

GESTÃO DE ORGANIZAÇÕES SEM FINS LUCRATIVOS

THE PORTUGUESE CO-OPERATIVE CREDIT SYSTEM: REGULATION, OWNERSHIP AND PERFORMANCE

Paula Cabo, paulacabo@ipb.pt

School of Agriculture and Mountain Research Centre (CIMO), Polytechnic Institute of Bragança,

João Rebelo, jrebelo@utad.pt

School of Social and Human Sciences, Department of Economics, Sociology and Management and CETRAD, University of Trás-os-Montes and Alto Douro

ABSTRACT

Today, financial system enterprises operate in an environment full of global opportunities and threats; and in the sequence of corporate scandals and world financial crisis, the banking activity is constrained by ethical self-restraining as well as innovative regulations enforced by domestic and global governance institutions. The dual nature of credit cooperative is reflected by their formal and institutional solutions. They need to meet both banking and cooperative regulations, especially for those dedicated to relations between the two areas; hence, they result from considering their singularity and consistency. The aim of this paper is to provide an insight of the legal framework of Portuguese credit cooperative system, their governance model and its effects on these organizations performance.

Keywords: credit cooperative, ownership, governance, banking regulation.

1. The Genesis

The Cooperative Credit System in Portugal comprises only agricultural credit cooperatives. Its present corporate format was created in 1911, but the genesis of Portuguese agricultural credit cooperatives (Caixa de Crédito Agrícola Mutuo – CCAM) goes back to the XVI century, to an institution called Common Barns, allowing farmers to keep stocks and seek financing. The early CCAM were very small units and membership consisted of small farmers with low incomes. The beginning of the system was an absolute failure: the capital provided by the state was insufficient to accomplish the objectives; and the cooperatives were used to pursue managers' personal goals, and management errors and even fraud were commonly found during audit (Cabo, 2003). Despite these setbacks the number of CCAM grew significantly until the 1929 financial crisis (see Table 1 below). Subsequently, CCAM cooperatives were placed under the umbrella of the Caixa Geral de Depósitos, a public institution and, also the biggest Portuguese bank. During the dictatorial and fascist regime “Estado Novo” (1931-1974), the CCAM were used to restrict the expansion of communist ideology and for the political control of the rural population. It was a lifeless period for CCAM. Thus, until 1976 the CCAM played a minor role in the Portuguese banking system, with a share of only 1% of total deposits and credit.

Following the 1974 political changes, all private financial institutions were nationalized, except for CCAM and foreign financial institutions. Moreover, CCAM started a lobby movement for autonomy, expanding implantation and broadening its activity, and in 1978 the National Federation of Agricultural Cooperative Credit Institutions (FENACAM) was created to support and represent the interests of its members, both nationally and internationally.

In 1982, the sixty-year old Agricultural Cooperative Credit law underwent profound alterations with the publication of a specific Legal Regime for Agricultural Cooperative Credit (RJCAM). Subsequently, CCAM threw off the guardianship of the Caixa Geral de Depósitos, and in 1984, the Caixa Central was founded, with the purpose of regulating credit activity of the CCAM' members.

In 1986 Portugal joined the European Union (EU), and the following ten years were a period of profound changes in the Portuguese economy. The CCAM were considered an important player in the framework of a financing strategy for the development of the agricultural sector. Thus, during the 1980s CCAM activity experienced a spectacular growth, reflected in annual rates superior to 40% for deposits, and approximately

35% for loans and net assets, on average (Cabo, 2003). However, it was a decade of wild growth and mismanagement, with negative consequences for CCAM performance, jeopardising its survival.

In 1991 the Integrated System of Agricultural Cooperative Credit (SICAM) was created by an association of the Caixa Central and the CCAM. The Caixa Central was empowered to supervise, intervene, guide and represent SICAM. SICAM established a regime of co-responsibility between the Caixa Central and its members, so solvency and liquidity supervision was accountable on a consolidated basis. A more demanding framework for the creation and functioning of the CCAM, along with the reinforcement of CCAM funds, ended the joint liability of CCAM members. The “agency agreement” allowed CCAM to broker operations forbidden in its normal scope of activity, by acting as an agent of the Caixa Central.

Four years later, in 1995, the RJCAM was modified, widening the scope of CCAM operations to other activities connected with the rural world such as hunting, fishing, agro-tourism and handicrafts, and allowing CCAM to share with its members part of the net benefit (limited to 30% of net profits and in accord with legal and prudential equity requirements) and convert reserves into capital shares transferable to members. These modifications were crucial for boosting CCAM ability to attract new (and more heavily-investing) members, improving CCAM capitalization. Additionally, the new diploma expanded the Caixa Central’s activities, converting it into a truly universal bank.

In 2009 new changes were introduced in RJCAM, adopting a governance model closer to that adopted by investors’ own firms and extending CCAM activity and membership, widening the members’ scope as well as enabling the CCAM to extend credit operations to non-members or purposes not agriculturally related. Additionally, once CCAM complied with the prudential requirements applied to banks, they were authorized to perform the majority of commercial activities carried out by other financial institutions.

Table 1 summarises the dynamic of creation and evolution of the CCAM during the last century.

Table 1 – Creation and evolution of CCAM in the 20th century

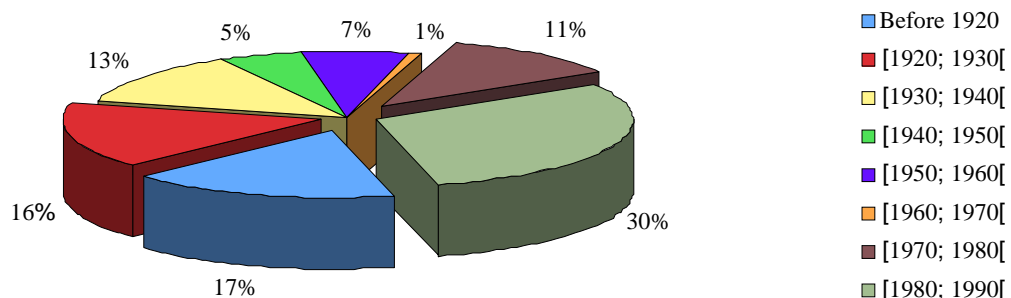
New CCAM		Existing CCAM	
Before 1920	95		
[1920; 1930[	67		
[1930; 1940[	48		
[1940; 1950[	18	In 1950	132
[1950; 1960[	17	In 1960	149
[1960; 1970[	4	In 1970	144
[1970; 1980[	21*	In 1980	157
[1980; 1990[	57	In 1990	222
[1990; 2000[	6**	In 2000	145

*19: [1974; 1980]; ** resulting from the merging of existent CCAM.
 Source: Adapted from Cabo (2003)

An analysis of Table 1 shows that, in the early days, the creation and demise of CCAM was accentuated. Until 1950, for each 5 CCAM created, 2 failed. During the Estado Novo the number of CCAM was relatively stable. After the April revolution, in 1974, CCAM gained a new lease of life and proliferated, especially in the 1980s. In the last two decades no genuinely “new” CCAM were born, the only ones created resulting from a process of merger.

Figure 1 illustrates the age of existent CCAM in 1990. We can see that more than 40% of the existing CCAM were still juvenile, created in the 1970s and 1980s.

Figure 1 - Year of creation of CCAM



With the exception of the island of Madeira, all the continental (mainland) territory was now already covered by CCAM, which, allied with regional restrictions on CCAM activity, made it economically and legally impossible to establish new CCAM.

With the formation of SICAM, in 1991, CCAM entered into an era of consolidation, and the creation of new CCAM was a rare event. Thus, during the last two decades, along with the organic growth of the CCAM, a regional merger process occurred, and consequently, the number of CCAM fell from the earlier 220 in the 1990s to 85 in 2010. Mergers between local CCAM have considerably increased their size both in terms of assets and number of branches per CCAM. Profitability (return on assets – ROA) has also improved. Indeed, at the time SICAM was created, the CCAM presented overall negative net results¹, but the ongoing restructuring process allowed CCAM to improve their performance and experience profitability levels close to or even higher than those of the Portuguese banking system in general.

Table 2 – Evolution of SICAM 1995-2012

	Number of CCAM	Average Assets per CCAM (mn. €)	Average number of Branches per CCAM	ROA*
1995	186	22.28	2.5	-0.3%
2000	140	47.56	–	0.7%
2001	132	54.88	4.3	1.0%
2002	121	61.50	4.6	0.5%
2003	120	67.00	5.0	1.0%
2004	118	71.80	5.2	1.0%
2005	111	82.00	5.7	0.9%
2006	105	91.60	6.0	1.0%
2007	100	102.50	6.5	1.1%
2008	92	116.90	7.3	1.1%
2009	88	137.50	7.7	0.3%
2010	85	155.44	8.1	0.3%
2011	84	133.16	8.2	0.4%
2012	84	140.70	8.2	0.3%

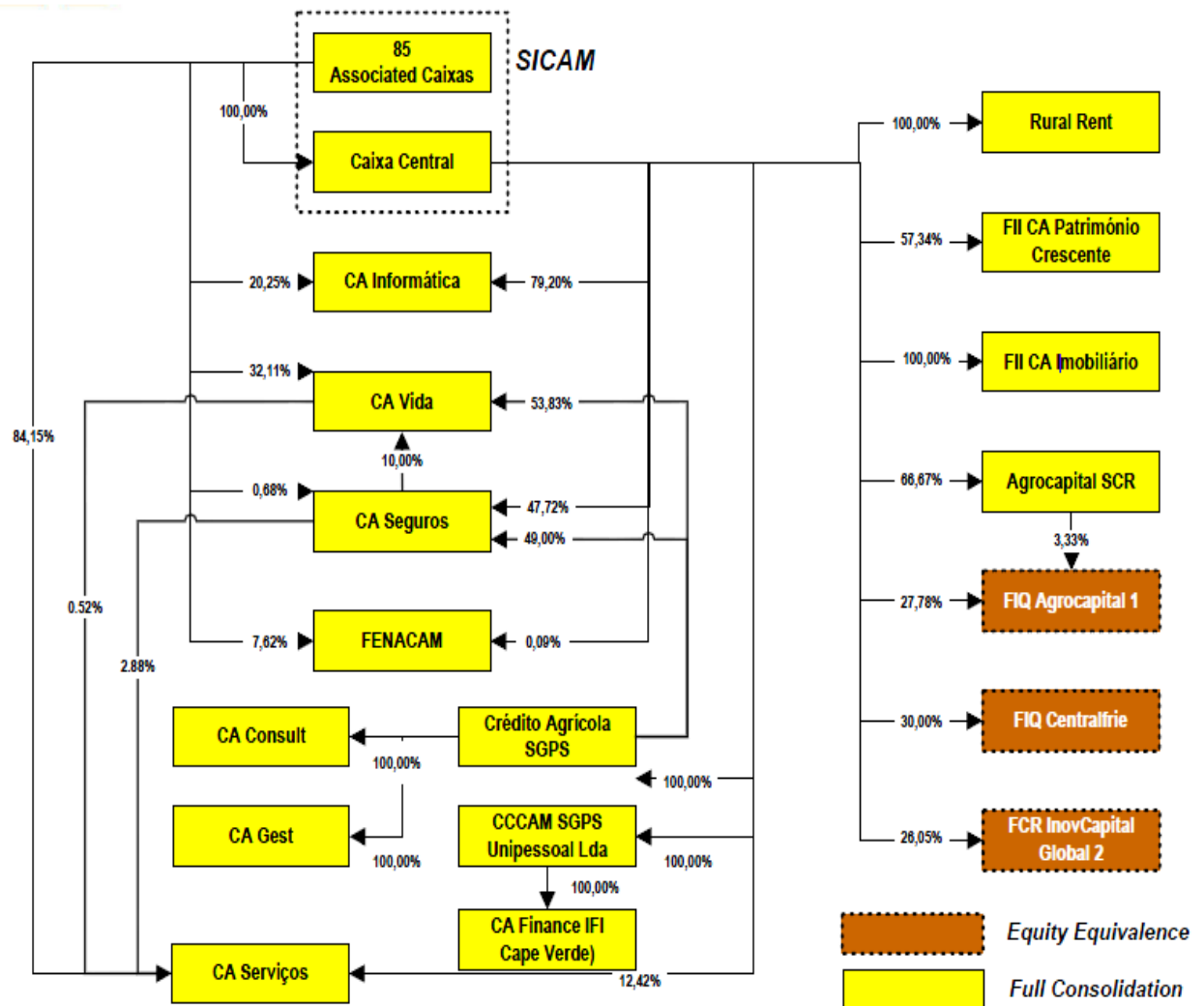
* Ratios for 1995 to 2006 calculated in accordance with Portuguese rules (PCSB), transitional rules in 2007 (NCA) and IAS for 2008 to 2010.

Simultaneously, in the 1990s the Crédito Agrícola Group was founded. Nowadays, the Credito Agrícola group is one of the leading financial groups in Portugal, composed of a large number of small- to medium-

¹ The 1992-1993 Portuguese agricultural crisis together with CCAM difficulty in attract new members ended in the continuous degradation of CCAM results, which became negative from 1992-1995 (Cabo, 2003).

sized Cooperative Banks (CCAM) and some specialized Companies - like the shared services centre CA Serviços - under the supervision of the Caixa Central de Crédito Agrícola Mutúo, resulting in the Group represented in Figure 2.

Figure 2 - Crédito Agrícola Group² Structure



Source: Crédito Agrícola (2011a)

2. Credito Agricola in Portuguese Banking

Today, the Crédito Agrícola is a financial Group that spans the country, with around 400 thousand members in 2010; 1.1 million customers, mainly small- and medium-scale savers, farmers, SMEs and traders; 85 local banks – the CCAM – with a network of 700 branches, scattered across the mainland and in the autonomous region of the Azores; a balance sheet of 14 thousand million euro; equity totalling 1,100 million euro; a solvency ratio – core tier 1 – of more than 12%; and a transformation ratio below 90% (Crédito Agrícola, 2011b; 2013).

These figures rank Crédito Agrícola as the fifth Portuguese financial group: 7th in terms of Net Assets; 6th in Deposits and 3rd regarding the dimension of the Retail Franchise. Table 3 presents the market share of the four biggest Portuguese banks and Crédito Agrícola (CA) in the Portuguese banking system.

² Credito Agrícola SGPS - Holding Company; CCCAM SGPS - Holding Company; CA Seguros - Non-Life Insurance Company; Rural Rent- Long Term Car Rental Company; CA Serviços - Shared Purchasing and Services Company Systems; CA Gest - Funds and Assets & Liabilities Management; CA Vida - Life Insurance Company; CA Consult - Mergers & Acquisitions, Consulting; CA Informática - Data Processing.

Table 3 - The Biggest Portuguese Retail Banks, by December 2012

(values in euro millions)

	CGD	Millennium BCP	BES	Banco BPI	Montepio	CA
Employment (#)	9.401	8.982	7.477	6.400	3.928	3.832
Market Share	17,3%	16,6%	13,8%	11,8%	7,2%	7,1%
Branches (#)	793	839	666	747	458	685
Market Share	13,4%	14,1%	11,2%	12,6%	7,7%	11,5%
Net Assets	108.868.964	85.587.854	68.747.766	44.461.403	20.777.176	13.747.000
Market Share	23,1%	18,1%	14,6%	9,4%	4,4%	2,9%
Net Loans	67.074.988	43.086.358	37.263.514	25.522.348	15.624.154	7.716.900
Market Share	26,2%	16,8%	14,5%	10,0%	6,1%	3,0%
Total Deposits	57.856.002	32.697.873	30.271.265	17.723.848	12.640.967	10.177.700
Market Share	27,9%	15,8%	14,6%	8,5%	6,1%	4,9%
Equity	5.150.000	3.765.167	6.268.998	1.131.153	1.577.632	1.097.800
Net Profit	-316.255	-1.483.362	121.961	177.478	-6.667	41.300

Source: Authors' calculation based on company annual reports; Bank of Portugal and Portuguese Banking Association websites.

Table 3 shows that Crédito Agrícola has an important position in the Portuguese banking system, in regard to employment, network of branches and customer deposits. A structural analysis (Table 4) shows the robustness of Crédito Agrícola. The value of deposits continues to be way above loans, leaving SICAM with a strong liquidity position on its balance sheet, and the highest solvency ratio (Tier 1) of all the biggest Portuguese banks. This gives Crédito Agrícola a solid security buffer crucial in the context of the current economic and financial crisis.

Table 4 – Crédito Agrícola ranking, by December 2012

Performance Indicators	Values	Ranking
Transformation Ratio*	82.2%	1st
Efficiency Ratio**	65.3%	
Return on Assets (ROA)***	0.3%	
Return on Equity (ROE)****	3.8%	
Solvency Core Tier 1 Ratio*****	12.57%	1st
Customer claims:		
Deposits: claims <i>per</i> 1000 accounts	0.07	1st
Mortgage credit: claims <i>per</i> 1000 contracts	0.44	2st
Electronic card: claims <i>per</i> 10,000 cards	0.12	1st
Checks: claims <i>per</i> 10,000 checks processed	0.07	1st

Source: Crédito Agrícola (2013); Banco de Portugal (2013)

* Net Loans / Deposits; ** Structural Costs / Net Worth [Structural costs include amortisation + general administrative expenses + staff costs; Net Worth include financial margin + net commissions + other income (including results from financial operations)] *** Net Profit/ Average Net Assets; **** Net Profit / Equity; ***** Basic Own Funds / Weighted Risks (assets + off-balance-sheet items)

Crédito Agrícola presents the lowest transformation ratio: 82.2%, remaining this indicator at a clearly conservative level. Historically, it has never presented a value higher than 90%, a percentage much inferior to the generality of other financial institutions, which exceed 100%. This fact has a positive influence in terms of CCAM liquidity³.

Efficiency ratio reflects CCAM efficiency-cost efforts and its ability to explore economies of scale and scope economies. SICAM efforts to control the increase of structural costs below net worth were crushed by the harsher operating conditions and especially by the deterioration in the financial margin resulting from the

³ This is particularly relevant in the present as the world moves into the second decade of the 21st century, it finds itself in the grip of a systemic crisis across the globe was never before seen. It led to changes in the behaviour of many players, among them the supervisory banking authorities, rating agencies, banks, market operators and indeed ordinary people. In Europe, the euro countries, above all the most vulnerable, were caught up in shockwaves that revealed structural weaknesses, and triggered a sovereign debt crisis.

policy adopted by the monetary authorities in response to the liquidity problem affecting other financial institutions. Therefore, the overall performance of Crédito Agrícola has changed for the worse and results have continued to be badly hit, by extraneous factors connected to monetary policy rather than the crisis itself. Thus, return on operations overall was poor, with ROA at 0.3%, and ROE at 3.5%, well below the figures of 1.1% and 13.08%, respectively, for 2008.

But the cooperative business model upon which Crédito Agrícola is founded has also proved to be resilient during hard times, with its robust capitalisation and ample liquidity. Low but steady results allow Crédito Agrícola to bolster its asset situation, which is today very robust. Given the cooperative nature of Crédito Agrícola, profits are mostly directed to the reinforcement of equity. This continuous reinforcement is reflected in the solvency ratio of 12.6%, the highest in the Portuguese banking sector and much higher than the 8% imposed by the Bank of Portugal.

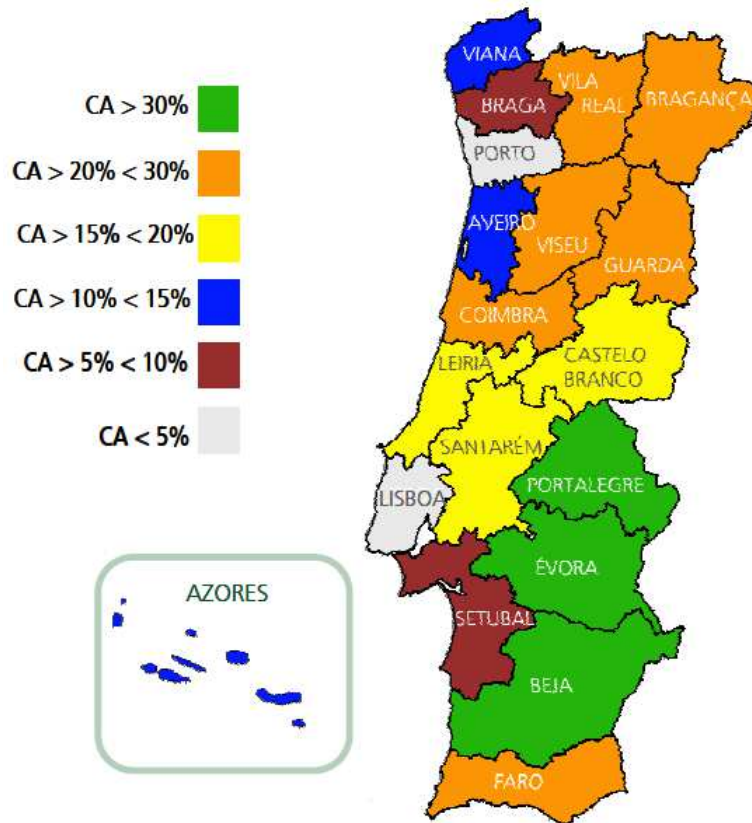
Finally, the Crédito Agrícola business model approach reflects on the quality of the services provided, as the excellent scoring on the customer claims indicator shows. The “recipe” lies in its better understanding of proximity as a factor in banking, backed by an extensive network of branches and points of contact with its members and customers. A model regarded by many, before the present financial crisis, as “obsolete”...

2.1 – Regional Development

The real importance of Crédito Agrícola in the Portuguese banking industry is entrenched in its business approach. Notable for their unique form of proximity to their communities, the CCAM are a powerhouse for local and regional development, fulfilling the Crédito Agrícola corporate mission “... *contributing to the development of Local Communities.*” (Crédito Agrícola, 2009). The CCAM fulfil their mission, being spread across the entire domestic territory, with the exception of the island of Madeira.

Apart from the two metropolitan areas, the Crédito Agrícola has a solid presence, as shown in figure 3, with a market share which, in some regions – the North, Centre and South of the country – is more than 15%. In some parts, the figure rises to over 30%. But there is another, more important point: in hundreds of places across the countryside, the only link into the financial system available for the local economy is the Crédito Agrícola network or its facilities – the ATMs, the automatic banking counters or the POSs – installed by the local CCAM (Crédito Agrícola, 2011b).

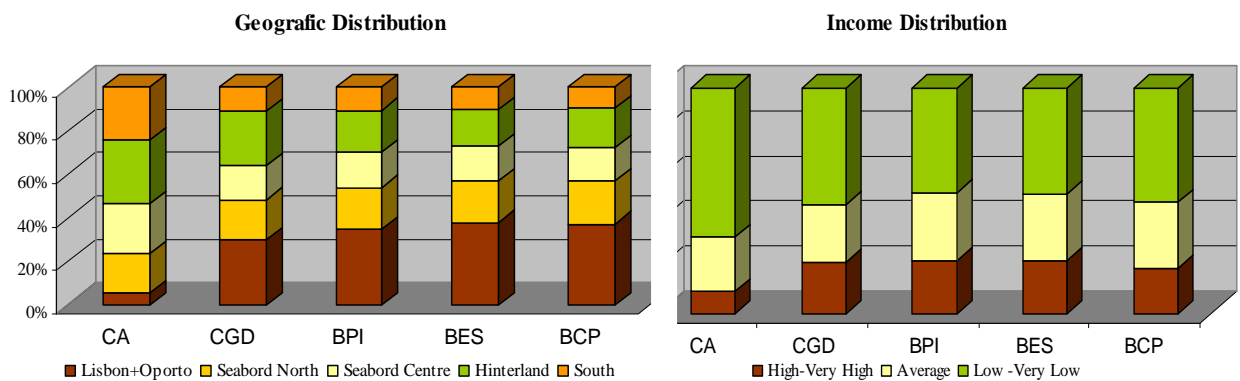
Figure 3 - Crédito Agrícola Local Market Share



Source: Crédito Agrícola (2011b)

In terms of geographic distribution (Figure 4) CCAM is very different from the other banks, given that over half of its customers (53.3%) live in the country's inland regions. The Crédito Agrícola has a special responsibility in these circumstances. Its distribution across regions means it is present in many places where economic strength has been sapped. Thus, a very high proportion of the customers (more than 90%) have low or moderate incomes (Credito Agrícola, 2009)

Figure 4 - Customer Profile of the biggest Portuguese Banks



Source: Adapted from Crédito Agrícola (2009)

2.2 – Internationalization

Although 1992 marks the beginning of international business activity, it is still a new area for Crédito Agrícola. In 2010, Crédito Agrícola involvement in international business operations reached 1,670.5 million Euro. Market share stands at 1.8% (Crédito Agrícola, 2011a). In particular, emigration is a specific segment with a role in the Group which has been growing consistently over recent years, thanks to the excellent geographical distribution of Crédito Agrícola throughout the country and the dynamic approach of the Group's branches abroad. The sustained increase in emigrant remittances is symptomatic of this area of Group operations, as can be seen from the Group market share: 15.5% in emigrant remittances and 3.4% in

emigrant deposits, in 2010. The foreign branches of the Crédito Agrícola (1 International Financial Institution in Praia, Republic of Cape Verde and 2 Representative Offices, in Paris and Luxembourg) showed results of around 243 thousand euros, with assets under management standing at 70 million euros.

3. Structure and Governance

Essentially, the agricultural cooperative credit system in Portugal is made up of an integrated system (SICAM) of two types of cooperatives: the central and the individual (associated or members), i.e., SICAM = Central CCAM + Associated CCAM, including 85 CCAM. Together they own several specialised companies forming the Crédito Agrícola Group. The central structures of the group are the Caixa Central de Crédito Agrícola Mútuo and FENACAM. The former is a cooperative banking institution empowered to oversee, orientate and monitor operations in the associated local banks. The latter is a cooperative institution which provides specialised services for the Group.

Membership of the Central CCAM is not mandatory for CCAM. There are CCAM in Portugal which are not members of the Central CCAM or which have withdrawn from membership of the Central CCAM, although the rules for this are more stringent, and approximate more to those that prevail in private credit institutions. Services are not offered by the Central CCAM to these CCAM. Currently, only five CCAM remain outside SICAM.

Except for banking operations, the CCAM follow traditional cooperative principles, namely, open membership, democratic control and restricted residual claims. The dual nature of credit cooperative is reflected in their formal and institutional solutions.

According to the RJCAM⁴, the CCAM are credit institutions of a cooperative nature, whose goal is to perform agricultural credit operations in favour of their members, as well as the other banking functions inherent to banking activity. Thus, CCAM are under a special regime, essentially because of their cooperative form and their priority goal of performing agricultural credit operations in favour of their members.

RJCAM specifies that CCAM are created in a cooperative form, with limited liability, and should seek, without the aim of profit, the satisfaction of their members' economic, social and cultural needs and aspirations. The CCAM present in this way structural and intrinsic differences to banks, since according to the law, banks must be in the form of public limited companies (corporations) and, therefore, aim for profit.

The RJCAM impose several limitations resulting from its social objectives, territorial area and members' attributes. In addition it is difficult for CCAM to increase their issued share capital since they cannot publicly do so. These limitations have their counterpart in minor issued share capital, organizational structure, technical and human resources available, solvency, control and accountability requirements (on an individual but not a consolidated basis).

The 2009 RJCAM alterations basically aimed to adjust the CCAM governance model to those established for corporations in the Portuguese Commercial Companies Code (CCC), and, simultaneously, to widen the CCAM membership base, bringing it more in line with other financial institutions, and boosting issued share capital increase, in view of the recession felt in the agricultural sector.

Table 5 summarizes the main features of cooperative credit, according to Portuguese legislation.

Table 5 – Portuguese Credit Co-operatives portrayal

Creation	Bank of Portugal approval, following the agreement of Central CCAM and FENACAM
Legal form and nature	Credit Institution, Cooperative form RJCAM (and subsidiary: RG for the banking activity, and Cooperative Code and other cooperative legislation) applies.

⁴ Approved by Decree of Law n.º 24/91, with the following alterations, and republished in apex of the Decree of Law n.º 142/2009.

XXIV Jornadas Luso Espanholas de Gestão Científica
6,7,8 fevereiro 2014 - Leiria

Operations	Granting credit primarily to their members and for financing of primary sector activities. CCAM complying, on individual basis, with prudential rules settled in the RG, can perform operations with non-members or financing activities outside primary sector up to 35% of net assets. Exceptionally, that limit can be raised to 50% by the Bank of Portugal for SICAM associates, at the suggestion of the Caixa Central. Additionally, CCAM that have adequate structural conditions and sufficient funds could be authorized by the Bank of Portugal to perform most of the other activities allowed to banks, with few exceptions.
Membership	Singular or collective persons, who carry out any activity linked to the primary sector (production, transformation or services) in the CCAM territory (or adjacent). Membership outside primary sector activities is permitted but limited to 35% of the CCAM members. Exceptionally, that limit can be raised to 50% by the Bank of Portugal. Minimum shareholding: € 500 Minimum of 50 members.
Territorial activity	CCAM activity is restricted to their headquarter municipality. CCAM can expand to an adjacent region if there is no other CCAM operating there, or as a result of a CCAM merger.
Opening of branches	Branch opening is subject the authorization of the Central CCAM for associated CCAM and of the Bank of Portugal, for independent CCAM.
Shareholders Capital	Capital is variable; it can be increased by the admission of new members or higher shareholdings, or by the incorporation of reserves; or it can be reduced by exit of members or lower shareholdings or by covering losses. Capital reduction is restrained by prudential rules. The maximum reimbursement value is defined by the accounting value net of compulsory reserves. Capital minimum fixed by the Ministry of Finance: 7.5 million Euros; SICAM associates: 1.496 million Euros (5 million Euros until 30th June of 2015 ⁵)
Resources	Deposits and other reimbursed funds from their members and/or customers. Access to other financing resources, namely interbank market, requires Bank of Portugal (and Central CCAM for associated CCAM) approval. General financing means stipulated in Cooperative Code, namely, issuing of investment securities or debt.
Financial applications	Besides deposits, CCAM can make applications in public debt under conditions established by the Bank of Portugal. CCAM can only hold participations: (a) in regional unions, Central CCAM and FENACAM; (b) in enterprises whose object is of regional interest (up to 20% of equity); (c) to assure the reimbursement of credits; (d) when especially authorized by Bank of Portugal ⁶
Governance Bodies	The management and supervision bodies (composition and competences) stipulated for corporations apply, preserving the importance and competences of the General Assembly characteristic of the cooperative model.
Shares	No tradability of shares.
Voting rules	Principle of democracy, voting right independent of shareholding position: one member, one vote.
Reserves	CCAM must allocate up to 50% of the net profits to the reserves: (a) at least 20% to the legal reserve until it reaches the value of issued share capital; (b) at least 20% to the special reserve for reinforcement of equity in the case of CCAM under financial restructuring process, until it reaches the value of amount to the benefits obtained with the process; (c) between 1% - 5% to the members' education; and (d) a max of 5% to the mutual reserve. CCAM statutes can design other reserves.
Profit allocation	After covering eventual losses of previous exercises, profits not allocated to the reserves can be distributed among members. The remuneration of capital shares is limited to 30% of the results ⁷ . Profits cannot be distributed if the CCAM do not comply with prudential rules, or if the member shareholding is inferior to the minimum required, in which case his portion of the profit will revert to them.
Supervision	Bank of Portugal. Central CCAM for SICAM members.

⁵ By 30th June 2015, CCAM capital should reach at least € 5 million; beginning with € 2.5 million by 30th June 2011 followed by an annual increase of € 0.5 million.

⁶ CCAM hold direct participations in the Crédito Agrícola specialized companies under this special authorization.

⁷ CCAM do not usually give out profit to members. Members' remuneration usually takes the form of capital shares allocation resulting from the incorporation of reserves.

Tax Policy	Profits are subjected to a rate (IRC) of 20%; excepting the results of no members operations or activities outside cooperative purposes and the taxation on consolidated basis, in which the IRC general rules apply ⁸ .
Deposits insurance	Insurance Fund of Agricultural Cooperative Credit. This fund as well as securing CCAM customer deposits, performs an active role in the SICAM economic and financial restructuring process, as part of its task to promote SICAM solvency and liquidity.

As mentioned, Crédito Agrícola Group takes a specialized approach to financial services. Most of the people who use the services of the local CCAM are non-members. However any person may open an account, make deposits, obtain loans, and use the services of the CCAM, complying with the limits imposed by RJCAM (Table 5). Of the approximately 1.1 million customers of the Crédito Agrícola Group, only about 400,000 are members. With certain incentives to membership having been removed in recent tax reforms, the Crédito Agrícola Group is attempting to encourage membership in order to enhance the grass roots of the movement by offering special conditions attaching to financial products and services, such as the “Clube A” card for members. This is a hard task in a country struggling with the definition of rural regions and agro-business industry. Entering the new millennium, the number of Crédito Agrícola has stagnated; new entrances are scarce and diluted by the exit of members. Simultaneously the number of CCAM customers has declined by almost ¼ in one decade. Crédito Agrícola attempts to diversify its customer’s portfolio, targeting a new type of customer, not linked to the primary sector activities, are up against the traditional Crédito Agrícola brand image and banking customers’ perception.

Within general prudential guidelines provided by Central CCAM, the local CCAM have control over their pricing and personal services. In general, CCAM sell products and services developed by the Crédito Agrícola Group and pursuant to formal policies and procedures issued by Central CCAM, to which the local CCAM must adhere. The CCAM operate from a common technology platform.

The operations of the CCAM are restricted, and limited to their headquarters region. Whenever competitive friction between local CCAM arises, their dispute is arbitrated by Central CCAM. The local CCAM consistently honour the principle of non-competition. Any new branch of a CCAM must be approved by the Central CCAM.

The role of the Central CCAM has no parallel in other financial institutions. Central CCAM is a financial institution in cooperative form, offering a full banking service and competing on equal terms with the largest banks operating in Portugal. The Central CCAM aims at the concession of credit and other practices inherent to banking activity, on the same terms as commercial banks. However, it should not compete with its own members. For example, Central CCAM is authorized to open branches on the same terms as banks, but must previously consult the local CCAM member.

Central CCAM acts as central bank for the group, creating and developing a joint banking strategy. For instance, individual excess of liquidity is transferred to Central CCAM, which can lend to non-primary economic sectors or carry out transactions in the money, foreign exchange or capital markets. It pays the market rate on liquidity deposits and, following the principle of “user payer”, charges fees to the CCAM for consultative and advisory services. Central CCAM does not attempt to generate a profit from its transactions with its member CCAM. It sets prices to recover costs.

The CCAM are its only members and have capitalized it through share investments. As in the case of local CCAM, Central CCAM capital is variable and can be increased by the admission of new members or higher shareholdings, or by the incorporation of reserves, and shareholding reimbursement is restrained by prudential rules and requires General Assembly approval. The minimum Capital of Central CCAM, as fixed by the Ministry of Finance, is 17.5 million Euros; with minimum shareholding of 5,000 euro and maximum of 10% of capital, except in the case of extraordinary supplies.

Although the Bank of Portugal is responsible for banking sector supervision (i.e., the financial regulator), with regard to SICAM associates the law delegates a great part of these functions to the Central CCAM which, in turn, is under Bank of Portugal supervision. The Bank of Portugal defines the relations and

⁸ According to the Cooperative Tax Statute, Law n.º 85/98. Although, according to FENACAM (2009) cooperative credit system is, inside of the Portuguese Financial System, in percentile terms, the greater contributor. In many cases cooperative credit system taxation is triple of the other banking company.

prudential limits applicable to SICAM, and supervises the system accounts on a consolidated basis. Central CCAM assures the fulfilment of SICAM and associated CCAM solvency and liquidity rules and controls and guides them. The accounts consolidation of associated CCAM is a Central CCAM responsibility, in compliance with the terms defined by the Bank of Portugal. Specifically, Central CCAM orientation powers include the definition of general rules: (a) necessary to assure the fulfilment of the solvency and liquidity rules of SICAM and associated CCAM; (b) of commercial and credit granting policies including the setting up of guarantees; (c) regarding admission, remuneration, formation and qualification of staff; (d) regarding the creation of new branches; (e) to define general rules of office operation and security.

Additionally, without prejudicing Bank of Portugal authority, Central CCAM is empowered to control administrative, technical and financing aspects of associated CCAM, and their organization⁹ and management. Moreover, Central CCAM can intervene by the assigning a representative to monitor CCAM management or the nomination of provisional directors when it encounters an unbalanced situation which could jeopardize the daily functioning of the CCAM, its solvency is at risk, or serious irregularities occur. In addition, when the member is in (or at risk of) financial unbalance and not following Central CCAM guidelines, Central CCAM can dismiss all or part of the associated management and supervision boards, and assign provisional directors to them.

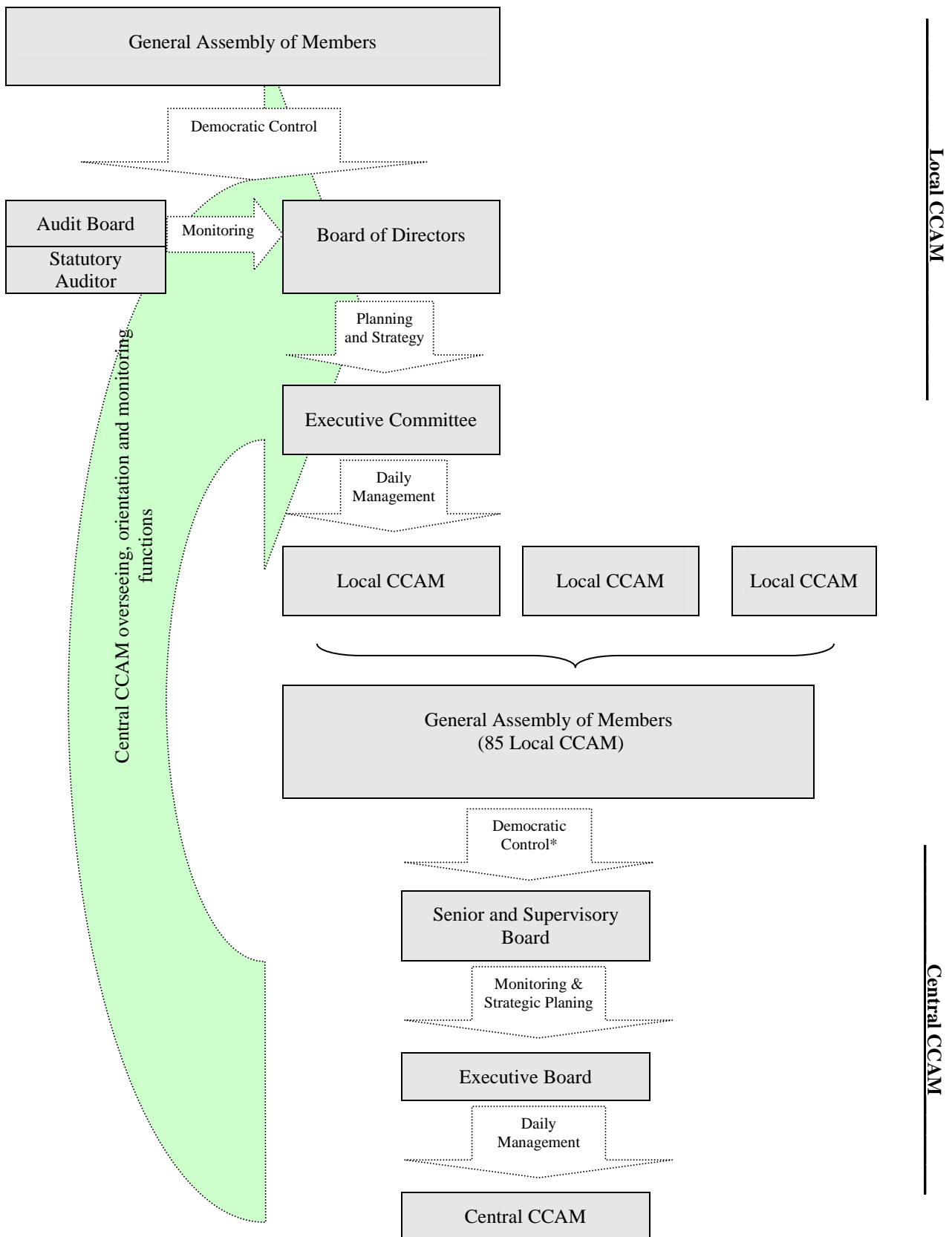
Finally, Central CCAM guarantees its associates without limitations and is also guaranteed by them. In fact, Central CCAM guarantees the obligations assumed by the associated CCAM, even if they are prior to the association, in the same way as a bailer guarantees the obligations of the warrantee, without enjoying the right of exclusion. SICAM is, in this way, subordinated to a double guardianship; in fact Central CCAM is directly responsible not only for the organization, but also for the economic and financial management of its associates.

The autonomy of the local CCAM, combined with the assistance the local CCAM receive from Central CCAM, creates a decentralized, but strongly orchestrated, bottom-to-top decision making process.

Figure 5 includes a summary of the skeleton of the SICAM structure governance, i.e. the different governance bodies and linkages between them. .

⁹ Exemplifying, if the Central CCAM has an unfavourable appreciation regarding the registration of a member governance bodies, Bank of Portugal rejects its registration.

Figure 5 - Governance Structure of SICAM



* Principle of democracy, excepting for some specific decisions (election of the Central CCAM board of directors, budget approval and profits allocation) in which the voting rights can differ according to the shareholding and CCAM average deposits and the solvency ratio.

4. Conclusions

The Portuguese cooperative credit system is a typical example of how the public policy can influence the development of the cooperative credit institutions. Until the 1990s CCAMs had no control over their own life. Having been developed in a top-down process, the CCAM depended on public funds to carry out their mission and were often used to accomplish political goals. Indeed, CCAM were used to provide a public benefit to the rural economy and rural population.

Like cooperatives in other sectors, the CCAM increasingly face survival challenges, partly as a consequence of their cooperative nature. Worldwide cooperatives have adopted varied strategies to combat difficulties inherent to the cooperative form. Most of the solutions presented are based on some degree of deviation from traditional cooperative principles. CCAM implemented a very different strategy. They opted to focus their efforts on cooperative activity and performance, rather than on the cooperative rules themselves. Still, in the face of an increasingly competitive banking industry, the 2009 RJCAM changes ameliorated CCAM activity, easing product and territory restrictions and approximating their governance model to that of corporations. It was a change which distanced RJCAM from the Cooperative Code. Nevertheless, it is in the Cooperative Code that CCAM can find the solutions to some of their governance problems, without losing their cooperative identity.

The signs of the times are complex and blurred by uncertainties. The world economy is experiencing a crisis never before seen. In Europe, the euro zone countries, above all the most vulnerable, have been caught up in shockwaves that revealed structural weaknesses, and triggered a sovereign debt crisis. With financial resources scarce, the effects caused economic activity to falter, and unemployment to rise significantly. The result has been a plummeting standard of living in many thousands of households across the country.

But “what doesn’t kill us make us stronger”. This is perhaps the lesson to draw from this crisis. Worldwide, people are rediscovering co-operatives. A governance model considered by many as obsolete is proving its strengths. Despite being crucial for the development of capitalism and democratic society, co-operatives have vanished from most economic textbooks, considered a governance type that has outlived its *raison d’être* and neglected by policymakers. Considered by many an obsolete sector, remote from profit maximization and unable to offer sophisticated financial products, the performance of the cooperative banking sector during the recent crisis has proved them wrong, and co-ops have gained new supporters.

Today, more than ever, there is an urgent need to revive the concept of co-operation and investment in the social economy. The focus must be on fostering growth, employment and social cohesion. CCAM in particular have a crucial role to play in the economic recovery of local economies, not only providing finance for economic activity in their local area, but also supporting local social causes, giving their backing to cultural and social initiatives.

The futures of both CCAM and their communities are intrinsically connected. Walking on their own feet for first time in the last four decades, CCAM have been constantly taking decisions in order to survive and improve their economic and financial health.

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