education, which is the third policy goal of the Joint Report on Social protection and Social Cohesion.**

A first cornerstone is that they provide young people and elderly people with training on how to handle money responsibly and how to use internet banking. The Austrian Volksbanken, for example, offer specific programmes for young people in partnership with schools. Another example is the so-called 'Gaztempresa Foundation' programme that is provided by the Spanish co-operative banks that are united within the UNACC. It aims to promote employment and to support the creation of enterprises for young people (please refer to the boxes below).



# in education and training

The second cornerstone is comprised of funds to promote certain social and economic goals in the local community. There are also funds to promote the co-operative values. The next example provides a good illustration for Spain.

A third cornerstone of co-operative banks' policies on education and training is the creation of internships for young students. It is important to increase the number of

internships available to students because effective internships improve young people's prospects for completing their education and finding

employment. It is even more difficult for students from an immigrant background to find an internship because discrimination still unfortunately occurs in the employment market. The following example illustrates what Rabobank has done to contribute to solving this problem.



Student programs and traineeships

### Educational fund established by UNACC, Spain

The Spanish co-operative banks have set up an educational and promotional fund (FEP). This fund has the following objectives:

1. To train and educate members and employees in co-operative principles and values as well as in subjects specific to their company or employment activities and other co-operative actions.
2. To disseminate co-operative ideals and to promote constructive relations among co-operative institutions.
3. To provide professional and cultural support and assistance for local structures and the community in general, as well as promoting improvements in living standards, community development and environmental protection.

Research conducted by UNACC reveals that the 'dissemination of co-operative ideals' has received the most funding in recent years. The agricultural credit banks contribute more in relative terms to the dissemination of co-operative ideals and to the social economy than credit unions and professional credit banks, which contribute more to training.

### Internships for students Rabobank, the Netherlands

A local member bank helps students from immigrant backgrounds in the 'Kanaleneiland' district of the city of Utrecht to gain internships. The district has a below-average level of income and above-average criminality. The lack of internship positions for students from the Kanaleneiland district and in some cases discrimination against students from immigrant backgrounds led Rabobank Utrecht-Nieuwegein to initiate the 'Internship opportunities for students from the Kanaleneiland' project.

The idea for this project arose when a vocational school student raised the issue of facilitating internship opportunities during a debate on the future of Kanaleneiland. Rabobank Utrecht-Nieuwegein decided to offer the student an internship from January to June 2005 in order to get the internship project off the ground. 'The aim of the 'Internship opportunities for students from the Kanaleneiland' project is to encourage companies that are located in the Kanaleneiland district of Utrecht to create internship positions for vocational school students that live and study in Kanaleneiland,' explains the student. The companies participating in the project and the ROC Midden-Nederland, KBK (Kanaleneiland Business Association), MKB Midden-Nederland, Rabobank Utrecht-Nieuwegein and the Mayor of Utrecht signed a covenant that formalized the principles and activities of the project.

## Co-operative banks support



### **Créavenir - Credit Mutuel, France**

Créavenir is the name given to the associations and foundations that have been established on the initiative of Crédit Mutuel to allow local branches to offer support for customer-members who are facing financial difficulties or for projects that create employment. The first Créavenir was set up in 1985 to back innovative local initiatives that help to create new employment opportunities. This support was provided both in the form of direct financial assistance and the provision of expertise and equipment. This project has been followed by a number of others. The Créavenir projects have produced extremely positive results including the creation of thousands of long-term jobs and the contribution of millions of euros to the regional economy.

### **Combating adult illiteracy in Maine-et-Loire rural areas Credit Agricole, France**

The Initale association, which is supported by the regional bank of Anjou and Maine, helps people affected by illiteracy in rural environments and provides training through a network of 45 volunteers. In 2004, it developed the Molière project, which provides a series of theatre, singing and crafts workshops that culminate in an end-of-year concert. The aim of the Molière project is to help its students recover their self-confidence, take responsibility and meet deadlines. It is also aimed at encouraging students to share ideas, to communicate with each other and to express themselves as a means of easing themselves back into community life.

## non-profit organisations

Co-operative banks support a diverse range of non-profit organisations at the local, national and international level. Local banks, their members and employees initiate this support at the local level. A proportion of the banks' earnings are reserved for this purpose. The majority of these projects are small local initiatives, in other words they are initiatives that have been taken by members and that the bank supports with money, its network and unpaid services of employees. The total effect of these smaller projects is greater than the effect of large projects because the smaller projects create a higher level of local commitment.

*The total effect (...) is greater (...) because the smaller projects create a higher level of local commitment.*

Rabobank, for example, provides annual support to approximately 1,000 local non-profit organisations in the Netherlands. The local member banks annually contribute approximately € 30 million directly and € 40 million indirectly through non-cash contributions such as employees who carry out volunteer work during working hours. In 2006, Rabobank spent approximately € 1.6 million at the national level and € 13.6 million at the international level.

Crédit Mutuel is another example. This co-operative bank has set up associations and foundations under the name Créavenir to allow local branches to offer support for customer-members who are facing financial

difficulties or for projects that create employment. Crédit Agricole (the regional bank of Anjou and Maine) in France combats adult illiteracy in Maine-et-Loire rural areas by supporting the 'Initiale' association (please refer to the boxes below).

Municipalities in Austria are supported by local Raiffeisen banks, particularly in the range of sport, culture and social welfare.

### Supporting the local community

#### The Raiffeisen Banking Group, Austria

Banks that are active at the local level provide extensive support in the fields of sport, culture and social welfare. The following are just a few examples of this support for the local community. In 2006, the Raiffeisen Banking Group Tyrol allocated approximately € 4.7 million for the sponsorship of various events. The Styrian Raiffeisen Banking Group is the main sponsor of the Styriate, a summer music festival that takes place in the Styrian capital Graz. The Styrian Raiffeisen Banks also play an active role in promoting public safety. They received an award from the Austrian Road Safety Board for the 'Raiffeisen Road Safety Days'. This obviously also has a positive impact on tourism.





# Key aspects of the *co-operative*

Social and economic objectives form the basis of the co-operative business model

Co-operative banks have always served as a vital driving force behind the financing and development of the economies of European countries. They are part of the co-operative societies whose role in Europe is recognised and encouraged by EU institutions, as evidenced in the recent statute of the 'European Co-operative Society' and the European Commission communication on the 'promotion of co-operative societies in Europe'. While the co-operative traditions and legislation differ from one European country to another (as do some of the characteristics of the individual co-operative banks), there are nonetheless still a number of substantial common factors that are at the heart of the European co-operative banking sector. The principal aspect is that they operate democratically. European co-operative banks are owned by their members. These members have a democratic voice in the bank's management based on the principle of one person, one vote. It is also important to emphasise that co-operative banks are decentralised networks that are established at the local level.

# approach

The primary mission of co-operative banks is consequently to promote the economic interests of their members, who are also their customers. This means that their principal aim is to create value for their 'members/customers' by providing them with quality products at the best possible prices and by supporting the economic and social integration of individuals. Co-operative banks are integrated into their local communities and their role extends beyond simply that of a financial services provider. By co-coordinating grants and other resources at the local level and by ensuring that this support is allocated to achieve the designated objectives, co-operatives play a key role in the development of regional and local economies and foster social cohesion.<sup>13</sup>

Beyond the world of banking, co-operative banks in general allow enterprises and consumers to exercise a countervailing power against the power blocks with which they must contend. Individual farmers, for example, have a weak position vis-à-vis trade and industry owing

to the fact that they demand/supply small quantities and because their produce is perishable. The final markets are also far-removed from their operations and lack transparency. This is why these farmers prefer to unite in co-operatives in order to defend their collective interests. The formation of a co-operative enables these farmers to improve their bargaining power. The same also applies to consumer, purchasing, credit, processing and marketing co-operatives.

Co-operatives consequently correct market failures and serve a vital economic purpose. This renders benefits for both their members (best products at best prices) and for society as a whole (employment, financing of SMEs). In addition to their economic purpose, co-operatives furthermore produce favourable social effects. Efficient co-operatives improve the terms of trade and the prosperity of the groups of smallholders or consumers for members and non-members alike.<sup>14</sup> It is consequently possible to conclude that co-operative banks yield both economic and social dividend (please refer to the box below).

## Co-operative dividend

As a principal driver of economic development for their members and customers, co-operative banks contribute to economic and social cohesion in a number of ways. They provide high-quality products and services at the local level via a total of 4,500 banks and 50 million members. They also make a significant contribution to economic growth and employment through their support for economic agents in general and the SME sector in particular. Co-operative banks furthermore contribute to the stability of the financial system thanks to their high level of capitalisation and sound risk management. They also support self-help and self-development in line with the traditional basic principles that guide co-operative banks. The term 'co-operative dividend' encapsulates

this contribution. It consequently comprises the following elements:

- Providing banking services to the great majority of customers, without discrimination
- Supplying products and services that meet the needs of members and customers
- Granting benefits to members
- Achieving positive benefits for the local/regional community

13) European Association of Co-operative Banks, 2004, Co-operative banks in Europe: values and practices to promote development.

14) Diepenbeek, W.J.J., De Vries, Y.B. (2004), Co-operative banking and the social economy in the Netherlands, in: Banca cooperativa y economica social en Europa, published by the Union Nacional de Cooperativas de Crédito, Spain.



# *Globalisation is counterbalanced by regionalisation and being nearby the community*

Globalisation and the further opening of markets to foreign competition have led many market players to increase the scale of their operations. By creating economies of scale, they are positioning themselves for the expected wave of cross-border mergers and acquisitions in Europe. This process of creating 'national champions' constitutes a key driver behind consolidation. Examples in Europe include the energy sector, telecom, payment systems providers and many more. There are also other reasons or objectives for consolidation, with the most important being the drive to improve efficiency, profitability and the quality of the services.

Co-operative banks are also consolidating their operations. This is reflected by a decreasing number of local banks in many Member States<sup>15</sup>, the preponderance of shared back-office services and the fact that most marketing activities are conducted centrally. The degree of consolidation does, however, vary among the various co-operative banks in Europe and by country. A research study conducted by Moody's<sup>16</sup> points out that the level of efficiency at co-operative banks is the same as at commercial banks that are active in comparable market segments. Other research conducted by the University of Lisbon shows a rise in productivity at most co-operative banks between 1996 and 2003.<sup>17</sup>

While globalisation is consequently a dominant development for the industry, it is not the only development of importance. Regionalisation serves as a counter development to globalisation and reflects the increasing importance that can be described as the increasing importance that is attached to local and regional values, cultures and traditions. Regionalisation also refers to regional differences in customer demand. In Spain, Germany and Luxembourg, customers, for example, visit branch offices more often compared to customers in the Netherlands or in the Scandinavian countries. The branch network is much more dense in these countries.<sup>18</sup>

The same applies to customers in cities compared to customers in small villages. Local co-operative banks are able to adapt to these different needs and preferences and their proximity to their customers provides a clear advantage in this regard. It enables co-operative banks to operate on the basis of a more thorough knowledge of the local situation. There is currently a strong demand for services from local and regional providers and co-operative banks expect that this will continue to be the case, also within a context of improved internal markets with lower barriers for mergers and acquisitions and increased accessibility to products from foreign-based providers.

15) Note that the number of contact points does not necessarily decrease in the same way as the number of outlets because local banks may choose to open a contact point at a location where a branch office is no longer economically feasible. This is, for example, clearly the case in the Netherlands.

16) Cunningham, A (2003), European Co-operative banks: moving beyond issues of costs and efficiency, Moody's Special Comment, edited version of a speech delivered to the 25th Congress of the Confédération Internationale des Banques Populaires held in Berlin on 9-10 October 2003.

17) Barros, C.P., Peypoch, N., Williams, J. (2006), A note on productivity change in European co-operative banks: the Luenberger indicator approach, Working Papers 2006/36, Department of Economics, Institute for Economics and Business Administration (ISEG), Technical University of Lisbon.

18) ECB, 2003, Structural analyses of the banking sector, table 2, page 23, branches of credit institutions per 1,000 inhabitants

# Conclusions and *key policy messages*

Co-operative banks hold a distinctive position within the economy and society and perform a clear role in the regional and local economy. Co-operative banks provide their customers, who are often also members, with the best possible products at the best possible prices and take a long-term view in the bank-customer relationship. They provide both retail and business customers with maximum access to financial services, based on their economic capacity. They often go further in this regard than commercial banks and provide access to finance to customers in regions which would typically not be served by other players of the credit sector due to decisions based on profitability criteria alone. Co-operative banks furthermore support social organisations at the local, national and international level. Local member banks, their members and employees undertake their own initiatives at the local level. A proportion of the profits of the local member banks are reserved for this process in dialogue with the members. In our view small-scale local projects often have a stronger impact on social cohesion compared to large-scale national projects because the local support and participation brings about a strong involvement and results are more visible.

While co-operative banks do not in a narrow sense have a profit orientation, they must nonetheless make profits in order to be able to achieve further growth. Efficiency is also just as important for co-operative banks as it is for commercial banks. This is why co-operative banks centralise processes as much as possible in order to create economies of scale and why most also opt for joint marketing and product development. Two research studies are referred to in the report which reveal that co-operative banks have made strides in this area. The efficiency of co-operative banks is now at the same level as that of commercial banks that are active in comparable market segments. The aim will always be to make further improvements and operating a large network comes at a price that must be recouped through higher sales.

*(...) support social organisations at the local, national and international level.*

*(...) The efficiency of co-operative banks is now at the same level as that of commercial banks. (...)*

*(...) first and foremost distinctive due to their strong relationship with the SME sector.*

An examination of the seven policy goals contained in the Joint Report on Social Protection and Social inclusion (see the paragraph on policy context) reveals that co-operative banks can particularly make a contribution with regard to achieving the first, third, sixth and seventh goals. With respect to the first goal, co-operative banks contribute as employers and as financiers of the SME segment to local employment and labour participation. The examples stated in the report show that co-operative banks also support employment projects, even though they are obviously not the only parties that provide assistance in this area. Co-operative banks further endeavour for their workforce to be a reflection of the local community. Co-operative banks consequently help to bring about an increase in the labour participation of immigrant groups. But co-operative banks are first and foremost distinctive due to their strong relationship with the SME sector, the role they perform in the local business community and their historically strong position in the area of extending financing in the form of smaller credits.

In addition to financing the SME sector, co-operative banks also participate in facilitating the coaching of starting business owners by experienced business owners and provide training for business owners. This contributes to the realisation of the third goal: 'To reduce the disadvantages of the major differences in education and training'. It is, however, important to note that banks have a different responsibility in this area than the government does. Co-operative banks assist in achieving this goal by stimulating an exchange of knowledge among business owners through facilitating networks, such as the aforementioned network for people setting up a new business. While they can be new business owners from immigrant backgrounds or people who are receiving social benefits, the network itself does not especially focus on these categories of new business owners. The primary focus is on increasing the opportunities for starting business owners. There are also further developments in

this area underway because the need for these activities has proven to be greater than can be met at present. Co-operative banks take up the challenge of playing an even more meaningful role in this area for starting business owners and business owners in the broadest sense of the term, because more advanced business owners also have a need to exchange knowledge with other professionals within their sector.

*(...) improving access to financing and integrating immigration and handicapped groups. (...)*

Co-operatives undertake a range of activities with regard to improving access to financing and integrating handicapped groups that are aimed at increasing accessibility to cash dispensing machines for people who have a physical handicap. They organise on-site sittings of the bank at retirement homes and organise other activities such as courses for seniors to learn how to use the internet and internet banking. These co-operative banks also have diversity programmes focused on immigrants whereby, for example, immigrant employees contact immigrants. The approach to customers is also more in touch with the various different cultures and different knowledge of or opinions regarding financial services.

*(...) more attention should be given to the way in which co-operative banks are organised and how their business model operates.*

In closing, the report puts forward a number of key policy messages. The most important message is that the co-operative banks that are united in the EACB are requesting that more attention be given to the way in which co-operative banks are organised and how the business model operates. Local networks and the diversity of the business models ensure strong embedding into the local economy and create considerable flexibility. While co-operative banks are also not immune to consolidation and globalisation, they also acknowledge the importance of the counter development of regionalisation and the need to retain diversity and local culture. This reflects the fact that co-operative banks listen carefully to the needs of the community in which they operate.

*(...) The successes achieved make it possible for co-operative banks to continue to invest in society.*

The EACB is also of the opinion that it would be beneficial for the European institutions to work in association with the national governments to bring about a more unequivocal approach to government support for mutual guarantee funds. This is because in practice there are currently a number of major differences between Member States. Governments participate in mutual guarantee funds because it is difficult to provide these

credits profitably due to the relatively high risks and costs vis-à-vis the amounts of the credits. A mutual guarantee fund can consequently assume the top of the risk, which makes it more economically attractive to provide the credit. Mutual guarantee funds consequently boost the development of microfinancing. Well-structured mutual guarantee funds have proven in practice to have a very high multiplier effect with regard to the foundation amount and minimum losses.

The Dutch Guarantee Fund for the Agricultural sector has, for example, clearly proven its merits in practice.

An additional key message is that co-operative banks have a strong interest in investing in their

customers. This investment is not only made in the form of money, but also in the form of knowledge, contacts and networks. Co-operative banks combine membership with informal networks in order to create opportunities for customers to learn from each other, to develop and to become more successful. Co-operative banks consequently provide valuable support for people from immigrant and non-immigrant backgrounds who wish to start a business and companies that are experiencing difficulties. The maxim is that this support benefits both the co-operative banks and its customers. The successes achieved in this area make it possible

for co-operative banks to continue to invest in society.

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