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## The role of cooperative banks and smaller institutions for the financing of SMEs and small midcaps in Europe

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# The role of cooperative banks and smaller institutions for the financing of SMEs and small midcaps in Europe

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## Abstract<sup>1</sup>

The “Cooperative Banks & Smaller Institutions” (CBSI) window of the EIB Group Risk Enhancement Mandate (EREM) shall contribute to the EIB group’s intention to increase lending to small and medium-sized enterprises (SMEs) and to broaden the range of intermediaries through which it operates, in particular by targeting small cooperative banks and other smaller institutions that have a particular focus on smaller SMEs and start-ups. In this paper, we provide background information on cooperative banks and other smaller institutions in Europe. However, we focus on the cooperative banking segment, for which more information is available.

Banks’ business models strongly differ by the size of the banks. For example, smaller institutions’ share of trading assets (including derivatives held for trading) over total assets is, on average, very small. ECB indicators also show that smaller banks have a higher solvency and asset quality, as well as a lower leverage and loans-to-deposit ratios, when compared to larger banks. These results are all broadly in line with the findings for the more specific group of cooperative banks.

Cooperative banks’ business model is usually conservative and follows a simpler structure than that of “shareholder banks”. Cooperative banks typically concentrate to a large extent on lending-based retail banking. Individual local institutions, although tending to be small, are key intermediaries for SME loans, with a relatively strong focus on smaller SMEs. Cooperative banks’ funding policy, but also their capital base, is regarded as being comparably stable. Their main funding source is deposits from customers, who are to a large extent identical with their members/owners. In addition to the membership contribution of their owner-members, usually their almost exclusive source of capital is retained profits.

The local cooperative banks have generally been less impacted by the financial crisis, compared to their peers. However, not surprisingly, they suffered more in those countries that were more intensively hit by the crisis, and some of the central institutions have been strongly affected, in particular when they had deviated from the traditional model of cooperative banking in the domestic market.

However, looking forward, there is a risk that a more intensified competition for retail deposits, driven by Basel III and challenging wholesale markets, could slightly erode the deposit market shares of cooperative banks. As this might lead to an increase in the relative price of deposits, there could be a stronger tendency to look for alternative funding sources, e.g. the products that will be offered under the EREM CBSI window. The provision of additional and attractive funding opportunities could then help the cooperative banks to offer better support to the economy, in particular when growth picks up again.

Statistics of the European Association of Cooperative Banks (EACB) show more than 4,000 regional/local cooperative banks among the EACB members in the EU. However, there are large differences (e.g. by country/legal environment, size, independence/integration of the individual local/regional institutions, and relevance of certain target groups including SMEs) between the cooperative banking models in Europe. Hence, only a part of all institutions will fall into the focus of the EREM CBSI window, which is expected to target relatively small but independent institutions with a strong emphasis on SMEs.

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# 1 Introduction

On the basis of the recent capital increases of the European Investment Bank (EIB) and the European Investment Fund (EIF),<sup>2</sup> the EIB Group<sup>3</sup> has envisaged to increase lending to SMEs while broadening the range of intermediaries through which it operates, including new financial and non-conventional intermediaries such as smaller regional banks and more specialist financing institutions such as SME-focussed leasing entities, which have a particular focus on smaller SMEs and start-ups. In order to contribute to this objective, a new window under the EIB Group Risk Enhancement Mandate (EREM)<sup>4</sup> is in the final phase of being set up, i.e. the “Cooperative Banks & Smaller Institutions” (CBSI) instrument.

The CBSI instrument particularly targets small financial intermediaries such as small leasing institutions, small cooperative banks and other smaller banks with local/regional focus, niche banks<sup>5</sup> and non-bank financial institutions. This EIF Working Paper shows that such institutions are key players for SME financing in Europe. Therefore, the EREM CBSI window will be dedicated to these market players, and thereby give additional and targeted support to SMEs.

In this paper, we provide background information on the market segment of smaller bank institutions and cooperative banks.<sup>6</sup> However, on European level,<sup>7</sup> there is more information available on cooperative banks than on “smaller institutions” in general. Therefore, we largely focus on the cooperative banking segment. We start our analysis with an overview of SME financing in Europe and the general role of banks for SMEs’ access to finance (Chapter 2). We then look at the sub-segment of smaller institutions (Chapter 3). The main part is dedicated to the specific characteristics of cooperative banks (Chapter 4), the cooperative banking sector in Europe (Chapter 5) and their importance for SME financing (Chapter

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<sup>2</sup> With effect from 31.12.2012, the EIB shareholders approved a EUR 10bn capital increase, which raised EIB’s capital-base to 243bn. EIF’s General Meeting approved the increase of EIF’s authorised capital from EUR 3bn to EUR 4.5bn in May 2014.

<sup>3</sup> The EIB Group consists of the EIB and EIF. The EIB is the majority shareholder of the EIF, with the remaining equity held by the EU (represented by the European Commission) and other private and public financial institutions from the EU Member States and Turkey.

<sup>4</sup> The EIB Group Risk Enhancement Mandate (EREM) has been signed between the EIB and EIF in March 2014 to support the impaired financing of European businesses. EREM has a total of up to EUR 6bn earmarked, up to EUR 4bn contributed by the EIB and complemented by up to EUR 2bn by EIF. EREM includes a number of different products/windows either reinforcing existing activities or strengthening EIB Group positions using alternative financing tools to respond to concrete new market needs. The majority of EREM products are gradually implemented during 2015 and 2016. It will be fully deployed by the EIF on behalf and in close collaboration with the EIB. The mandate aims at supporting additional guarantees, debt and equity instruments, with a view to increasing access to finance for SMEs and small midcaps (defined as enterprises with up to 500 employees). Sources (also for further details): [http://www.eif.org/what\\_we\\_do/resources/erem/index.htm](http://www.eif.org/what_we_do/resources/erem/index.htm), Kraemer-Eis (2014) and Kraemer-Eis, Lang and Gvetadze (2014).

<sup>5</sup> Niche banks are banks “that cater to and serve the needs of a certain demographic segment of the population” ([http://www.investopedia.com/terms/n/niche\\_banks.asp](http://www.investopedia.com/terms/n/niche_banks.asp), accessed at May 4, 2016) or “certain industries. [...] Niche banks typically target a specific market or type of customer” (<http://www.privatebanking.com/knowledgebase/financial-glossary/niche-banks>, accessed at May 4, 2016).

<sup>6</sup> As regards the potential target intermediaries of small leasing institutions, we would like to point the reader to the EIF Working Paper 2012/15, “The importance of leasing for SME finance” (see Kraemer-Eis and Lang, 2012) and the article “The importance of leasing for SME finance” in Euromoney’s World Leasing Yearbook 2014 (see Kraemer-Eis and Lang, 2014). Both papers discuss the characteristics of the markets for SME leasing. A brief market update is also provided in Kraemer-Eis, Lang, Torfs and Gvetadze (2016). For other non-bank financial institutions, as far as microfinance institutions are concerned, EIF gives market overviews on a regular basis in the microfinance chapter of its European Small Business Finance Outlook. This EIF Working Paper is updated twice per year. See Kraemer-Eis, Lang, Torfs and Gvetadze (2016) for the latest issue (June 2016). See Gloukoviezoff (2016) and Bruhn-Leon, Eriksson and Kraemer-Eis (2012) for EIF Working Papers dedicated specifically to microfinance.

<sup>7</sup> This text is based on research articles and information about cooperative banks and smaller institutions that were available on European level. In the framework of this article, it was not possible to go into country-level details, although we provide some country examples in different parts of the assessment.

6). Finally, we compare key elements of the EREM CBSI window with our findings (Chapter 7) and draw conclusions (Chapter 8).

It should be noted that this text is not to be seen as a typical “market analysis”, as there is no “market” for cooperative banking (and/or small institutions), formed by a cooperative banking supply side and a demand for cooperative banking products. Rather, the market consists of banking products in general, and cooperative banking forms part of it. Hence, we will not (as in “gap analyses”) compare supply and demand, but rather look at the reasons to pay particular attention to cooperative banking and to treat it to a certain extent differently than other market segments.



## 2 SME financing in the EU

Small and medium-sized enterprises (SMEs)<sup>8</sup> are commonly known as the backbone of the European economy, contributing to job creation and economic growth. In the European Union (EU)'s non-financial sector, more than 22.3m SMEs made for 99.8% of all non-financial enterprises, employed 90m people (66.9% of total employment), and generated EUR 3.7 trillion in value added (57.8% of total value added); see Kraemer-Eis, Lang, Torfs and Gvetadze (2016), based on European Commission (2015a). Especially young SMEs are a very important source of job creation; their contribution to the total job creation is twice as much as their representation in the total employment (Criscuolo, Gal and Menon, 2014).

However, SMEs face significant access to finance restrictions (a detailed discussion is provided in our regular EIF Working Paper "European Small Business Finance Outlook"; see Kraemer-Eis, Lang, Torfs and Gvetadze, 2016, for the latest issue). In general, but in particular in the current economic and financial environment, it is especially the small and young firms that face difficulties in accessing financing, as these are by nature more risky than their larger peers. Moreover, according to the European Commission (EC)'s and the European Central Bank (ECB)'s Survey on the Access to Finance of Enterprises (SAFE), great disparities in SMEs' access to finance by country persist, with SMEs facing more stringent financing conditions in peripheral countries than elsewhere in Europe. In more distressed countries, such as Greece, Cyprus, Ireland, Italy and Portugal, the share of SMEs that consider "access to finance" to be a highly important problem is relatively large compared to, for example, Slovakia and Finland (see Kraemer-Eis, Lang, Torfs and Gvetadze, 2015, ECB, 2015b, and European Commission, 2015b). The still relatively difficult access to finance conditions for SMEs in those countries which are suffering the most from the sovereign debt crisis is particularly worrying, as SMEs account for relatively big shares of gross value added in these countries (see, also for more information, Kraemer-Eis, Lang and Gvetadze, 2013). Moreover, crisis-affected banks tend to decrease their lending volumes and to increase interest rates in post-crisis periods more (or decrease them less) than unaffected banks (Chava and Purnanandam, 2011). Hence, not surprisingly, research shows that the impact of a credit supply shock was more severe in countries with a high share of SMEs than in countries with a low share (Klein, 2014); this implies that easing access to finance for SMEs plays a critical role during an economic recovery.

It is not exactly measurable to what extent current weaknesses in bank lending to SMEs are driven by demand- or by supply-side factors. However, there is a risk that even in countries where weak bank lending is driven by the demand side it is uncertain whether banks are able and/or willing to provide the necessary lending once the demand picks up, driven by economic recovery, respectively the expectation of the latter (Kraemer-Eis, Lang and Gvetadze, 2014).

According to the ECB (2014c), the difference in loan pricing conditions between small and large firms might to some extent reflect the higher dependency of small firms on their respective domestic banking sector. Indeed, "[t]he euro area's financial structure differs from that of other large economies. Financial intermediaries – in particular banks – are the main agents for channelling funds from savers to borrowers [...]. Banks are the primary source of financing for the economy [...]. More than 70% of the external financing of the non-financial corporate sector – that is, the financing other than by retained earnings – is provided by banks, and less than 30% by financial markets (and other funding). In the United States it is

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<sup>8</sup> As defined by the EU recommendation 2003/361, SMEs are companies that have less than 250 employees and either a turnover not exceeding EUR 50m or a balance sheet total not exceeding EUR 43m. See the dedicated website of the European Commission for more details: [http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition/index_en.htm).

the other way around”<sup>9</sup>. Even if the corporate sector can to some extent substitute bank lending with other sources of finance, “such substitution is primarily possible for large corporations; it is less so for small and medium-sized firms” (Cour-Thimann and Winkler, 2013).

Hence, policy measures to improve SMEs’ access to finance could either try to improve SMEs’ access to capital markets, e.g. through measures that could help revitalising the SME securitisation market, or foster alternative SME financing channels, e.g. in the area of non-bank lending. EIF’s Research & Market Analysis has recently published related EIF Working Papers.<sup>10</sup> Of course, changing the structure of SME financing in Europe would take time. A more direct way to ease the financing conditions for SMEs could work through additional support for banks and other SME-focused financial intermediaries, in particular smaller institutions and cooperative banks, which are a key intermediary for SME finance (see Chapter 6). Such support could help to further improve the funding of smaller banks and non-bank financial intermediaries.

From the EIB Group perspective, providing cooperative banks and smaller institutions with improved access to EIB Group support adds a component to the EIB group product range for a segment of the European banking market that is so far somewhat underserved.

On European level, the EIB Group, i.e. the European Investment Bank (EIB) and the European Investment Fund (EIF), supports the access to finance of SMEs by means of equity, debt and hybrid instruments. In doing so, EIB and EIF never finance SMEs directly, but always through financial intermediaries (FIs). On the debt side, the EIB Group can invest equity into FIs, offer risk transfer products, or provide funding to FIs. However, within the funding instruments, there currently exist only products targeting larger FIs and products targeting microfinance providers. Hence, there is a “gap” with regard to products for smaller intermediaries offering debt products to SMEs that go beyond microfinance but not up to the level that is typically targeted by EIB products. Table 1 gives an overview of how CBSI fits into the enterprise financing products offered or managed by EIB and EIF.

By implementing CBSI, the EIB Group will be able to broaden the range of intermediaries through which it operates. Examples of the above mentioned target group of smaller FIs are small cooperative banks, smaller banks with local/regional focus, non-bank entities and more specialist financing institutions such as SME-focused small leasing entities.

In the following sections, we will look in more detail at some of these financing institutions and their importance for the financing of SMEs.

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<sup>9</sup> The ECB president Mario Draghi put it even more strongly, namely that “in the United States 80% of credit intermediation goes via the capital markets. [...] In the European situation it is the other way round. 80% of financial intermediation goes through the banking system” (Draghi and Constâncio, 2013).

<sup>10</sup>See Kraemer-Eis, Passaris, Tappi and Inglisa (2015) and Kraemer-Eis (2014) for recent EIF research on SME securitisation and on institutional non-bank lending and the role of debt funds. Both EIF Working Papers are available here: [http://www.eif.org/news\\_centre/research/index.htm](http://www.eif.org/news_centre/research/index.htm).

Table 1: CBSI's fit into the enterprise financing products offered/managed<sup>11</sup> by EIB Group

- **Equity/quasi-equity:** offers exist (EIF venture capital activities)
- **Debt:** increase access to debt finance for enterprises through
  - **for larger companies:** offers exist (EIB financing)
  - **for SMEs<sup>12</sup>:**
    - **direct financing of SMEs:** not offered (at European level more efficient to go through FIs)
    - **indirect / through FIs:**
      - **equity investments into FIs:** offers exist (where there is a need, such as in the field of debt funds or MFIs)
      - **risk transfer:** offers exist (EIF/EIB risk sharing, guarantee and securitisation activities)
      - **funding of FIs:**
        - **for larger FIs:** offers exist (EIB direct financing)
        - **for smaller FIs:**
          - **microfinance:** offers exist (EPMF/EaSi)<sup>13</sup>
          - **beyond microfinance:** new offer: CBSI

see table 9 for details

Notes: FI means Financial Intermediary. MFI means Microfinance Institution.

Source: Authors.

<sup>11</sup>The table includes areas in which EIF/EIB manage instruments on behalf of third parties, in particular the EC.

<sup>12</sup>The financing products listed here sometimes include the financing of SMEs and small mid-caps.

<sup>13</sup>The financial resources of the European Progress Microfinance Facility (EPMF) have been fully deployed. Under the European Commission's new Programme for Employment and Social Innovation (EaSI), a funded product is currently under development, which is going to be designed as a continuation and expansion of the EPMF. See Chapter 7 for more information.

### 3 Smaller institutions

Banks are the main source of external financing for SMEs in Europe. However, non-bank financial institutions (NBFIs) have become increasingly important in financial markets and are considered as potential additional providers of long-term finance (World Bank, 2015; see also Kraemer-Eis, 2014). An NBFIs is “a financial institution that does not have a full banking license and cannot accept deposits from the public”<sup>14</sup>. While NBFIs also include, for example, insurance firms and venture capitalists, the new EREM CBSI instrument focusses on intermediaries that directly provide loans/leases to smaller SMEs, such as non-bank micro-lenders and leasing companies.<sup>15</sup> As said in Chapter 1, we covered these SME finance providers in previous EIF Working Papers.

In this chapter, we look in more detail at smaller *bank* institutions, which are a key EREM CBSI target group. According to latest available data for end-June 2016, there are 7,874 monetary financial institutions (MFIs; host country / residency approach)<sup>16</sup> in the EU and 6,146 MFIs in the Euro area. In terms of number, the largest part of MFIs consists of credit institutions. In recent years, the consolidation in the banking sector has led to a reduction in the number of credit institutions in the EU as well as in the euro area (ECB, 2014a and 2015a).

Data for different size classes of banks is available through the ECB’s Consolidated Banking Data (CBD). However, “in the case of some countries, the CBD do not cover the entire banking sector”, and “there are, notably, gaps in reporting on small banks. While this may raise concerns as to the accuracy of the total number of banking institutions, the coverage is very satisfactory in terms of banking systems’ assets” (ECB, 2013). We nevertheless use this data for this section, as no better statistics for small institutions are available on a harmonised level for the EU and the euro area.

In the euro area, on a consolidated basis according to the CBD statistics, the total number of credit institutions amounted to 2,645 (domestic banks and banking groups) at the end of 2012. This constituted a decline (from 2,909 in 2008) and was accompanied by a reduction in the number of foreign subsidiaries and branches (see ECB, 2013). In the EU, the number of credit institutions was at 3,278 in 2015 (see table 2).<sup>17</sup>

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<sup>14</sup>See <http://go.worldbank.org/RJTVG8MGU0>.

<sup>15</sup>The non-bank financial sector is “often labelled the shadow banking sector” (ECB, 2015a). This frequently goes along with a negative connotation, i.e. meaning “entities or activities that exploit regulatory ‘boundaries’ between the regulated and less or non-regulated parts of the financial sector” or “entities that raise i) systemic risks [...] and/or ii) regulatory arbitrage concerns” (ECB, 2015a, cited Goodhart, 2008, and FSB, 2011). However, leasing companies and micro-lenders are typically *not* considered as “shadow banking” in this understanding, as they are usually neither regarded as exploiting regulatory boundaries nor as posing systemic risks. Moreover, leasing companies “are somewhat insulated against the risk of default because they own the leased equipment as part of their collateral agreement” (<http://go.worldbank.org/RJTVG8MGU0>).

<sup>16</sup>See Borgioli, Gouveia and Labanca (2013) for more information on the approach. According to the ECB, MFIs “are resident credit institutions as defined in European Union (EU) law, and other resident financial institutions whose business is to receive deposits and/or close substitutes for deposits from entities other than MFIs and, for their own account (at least in economic terms), to grant credits and/or make investments in securities. More precisely, Regulation ECB/2013/33 [...] defines MFIs as resident undertakings that belong to any of the following sectors: central banks [...]; credit institutions [...]; other deposit-taking corporations [...]; money market funds [...].” Source: <http://www.ecb.europa.eu/stats/money/mfi/html/index.en.html> (accessed at 27 April 2016).

<sup>17</sup>As mentioned, these numbers are taken from the ECB’s CBD statistics. In contrast, the ECB MFI statistics show 8,118 MFIs in the EU at the end of 2015 (6,366 in the euro area), of which 7,050 (5,453) are credit institutions. There are several differences between both statistics, as they serve different purposes (monetary analysis in the case of the MFI statistics; banking stability analysis in the case of CBD). Some examples: The reporting population of the MFI statistics follows EU definitions, but the reporting population under the CBD is defined according to national regulations. The MFI statistics report unconsolidated data, while the CBD report cross-border and cross-sector consolidated data. The application of the MFI statistics is mandatory for euro area countries, while the “CBD is based on a best-effort basis” (see Borgioli, Gouveia and Labanca, 2013, also for more details). As

**Table 2: Number of credit institutions and small banks (incl. by RoE) in the EU**

year	Domestic banking groups and stand-alone banks, EU (changing composition)								
	credit institutions, total	total	small institutions					total	number
			with Solvency Ratio						
			< 8%	8-12%	12-16%	16-20%	>20%		
2015	3,278	2,696		11	134	777	773	931	
2014	3,419	2,808		8	120	768	837	1,035	
year	annual growth rate								
2015	-4.12%	-3.99%	n.a.	37.50%	11.67%	1.17%	-7.65%	-10.05%	
2014	-3.99%	-6.99%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
growth rate 2015 vs. 2008									
	-16.55%	-18.35%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
year	Domestic banking groups and stand-alone banks, EU (changing composition)								
	credit institutions, total	total	small institutions					total	number
			with RoE						
			< 0	0-5%	5-10%	10-15%	15-20%		
2013	3,561	3,019	151	1,961	655	135	26	36	
2012	3,610	3,080	149	1,837	621	322	60	37	
2011	3,694	3,144	182	1,813	642	351	54	37	
2010	3,730	3,191	125	1,850	702	336	66	40	
2009	3,873	3,233	148	1,850	687	329	77	46	
2008	3,928	3,302	181	1,894	413	393	239	83	
2007	3,881	3,305	19	27	200	334	136	45	
year	annual growth rate								
2013	-1.36%	-1.98%	1.34%	6.75%	5.48%	-58.07%	-56.67%	-2.70%	
2012	-2.27%	-2.04%	-18.13%	1.32%	-3.27%	-8.26%	11.11%	0.00%	
2011	-0.97%	-1.47%	45.60%	-2.00%	-8.55%	4.46%	-18.18%	-7.50%	
2010	-3.69%	-1.30%	-15.54%	0.00%	2.18%	2.13%	-14.29%	-13.04%	
2009	-1.40%	-2.09%	-18.23%	-2.32%	66.34%	-16.28%	-67.78%	-44.58%	
2008	1.21%	-0.09%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
growth rate 2013 vs. 2008									
	-9.34%	-8.57%	-16.57%	3.54%	58.60%	-65.65%	-89.12%	-56.63%	
			-16.57%	13.39%		-72.45%			

Note: The aggregated values at EU (and euro area) level for 2007 do not cover all the EU (and euro area) countries at this date due to data availability constraints. See starting date for the corresponding series at country level for further details on the underlying population. Data by RoE not available for 2014-2015. Data by solvency ratio not available for periods prior to 2004. The total number of small institutions is not necessarily equal to the sum of the subsets (by RoE or solvency ratio) for a given year, due to missing data.<sup>18</sup>

Source: Authors, based on ECB SDW data.

already mentioned, “in the case of some countries, the CBD do not cover the entire banking sector”, and “there are, notably, gaps in reporting on small banks” (ECB, 2013).

<sup>18</sup>The CBD database, which aims at covering the entire banking population in the EU, is collected since 2002. Data on the domestic banks of each EU country are reported broken down by bank size (large, medium-sized and small). In addition, data are also separately reported for foreign-controlled branches and subsidiaries active in EU countries. The CBD „can be used as an important benchmark for the EU banking system“. See Borgioli, Gouveia and Labanca (2013). “The data are consolidated on a cross-border basis (data on branches and subsidiaries located outside the domestic market are consolidated in the data reported by the parent institution) and a cross-sector basis (branches and subsidiaries of banks that can be classified as ‘other financial institutions’ are included). Insurance companies and non-financial institutions are, in general, not consolidated. The consolidation basis could, therefore, be different from that of the IFRS. [...] Country-level information may differ from that published in individual countries’ reports on account of differences in the reporting populations” (Borgioli, Gouveia and Labanca, 2013).

According to the CBD statistics, the number of *small* institutions has continuously decreased in the EU from 3,302 in 2008 to 2,696 in 2015, which means a total change by –18.35%. However, when looking at the 2008 to 2013 period, i.e. those years for which the ECB reports the number of small institutions by their return on equity (RoE), the numbers of small institutions with negative or relatively high (>10%) RoE have shrunk by 17% and 72% respectively, while the number of small institutions with a RoE between 0 and 10% has increased by 13%.

The ECB's way of defining "small institutions" works as follows: The CBD on EU domestic banks is divided into three size groups (small, medium-sized and large banks). "Large domestic banks" are defined as "banks with total assets greater than 0.5% of the total consolidated assets of EU banks" (see for this and the following definitions ECB, 2014b). Medium-sized banks "have total assets of between 0.5% and 0.005% of these total consolidated assets". "Small banks" are domestic banks with total assets of less than 0.005% of the total consolidated assets of EU banks. The thresholds are defined on the basis of the total assets of the banking sector according to data as per the end of the preceding year. Based on the available data, this definition would mean that a small bank has total assets of less than approximately EUR 1.6bn.<sup>19</sup>

CBD statistics show that large banks are mainly present in Belgium, Germany, Denmark, Spain, France, Italy, the Netherlands, Sweden and the United Kingdom,<sup>20</sup> while in Bulgaria, Estonia, Lithuania, Malta and Slovakia, there are only small banks.<sup>21</sup> The remaining countries have mainly medium-sized banks (see Borgioli, Gouveia and Labanca, 2013). Despite the strong presence of larger banks in large countries such as Germany, France and Italy, their banking systems "are more fragmented, and include strong savings and cooperative banking sectors." In contrast, "[b]anking systems in smaller countries tend to be more concentrated, with the notable exception of Austria and Luxembourg. In the case of Austria, this is on account of a banking sector structure similar to the one characterising the larger countries, and in the case of Luxembourg it is due to the presence of a large number of foreign credit institutions" (ECB, 2013).

For the purpose of comparison: The average (unweighted) total asset size of a regional/local bank among the members of the European Association of Cooperative Banks (EACB) is EUR 1.78bn.<sup>22</sup> However, there are strong differences by cooperative bank network/group (See Annex 3 and Annex 4). Depending on the distribution of local cooperative banks by asset size within a given network, statements for "small banks", based on the ECB CBD statistics, can most likely be taken as relevant for a substantial part of cooperative banks.

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<sup>19</sup>According to the ECB (2014b), "[i]n terms of absolute amounts, the threshold is defined on the basis of the total assets of the banking sector according to data collected in the preceding year. Therefore, for the data collection exercise in 2008 (concerning end-2007 data), the thresholds were computed on the basis of total assets of EUR 31,556 billion, data taken from the 2007 collection exercise. This figure comprises the total assets of both domestic banks and non-EU foreign subsidiaries in all EU Member States at the end of 2006." Based on this number, a small bank was a credit institution with total assets of less than EUR 1.578bn.

<sup>20</sup>For reasons of confidentiality, a country with only one or two large institutions may not report data within the 'large banks' group." (Borgioli, Gouveia and Labanca, 2013)

<sup>21</sup>"It must, however, be borne in mind that the thresholds for the size categories are defined at EU level, so that a 'small' bank according to the EU scale may not necessarily be 'small' from the point of view of individual countries." "The concept of size is therefore in relation to the EU banking system as a whole and not in relation to each single country" (Borgioli, Gouveia and Labanca, 2013).

<sup>22</sup>As at 31 December 2014, according to EACB figures, the total asset size of EACB members in the EU amounted to EUR 7,516bn and the number of regional/local banks to 4,194 (see table 4 and table 5 in this paper). After excluding the two organisations, for which the numbers of independent banks were not available, this leads to an average (unweighted) asset size of EUR 1.78bn per regional/local bank. Please note that this number includes, for data availability reasons, the assets of the groups as a whole, except where otherwise stated in the tables.

### Different business models of smaller banks

According to Borgioli, Gouveia and Labanca (2013), “large, medium-sized and small banks do behave differently and have different business models”. The CBD statistics confirm these differences in the business models of banks by their size. For example, in 2014, trading assets (including derivatives held for trading) “feature most prominently in the balance sheets of large banks, whereas their share has decreased to almost non-existent in the aggregate balance sheet of the medium-sized and small domestic banks” (ECB, 2015a). In contrast, the asset structure of medium-sized banks is “dominated” by loans, which accounted for 67% of total assets in this banking size class in 2014. For smaller banks, the share of loans in total assets rose from 54% to 59%. These findings confirm that the business models of banks in these size groups tend to be more geared towards traditional retail banking activities (ECB, 2013, 2015a).

Based on the CBD dataset, Borgioli, Gouveia and Labanca (2013) show that “the Tier 1 ratio, capturing the solvency of the banks, decreases as bank size increases (small banks’ Tier 1 ratios are almost double the figures of large banks); non-performing loans and securities [to total loans and securities], a measure of asset quality, also decreases as bank size goes up, with smaller banks presenting significantly higher ratios; leverage increases with bank size and the deleveraging process can mainly be observed for larger banks; the loans-to-deposit ratio also increases with bank size. As for return on equity, it seems that large banks are more affected by downturns, as their return on equity was significantly impacted by the financial crisis in 2008.”

The statements on the business model of smaller institutions, which are based on the ECB CBD statistics, are in line with the findings for cooperative banks, which we present in other sections of this paper. Cooperative banks’ typical funding policy, but also their capital base, is regarded as being comparably stable. They are usually also considered to follow a more conservative approach in terms of risk-taking. Moreover, the CBD-based result that smaller institutions in general have a strong focus on lending-based retail banking is particularly in line with the business model of cooperative banks.

In the following, we will turn to the cooperative banking sector in more detail.



## 4 Cooperative banks: definition and typical characteristics

“A cooperative bank is a financial entity which belongs to its members, who are at the same time the owners and the customers of their bank”, according to the definition<sup>23</sup> of the International Cooperative Banking Association (ICBA)<sup>24</sup>. According to ICBA (2016), “cooperative banks differ from stockholder banks by their organization, their goals, their values and their governance.” Fiordelisi and Mare (2014) mention “ownership, control, and benefits” as the factors that significantly distinguish cooperative banks from other types of credit institutions – even if the cooperative banking sector in Europe “is not entirely uniform in terms of legal framework, size, and organization”. We have listed the typical characteristics of cooperative banks in table 3.<sup>25</sup>

**Table 3: Typical characteristics of cooperative banks**

- **Customer-owned entities**
  - Cooperative banks are owned by their members.
  - Cooperative bank members are both, owners and customers.
  - Some cooperative banks only operate with their members, but most of them also admit non-member clients to benefit from their banking and financial services.<sup>26</sup>
- **Democratic member control**
  - Cooperative banks are controlled by their members.
  - The members democratically elect the board of directors.
  - Members usually have equal voting rights (according to the cooperative principle of "one person, one vote").
- **Profit allocation**
  - A significant part of the profit is usually allocated to constitute reserves
  - A part of the profit can also be distributed to the members, with legal or statutory limitations in most cases
- **Local rootedness**
  - members and management usually belong to the communities in which activities are exercised
  - increasing access to financial services in areas/markets where other banks are less present (SMEs, farmers in rural areas, middle or low income households in urban areas)
  - local development as a typical aim
- **Social impact**
  - Reducing financial exclusion and thereby fostering the economic ability of people

Source: Authors, based on ICBA (2016).<sup>27</sup>

<sup>23</sup>Source: ICBA (2016). See that website also for more detailed explanation of the cooperative bank definition.

<sup>24</sup>The ICBA mission is to contribute to the sound development, growth and competitiveness of cooperative banks in the marketplace by defending their interests and by promoting worldwide their important contribution to the economic and social well-being of the population and their communities.” The ICBA “is a sectoral organisation of the International Cooperative Alliance (ICA).” The ICA, which was founded in 1895, “is an independent, non-governmental organization which unites, represents and serves cooperatives worldwide.” Source: <http://www.icba.coop/about-icba/general-presentation.html> (as at March 18, 2016).

<sup>25</sup>See also the EACB website for a similar characterisation of cooperative banks: [http://www.eacb.coop/en/cooperative\\_banks/characteristics.html](http://www.eacb.coop/en/cooperative_banks/characteristics.html). Cooperative principles are also enshrined in EU law by the Regulation on the Statute for a European Cooperative Society (SCE); see <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3A126018> for a summary. The Treaty on the Functioning of the EU makes reference to cooperatives in article 54; see <http://data.consilium.europa.eu/doc/document/ST-6655-2008-REV-8/en/pdf>.

<sup>26</sup>In Europe, “compulsory membership has been abolished many years ago” (Groeneveld, 2016; see also Groeneveld, 2015a, for more details).

<sup>27</sup>According to Bülbül et al. (2013), “[t]hree principles shape the institutional structure of financial and other cooperatives. The ‘principle of self-help’ implies that they are self-governed private organizations. According to



“Cooperative banks belong to the broader category of financial cooperatives, which also includes other credit institutions such as credit unions, banks set up by other cooperatives (such as The Co-operative Bank in the UK), and building societies” (Fiordelisi and Mare, 2014). The main difference between cooperative banks and credit unions is that for credit unions, their customers are identical with the members, while in the case of other cooperative banks, “not all customers are members” (Hesse and Čihák, 2007). Credit unions are, as a whole, smaller than the European cooperative banks (e.g. when comparing the total asset size; see Groeneveld, 2015b, and Birchall, 2013).

Cooperative banks are essentially owned by their members.<sup>28</sup> Each member usually has only one vote in the annual general meetings, “irrespective of how many shares he or she may hold” (Bülbül et al., 2013). This is called the “one member one vote rule”. In addition to these decision-making rights, cooperatives’ key decisions follow a bottom-up authority, e.g. in the election and dismissal of local directors by the members/owners. Where listed shares are issued, they usually come with no voting power. The members of most cooperatives have a right to receive part of the residual earnings, although there are differences in form. “Some institutions provide dividend payments [...] while others offer non-cash benefits” (Ayadi et al., 2010; see also Groeneveld, 2015b).

In Europe, the price of a membership share/certificate in a cooperative bank is usually between EUR 5 and EUR 100 (Groeneveld, 2015b). These ownership stakes are typically not marketable, i.e. they cannot be sold in an open secondary market. Rather, they can only be redeemed or sold back to the bank (Ayadi et al., 2010). In some cases, members may trade membership certificates in a closed market available only to members (Groeneveld and Llewellyn, 2012). Therefore, “there is no market in corporate control in that it is virtually impossible for hostile bids for ownership to take place: a cooperative bank cannot be bought by new owners”. The absence of potential take-overs and the absence of being disciplined by the capital markets could lead to reduced efficiency in cooperative banks. However, this effect might be offset, “if a cooperative bank operates in a competitive market environment” for its financial products and services (Ayadi et al., 2010). Moreover, cooperative banks’ members have the possibility to withdraw funds and other business from “their” cooperative bank, which is also a powerful disciplining instrument given the relatively strong dependence of cooperative banks on their retail business and funding from deposits (see, for example, Groeneveld and Llewellyn, 2012, and Groeneveld, 2015b). When looking at the cost/income ratio, which is often used as a proxy for the efficiency of a bank, Groeneveld (2016) finds mixed results: the ratio was higher for cooperative banks than for other banks in 2011 and 2012, but lower in 2013 and 2014 (more recent data is not available).

Within the EU, according to latest EACB figures for 2014, there are more than 4,000 cooperative banks with almost 70,000 branches, more than 800,000 employees, 81 million members, 205 million clients, EUR 3,793bn of customer deposits, EUR 3,975bn of total customer loans, and more than EUR 7,500bn in total assets (see table 4 and table 5). Some cooperative banks’ networks, together with their network central institutions (NCIs), “have evolved into large, complex, financial conglomerates, some of which are now among the largest banking groups in Europe” (Fonteyne, 2007; see also Hesse and Čihák, 2007). In terms of total assets, the largest cooperative banking organisations are the French groups of Crédit Agricole and BPCE (see table 4; see also Schoenmaker and Peek, 2014).

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the ‘principle of identity’, members are their main clients and conversely many of their clients are also members. Then there is the ‘democratic principle’. It manifests itself in the rule that one member has only one vote in the annual general meetings, irrespective of how many shares he or she may hold.”

<sup>28</sup>“Although they have some features of corporations, cooperatives are organized almost like clubs. Therefore the owners and providers of equity are not called shareholders but members” (Bülbül et al., 2013).

## 4.1 Sources of capital

Usually, in addition to the membership contribution of their owner-members, the almost exclusive source of capital for a cooperative bank is retained profits, as cooperative banks have only limited access to external capital independent of their members. Profits are generally retained within the bank and usually not – or only to a limited extent – distributed to the members (Ayadi et al., 2010; see also Groeneveld, 2016).

However, there are some exceptions of this principle model, and “[t]he cooperative models in some countries have moved from obtaining all their capital from their member-customers and retained earnings to the issuance of shares to non-members [...]. Other banks have formed groups where one or more non-cooperative entities within the group have access to external capital. Yet others have found innovative ways to issue hybrid equity-like products” (Ayadi et al., 2010; see also Groeneveld, 2015b).

Cooperative banks typically have to allocate a significant proportion of their profits as reserves. Due to their specific set-up, they cannot easily replenish capital in the case of large losses or write-downs, which leads to a lower risk appetite and conservative capital allocation and distribution policies. Hence, cooperative banks are typically better capitalised than other banks (EBA, 2016) and have relatively low leverage levels. According to most recent available data, the average tier-1 capital ratio of cooperative banks has continuously improved during the years 2011-2014, thereby following a somewhat similar development as for the entire banking industry. However, during each year, the average capital ratio was higher for cooperative banks than for all banks (Groeneveld, 2016). This accumulation of “a substantial cushion against risks [...] is possibly another key reason why the cooperative banks have been resilient to the worsening market conditions” (Ayadi et al., 2010).

## 4.2 Sources of funding and liquidity management

For a cooperative bank, the key source of funding is the deposits of their customers, who are usually to a large extent also the members/owners of the bank. This leads to a certain stability of funding, in particular when deposit collection follows a less price-driven approach (FitchRatings, 2013).

Therefore, not surprisingly, cooperative banks are very strong in the markets for retail deposits. On average, cooperative banks’ market share of deposits has substantially grown since 1997 to approximately 26% in the EU.<sup>29</sup> Over the years before and during the crisis, the growth rate of deposits was much more stable for cooperative banking groups than for the total banking sector (Groeneveld, 2014). In individual countries, cooperative banks’ market shares differ significantly. For example, cooperative banks account for approximately 60% of the market for deposits in France (Smolders, 2011), but for only 1% in Greece (see table 5, also for more country details).

In principle, the local cooperative banks also have access to funding from the ECB, although the typical access goes through the network central institution. Yet, in the common case of a stable and strong funding base, the actual use has been comparably low, although a good-quality securities portfolio provides additional refinancing flexibility, e.g. by allowing collateralised lending from the ECB

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<sup>29</sup>The conclusion of a market share of around 26% for 2011, which is stated by Groeneveld (2014), is based on data received from 15 cooperative banking groups in 10 European countries. We calculated a weighted market share of deposits in approximately the same range for later years (i.e. 26.2% for 2012 and 28.8% for 2014), based on EACB data for deposit volumes and market shares of individual cooperative banking groups (as shown in table 4 and table 5), which were available for 16 full EACB members in 2012 and 25 in 2014. A substantial increase of cooperative banks’ market share, in terms of total banking sector assets, was also found earlier by Hesse and Čihák (2007). However, other authors suggest that cooperative banks account for around 20% of the EU bank deposits (Fiordelisi and Mare, 2014).

(FitchRatings, 2013, and Standard & Poor's, 2013); a broader set of funding instruments can also improve the diversification of cooperative banks' refinancing sources in terms of maturities.

However, the strong dependence on customer deposits also implies a certain limitation in accessing additional funding, if no other access to funding was available, e.g. because an individual cooperative bank would largely depend on their local client base. In order to reduce the dependency on the deposits of a cooperative bank's local customers, cooperative banks can usually turn to their network central institution (NCI). Indeed, the need to manage liquidity and access to capital markets was one of the driving forces for the development of the NCIs (Ayadi et al., 2010). The NCIs collect the liquidity surpluses of their individual member institutions, thereby "enabling cash pooling within the network of primary banks and specialised service providers within the Cooperative Financial Network" (BVR, 2013). This treasury function of the NCIs implies that the member banks with excess liquidity deposit their excess funds with the NCI, which may then redeploy them to other member banks which are short of funds. "This serves as an intragroup interbank market" (Ayadi et al., 2010). NCIs usually also provide wholesale services to their members, such as the issuance of debt and (in some cases) the issuance of stocks. However, the extent of integration differs from one cooperative banking network to another. We will explain the role of NCIs in more detail in Chapter 4.5.

We present an example for the funding sources of a concrete cooperative bank in box 1.

#### **Box 1: Cooperative banks' funding sources: The example of Berliner Volksbank**

To give an example, in the case of the Berliner Volksbank, one of the largest individual German cooperative banks, liabilities to customers amounted to 92.5% of all liabilities as of end-2013 (Berliner Volksbank, 2014).<sup>30</sup> Liabilities to banks accounted for 4.0% of all liabilities, and certificated liabilities amounted to less than 1% of all liabilities. For the German Cooperative Financial Network, deposits from customers accounted for 64.2% of all liabilities, deposits from banks for 8.9%, and debt certificates for 6.2% (BVR, 2014). A second key funding source is the so-called Pfandbriefe (German covered bonds). In fact, Germany's cooperative banking group Genossenschaftliche FinanzGruppe (GFG) is collectively "one of the largest European covered bond issuers" (FitchRatings, 2013). All in all, FitchRatings (2013) reports, on average, a "strong client loans/deposit ratio of 81% at the local banks. A large portion of this excess funding is made available to DZ BANK and WGZ BANK. GFG's consolidated loans/deposits ratio is a strong and stable 94% (including some Pfandbriefe placed with clients)."<sup>31</sup> Moreover, a large part "of the local banks' securities portfolio is ECB-eligible and almost entirely unencumbered" (FitchRatings, 2013).

However, looking forward, there is a certain risk that "[c]ooperative and savings banks' relative pricing discipline on deposits [...] is likely to slightly erode their deposit market shares as competition from [...] private banks for retail deposits increases, driven by Basel III and challenging wholesale markets." Moreover, as many cooperative banks have benefitted from additional retail customer deposits, including to a large extent in the form of sight deposits, "this compounds the risk of deposit withdrawal. In combination with rising pressure from domestic competitors eager to reduce their reliance on market

<sup>30</sup>According to Bülbül et al. (2013), "much more than those in almost any other country, the German savings and cooperative banks have maintained most of their traditional features over the last decades, and therefore arguably still correspond best to what one might call their prototypes."

<sup>31</sup>DZ Bank and WGZ Bank are the two NCIs within GFG. According to Standard & Poor's (2013), the cooperative banks "channel excess funding mainly to the sector's two central clearing institutions, DZ BANK and WGZ BANK AG [...], thereby increasing the clearing banks' liquidity. Roughly 80% on average of the cooperative banks' interbank deposits are held at these two central institutions. DZ BANK and WGZ BANK reinvest the funds in higher-margin businesses."

funding, this may oblige the local banks to undertake measures to limit their deposit outflows” (FitchRatings, 2013).<sup>32</sup>

To conclude, the funding of cooperative banks is largely based on customer/member deposits, being a relatively stable source of financing. However, as discussed, this also implies a certain risk. For example, in the Netherlands cooperative banks have been confronted with a “deposit gap” (local deposit growth not able to accommodate local credit demand) since the 1990s, which led to stronger issuance of hybrid instruments by the NCI as a funding source for the local/regional member banks. As a consequence, financial market and regulatory requirements to access funding as well as the integration within the network have increased (Groeneveld, 2015b).

Hence, in case of a relatively lower supply of deposits at cooperative banks (e.g. due to increased competition) and an increase in the relative price of deposits, there might be a somewhat stronger tendency to look for additional alternative funding sources, as will be offered, for example, through the CBSI.<sup>33</sup>

### 4.3 Customers / target markets

Although their group-level focus may be broader, the local cooperative banks typically operate within a given area; they achieve a high degree of proximity with their customers, especially in remote areas. In line with this, cooperative banks have a relatively high number of branches and employees. The primary basis of their business is deposit-taking and provision of credit to households, individual entrepreneurs and local SMEs. On the asset side, cooperative banks’ business is strongly driven by the disbursement of loans. As for smaller institutions in general (see Chapter 3), cooperative banks’ loan-to-assets ratio is, on average, above 50%, i.e. much higher than for other banks (see Groeneveld, 2015b).

Cooperative banks’ strong retail focus on relationship banking and their proximity to customers is driven by the “cooperative ethos” (Ayadi et al., 2010). In addition, the local/regional cooperative banks sometimes do not even have the capacity to service larger clients, inter alia due to risk limitations (Groeneveld, 2015b). In such cases, the existence of a network central institution (see Chapter 4.5) can help to be able to serve growing (small and medium-sized) enterprises, rather than losing them to competing (non-cooperative) banks. We will describe the relationship of cooperative banks to SMEs in more detail in Chapter 6.

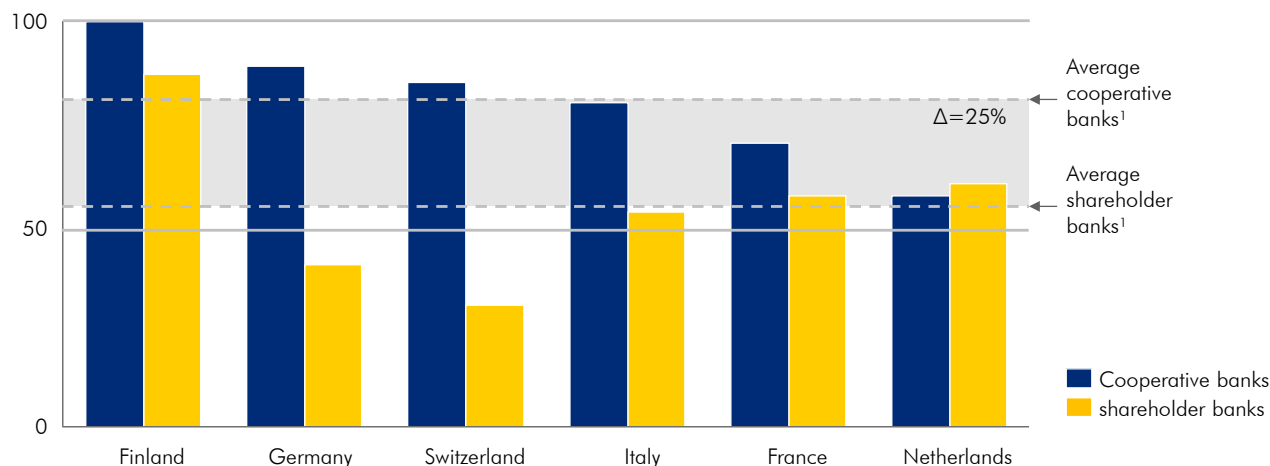
According to an Oliver Wyman (2014) study on 8 cooperative banking groups in 6 European countries, the share of retail revenues over total revenues was, on (unweighted) average, 25 percentage points higher for cooperative banks than for “shareholder banks” in 2012 (see figure 1).

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<sup>32</sup>The FitchRatings (2013) conclusions were made for the German case presented in box 1. However, as discussed further above, the developments on which the statements are based have also appeared elsewhere. Hence, the conclusions might well apply for cooperative banks in other countries. For example, Groeneveld (2016) expects that cooperative banks in general “are likely to be confronted with increasing competition in retail banking in the near future”, due to strategy shifts of other banks towards more traditional business models, which are at least partly driven by recent regulatory changes.

<sup>33</sup>However, in some cases, cooperative banks might not be allowed to accept wholesale funding from institutions other than their cooperative central bank. For example, in Portugal, local agricultural credit banks require an authorisation from the Bank of Portugal to have access to interbank markets. According to available information, no local banks operate in interbank markets and all financing is currently done through Caixa Central. (Source: Discussion with EACB.)

Figure 1: Cooperative banks and shareholder banks: Retail revenues over total revenues [in % for 2012]



<sup>1</sup> Non-weighted averages

Source: Oliver Wyman (2014), based on Annual Reports and Oliver Wyman analysis.

#### 4.4 Risk characteristics

Cooperative banks are often characterised as lower risk institutions. The economic literature gives several reasons for this:

Cooperative banks know their customers relatively well, including their risk profiles. “[T]hey have a great deal of soft information (which is hard to collect) on the creditworthiness of members/customers and are therefore less likely to make lending mistakes” (Fiordelisi and Mare, 2014).<sup>34</sup> In economic terms, cooperative banks’ strong local presence and proximity to their customers leads to a reduction of the asymmetric information that is inherent in lender-borrower relationships.<sup>35</sup>

Moreover, cooperative banks “tend to engage in less risky activity” (Ayadi et al., 2010),<sup>36</sup> work with “conservative attitudes” and “more risk-averse, longer time horizon investment objectives than shareholder driven institutions” (Oliver Wyman, 2008). This can be explained by “generally lower incentives to take on risks” (Hesse and Čihák, 2007).<sup>37</sup> An important reason for this is that cooperative banks cannot easily replenish their capital in case of losses, as they usually depend on member contributions and retained earnings (Groeneveld, 2015a). Indeed, as shown in Chapter 4.1, cooperative banks typically have maintained low leverage levels. Their relatively high capitalisation, in combination with the conservative business policy, is considered as a main reason why cooperative banks, in general,

<sup>34</sup>In a recent example, based on small loans of a French financial cooperative to (very) small businesses, Cornée (2015) finds that the inclusion of soft information improves the bank’s credit default prediction.

<sup>35</sup>See Ayadi et al. (2010), according to which the cooperative banking model “may be particularly suited [...] to longer term contractual relationships [...] As a result, they also have comparative advantage in establishing trust [...] which is particularly important where there is asymmetric information between the firm and the customer, and in the case of longer-term contracts”.

<sup>36</sup>Related evidence was also found in empirical studies on conversions of mutual associations to publicly listed companies in the US savings and loans industry. In a survey of this literature, Hesse and Čihák (2007) conclude that “the evidence suggests that converting mutuals adopt riskier strategies”.

<sup>37</sup>According to Ayadi et al. (2010), in the case of “shareholder banks”, a potential conflict of interest arises between the equity shareholders/owners and depositors/customers. Equity shareholders “may prefer a higher risk profile for the institution than would depositors due to the former’s limited liability. This implies that shareholders can benefit from potentially significant ‘upside gains’ while being exposed to only limited downside potential. In contrast, depositors do not share this upside potential and would implicitly be subject to greater risk given the limited scope of deposit insurance.” This agency problem does not exist in the case of cooperative banks.

have come better through the crisis than private commercial banks (see Bülbül et al., 2013, and Fiordelisi and Mare, 2014).

The question whether the relatively small size of the local cooperative banks has a positive or a negative effect on their risk profile is controversially discussed; see Fiordelisi and Mare (2014) for an overview. On the one hand, cooperative banks typically have less volatile earnings than commercial banks, “which more than offsets their lower profitability and capitalization. This is most likely due to cooperative banks’ ability to use customer surplus as a cushion in weaker periods” (Hesse and Čihák, 2007). Indeed, European cooperative banks exhibited a more stable pattern in their average return on equity (RoE) than all other banks taken together over the period 2002-2014 (Groeneveld, 2016), and they exhibit much lower losses in extreme stress situations (Ayadi et al., 2016). On the other hand, cooperative banks have more limited possibilities for risk diversification, as they are typically only active in their home region. Moreover, in periods of financial stability, “supervisors are more inclined to shut down distressed cooperative banks than distressed commercial banks, consistent with a Too-Big-To-Fail policy” (Fiordelisi and Mare, 2014).

Mutual support systems provide additional risk-mitigation by giving additional “certainty of repayment for creditors and depositors.” These mutual support schemes provide network resources to ensure the liquidity and solvency of the participating institutions. In some cases, the network central institutions (NCIs) also provide risk management services (Ayadi et al., 2010). See Chapter 4.5 for more information on the extent of mutual support and services that is provided in different European cooperative banking systems.

All in all, even if the discussion of cooperative banks’ typical risk characteristics is not that straightforward, it is interesting to note that cooperative banking groups have received relatively high credit ratings compared to most stockholder banks (Groeneveld, 2015b).<sup>38</sup>

#### 4.5 The role of network central institutions (NCIs)<sup>39</sup>

National or regional NCIs act as centralised service providers for the local banks. The centralisation of certain transactions/functions generates economies of scale and scope. Such support services can include IT support, data processing, training, accounting, treasury management, risk management, product development, the provision of specific (e.g. leasing, insurance) products, marketing and representation. Treasury functions might include liquidity management, access to capital markets and trading activities for the whole group/network and their customers etc. The services may be provided by the NCI or by commonly owned specialised companies; typically, the NCI acts as a holding company for (inter)national subsidiaries. NCIs can be listed or non-listed, “with or without the presence of third-party shareholders” (Groeneveld, 2015b, who also provides more details on the large variety of NCI models; see also EACB, 2014b, and Ayadi et al., 2010).

Sometimes, the NCI also perform a “management consultancy role” by disseminating best practice within the network. The NCIs can have subsidiaries that provide services for the benefit of both member banks and their customers. In some cases, an NCI has the role of an internal central bank, i.e. intermediating liquidity within the network (see Chapter 4.2), and a supervisory role for their network members. As mentioned above, mutual support systems can be organised by an NCI. We will stress this role in more detail further below.

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<sup>38</sup>This statement holds for cooperative banking groups that receive a credit rating based on consolidated data.

<sup>39</sup>This chapter, including citations, is to a large extent based on Ayadi et al. (2010).



In addition to the direct economic advantages that an NCI provides for the local cooperative banks, they may also “gain through the reputation and profile of the NCIs, including an increase in customer confidence in banks which are known to be part of a credible network.” However, an NCI may also represent a risk if they threaten the cooperative identity of the system, e.g. if the central institute pursues objectives that are at odds with the cooperative principles (Ayadi et al., 2010).<sup>40</sup>

Not all cooperative banking networks have a strong degree of centralisation. Indeed, the practice varies considerably between countries (and, in some cases, even within countries). The Spanish and the Polish models are considered as relatively low centralised. In contrast, integrated systems can be found in Finland, France and the Netherlands, while Austrian and German cooperative banks have given fewer functions to their NCIs (Ayadi et al., 2010). However, several approaches are in the course of changing towards more centralised models, inter alia due to reforms in the regulatory environment.

#### *Liquidity management and Mutual support systems*

According to Ayadi et al. (2010), the need to manage liquidity and access to capital markets was one of the reasons to develop NCIs. As already said, the local banks tend to be relatively small, which implies that their risks are relatively concentrated. Even though many cooperative banks have been able to broaden their client base, “remaining local and being small constrains external financing and introduces potential liquidity problems”. In addition, the mutuality principle restricts a cooperative’s ability to raise capital or issue debt.

Therefore, treasury functions, i.e. ensuring the liquidity within the group/network and the management of excess liquidity, and the provision of cash clearing for the individual member banks are usually managed by the NCI. This means that local cooperative banks with excess liquidity deposit excess funds with the NCI, which may then redeploy them to other cooperatives which are short of funds. This serves as an “intragroup interbank market” and increases the stability of the entire group. The NCI also serves as a platform for the access to national central banks (EACB, 2014b).

As mentioned above, the networks can also create mutual support systems. Under certain circumstances, “mutual support schemes provided by NCIs allow the associated banks to assign a zero weight for intranetwork exposures”. (A key requisite is the system’s capacity to ensure the liquidity and solvency to avoid bankruptcy, with the disposal of funds that are readily available for that purpose.)<sup>41</sup>

The extent of mutual support is a key factor to “distinguish well-integrated networks from weaker associations” (Ayadi et al., 2010). The mutual support systems make available network resources to ensure the liquidity and solvency of the participating institutions. “In this manner, the support is beyond the coverage provided by the compulsory and supplementary deposit insurance schemes and bond issuance mechanisms that are in place.” In the following, we give an overview of the main characteristics of the different support systems that are in place in different European countries. (However, as said above, some cooperative banking systems are in the course of changing towards more integration.)

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<sup>40</sup>“One question that arises is to what extent a higher degree of integration, achieved through extensive mutual support or centralisation of other functions, complicates the existing agency problems. Traditionally, the owners of a cooperative, i.e. its members-customers, take the role of principals while the managers of the local and central institutions take the role of agents. This can be seen as the classical agency problem that exists between the owners and the management. While the members benefit from the maximisation of low cost products, the managers prefer high wages and low effort. The cooperatives have introduced a variety of governance mechanisms to reinforce bottom-up ownership, including a democratic voting structure whereby members choose representatives of local institutions who then choose representatives in central organisations; distribution of benefits to members; election of directors of central institutions by local banks; and so forth” (Ayadi et al., 2010).

<sup>41</sup>See Ayadi et al. (2010). See EACB (2014b) for current discussions on regulatory changes. According to FitchRatings (2014), regulatory changes might have an impact on a cooperative banking group’s mutual support scheme. However, this was not the basic scenario.

Typical support systems are **cross-guarantees**:<sup>42</sup> A cross-guarantee is a commitment or obligation by participating entities to provide liquidity to a troubled entity. In principle, such a system could serve as a liability protection mechanism by providing support to institutions in difficulty. It should be noted, however, that support is often limited by participating institutions' capacity to contribute, which could be insufficient to meet all the claims. Other complicating factors include the legal scope of the system, which could be crucial in determining the timeliness of support, and exceptions that may rule out support for difficulties arising from fraudulent or criminal transactions.

In other systems, the support can even go to **joint liability**. Associations with joint-liability allow creditors to make direct claims against the group if the amount owed by the troubled entity is not forthcoming. In effect, joint-liability automatically implies a significant degree of pooling among the participating entities.

In some cases, the mutual support can be **legally binding**, implying that it can be deployed automatically in the event of trouble, without any specific authorisations or reservation by members. The participation in the system can also be obligatory.

**A key factor is the type of funding available for support.** In many cases, the associations build paid-up funds through contributions of members. The paid-up funds can be supplemented by a provision to allow for call-up (or ex-post) funds. In other cases, there are no paid-up funds since the group's pooled capital and reserves serve as the basis for support, just like in a consolidated banking group. In some cases, the customers of local banks are protected by a joint-liability system at the regional level, while at the national level, a cross-guarantee scheme is in effect, which provides liquidity to troubled provincial associations.

#### *"Supervisory" role of NCIs*

A supervisory role of NCIs can emerge as a solution to protect the resources of the whole network of cooperative banks, because NCIs are responsible for operating the internal protection scheme and/or are endowed with delegated supervision. In terms of economic theory, according to Ayadi et al. (2010), the NCIs "have stronger incentives than local institutions to safeguard the mutual resources, i.e. the shared brand-name, pooled reserve fund, etc. This is the so called appropriability hazard problem, whereby counterparts may act opportunistically to obtain the rents generated by the alliance. One common response to reduce these risks is to give the central institutions an appropriate level of authority and control."

Usually, the individual member banks have to submit regular prudential reports to the NCI. Additional measures include the standardisation of risk-management practices, obligatory audits and other preventive measures. In the case of a call on the use of funds, the NCIs typically have the right to take additional actions, e.g. to restructure the bank's debt, its governance structure or to push for a merger with other network institutions. Therefore, to a certain extent, national regulators have sometimes delegated the supervision of the local institutions (all of which are separately licensed credit institutions) to the NCIs, which is actually equivalent to treating the entire network as a consolidated group. In Finland and Portugal, the supervisory agency has explicitly delegated the supervisory authority over the affiliated local cooperative banks to the respective NCI (see Ayadi et al., 2010, and Groeneveld, 2015a).

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<sup>42</sup>This and the following explanations of mutual support types are mainly verbatim quotes from Ayadi et al. (2010).



## 5 Cooperative banks in Europe

### 5.1 The importance of cooperative banks in the European banking market

At least on a European level, there is not much detailed information on the banking sector by size and type of banking group available. Even the European Association of Cooperative Banks (EACB) states that “there is room for improvement for data available at an EU level [...]. Increasing the quantity and quality of data and providing a more diversified picture of the banking sector would be essential” (EACB, 2014a).

Key figures of cooperative banks are provided by the EACB, based on information from its members.<sup>43</sup> We present them in table 4, table 5 and the Annexes 2 and 3. Based on figures for EACB members, as at end-2014, cooperative banks have the greatest importance (in terms of total assets) in France, Germany, the Netherlands and Italy<sup>44</sup> (see table 4). The number of clients is largest in France, Germany, Italy and Spain (see table 5).

However, in terms of relative importance, measured by the market share of cooperative banks, the picture looks somewhat different. As regards deposits, cooperative banks in France (61.8%), the Netherlands (36.0%), Austria (35.2%), Finland (34.0%) and Italy (33.4%) cover the largest shares of their respective home markets, while in Germany (20.9%) and Spain (7.4%) the market shares are smaller (see table 5). As regards loans, cooperative banks’ domestic market shares are largest in France (59.0%), Austria (33.7%), Italy (33.2%), Finland (32.8%) and Denmark (32.0%).<sup>45,46</sup>

The cooperative banking sector has developed differently in different European countries, for historical, regulatory and ideological reasons. For example, in the UK, neoliberal economic policies that view shareholder institutions as superior to other models have been pursued more rigorously than in other countries, and the mutual sector got “effectively dismantled”. In contrast, in Germany, the banking system reflects the federal structure and historical origins from many autonomous states, so that many institutions developed on a regional rather than a national basis (Prieg and Greenham, 2014). Moreover, in the new Member States in Central and Eastern Europe, the presence and role of cooperative banks is relatively low (see the market shares in table 5 and Di Salvo, 2010).

The result of these very different developments is a heterogeneous cooperative banking sector in Europe. There are large differences by country (legal environment), cooperative banks’ organisation structure, degree of independence/integration, size, but also target group. For example, while the individual banks tend to be relatively small in Austria, France has a relatively high share of larger cooperative banks (see Annex 3 for an overview of size indicators per regional/local bank; in Annex 4, we show the distribution of total asset size across cooperative banks for five countries; a brief overview of different organisation structures can be found in Annex 1).

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<sup>43</sup>See [http://eacb.coop/en/cooperative\\_banks/key\\_figures/last\\_key\\_figures.html](http://eacb.coop/en/cooperative_banks/key_figures/last_key_figures.html).

<sup>44</sup>For the case of Italy, the importance of cooperative banks is expected to change, due to the reform of the cooperative banking sector. See box 2 for an overview.

<sup>45</sup>For some countries/organisations, market shares for deposits and/or credits are not reported for 2014 in the EACB statistics (see table 5). Based on data for 2012, cooperative banks’ domestic market share in loans was also relatively high (31.0%) in the Netherlands.

<sup>46</sup>Our statements on total assets, number of clients and market shares of cooperative banks in a country are based on the summation of the respective numbers reported by EACB for the (sometimes more than one) cooperative banking organisations in that country.

Table 4: Financial indicators of EACB members (as at 31 December 2014)

Note: When not specified, figures refer to the group.

EU countries		Economic indicators					Profitability indicators			Capital solidity indicators	
		Total assets [mEUR]	Total deposits from customers [mEUR]	Total loans to customers [mEUR]	Net profit after taxes [mEUR]	Total equity [mEUR]	Leverage ratio [%]	ROA [%]	ROE after taxes [%]	Cost / Income ratio [%]	Total capital ratio [%]
Austria	Österreichische Raiffeisenbanken*	285,557	174,162	190,475	129	17,604	n.a.	n.a.	0.7	73.80	8.8 (Tier 1 ratio)
	Österreichische Volksbanken*	36,678	24,129	26,541	-0.3	2,563	5	-0.01	0.00	78.60	14.7
Bulgaria	Central Co-operative Bank	2,138	1,900	928	4	186	0.09	0.17	2.0	90.30	16.6
Cyprus	Co-operative Central Bank*	13,937	12,393	10,127	37	2,131	9	0.30	3.50	50.90	13.6
Denmark	Nykredit	195,601	8,750	159,307	77	7,982	4.10	0.04	0.93	43.80	18.2
Finland	OP Financial Group*	110,427	48,775	70,660	607	7,213	6.4	0.57	8.10	56.00	17.3
France	Crédit Agricole*	1,762,763	622,686	709,884	4,920	91,643	5.2	0.28 **	5.4 **	63.40	16.7
	Crédit Mutuel*	706,720	305,237	364,824	2,955	43,938	6.4	0.42	6.73	64.00	15.3 (Tier 1 ratio)
	BPCE	1,223,298	473,530	378,000	2,907	55,290	4.5	5.40	5.26 ****	69.20	15.4 (Total capital adequacy ratio)
Germany	BVR*	1,135,760	713,485	670,683	7,807	86,501	7.6	0.70	9.00	60.70	15.1
Greece	Association of Cooperative Banks of Greece	3,261	2,630	2,923	0,389	362	11.32	0.01	0.11	60.11	9.7
Hungary	National Federation of Savings Co-operatives <sup>(a)</sup>	6,386	4,366	2,707	n.a.	n.a.	n.a.	0.47	6.48	72.25	7.07
Italy	Assoc. Nazionale fra le Banche Popolari*	453,693	434,704	393,668	-4,243	62,463	13.7	-0.93	-3.30	63.60	13.6
	FEDERCASSE*	222,289	157,410	122,111	372	18,996	8.5	0.20	2.00	52.20	16.5
Lithuania	Association of Lithuanian credit unions <sup>(a)</sup>	477	403	265	-12	39	8.20	-2.44	-30.8	57.45	21.7
Luxembourg	Banque Raiffeisen*	6,658	5,499	4,939	18	310	4.36	0.30	6.20	74.10	11.4
Netherlands	Rabobank Nederland*	681,086	326,471	430,391	1,842	38,871	4.9	0.28	5.20	62.70	21.3
Poland	National Union of Co-operative Banks (KZBS)	31,784	20,176	16,127	164	2421,5 <sup>(2)</sup>	9,85 <sup>(2)</sup>	0,8 <sup>(2)</sup>	7,5 <sup>(2)</sup>	68,9 <sup>(2)</sup>	14,6 (T1 Cap. Ratio) <sup>(2)</sup>
Portugal	Crédito Agrícola*	13,267	10,620	8,147	25	1,168	8.8	0.20	2.20	54.20	13.1 (Tier 1 ratio)
Romania	Creditcoop <sup>(a)</sup>	199	134	132	n.a.	n.a.	n.a.	0.42	1.33	98.03	22
Slovenia	Deželna Banka Slovenije d.d. <sup>(a)</sup>	856	646	530	-17	45	n.a.	-2.27	-28.4	62.48	9.83
Spain	Unión Nacional de Cooperativas de Crédito	94,235	68,579	51,405	350	9,965	10.57	0.37	5.5	46.76	n.a.
	Banco de Crédito Cooperativo (BCC)	36,031	29,686	31,084	37,113	2,760	6.52	0.1	1.54	41.35	11.78
Sweden	Landshypotek <sup>(b)</sup>	9,105	251	7,084	24	481	5.28	0.26	5.10	45.00	27.77 (T1 Cap.Ratio)
United Kingdom	The Co-operative Bank p.l.c. <sup>(a)</sup>	52,093	39,615	21,1	898	2,134	2.4	1.72	42.1	93.60	7.2
	Building Societies Association*	431,710	306,729	322,504	1,568	22,632	4.1	0.38	8.99	56.62	21.5
<b>Total</b>		<b>7,516,007</b>	<b>3,792,978</b>	<b>3,975,446</b>							
<b>Non-EU Countries</b>											
Canada	Desjardins Group	229,400	146,324	150,454	1,593	18,893	7.1	0.72	8.70	73.40	17.90
Japan	The Norinchukin Bank***	586,841	350,912	122,779	1,099	42,183	n.a.	n.a.	n.a.	n.a.	25.24
Switzerland	Raiffeisen Schweiz*	156,938	119,642	132,095	632	10,017	6.4	0.40	6.5	62.40	15.3
<b>Total (Non-EU)</b>		<b>744,009</b>	<b>616,879</b>	<b>405,328</b>							

(\*) Data collected in collaboration with TIAS School for Business and Society of Tilburg University

(\*\*\*\*) Tias estimation (blank in EACB data; adj. by us following exchanges w. EACB & Tias) (3) Data refers to Quebec only

(\*\*) Data based on Tias estimation

(1) Data refers to market share new mortgages

(a) Data 2013

(\*\*) Data is as of 3 March 2014 unless otherwise stated. The Bank's Financial term is from 1 April to 31 March

(2) Data refers to co-operative banks without the two Polish affiliating banks

(b) Data 2012

Source: EACB (2016b) and J.M. Groeneveld (TIAS School for Business and Society of Tilburg University).

Table 5: Additional financial indicators of EACB members (as at 31 December 2014)

EU countries		Other indicators					Market shares				
		Employees Full-time equivalent [number]	Clients [number]	Independent local cooperative banks (local/regional banks) [number]	Branches in home country [number]	Members [number]	Domestic ATMs [number]	Domestic market share deposits [%]	Domestic market share loans [%]	Mortgage market share [%]	Market share SMEs [%]
Austria	Österreichische Raiffeisenbanken*	29,000	3,600,000	473	1,587	1,700,000	n.a.	29.6	28.40	n.a.	n.a.
	Österreichische Volksbanken*	4,712	1,161,000	51	495.0	688,000	n.a.	5.55	5.34	9.16	n.a.
Bulgaria	Central Co-operative Bank	2,025	1,556,628	n.a.	51	6,782	461	5.83	3.30	0.90	n.a.
Cyprus	Co-operative Central Bank*	2,962	791,891	19	292	550,125	180	26.90	21.20	38.00	8.70
Denmark	Nykredit	3,971	1,075,000	62	877	300,000	59	4.90	32.00	44.50	n.a.
Finland	OP Financial Group*	10,980	4,284,000	181	456	1,434,000	n.a.	34.00	32.80	38.00	n.a.
France	Crédit Agricole*	140,000	50,000,000	39	9,068 **	8,171,555	n.a.	24.80	21.00	28.60	37.00 **
	Crédit Mutuel*	78,230	30,100,000	18	5,298	7,600,000	9,000	15.00	17.00	20.00	17.00
	BPCE	108,000	36,000,000	35	8,000	8,900,000	n.a.	22.00	21.00	n.a.	n.a.
Germany	BVR*	190,544	>30,000,000	1,047	12,770	18,000,000	19,614	20.9	20.1	26.9	32.9
Greece	Association of Cooperative Banks of Greece	922	407,633	10	127	163,135	n.a.	1.11	0.80	n.a.	15.00
Hungary	National Federation of Savings Co-operatives <sup>(a)</sup>	7,326	1,150,000	105	1,484	84,000	n.a.	8.69	4.44	n.a.	n.a.
Italy	Assoc. Nazionale fra le Banche Popolari*	81,800	12,350,000	70	9,248	1,370,000	11,114	25.50	25.90	21.70	25.60
	FEDERCASSE*	36,833	6,000,000 **	376	4,441	1,200,485	5,271	7.90	7.30	9.20	19.3 **
Lithuania	Association of Lithuanian credit unions <sup>(a)</sup>	598	2,656	63	126	142,601	n.a.	2.93	1.79	0.43	4.49
Luxembourg	Banque Raiffeisen*	567	102,500	13	44	15,000	52	18.00	13.00	13.00	10.00
Netherlands	Rabobank Nederland*	48,254	8,800,000	113	547	1,959,000	2,305	36.00	n.a.	22 <sup>(1)</sup>	39.00
Poland	National Union of Co-operative Banks (KZBS)	32,940 <sup>(2)</sup>	n.a.	565	4810 <sup>(2)</sup>	1,012,568	3,751	10.00	7.90	1.78 <sup>(2)</sup>	15.26
Portugal	Crédito Agrícola*	3,776	1,100,000	82	683	400,000	1,465	6.40	3.70	2.20	3.90
Romania	Creditcoop <sup>(a)</sup>	2,235	919,467	763	46	660,000	n.a.	n.a.	n.a.	n.a.	n.a.
Slovenia	Deželna Banka Slovenije d.d. <sup>(a)</sup>	355	85,000	1	85	260	39	2.34	2.22	n.a.	n.a.
	Unión Nacional de Cooperativas de Crédito	12,263	6,888,573	44	3,381	1,382,633	3,418	5.29	4.07	n.a.	n.a.
Spain	Banco de Crédito Cooperativo (BCC)	6,882	3,982,105	19	1,311	1,414,064	1,353	2.14	2.54	2.24	n.a.
	Landshypotek <sup>(b)</sup>	130	70,000	1	19	45	0	0.50	2.00	2.30	1.00
United Kingdom	The Co-operative Bank p.l.c. <sup>(a)</sup>	6,704	4,700,000	n.a.	294	2,000,000	2,558	2.20	1.80	2.0	0.60
	Building Societies Association*	30,300	n.a.	44	1,563	22,000,000	1,466	18.7	n.a.	20.0	n.a.
<b>Total</b>		<b>805,305</b>	<b>205,126,453</b>	<b>4,194</b>	<b>67,103</b>	<b>81,154,253</b>	<b>62,106</b>				
<b>Average (EU; unweighted)</b>								<b>13.5</b>	<b>12.2</b>	<b>15.9</b>	<b>16.4</b>
<b>Non-EU Countries</b>											
Canada	Desjardins Group	40,779	7,000,000	360	1.17	5,594,000	2,225	43.00 <sup>(3)</sup>	23.5 <sup>(3)</sup>	36.1 <sup>(3)</sup>	n.a.
Japan	The Norinchukin Bank***	3,323	n.a.	896	20	3,790	0	n.a.	n.a.	n.a.	n.a.
Switzerland	Raiffeisen Schweiz*	9,028	3,695,129	305	1,015	1,846,747	1,618	18.70	n.a.	16.6	n.a.
<b>Total (Non-EU)</b>		<b>53,130</b>	<b>10,695,129</b>	<b>1,561</b>	<b>1,036</b>	<b>7,444,537</b>	<b>3,843</b>				

(\* ) Data collected in collaboration with TIAS School for Business and Society of Tilburg University

(\*\* ) Data based on Tias estimation

(\*\*\* ) Data is as of 3 March 2014 unless otherwise stated. The Bank's Financial term is from 1 April to 31 March

(1) Data refers to market share new mortgages

(2) Data refers to co-operative banks without the two Polish affiliating banks

(3) Data refers to Quebec only

(a) Data 2013

(b) Data 2012

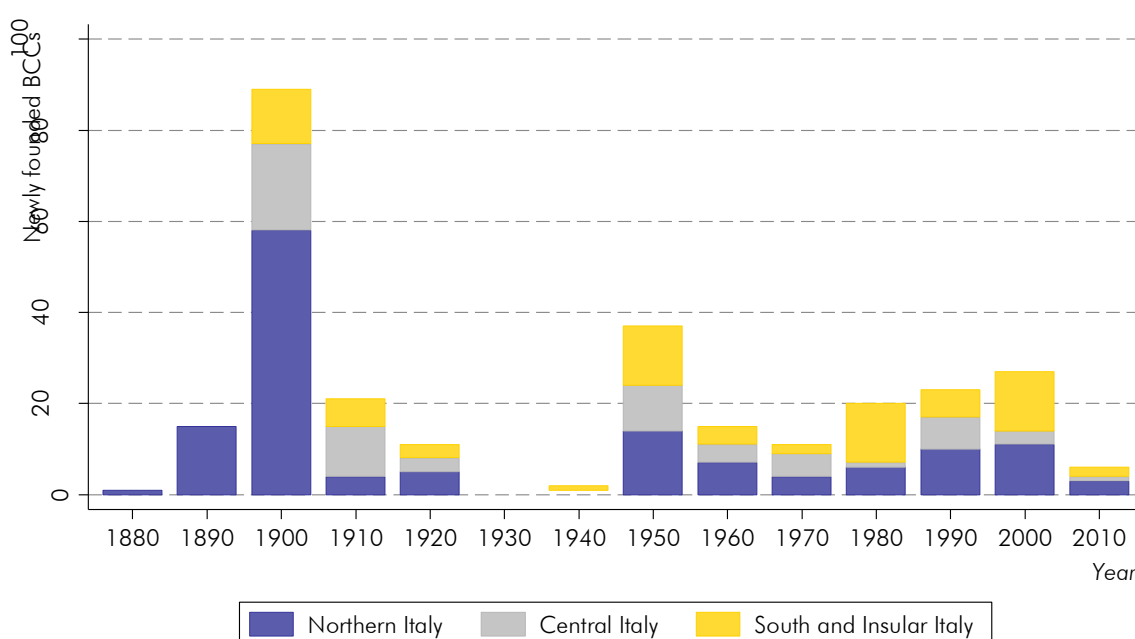
Source: EACB (2016b) and own calculations.

## 5.2 A case analysis of cooperative banks: Italian banche di credito cooperativo (BCC)<sup>47</sup>

In this chapter, we present a preliminary analysis aimed at exploring a number of generic features of cooperative banks, particularly those belonging to the Italian network of *credito cooperativo*<sup>48</sup> (henceforth BCC banks or BCCs). Our statistics are based on publicly available data released on the website of the Credito Cooperativo network,<sup>49</sup> which reports detailed information for each of its network members.

BCC banks in Italy form a longstanding network existing since 1883. The expansion of this network over time, presented in figure 2, hints at three major “waves” of foundation: early 1900, post-second world war, and the 1980-2000 period. Differences arise across different areas of Italy: the early 1900 wave was more relevant for BCCs situated in the northern and central part of Italy, while for South and Insular Italy both 1950 and 1980/2000 are the periods with higher foundations figures.

Figure 2: New BCC foundations over time and macro-area<sup>50</sup>, 1880-2016



Note: based on data for 280 BCC members, i.e. 77% of total members.

Source: *Own elaboration.*

Data at hand, we seek to evaluate whether some of the features commonly associated to cooperative banks can also be empirically observed. To this end, we take as a reference Table 3 in Chapter 4, and specifically the characteristics of BCCs related to “local rootedness”, and verify whether these are proven in the case of Italian cooperative banks.

We first start with the observation that “[in cooperative banks,] [...] management usually belongs to the communities in which activities are exercised”. To provide some evidence against this statement, we sampled 80 BCCs<sup>51</sup> and compared the geographic location of their main office with the birth places of

<sup>47</sup>This part was contributed by Simone Signore, to whom I am very thankful for this.

<sup>48</sup>In other sections of this work this network is referred to as “Federcasse”.

<sup>49</sup><http://www.creditocooperativo.it/>

<sup>50</sup>Northern Italy: Emilia-Romagna, Friuli-Venezia Giulia, Liguria, Lombardy, Piedmont, Trentino-Alto Adige, Valle d’Aosta and Veneto; Central Italy: Lazio, Marche, Tuscany and Umbria; South and Insular Italy: Abruzzo, Basilicata, Calabria, Campania, Molise e Puglia

<sup>51</sup>Random sample from an original distribution of 349 banks. The margin of error is approximately  $\pm 10\%$  at 95% confidence level.

members of the board of directors.<sup>52</sup> We find that 50% of all managers were born within a 2.5 km radius from the bank's headquarter. A 40km radius around the bank instead collects more than 90% of all analysed managers. To conclude if local rootedness is a specific feature of BCCs, we compare our findings with a sample of institutions that do not classify as cooperative banks.<sup>53</sup> Our final sample includes 531 members of the board of directors of 138 Italian banks (of which 72 BCCs, *i.e.* the number of sampled BCCs with available data). Our analysis confirms that BoD members of cooperative banks in Italy are more locally rooted than other financial institutions, even when controlling for regional effects, age and gender of members, size and age of the financial institution.<sup>54</sup>

The second aspect characterising the local rootedness of BCCs pertains to their enhanced presence in contexts where conventional banks are less present. In particular, BCCs main offices and branches are expected to show a greater concentration in areas with high rates of SME activity, and in particular farming and artisanship. To test this, we collected data on the geographic location of BCCs main offices and branches, and aggregate their total number at NUTS 3 level.<sup>55</sup> To derive a valid measure for BCC concentration throughout Italy, the absolute number of branches may not be suitable, as higher figures may be linked to provinces with more significant banking activity in general. Therefore, we calculate a "ratio" of BCC branches over total bank branches in order to assess the relative importance of BCCs.<sup>56</sup> The geographic concentration of BCCs can be observed in figure 3.

We observe a high degree of clustering of Italian BCCs, particularly in the North-Eastern part of Italy. In the northern and central part of the country, and to a lesser extent for south and insular Italy, BCCs tend to be particularly active in provinces hosting major Italian industrial districts. However, when we perform a nation-wide linear regression that seeks to identify the determinants of high BCC concentration, we do not find the existence of districts to be significantly related to a higher proportion of BCC in the province.<sup>57</sup> Therefore, districts may play a major role in explaining the concentration of BCCs only in certain areas of the country, notably in Central Italy.

To identify potential determinants of BCC geographic concentration and to further verify the claim of local rootedness, we combine our data with NUTS 3-level economic statistics obtained from different official sources.<sup>58</sup> As most retrieved information pertains to the biennium 2011-2012, there is a clear time mismatch with our computed ratio (which can be considered up-to-date as of 2016Q1). However, there is reason to assume that the dynamics of BCCs' relocation and/or new foundation may have not been significant in the 2012-2016 period. Indeed, we observe that only 6 new BCCs have constituted in these years (and which we exclude from the study).

The set of economic variables ranges from general demographic attributes (e.g. proportion of female residents, percentage of residents with age higher than 64 years), to business structure (e.g. percentage

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<sup>52</sup>Only managers with a position of CEO, Chairman or Deputy Chairman of the BoD were considered. The total sample contains about 300 individuals. Data retrieved from Bureau Van Dijk's Orbis database.

<sup>53</sup>The list of banks active in Italy was gathered from <http://www.tuttitalia.it/banche/classifica>. From these, we further discard banks that are members of the BCC network as well as members of the national association of *Banche popolari*.

<sup>54</sup>The size of financial institutions is proxied by their number of branches in the Italian territory. Resulting estimates are not portrayed for brevity but can be provided by the authors upon request.

<sup>55</sup>NUTS stands for Nomenclature of Units for Territorial Statistics, and is the geocode standard for referencing the subdivision of countries for statistical purposes. In Italy, the definition of NUTS 3 equates to the notion of Italian province.

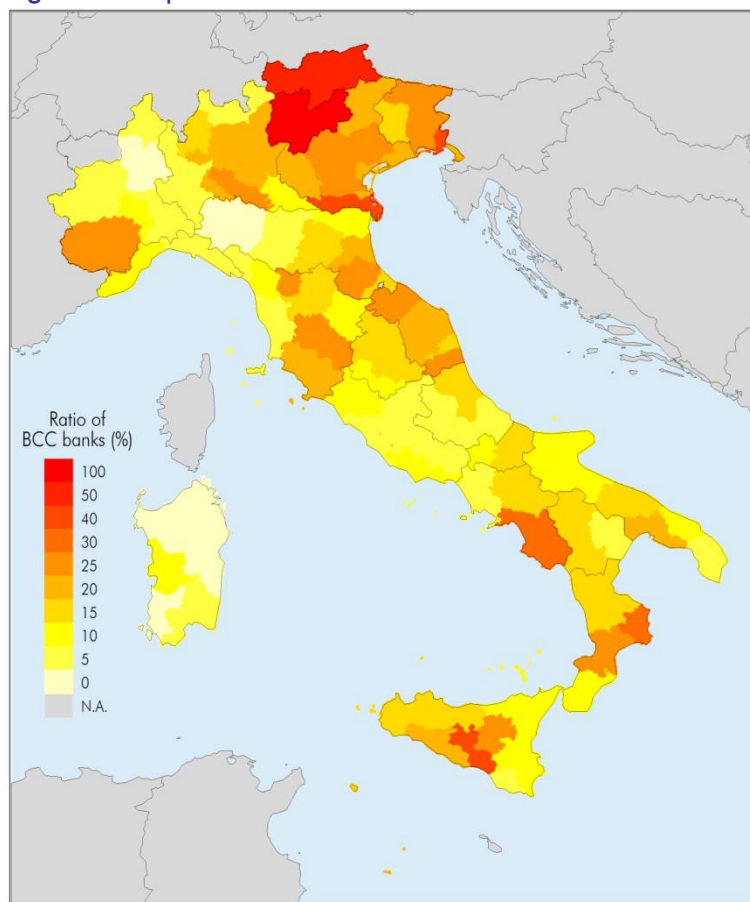
<sup>56</sup>Data on all bank branches at NUTS 3 level collected from <http://www.tuttitalia.it/banche/>

<sup>57</sup>The regression, performed on NUTS 3 level data, uses the ratio of BCC banks as dependent variable, and a dummy for the existence of an industrial district as reported by the *Osservatorio distretti statistici* (<http://www.osservatoriodistretti.org/>). Moreover, the model controls for region fixed-effects.

<sup>58</sup>Istat, Infocamere, Banca d'Italia. The data was extracted from the *Atlante della competitività delle provincie e delle regioni* ([http://www.unioncamere.gov.it/Atlante/selreg\\_frame.htm](http://www.unioncamere.gov.it/Atlante/selreg_frame.htm)) on May 2016.

of agricultural, artisanal and sole proprietorship firms, ratio of small and micro enterprises), to general economic environment (e.g. share of non-performing loans, unemployment rate). In all our models, we control for region-specific effects.

**Figure 3: Proportion of BCC branches over all bank branches at NUTS 3 level**



Note: data as of 2016Q1.

Source: *Own elaboration.*

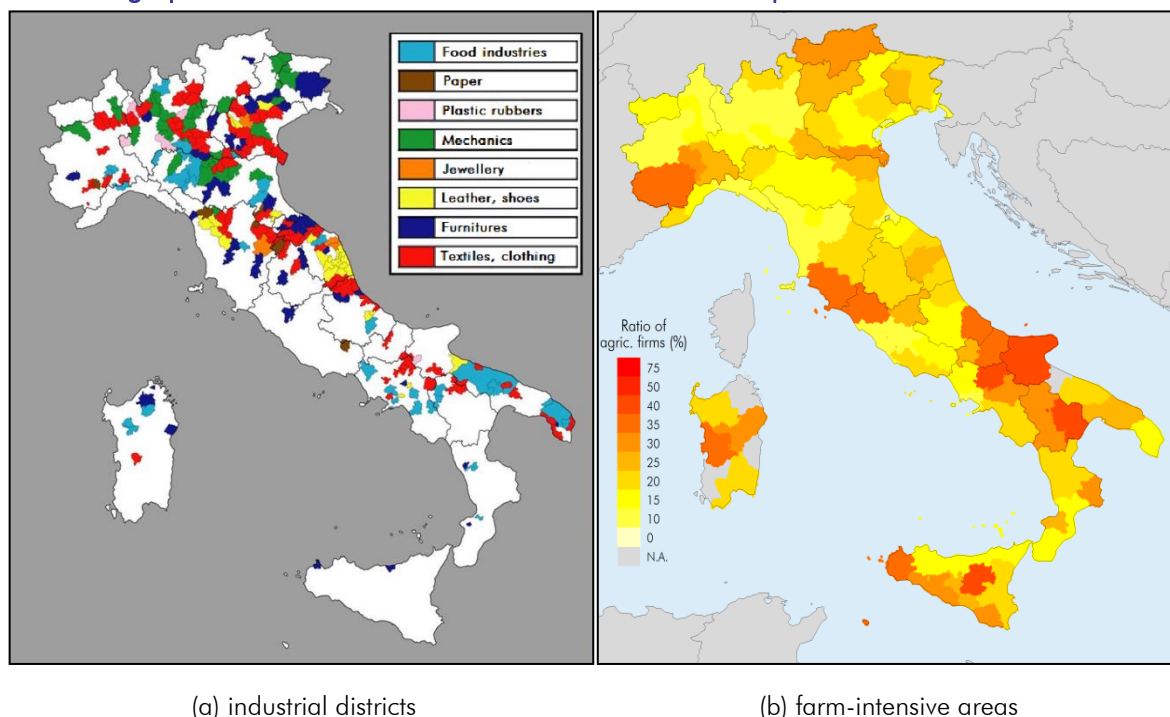
Our statistical analysis yields interesting results: we find that the single best predictor of BCC concentration is the percentage of agricultural firms: a 1% increase of such ratio is related, on average, to 0.25% increase in the ratio of BCC. All other economic, financial and demographic statistics do not seem to be significantly correlated with our dependent variable. This hints to the fact that BCCs can become predominant in vastly heterogeneous contexts – whether, say, in a high-unemployment area or not, or in an SME-intensive region or not – according to the specificities of the local development dynamics.<sup>59</sup> For comparison, we illustrate the geographic distribution of agricultural firms and the location of Italian industrial districts in figure 4.

Our case analysis provides evidence that, in the Italian context, cooperative banks demonstrate a certain degree of local rootedness, as testified by the affiliation of key managers to the local environment. The focus of BCCs towards specific segments of the productive economy, emphasized in other parts of this work, only finds limited evidence in our analysis of geographic concentration of BCCs. Notwithstanding the limits of our approach – notably the use of a ratio on the number of branches, rather than a ratio of channelled volumes – we observe that in the Italian context only a higher presence of the farming industry is related to an increased concentration of BCCs. Other economic indicators do not adequately predict the share of BCCs in a particular area, e.g. the share of smaller firms over total firms, the share

<sup>59</sup>Resulting estimates are not portrayed for brevity but can be provided by the authors upon request.

of non-performing loans. We conclude that the local rootedness of Italian BCCs may be linked to their support to the local development in general, regardless of any specific market focus they may possess. In this context, such market focus may be seen as an outcome of the local dynamics, rather than the product of specific design.

**Figure 4: Geographic concentration of industrial districts and farm production**



Sources: (a) *Federazione Distretti Italiani (2011)*; (b) *authors, based on Infocamere data.*

### 5.3 Developments in recent years

Cooperative banks in Europe have undergone a consolidation process. While the ratio of cooperative banks' members to the total population increased continuously from 12.9% in 1997 to 18.1% in 2014, the number of independent local or regional cooperative banks has decreased in recent years (see Groeneveld, 2016). Moreover, the number of domestic cooperative bank branches declined by 3.3% from 2011 to 2014. However, the shrinking process was more subdued than for the entire banking sector, for which the number of branches decreased by almost 10%. A similar development was observed for employment. Since 2008, cooperative banks reduced employment by 4.6%, while employment in the entire banking sector decreased by 10.3%. The reduction in the number of branches and employment at cooperative banks was, inter alia, due to increased competition, virtualisation of product offerings and efficiency considerations (see Groeneveld, 2015a and 2016); to some extent, it was also caused by a reduction in international activities or the sale of subsidiaries by some cooperative banking groups. Also for the future it is expected that stronger competition will put pressure on cooperative banks to increase efficiency and to further reduce the number of branches (see Groeneveld, 2016).

In the recent past, various changes to bank-related regulation were discussed and implemented on national as well as supranational (including European) level. These developments have also affected cooperative banks and similar institutions with a focus on the regional/local economy. However, it is often difficult for the regulators to take into account all potential effects of regulatory changes on all different business models that exist in the European banking landscape.



On European level, important recent regulatory changes that impacted the banking sector, including cooperative banks, were the completion of the Banking Union (including, inter alia, the implementation of the Single Supervisory Mechanism, the establishment of the Single Resolution Mechanism, the proposal for a European Deposit Insurance System), the implementation of Basel III, the ongoing work of the Basel Committee on the post crisis regulation and the legislative framework affecting retail banking. Moreover, (cooperative) banks are affected by possible implications of the assessment of the impact of the Capital Requirements Regulation on the financing of the economy and the appropriateness of the preferential treatment (Supporting Factor) of SMEs' exposures for credit risk requirements (EACB, 2016a).

Other regulatory developments are, inter alia, related to corporate governance. For example, the Basel Committee on Banking Supervision recently published guidelines on corporate governance principles for banks. Of course, the corporate governance of member-owned cooperative banks, often following the "one member, one vote" principle, is very different from that of joint stock companies; a similar statement applies for the risk allocation in a group of many relatively independent entities.

As said above, the diversity of banks in Europe is a challenge for regulators. This is even truer, as there is also a diversity of cooperative banks. For example, under the European banking supervisory rules, some large cooperative banks belong to the "Significant Institutions", while others fall in the "Less Significant Institutions" category, which implies that different cooperative banks can fall in different oversight regimes.

Some of the recently discussed regulatory changes raised concerns about negative effects for the "business model" of cooperative banks. Moreover, it has been questioned if *smaller* cooperative bank networks will be able to comply with all new rules, which would mean an incentive/enforcement towards more centralisation and unification that might not necessarily be desirable (an extensive discussion is provided by Groeneveld, 2015b). However, in most cases it has so far been possible to find special rules, which cover at least indirectly cooperative banks and safeguard their business model, in particular the special function of the NCIs and their relationship with the group/network member banks (see EACB, 2014b, for an example; see EACB, 2016a, for a general overview of recent supranational regulatory developments with a potential impact on cooperative banks). To give an example, regional banks might benefit from the recent Basel Committee on Banking Supervision decision to drop the internal models approach for capitalising credit valuation adjustment risk (IMA-CVA); this approach would have added additional complexity and relatively large investment needs related to their risk management processes. "Regional banks would likely have struggled to qualify for IMA-CVA, which is difficult to implement and represents a big jump from the tools they currently have at their disposal" (Sherif, 2016).

In addition to the supranational level, regulatory changes have been introduced on a national level as well. We give an example for the case of Italy in box 2.



## Box 2: The reform of the cooperative banking system in Italy<sup>60</sup>

In Italy, there have been two types of cooperative banks so far: the Banche di Credito Cooperativo (BCCs) and Banche Popolari (BPs); see Banca Monte dei Paschi di Siena (2014). BCCs have been characterised by small size; their customers have mainly been their members, their shares tradable only within members, and they have devoted three-quarters of profits to reserves. In contrast to BCCs, BPs have been sometimes larger, trading their shares in the stock market, and only devoting 10% of their profit to reserves. Both types of cooperatives have given equal right to their members with different limits to ownership rights: up to EUR 50,000 for the BCCs and 1% for BPs (except for institutional investors who are permitted larger amounts).

Shareholders have faced many restrictions on their shareholding rights. Even major shareholders have not been able to exert strong influence on the structure or management. As shareholders' rights have not depended on the amount of shares due to the cooperative ownership structure, investors had no big incentive to invest into these banks. Therefore retained earnings have played a very important role in supplying fresh capital (Jassaud, 2014).

Italy's Prime Minister Matteo Renzi initiated a reform of the Italian banking system, stating that it "has too many banks and too little credit" (The Economist, 2015). The reforms (adopted by the government) oblige the cooperative, or 'popolari', banks with assets of more than EUR 8bn either to be transformed into joint-stock companies or to reduce their assets below this threshold. The banks with assets of EUR 8bn or less can decide whether to convert into joint-stock companies or not. The principle "one member one vote" is abandoned. Under the decree-law the issuance of financial instruments may be allowed and owners of these instruments might be granted voting rights up to one third of the total vote. Moreover, company members who are legal persons may obtain up to five votes. That will attract foreign investment to Italy enhancing the banks' capital-raising capacity. The reform, which is expected to realign governance structure of larger popolare banks with the ones of commercial banks, was approved by ECB on 25 March 2015 (ECB, 2015c). The implementation of the 'popolari' banks reform is expected to be completed by the end of 2016 (European Commission, 2016).

The reform of the Italian Banche di Credito Cooperativo (BCC) sector became officially binding law, as the decree containing the provisions on the reorganisation of the system was converted into law by the Italian Senate in April 2016.

The main points are as follows (source: EACB, 2016c, see also European Commission, 2016, for an overview):

- 18 months period for the implementation of the reform;
- the 367 Italian BCCs will constitute a banking group, which will be significant as per the Single Supervisory Mechanism (SSM);
- the group's central body will be a bank in the form of a joint stock company;
- the central body will be owned mainly by the cooperative local banks, but part of its shares will be open to the market (non-listed);
- the central body will have powers of direction and intervention on the BCCs;
- however each BCC will remain a fully-fledged cooperative and will keep their banking licence;
- BCCs will be autonomous in the conduct of business, as long as they are financially sound;
- the powers of intervention of the central body and the relationship with each BCC will be defined in contractual agreements to be authorised by the Bank of Italy;
- the group will represent the third largest Italian banking entity and the first in terms of Italian capital.

<sup>60</sup>This part was to a large extent contributed by Salome Gvetadze, to whom I am very thankful for this.

## 6 The importance of cooperative banks and smaller institutions for SME lending in Europe

Cooperative banks are of particular importance for SME lending, also when compared to their activities in the overall loan markets. The market share of cooperative banks in the SME business is typically higher than their share in the total loan market, in particular in those countries where cooperative banks are relatively important. EACB data show that, in the EU, cooperative banks' share of the total domestic loan markets was in the range of 12.2% per EACB member organisation and in the range of 14.0% per country (both unweighted averages), as at end-2014 (see table 5). As regards loans to SMEs, the importance of cooperative banks is higher, as measured by an unweighted market share of approximately 16.4% per EACB member.<sup>61</sup> Per country, the average unweighted market share was at 19.1%. When taking into account the relative size of the different European markets, we calculated a weighted market share of 30.7%, which reveals the high importance of the cooperative sector for European SME banking.<sup>62</sup>

However, the differences between the individual EACB members are quite large. While cooperative banks' market share in the SME business is, for example, more than 50% in France, the market shares are very small in Portugal (3.9%), based on data for 2014. For the majority of the organisations, their market share for SME business is higher than their overall market share (see table 5; see also table 11), and "even the banks with a very small percentage of the market make loans to SMEs a major part of their loan portfolio" (Birchall, 2013). Therefore, it does not come as a surprise that SME organisations often explicitly express their favour for preserving a banking system that includes, inter alia, cooperative banks (see for example ZDH, 2014).

The importance of SME loans for the overall business of the individual cooperative banking groups can be quite different. For example, in 2012,<sup>63</sup> SME loans accounted for 70.0% of all loans of the members of the Association of cooperative banks of Greece (see table 11 in Annex 2), while the ratio of SME loans over total loans amounted to 13.9% for cooperative banks in the Netherlands.

Within their SME clients, cooperative banks are typically considered to be "particularly strong in the very small SME, self-employed and household segments", due to the relatively small size of the individual institutions and their proximity to the local markets (FitchRatings, 2013, for the case of Germany).<sup>64</sup> According to an Oliver Wyman (2014) study, two-thirds of the cooperative banks that were surveyed "partner with micro-finance players to help provide finance for professionals and private individuals". Moreover, most of the cooperative banks "have implemented special programmes to finance start-up

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<sup>61</sup>These numbers are based on 12 countries for which these data were reported in the EACB statistics. Calculations based on 2012 data, which provide this information for some additional EACB members, show a higher unweighted average market share for SME loans per EACB member (18.4%).

<sup>62</sup>This is in line with EACB statements that "[c]o-operative banks have a market share of around 30% of loans to SMEs, and are among the main financial partners of small enterprises in Europe" (EACB, 2014a), and that "[o]verall, they finance one-third of SMEs in Europe" (EACB, 2016a). We calculated the weights based on the relative size of the respective cooperative banking group's total loan volumes.

<sup>63</sup>The EACB statistics for 2013 and 2014 do not show this category anymore.

<sup>64</sup>Beck et al. (2014) show, based on a sample from 21 Central and East European countries, that banks with bigger customer proximity have a particular importance for smaller companies in times of economic slowdowns. They find "that relationship lending alleviates credit constraints during a cyclical downturn but not during a boom period. The positive impact of relationship lending in an economic downturn is strongest for smaller and more opaque firms and in regions where the downturn is more severe." However, they also point out that "the traditional dichotomy between domestic (=relationship) banks and foreign (=transaction) banks that is often (implicitly) assumed in the literature does not seem to hold in practice, at least not in our sample of 21 countries. Likewise, recent evidence from the United States shows that small opaque firms are as likely to have small, local banks as their relationship bank as large, multimarket banks".

companies and young professionals.” Often, cooperative banks give support to less-favoured clients, e.g. by providing alternative repayment schemes; extending small loans in case of temporary financial difficulty; educating clients about personal finance and money management; helping clients navigate through a life event with adverse monetary consequences (such as a lay-off, divorce or death of the main earner in the family), often cooperating with social services; dedicating branches to restoring the financial health of customers in financial distress (Oliver Wyman, 2014).

SMEs have also benefitted from a certain stability of the cooperative banking sector. During the recent financial and economic crisis, many cooperative banks “had fared better than their larger purely private competitors and [...] they have held up their supply of loans to the economy at a time when big banks cut back lending” (Bülbül et al., 2013). According to the EACB, “in the unique context of the global financial crisis, this sector demonstrated its robustness and resilience, as well as its ability to act as a key driver for the real economy” (Fiordelisi and Mare, 2014). During the financial crisis, cooperative banks showed a remarkable resistance, hardly needed state support and provided systemic resilience to the European banking sector (Groeneveld, 2011, 2015a; Ayadi et al., 2016). With regard to credit and deposit growth, Groeneveld (2015b) concludes that cooperative banks exhibit lower expansion rates in good times, but relatively good performance during bad times. Their relatively conservative business model, which implies low-leverage levels and a certain capital “cushion against risk”, has made them more “resilient to the worsening market conditions” (Ayadi et al., 2010).<sup>65</sup>

In recent years, fluctuations in cooperative banks’ total assets and loans have been relatively moderate compared to those of all other banks (Groeneveld, 2016). In a study on the performance of different types of banks in Italy, Stefancic (2014) finds that the quality of loans deteriorated less in cooperative banks than in other banks during the credit crisis.

Ayadi et al. (2011) find empirical evidence that wholesale institutions, including some of the cooperative banks’ NCLs, have on average performed worse than their peers and have received some form of state support. However, this is not the case for all NCLs, and the local individual cooperative banks have typically performed well during the crisis. In fact, cooperative banking groups have typically performed worse, if they had strongly deviated from their traditional business model dedicated to cooperative retail banking in the domestic (and in particular local or regional) market (see, for example, Groeneveld, 2015a,b; Groeneveld, 2015b, provides an extensive discussion of the advantages and disadvantages of cooperative banks’/NCLs’ growth beyond their traditional scope).<sup>66,67</sup> Not surprisingly, the individual local

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<sup>65</sup>This is generally in line with a result presented by Ivashina and Scharfstein (2009), according to which “banks cut their lending less if they had better access to deposit financing and thus, they were not as reliant on short-term debt”. This might be even more important, as “borrowers of a liquidity-constrained bank may not be able to easily switch to a less constrained one”. However, the authors’ findings are based on data for relatively large US corporate loans.

<sup>66</sup>A similar view is presented in Bülbül et al. (2013). They show that, in the case of Spanish *savings* banks, the deviation from the traditional business model had a negative impact during the financial crisis. They conclude that, in general, „[m]ost savings and cooperative banks also fared relatively well in the crisis and better than most of their competitors from the ranks of large private banks. [...] However, there are exceptions [...], the most important one is that of the Spanish savings banks. They were very seriously affected by the crises.“ In fact, the privatisation of savings banks led to a renunciation of the regional principle (while governance remained to a large extent at the local/regional level) and a surge in the bank branch density. This, consequently, intensified competition in the banking sector and put pressure on banks to engage in high-margin, high-risk lines of business. In contrast, Spanish cooperative/mutual banks had, to a large extent, kept their „conservative“ business models, and, as a result, „they have been less exposed to the crisis“. See also IMF (2012) for a discussion of the reforms of Spanish savings banking sector and the impact of the financial crisis.

<sup>67</sup>Based on these experiences, Groeneveld (2015b) recommends, as a rule of thumb, to “restrict the non-cooperative part of the business (i.e. the size of subsidiaries and international activities together) to 30-40 percent

banks suffered more in those countries that were more intensively hit by the financial, sovereign debt and economic crisis. This was mainly caused by the decrease in demand rather than by inappropriate business models or risky trading activities. However, even in countries that were particularly affected by the crisis, cooperative banks performed comparably well. Moreover, in the case of problems, the typical solution mechanism was take-overs rather than direct government support, and in some cases, the local/regional cooperative banks had to bail out “their” NCIs (Birchall, 2013).

Given the crucial role of the NCIs – not only during the crisis – we can conclude that the provision of additional funding opportunities (e.g. through the EREM CBSI window) could help the cooperative banks to offer better support to the economy, in particular when demand picks up again more strongly.

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of all operations of the cooperative banking group. This could be defined in terms of total assets, total employment or gross revenues.”

## 7 The EREM CBSI window and the findings of this assessment

### 7.1 The EREM CBSI window

So far, we have described the role of smaller institutions for SME financing in Europe, with a particular focus on cooperative banks. We will now turn to the new EREM CBSI instrument that is going to be offered to these financial intermediaries in order to improve the access to finance of SMEs and small midcaps.

As a result of the experience acquired throughout the last five years of implementation of the European Progress Microfinance Facility (EPMF), the EIF has been able to identify a need for financing of those companies which are in a more advanced stage of their development phase either due to the initial support provided under EPMF or due to their “natural” economic development. Therefore, the EREM CBSI window is going to be implemented with the intention to increase lending to SMEs and small midcaps. Moreover, the EIB Group will be able to broaden the range of intermediaries through which it operates, in particular targeting small cooperative banks as well as other smaller financial intermediaries, e.g. smaller banks with local/regional focus, non-bank entities and more specialist financing institutions such as SME focused small leasing entities, with a particular focus on smaller SMEs and start-ups, which in each case do not have access to EIB’s lending programme for SMEs (“L4SMEs”), thereby serving a market segment that falls between the upper limits of the European Commission (EC) and EIB Group’s microfinance activities and the lower limits of EIB’s loan for SMEs.<sup>68</sup> In order to allow for complementarity between EIB Group products (e.g. EPMF/EaSI, EIB L4SMEs)<sup>69</sup>, the instruments under the EREM CBSI window are foreseen to be different, inter alia, in terms of minimum/maximum amounts and target beneficiaries (see Chapter 7.2). EREM CBSI will be implemented across the EU-28 (in accordance with EREM geographical criteria).

The EREM CBSI forms part of the set of instruments to be deployed under the EIB Group Risk Enhancement Mandate (EREM). The EREM Framework Agreement between EIF and EIB was signed in 2014; it is composed of several instruments to be deployed during the 2014-2020 period (2014-2016 being the EREM First Period and 2016-2020 the EREM Second Period). The EREM CBSI will be the fifth window to be implemented under EREM. The total EIB contribution expected to be made available for the CBSI during the 2014–2020 period is approx. EUR 500m. Following an initial allocation for the EREM First Period EUR 125m, additional budget may be allocated to the EREM CBSI in the EREM Second Period depending on the rollout results of the EREM CBSI First Period and subject to the outcome of the global EREM mid-term evaluation.

Under EREM CBSI, EIF will deploy senior and typically unsecured loans to EREM CBSI intermediaries (“CBSI Loans”). The CBSI Loans may be available in EUR and on a case by case basis in the local currency of the intermediary. Table 6 shows the main characteristics of the EREM CBSI instrument at the level of the FIs.

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<sup>68</sup>Such limits being the product limits, investment policy, market appetite or any other reason linked to those respective activities.

<sup>69</sup>See for more information [http://www.eif.org/what\\_we\\_do/microfinance/index.htm](http://www.eif.org/what_we_do/microfinance/index.htm) (on Progress/EaSI) and <http://www.eib.org/projects/priorities/sme/index.htm> (on EIB Loans for SMEs). See also [http://www.eif.org/what\\_we\\_do/resources/index.htm](http://www.eif.org/what_we_do/resources/index.htm) on JEREMIE and other region-, country- or sector-specific initiatives.

**Table 6: Main characteristics of the EREM CBSI instrument at the level of the FIs**

Eligible Intermediary	cooperative banks, small banks with local or regional focus, non-bank entities and SME focussed leasing entities (provided that any such intermediary does not at the same time benefit, directly or indirectly [as part of a group] from EIB L4SME)
Product	Senior loan (with max. amounts, maturities and rating requirements such that overlap with EIB L4SME can be avoided)
Max. Loan Size	EUR 12.5m
Purpose	Loans to SMEs and small Mid-caps
Leverage	Typically 2:1
Security	Typically unsecured subject to customary covenants
Pricing	Competitive market price

Source: EIF

Financial intermediaries will on-lend these resources to the final beneficiaries ensuring a certain leverage effect. Final beneficiaries are SMEs and small midcaps (up to a maximum of 500 employees) other than social enterprises. Social enterprises are excluded from the CBSI scope, but are intended to be covered under the European Commission’s new Programme for Employment and Social Innovation (EaSI)<sup>70</sup>.

To ensure complementarity with EPMF and EaSI, the underlying loan size may vary between EUR 25,000 and EUR 500,000 (or the equivalent in local currency), with underlying loans below EUR 25,000 only being eligible if they are covered by an EaSI guarantee.

Table 7 shows the main characteristics of the EREM CBSI instrument at the level of the final beneficiaries.

**Table 7: Main characteristics of the EREM CBSI instrument at the level of the SMEs/Mid-caps**

Eligible Final Recipients	SMEs and small mid-caps with less than 500 employees (social enterprises, as defined by the EC, shall not be included)
Products	- Loans/leases to SMEs/small mid-caps of EUR 25k to EUR 500k - Loans/leases to SMEs/small mid-caps of less than EUR 25k (only if any such loan/lease is covered by an EaSI guarantee from EIF and does not at the same time benefit from EaSI funding)
Target sectors	All sectors, including agriculture Compliance with EIB/EIF excluded sectors
Purpose	Investments, working capital, overdrafts, leasing
SMEs loan maturity	Min. 2 years

Source: EIF

In implementing EREM CBSI, the EIF will expand the successful relations with existing counterparts by widening the range of final beneficiaries and operate with new counterparts. The target intermediaries and, as a consequence, also the final beneficiaries of the new CBSI instrument will have a specific benefit from this additional funding source, which comes with several advantages, i.e. in terms of maturity, loan

<sup>70</sup>The European Commission’s new Programme for Employment and Social Innovation (EaSI) consists of 3 axes, (i) Progress, (ii) EURES (European Employment Services) and (iii) Microfinance and Social Entrepreneurship. EaSI shall, inter alia, “promote employment and social inclusion by increasing the availability and accessibility of microfinance for vulnerable people who wish to start up a micro-enterprise as well as for existing micro-enterprises, and by increasing access to finance for social enterprises”. In terms of budget, the indicative amounts within the “Microfinance and Social Entrepreneurship Axis” shall be allocated to at least 45% for “microfinance for vulnerable groups and micro-enterprises” and to at least 45% to “social entrepreneurship” (any remainder shall be allocated to one or both of these thematic sections). Source: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:347:0238:0252:EN:PDF>

size, rating and security requirements (see table 8). The CBSI instrument helps the target intermediaries, which are often institutions operating in a regional and/or sectoral niche, to diversify their funding base and to increase their business volumes, thereby reaching out to a larger number of SMEs and/or providing higher loan volumes. Moreover, CBSI can contribute to an improvement of the asset and liability management of the intermediary, in particular due to its long maturity.

**Table 8: Main advantages of the CBSI instrument**

- Long maturity
- No security foreseen (typically unsecured)
- Reasonable pricing: Competitive market price
- Flexible use of funding: Combination with EU/national schemes
- Simple reporting (easy portfolio reporting)
- Simple process: Straightforward selection and decision-making process
- Creating/extending EIB Group relationship: Becoming EIB Group counterparty for funding instruments addressed to SMEs
- Covering a wide range of SME sectors: Almost all sectors, including agriculture
- Covering extensive SME financing purposes: Investments, working capital, overdrafts, leasing

*Source: EIF*

## 7.2 Complementarity with existing mandates and products

Over the past five years, the EIF has been implementing the European Progress Microfinance Facility (“EPMF”) by providing senior and subordinated loans to FIs that ultimately provide microfinance to microenterprises. Throughout the EPMF implementation, EIF has observed that the market demand for small lending is significantly higher than the coverage provided by the EIF’s microfinance activities so far, namely with regards to the limited size of eligible beneficiaries (microenterprises with less than 10 employees) and the limit of up to EUR 25,000 which can be provided to those eligible beneficiaries. In addition, such market demand is currently not covered by EIB’s lending programme for SME’s (“L4SMEs”).

### ***Complementarity of EREM CBSI with EPMF and EaSI funded instrument***

The future funded product to be developed under EaSI is going to be designed as a continuation and expansion of the EPMF and aims at providing financing to (i) microenterprises (including microenterprises in their implementation phase and/or in a very early stage of their development phase); and (ii) social enterprises.

Unlike EaSI, the EREM CBSI would allow the targeting of final beneficiaries (other than social enterprises), which are typically in a more advanced stage of their development phase (e.g. due to the initial support provided under EPMF) or have higher financing needs in order to grow.

In light of this, the size of the loans to be on-lent by intermediaries shall be generally higher in comparison to the typical microfinance spectrum, i.e. above EUR 25,000 (but not higher than EUR 500,000), except that EREM CBSI can also fund microloans below EUR 25,000 if they are covered by an



EaSI guarantee and which therefore, according to EaSI's investment criteria, cannot at the same time benefit from funding under EaSI.

### Complementarity with L4SMEs

EREM CBSI shall be available only to financial intermediaries that do not benefit (due to their rating, size or other reasons) directly or indirectly (as part of a group) from L4SMEs financing.

A maximum individual transaction size is set taking into consideration EIB's L4SMEs individual loan size and also a potential future product to be deployed by the EIB under the European Fund for Strategic Investments ("EFSI").

The summary of the complementarity among the three instruments is presented in table 9 below:

**Table 9: Complementarity of L4SMEs / EaSI / EREM CBSI**

Product Feature	PROGRAMME		
	EIB L4SMEs	EPMF & EaSI	EREM CBSI
<b>Eligible Intermediaries</b>	Commercial banks, leasing companies, public promotional institutions and authorities.	Public and private financial institutions providing microfinance and financial institutions providing loans to social-enterprises.	Cooperative banks, small banks with local/regional focus, non-bank entities and SME-focused leasing entities, which in each case <b>do not have access</b> to EIB L4SMEs financing.
<b>Eligible final beneficiaries</b>	Micro-enterprises and SMEs (< 250 employees); Midcaps (> 250 and < 3000 employees).	Micro-enterprises (< 10 employees) and self-employed; Social-enterprises (as defined by the EC).	Micro-enterprises and SMEs (< 250 employees); Small midcaps (> 250 and < 500 employees); Social-enterprises (as defined by the EC) <b>are excluded</b> .
<b>Maximum underlying loan size (to final beneficiary)</b>	≤ EUR 12.5m (EIB can finance 100% of project cost); For projects with a cost of up to EUR 25m (EIB can finance up to 50%).	≤ EUR 25.000 (micro-loans); ≤ EUR 500k for social-enterprises.	<b>&gt; 25k ≤ EUR 500k;</b> ≤ EUR 25.000 (micro-loans) for enterprises covered by an EaSI guarantee and where <b>EaSI funding cannot be combined with</b> .

Source: EIF

### 7.3 CBSI as a specific instrument for SME finance

The findings of this assessment broadly support the focus that is foreseen for the EREM CBSI window. As we have shown, the local cooperative banks, although tending to be very small institutions, are indeed key intermediaries for SME loans, with, on average, a relatively strong focus on smaller SMEs. Their main funding source is deposits from customers, who are to a large extent identical with their members/owners.

However, even if “cooperative banks are main financing partners of small businesses at a local level, they face specific difficulties in intermediating EU funds. In particular, the network structure of cooperative banks prevents them from using the EU instruments directly, as local banks need to pass through their central institutions with associated costs and burdensome set-ups. Moreover, the administrative and reporting requirements can be a barrier for smaller cooperative banks to access those instruments. Eligibility criteria (i.e. rating) and size of amounts can be another obstacle” (EACB, 2014a).



Therefore, the EREM CBSI window can indeed close a “gap” in the financing of SMEs by targeting key financial intermediaries. CBSI aims in fact at providing the individual small local cooperative banks with funding, without the need for involving their central institutions.<sup>71</sup> CBSI also tries to take the rating and funding amounts obstacles into account.

In terms of final beneficiaries, the EIB/EIF microfinance products target access to microfinance, i.e. with the typical target group of micro-enterprises and with a social inclusion objective. In contrast, CBSI targets SMEs (including micro-enterprises) and small mid-caps with financing needs that go beyond microfinance amounts.

#### *Loan amounts*

The amount of funding, that an individual cooperative bank could be provided with, depends on the financing demand from SMEs that could be met with it. On an EU macro-economic level, data on an average SME loan does not exist. Some information can be taken from the ECB Loan Level Initiative (LLI; see for more information Kraemer-Eis, Passaris and Tappi, 2013). The data that we reference here are based on SME loans in Asset Backed Securities (ABS) tranches, for which LLI data is available (“only senior ABS tranches are eligible Eurosystem collateral within an ABS transaction”, see ECB, 2014d). Eligible SME ABSs corresponded to 1.1mn SME loans with total nominal values of EUR 57.7bn (as at end-May 2014).

According to the LLI data stated in a recent ECB (2014d) article,

- 30% of the loans to SMEs have an original balance below EUR 25k;
- almost half of the loans have an original balance below EUR 50k;
- approximately two thirds of the loans are below EUR 100k;
- approximately three quarters of the loans are below EUR 150k;
- more than 80% of the loans are below EUR 250k.

Within these data, the median SME loan size amounts to approximately EUR 50k. The average loan size in the LLI data might be somewhat higher, but the results should nevertheless be broadly in line with the target loan bandwidth for the EREM CBSI window, due to cooperative banks’ focus on smaller SMEs (see Chapter 6). Moreover, CBSI targets “small financial intermediaries (small leasing institutions, small cooperative banks, other non-bank financial institutions)”. Therefore, with loan sizes between EUR 25k and EUR 500k, CBSI can cover a large part of typical SME loan amounts; the size of the maximum loan amount should also allow for a reasonable coverage of small midcap loans.

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<sup>71</sup>Some of these institutions are members of the Unico network. The 8 Unico members are Banco Cooperativo Español (Spain), Crédit Agricole S.A. (France), DZ BANK (Germany), ICCREA Holding (Italy), OP Financial Group (Finland), Rabobank (The Netherlands), Raiffeisen Bank International (Austria) and Raiffeisen Schweiz (Switzerland). Source: <https://www.unicobankinggroup.eu/WhoWeAre.aspx>.

## 7.4 Cooperating with cooperative banks: The experience of EIF

EIF has so far already worked with cooperative banks. Cooperative banks are, in principle, potential intermediaries of EIF products. We give some examples from the *European Progress Microfinance Facility (EPMF)* below, based on EIF information. The EPMF was a microfinance initiative, launched and managed by EIF in the 2007-2013 programming period and funded by the European Commission and the EIB. Its financial resources have been fully deployed through selected financial intermediaries across the EU, which have provided micro-loans to micro-entrepreneurs. The EPMF aimed to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged. EPMF was implemented by the EIF through two separate mandates: Under a direct mandate signed with the European Commission (EC) in 2010, EIF provided portfolio guarantees to micro credit lenders. Further financial instruments such as debt, equity, and risk-sharing were deployed through a Luxembourg fonds commun de placement (FCP), managed by EIF in its capacity as management company. Initial funding for the FCP was provided by the EC and the EIB. (Source: EIF, 2014.)

In total EIF had an initial commitment under the European Progress Microfinance Facility (EPMF) to cooperative banks of EUR 45m (representing 25% of total EPMF FCP budget). (Source: EIF.) However, the cooperative banks that EIF has worked with under EPMF are quite heterogeneous. To give the two most extreme examples in terms of size: The smallest cooperative bank that EIF has worked with is the Banca di Credito Cooperativo (BCC) di Bellegra, which operates in 19 municipalities across the Italian provinces of Rome and Frosinone. Based on information available at contract signature in January 2014, the bank had 1,433 members, 28 employees and 5 local branches. As per 31.12.2012, BCC Bellegra's financial statements showed assets (loans and direct deposits) totalling EUR 225.6m, and a regulatory capital of EUR 16.5m, while net profit was approximately EUR 840,000. The deal consisted of EUR 1.25m of additional funding made available to BCC Bellegra, thanks to which the cooperative bank was able to launch a new microfinance product ("CREAMI.EU") which is targeting people having difficulties in accessing the traditional credit system due to the lack of sufficient guarantees (e.g. self-employed or unemployed individuals, citizens belonging to ethnic minorities, women, young people, etc.) to support local entrepreneurship, economic and social development. The aim is to provide EUR 2.5m of micro-loans to the benefit of micro-entrepreneurs based in the local municipalities in the province of Rome. (Source: EIF et al., 2014.)

The largest cooperative bank that EIF has so far worked with under EPMF is the Banco de Crédito Social Cooperativo, the central entity of the Cajamar Cooperative Group in Spain (formerly Cajas Rurales Unidas Cooperative Group). Cajamar is the largest cooperative bank in Spain with total assets of more than EUR 40bn (as at 31 December 2015). The Group has 1.4 million members and 4 million customers, who are served by more than 6,250 employees through a network of almost 1,300 branches. (Sources: Cajamar, 2014 and 2016.) In 2013 and 2014, two senior loans, totalling EUR 8m each, were made available under EPMF to this cooperative bank (sources: European Commission, 2014, and EIF). For the new loan agreement concluded in 2014, it has been envisaged that all the member cooperative banks of the Group shall have access to the proceeds of the new senior loan for the benefit of micro-entrepreneurs, thereby aiming at financing a new portfolio of micro-borrowers for an aggregate nominal amount of at least twice the agreed amount of the senior loan (source: EIF).

In addition to EPMF, EIF has also worked together with cooperative banks under other programmes, e.g. the Risk Sharing Instrument (RSI) and the Competitiveness and Innovation Framework Programme (CIP). See, for example EIF (2013) and the EIF website [www.eif.org](http://www.eif.org) for more information.

## 8 Conclusions

We have shown that cooperative banks, which are an important part of the group of small bank financial institutions, are key financing partners of SMEs, in particular of smaller ones, at a local level. This is even more important, as the EU cooperative banking sector shows certain strengths compared to the banking market as a whole: The business model is relatively conservative, follows a simpler structure, and has been less impacted by the financial crisis, even in countries that were strongly affected by the crisis. Potential weaknesses, which are typically discussed, comprise the relatively narrow range of assets and a low profitability potential, which is also implied by the lower leverage. Moreover, in particular smaller/local financial institutions depend to a larger extent on domestic interest income; therefore the current low interest rate environment puts a relatively higher pressure on the these banks' profits (see IMF, 2016, for a similar argument for the case of Japan; see also Ayadi et al., 2016).

The local dimension of cooperative banks and smaller institutions is reflected at various levels. The involvement of the local community in these in organisations is high. Cooperative banks are typically serving a local client base, which forms, at least to a large extent, also the group of their members/owners. Therefore, cooperative banks and other small institutions mirror the trend of the local economy.

This is one reason why geographical differences can be observed in the performance of these institutions. Moreover, there is a certain bandwidth of business models and cooperative banks' relationship with their central body. Therefore, not surprisingly, the market share of cooperative banks is quite heterogeneous, including in the SME loan market segment. Moreover, the regional/local banks' asset size strongly differs by network/group. Typically, the asset size that is shown in EACB statistics is relatively large in integrated systems, such as in Denmark, France and the Netherlands. Relatively low asset sizes are shown for Central and Eastern EU Member States such as Romania, Lithuania, Poland and Hungary. It should also be noted that differences can occur not only by the degree of independence/integration and size, but also by country (legal environment) and target group. Hence, only a part of the individual institutions that are shown in the statistics will fall into the focus of the EREM CBSI window, which is expected to target relatively small but independent institutions with a focus on SMEs.

Despite the generally relatively good capital and funding base of cooperative banks, the specific target beneficiaries of the CBSI instrument can often have a specific benefit from this additional funding source. Typical funding sources of those smaller institutions, including smaller cooperative banks, which are in the CBSI focus, are retail deposits and, for example, external loans from IFIs. The new CBSI instrument helps the target intermediaries, which are often institutions operating in a regional and/or sectoral niche, to diversify their funding base and to increase their business volumes, thereby reaching out to a larger number of SMEs and/or providing higher loan volumes. This can, for example, support micro-enterprises to find follow-on financing after having received a microloan and now needing a larger financing amount in order to follow their growth path. Moreover, the specific target beneficiaries are often located in areas with a difficult economic environment and hence difficult access to finance.

## ANNEX

### Annex 1: Different cooperative group/network models and references in the CRR<sup>72</sup>

#### 1. Basic models

There are some cooperative networks, where the cooperation among the members is limited. However, cooperative banks jointly own a central institution, which typically ensures the liquidity of the network (Art 422.8 CRR), cash clearing, access to the national central bank and to financial markets. Those local cooperative banks are associated in accordance with statutory or legal provisions.

#### 2. Integrated models

The majority of cooperative groups in Europe is more integrated. For customers this becomes visible by a common brand, common advertising and common products, etc. As for the legal structure, there are different forms of integrated cooperative networks/groups with differing levels of management integration, of centralized control and of independence of local/regional banks. However, whichever form of integration they assume, the common features, and in particular the same basic ownership structure, applies.

##### 2.1. Network with an institutional protection scheme (IPS) – Art. 113.7 CRR

Banks within the network entered into a contractual or statutory liability arrangement that protects the local/regional cooperative banks, ensures their liquidity and solvency to avoid bankruptcy where necessary (Art. 113.7 CRR). In order to meet the requirements of Art. 113.7, which grants a 0% risk weight of intragroup exposures, the following requirements have to be met:

- IPS must be able to grant support from readily available funds;
- IPS disposes of system for monitoring and classification of risks. Which gives a complete overview of the risk situations of all cooperative banks which are members of the IPS, and has possibilities to take influence;
- IPS conducts its own risk review;
- IPS draws up on annual basis consolidated report comprising the balance sheet or a report comprising aggregated balance sheet.

However, as regards their day-to-day business, the banks adhering to the network remain to a large extent independent.

##### 2.2. Integrated (cooperative) network – Art. 113.6 CRR

Under Article 113.6 CRR local/regional cooperative banks and the central body are linked by a parent-subsidiary relationship, which is characterized by a higher level of control of the central institution. While the local/regional banks remain the owners and dispose of the political control of the central institution, they have nevertheless mandated a number of control powers to that central institution to ensure oversight. Art. 113.6 also allows a 0% risk weight for intra-group exposures and imposes the following requirements:

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<sup>72</sup>Source: EACB (2014b). The source also mentions the related references to the Capital Requirements Regulation (CRR) and states, for which countries the different models apply.

- The adhering banks are monitored as a whole on the basis of consolidated accounts;
- The central body is subject to the same risk evaluation, measurement and control procedures as the local cooperative banks;
- Under Art 113.6 CRR local/regional cooperative banks and the central body are linked by a parent-subsidiary relationship, and there is a high level of control of the central institution;
- There is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the central body to the local/regional bank.

### 2.3 Consolidated cooperative group

The model with possibly the highest degree of integration is the one described in Art. 10 CRR. This model aims at a very high degree of integration. While maintaining the basic structure described above, different measures ensure a degree of economic integration that allows to treat the central institution and the local/regional banks as if they were one bank. By consequence, Art. 10 allows supervisors to waive the fulfilment of certain prudential requirements on the solo level and only focuses on the consolidated level. In order to use this provision, the following requirements have to be fulfilled:

- Local/regional cooperative banks are permanently affiliated to the central body which supervises them;
- The management of the central body is empowered to issue instructions to the management of the local/regional cooperative banks;
- There is a cross-guarantee system, which means that the commitments of the central body and affiliated institutions (local/regional cooperative banks) are joint and several liabilities, or the affiliated institutions are guaranteed by the central body;
- The solvency and liquidity of the central body and local/regional cooperative banks are monitored as a whole on the basis of consolidated accounts.

### 3. Varieties / Mixed models

It has to be underlined that there are varieties regarding the application of the three integrated models described above. The structure and the functioning of the IPS may differ. There is also some bandwidth of integration and derogations under the consolidated cooperative group model.

Especially in the bigger cooperative groups/networks, a mix of models may occur. An IPS can be applied to integrated models under Art. 113.6 CRR.

A summarising overview of the different integration levels of cooperative banking groups is provided in table 10.

**Table 10: Levels of integration of cooperative banking groups**

Cooperative bank	Basic Co-operative Group		Decentralised Cooperative Group (Article 113(7) CRR)		Consolidated Cooperative Bank (Article 10 or Article 113(6) CRR)			
	<i>Cajas Rurales (Spain)</i>	<i>BCC* (Italy)</i>	<i>Raiffeisen banks (Austria)</i>	<i>Volks- and Raiffeisenbanks (Germany)</i>	<i>Raiffeisen (Switzerland)</i>	<i>Crédit Agricole Group (France)</i>	<i>OP (Finland)</i>	<i>Rabobank (Netherlands)</i>
No Institutional Protection Scheme or Cross Guarantee	X	X						
Centralized functions in the group are very limited	X	X						
Institutional Protection Scheme			X	X				
Centralised functions in the group are limited			X	X				
Local banks supervised independently by national supervisor	X	X	X	X				
No management instructions by central body to local banks	X	X	X	X				
Cross Guarantee System					X	X	X	X
Consolidated supervision by European Central Bank					X	X	X	X
Many functions in group are centralized					X	X	X	X
Central body has mandate to issue instructions to local banks					X	X	X	X
Central group binding decisions					X	X	X	X

\*Note: The BCC system is currently changing towards stronger centralisation. See box 2 for more information.

Source: Groeneveld (2015c).

## Annex 2: Additional information on EACB members

Table 11 and table 12 show additional information to which we make reference in the text. It is based on 2 012 data, because some of the indicators, e.g. “SME loans on total loans” (i.e. a proxy for the importance of the SME business for a cooperative bank), has not been reported by EACB for more recent years anymore.

Table 11: EACB members’ total loans and loans to SMEs, based on 2012 data

		total loans				loans to SMEs			
		Total loans [mEUR]	Total loans per country [mEUR]	Market share [%]	Market share per country [%]	market share [%]	Market share per country [%]	SMEs loans on total loans [%]	SMEs loans on total loans [%]
<b>Full Member Organisations</b>									
<b>Austria</b>	Osterreichische Raiffeisenbanken	193,879	221,854	26.1	32.5	37.0	43.5	n.a.	32.0*****
	Osterreichische Volksbanken*	27,975		6.4		6.5		32.0	
<b>Bulgaria</b>	Central Co-operative Bank	847	847	5.0	5.0	n.a.	n.a.	8.7	8.7
<b>Cyprus</b>	Co-operative Central Bank	13,923	13,923	19.2	19.2	n.a.	n.a.	15.5	15.5
<b>Denmark</b>	Nykredit	164,213	164,213	31.0	31.0	5-15%	5-15%	4.0	4.0
<b>Finland</b>	OP-Pohjola Group	65,161	65,161	33.4	33.4	n.a.	n.a.	n.a.	n.a.
<b>France</b>	Crédit Agricole	876,100		20.6		26.4		n.a.	
	Crédit Mutuel	343,216	1,802,416	17.1	37.7*****	14.5	40.9*****	18.3	18.3*****
	BPC**,**	583,100		n.a.		n.a.		n.a.	
<b>Germany</b>	BVR / DZ Bank*****	632,448	632,448	18.3	18.3	30.3	30.3	26.6	26.6
<b>Greece</b>	Association of co-operative banks of Greece	3,259	3,259	1.3	1.3	15.0	15.0	70.0	70.0
<b>Hungary</b>	National federation of Savings Co-operatives	2,707	2,707	4.4	4.4	8.7	8.7	50.7	50.7
<b>Italy</b>	Assoc. Nazionale fra le Banche Popolari**	378,391	532,134	24.7	31.8	n.a.	15.0*****	n.a.	60.0*****
	FEDERCASSE	153,743		7.1		15.0		60.0	
<b>Lithuania</b>	Association of Lithuanian credit unions / Lithuanian Central Credit Union*****	281	281	6.8	6.8	n.a.	n.a.	21.3	21.3
<b>Luxembourg</b>	Banque Raiffeissen	4,455	4,455	n.a.	n.a.	n.a.	n.a.	6.5	6.5
<b>Netherlands</b>	Rabobank Nederland	458,091	458,091	31.0	31.0	43.0	43.0	13.9	13.9
<b>Poland</b>	National Union of Co-operative Banks (Krajowi Ziazek Bankow Spółdzielczych, KZBS)****	59.5	59.5	7.7	7.7	n.a.	n.a.	30.0	30.0
<b>Portugal</b>	Crédito Agrícola	8,365	8,365	3.7	3.7	5.5	5.5	41.4	41.4
<b>Romania</b>	Central Cooperatist Bank Creditcoop	124	124	n.a.	n.a.	n.a.	n.a.	0.6	0.6
<b>Slovenia</b>	Deželna Banka Slovenije d.d.**	504	504	1.6	1.6	n.a.	n.a.	36.0	36.0
<b>Spain</b>	Unión Nacional de Cooperativas de Crédito	89,676	89,676	5.8	5.8	n.a.	n.a.	n.a.	n.a.
<b>Sweden</b>	Landshypotek**	4,123	4,123	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
<b>United Kingdom</b>	The Co-operative Bank	41,104	41,104	3.0	3.0	0.4	0.4	1.2	1.2
<b>Total (EU)</b>		<b>4,045,686</b>							
<b>Average (EU; unweighted)</b>		<b>175,899</b>	<b>212,931</b>	<b>13.7</b>	<b>16.1</b>	<b>18.4</b>	<b>21.2</b>	<b>25.7</b>	<b>25.7</b>
<b>Associate Member Organisations</b>									
<b>Canada</b>	Desjardins Group	96,185	96,185	30.0	30.0	45.0	45.0	85.0	85.0
<b>Japan</b>	The Nairichukin Bank / JA Bank Group	133,463	133,463	7.0	7.0	n.a.	n.a.	n.a.	n.a.
<b>Switzerland</b>	Raiffeisen Schweiz	120,598	120,598	16.1	16.1	n.a.	n.a.	n.a.	n.a.
<b>Total (Non-EU)</b>		<b>350,246</b>							
<b>Average (Non-EU; unweighted)</b>		<b>116,749</b>		<b>17.7</b>		<b>45.0</b>		<b>85.0</b>	

\*All figures for total loans and market share of credits referred to the domestic/local banks only

\*\*2011 data

\*\*\*After merger of Banques Populaires and Caisses d'Epargne

\*\*\*\*All figures expressed in PLN: 1 Euro = 4.08 PLN (as of 31/12/2012)

\*\*\*\*\*Association of Lithuanian credit unions for total loans and market share of credits; Lithuanian Central Credit Union for SME financing data

\*\*\*\*\*BVR for total loans and market share of credits; BVR/DZ Bank for SME financing data

\*\*\*\*\*Figures for the country do not include all EACB members' figures in that country.

General note: When not specified, figure refers to the Group.

Source: EACB data, following table 3.1 in Birchall (2013).

Table 12: Cooperative indicators of EACB members (as at 31 December 2012)

		Governance	Employment		SMEs' financing		Territory coverage	
		Members / clients ratio [%]	Nr. of new employees hired this year	Expenses staff training / payroll [%]	SMEs loans on total loans [%]	Market share of loans to SMEs [%]	Nr. of clients / Nr. branches	Market share of ATM's [%]
<b>Full Member Organisations</b>								
Austria	Österreichische Raiffeisenbanken	48.0	n.a.	1.6	n.a.	37.0	2,050	37.5
	Österreichische Volksbanken	76.4	-249	n.a.	32.0	6.5	1,714	10.0
Bulgaria	Central Co-operative Bank	0.5	244	9.0	8.7	n.a.	5,141	5.9
Cyprus	Co-operative Central Bank	62.9	135	n.a.	15.5	n.a.	2,355	33.4
Denmark	Nykredit	27.0	-24	n.a.	4.0	5-15%	736	2.0
Finland	OP-Pohjola Group	40.0	102	2.5	n.a.	n.a.	8,112	n.a.
France	Crédit Agricole	33.0	3,010	6.3	n.a.	26.4	3,000	21.7
	Crédit Mutuel	72.0	11,412	5.7	18.3	14.5	3,280	20.0
Germany	BVR/DZ Bank	57.7	1,839	5.6	26.6	30.3	2,270	32.6
Greece	Association of co-operative banks of Greece	47.8	6	n.a.	70.0	15.0	2,445	n.a.
Hungary	National federation of Savings Co-operatives	7.3	n.a.	n.a.	50.7	8.7	775	20.0
Italy	FEDERCASSE	n.a.	n.a.	n.a.	60.0	15.0	n.a.	12.1
Lithuania	Lithuanian Central Credit Union	100.0	35	0.4	21.3	n.a.	734	n.a.
Luxembourg	Banque Raiffeissen	6.6	25.2	0.8	6.5	n.a.	2,649	n.a.
Netherlands	Rabobank Nederland	25.9	-42	2.5	13.9	43.0	8,959	n.a.
Poland	Krajowi Ziazek Bankow Spółdzielczych	n.a.	0.7	n.a.	30.0	n.a.	n.a.	n.a.
Portugal	Crédito Agrícola	34.0	79	0.05	41.4	5.5	1,659	10.6
Romania	Central Cooperatist Bank Creditcoop	60.8	251	0.1	0.6	n.a.	1,409	n.a.
Slovenia	Deželna Banka Slovenije*	0.3	1	1.2	36.0	n.a.	992	2.2
Spain	Unión Nacional de Cooperativas de Crédito	23.3	-362	n.a.	n.a.	n.a.	2,267	n.a.
United Kingdom	The Co-operative Bank	42.6	1,071	n.a.	1.2	0.4	13,823	4.0
<b>Average (unweighted)</b>		<b>40.3</b>	<b>974</b>	<b>3.0</b>	<b>25.7</b>	<b>18.4</b>	<b>3,388</b>	<b>16.3</b>
<b>Associate Member Organisations</b>								
Canada	Desjardins Group	100.0	2,800	2.4	85.0	45.0	4,032	46.0
Japan	The Norinchukin Bank / JA Bank Group	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.7
Switzerland	Raiffeisen Schweiz	49.2	770	n.a.	n.a.	n.a.	3,363	n.a.

\*2011 data

Source: EACB (2013).



### Annex 3: Cooperative banks' economic indicators per independent regional/local bank

The individual cooperative banks' asset size (as well as other size-related indicators) differs strongly by network/group (see table 13). Due to data availability and if not otherwise stated, table 13 was calculated by using the data for the group as a whole, based on data provided on the EACB website.

From this exercise, it results that the asset size per independent regional/local bank is typically relatively large in integrated systems, such as in Denmark, France and the Netherlands. Relatively low asset sizes can be observed for Central and Eastern EU Member States such as Lithuania, Poland and Hungary.

However, when taking conclusions for individual EACB members, the state of institutional integration should also be taken into account. For example, the EACB statistics show 113 regional/local banks for the Netherlands. However, the Dutch Rabobank is one of the most integrated models of cooperative banks, which is not directly visible from the numbers. A somewhat similar statement could be made for the Finnish case.

Table 13: Cooperative banks' economic indicators per regional/local bank

EU countries		Economic indicators per independent regional/local bank**		
		Total assets per independent regional/local bank [mEUR]	Total deposits from customers per independent regional/local bank [mEUR]	Total loans to customers per independent regional/local bank [mEUR]
Austria	Österreichische Raiffeisenbanken*	604	368	403
	Österreichische Volksbanken*	719	473	520
Bulgaria	Central Co-operative Bank	n.a.	n.a.	n.a.
Cyprus	Co-operative Central Bank*	734	652	533
Denmark	Nykredit	3,155	141	2,569
Finland	OP Financial Group*	610	269	390
France	Crédit Agricole*	45,199	15,966	18,202
	Crédit Mutuel*	39,262	16,958	20,268
	BPCE	34,951	13,530	10,800
Germany	BVR*	1,085	681	641
Greece	Association of Cooperative Banks of Greece	326	263	292
Hungary	National Federation of Savings Co-operatives <sup>(a)</sup>	61	42	26
Italy	Assoc. Nazionale fra le Banche Popolari*	6,481	6,210	5,624
	FEDERCASSE*	591	419	325
Lithuania	Association of Lithuanian credit unions <sup>(a)</sup>	8	6	4
Luxembourg	Banque Raiffeisen*	512	423	380
Netherlands	Rabobank Nederland*	6,027	2,889	3,809
Poland	National Union of Co-operative Banks (KZBS)	56	36	29
Portugal	Crédito Agrícola*	162	130	99
Romania	Creditcoop <sup>(a)</sup>	n.a.	n.a.	n.a.
Slovenia	Deželna Banka Slovenije d.d. <sup>(a)</sup>	856	646	530
Spain	Unión Nacional de Cooperativas de Crédito	2,142	1,559	1,168
	Banco de Crédito Cooperativo (BCC)	1,896	1,562	1,636
Sweden	Landshypotek <sup>(b)</sup>	9,105	251	7,084
United Kingdom	The Co-operative Bank p.l.c. <sup>(a)</sup>	n.a.	n.a.	n.a.
	Building Societies Association*	9,812	6,971	7,330
<b>Total</b>				

Notes:

(\*) Data collected in collaboration with TIAS School for Business and Society of Tilburg University.

(\*\*) For data availability reasons, if not specified differently, the economic indicators for the respective Group as a whole were divided by the number of independent local/regional banks.

(a) Data 2013.

(b) Data 2012.

Source: Own calculations, based on EACB (2016b).

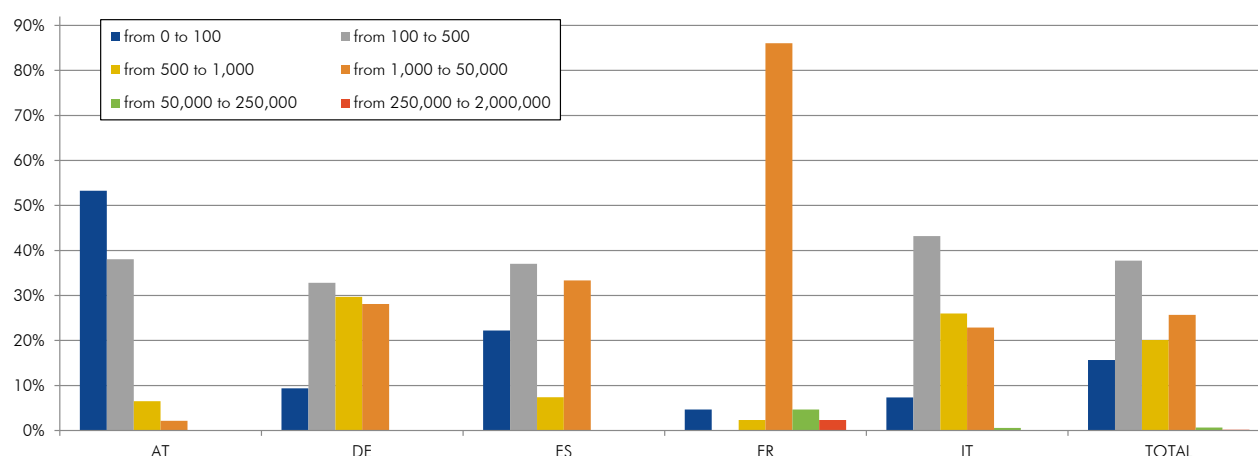
#### Annex 4: Distribution of economic indicators among independent regional/local banks<sup>73</sup>

In order to have a closer look at the distribution of total asset size classes among the individual cooperative banks, we did a search in the Bureau Van Dijk Orbis database.<sup>74</sup> For the EU-28, we found 1,420 entities in the database, which we consider our estimate of the number of European cooperative banks in Orbis. We selected the year 2014 as benchmark period (2013, if 2014 data was not available).

The number of cooperative banks with total asset data recorded in Orbis for this period is 641, i.e. 45% of the originally available institutions. (It is likely that missing data will affect smaller institutions more than bigger ones.) When comparing the number of institutions with asset data available in Orbis to the EACB statistics for each country, we observe that only 5 European countries (Austria, France, Germany, Italy, Spain) are sufficiently represented in the Orbis database. This reduces the sample size to 607.

For these countries and their aggregate, we computed the total assets distributions. 92% of the analysed data points refer to 2014, the remaining ones to 2013. The distribution of cooperative banks total assets by size classes is shown in figure 5.

Figure 5: Distribution of total assets by country, m EUR



Note: AT: Austria, DE: Germany, ES: Spain, FR: France, IT: Italy.

Source: EIF, based on Bureau Van Dijk Orbis data.

Based on this analysis, the distribution of cooperative banks towards smaller size classes is the most pronounced in Austria, while the share of larger cooperative banks (total assets above EUR 1bn) is very high in France and Spain. However, Spain is also the country with the second highest share of very small cooperative banks (i.e. total asset size below EUR 100m). Although the distribution of total assets in the sample for France seems very skewed towards bigger institutions (which is a very common bias in the Orbis database), these findings are in line with the average asset size per independent cooperative bank based on EACB statistics (see Annex 3).

<sup>73</sup>The largest part of this annex, including all calculations, was contributed by Simone Signore, to whom I am very thankful for this.

<sup>74</sup>We searched for active banks, for which the entity business description (including products, activity label and history if available) contained the words “cooperative”, “co-operative” or “popular” in Orbis.

## Annex 5: List of acronyms

- ABS: Asset Backed Securities
- AECM: European Association of Guarantee Institutions
- AG: Aktiengesellschaft
- Art.: article
- AT: Austria
- bn: billion
- BCC: Banco de Crédito Cooperativo (Spain) or Banche di Credito Cooperativo (Italy)
- BoD: Board of Directors
- BP: Banche Popolari
- BPCE: Banque Populaire et Caisse d'épargne
- BVR: Bundesverband der deutschen Volks- und Raiffeisenbanken
- CBD: Consolidated Banking Data
- CBSI: Cooperative Banks & Smaller Institutions
- CIP: Competitiveness and Innovation Framework Programme
- CRR: Capital Requirements Regulation
- DE: Germany
- DZ Bank: Deutsche Zentralgenossenschafts-Bank
- EACB: European Association of Cooperative Banks
- EaSI: Programme for Employment and Social Innovation
- EBA: European Banking Authority
- EC: European Commission (also: COM)
- ECB: European Central Bank
- e.g.: *exempli gratia*
- EIB: European Investment Bank
- EFSI: European Fund for Strategic Investments
- EIF: European Investment Fund
- EPMF: European Progress Microfinance Facility
- EREM: EIB Group Risk Enhancement Mandate
- ES: Spain
- EU: European Union
- EUR: Euro
- EURES: European Employment Services
- FCP: Fonds Commun de Placement
- FEDERCASSE: Federazione italiana delle banche di credito cooperativo - casse rurali ed artigiane
- FI: financial intermediary
- FR: France
- FSB: Financial Stability Board
- GFG: Genossenschaftliche FinanzGruppe
- ICA: International Cooperative Alliance
- ICBA: International Cooperative Banking Association
- i.e.: *id est*
- IFI: International Financial Institution
- IFRS: International Financial Reporting Standards
- IMA-CVA: internal model approach for the calculation of credit valuation adjustment
- IMF: International Monetary Fund
- IPS: Institutional Protection Scheme
- IT: information technologies, or Italy
- JEREMIE: Joint European Resources for Micro to Medium Enterprises
- k: thousand
- KZBS: Krajowy Związek Banków Spółdzielczych
- L4SMEs: loan for SMEs
- LLI: Loan Level Initiative
- m: million
- MFI: microfinance institution; in Chapter 3: monetary financial institution

- min.: minimum
- n.a.: not available or not applicable
- NBF: non-bank financial institution
- NCI: network central institution
- NUTS: Nomenclature of Units for Territorial Statistics
- OP: Palovakuutus-Osakeyhtiö
- p.l.c.: public limited company
- PLN: Polish złoty
- Q: quarter
- RMA: Research & Market Analysis
- RoA: Return on assets
- RoE: return on equity
- RSI: Risk Sharing Instrument
- S.A.: Société Anonyme
- SAFE: Survey on the Access to Finance of Enterprises
- SCE: European Cooperative Society
- SDW: Statistical Data Warehouse
- SME: small and medium sized enterprise
- SSM: Single Supervisory Mechanism
- T1: tier one
- TIAS: Tilburg Institute for Advanced Studies
- UK: United Kingdom
- US: United States
- VC: venture capital
- vs.: versus
- WGZ Bank: Westdeutsche Genossenschafts-Zentralbank
- ZDH: Zentralverband des Deutschen Handwerks

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