

The Portuguese Cooperative Credit System

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Abstract This paper presents a literature review on the regulatory framework of the Portuguese cooperative credit system and some historic data. The aim is to understand their role in the Portuguese banking industry and how the regulatory framework affects cooperative banking activity. The cooperative credit system in Portugal comprises only agricultural credit cooperatives (Caixas de Crédito Agrícola Mutuo—CCAM). Its present corporate format was created in 1911, but the genesis of Portuguese agricultural credit cooperatives dates back to the sixteenth century and can be regarded as a typical example of how public policy can influence the development of cooperative credit institutions. The Caixa Central de Crédito Agrícola Mutuo is the pivotal institution in the Crédito Agrícola Group, with a remit that is the mainstay of the group, namely the strategic global coordination, supervision and guidance of its associates. The CCAM's strong customer deposit base and prudential credit management policy have proved to be crucial in confronting current hard times. Indeed Crédito Agrícola is the only one of the major Portuguese banks that has not experienced negative profits since the beginning of the present economic and financial crisis.

1 Introduction

Cooperation, as an economic and business model, was born in England in response to the abuses of market power and asymmetric information generated by the Industrial Revolution and subsequently spread to other countries. Almost two centuries later, the economic analysis of cooperatives has vanished from most

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economic textbooks, enjoying relatively little publicity (Shaw 2007; Cuevas and Fisher 2006). As a governance model, the cooperative has also been neglected by policymakers in most European countries (Groeneveld and Sjauw-Koen-Fa 2009). However, surprisingly, in the financial sector of some European countries, such as Germany, Finland, the Netherlands and France, cooperatives are among the largest and fastest growing groups.

Regarded by many people as an obsolete business model, the recent financial and ensuing economic crisis has proved that they are (still) a valid alternative way of doing business. Indeed, in the aftermath of the 2008 financial crisis, the dominant banking model based on investor-owned firms is being questioned while other models, such as cooperatives, regarded in the past as a lower level have weathered the crisis better. Worldwide, cooperative banks have remained financially sound because their inherent characteristics allow them to persevere and in some cases to outperform their peers (Ayadi et al. 2010; EACB 2010).

The current economic crisis and the mistrust in financial institutions have encouraged debate on the role of cooperative banks within a fairer society and their responsibility as key economic and social players in the challenges of economic development. Their historical background and important role in boosting local development give them a key role in economic recovery. Moreover, given the present lack of confidence in the shareholder model as an overriding paradigm, co-operation can be the foundation of a more sustainable, fair and transparent way of doing business (Cabo 2012).

The main aim of this paper is to provide some insights into the Portuguese regulatory framework for cooperative banks to understand how a particular regulatory framework affects cooperative banking activity. To achieve this goal, the remainder of this paper consists of the following sections: Sect. 2 describes the evolution of the agricultural credit cooperative system; Sect. 3 illustrates the positioning of Crédito Agrícola in Portuguese banking; Sect. 4 includes a description of the Portuguese regulatory framework for agricultural credit cooperatives and its governance model; finally, Sect. 5 presents the conclusions.

2 The Genesis

The cooperative credit system in Portugal comprises only agricultural credit cooperatives. Its present corporate format was created in 1911, but the genesis of Portuguese agricultural credit cooperatives (Caixas de Crédito Agrícola Mutuo—CCAM¹) goes back to the sixteenth century, to an institution called Common Barns, allowing farmers to keep stock and seek financing. The early CCAM were very small units and membership consisted of small farmers with low incomes. The

¹The abbreviation CCAM denotes both the singular ‘Caixa de Crédito Agrícola Mutuo’ and the plural ‘Caixas de Crédito Agrícola Mutuo’.

Table 1 Creation and evolution of the CCAM in the twentieth century

New CCAM		Existing CCAM	
Before 1920	95		
(1920–1929)	67		
(1930–1939)	48		
(1940–1949)	18	In 1950	132
(1950–1959)	17	In 1960	149
(1960–1969)	4	In 1970	144
(1970–1979)	21 ^a	In 1980	157
(1980–1989)	57	In 1990	222
(1990–1999)	6 ^b	In 2000	145

Source: Cabo (2012)

^a19: (1974–1979)

^bResulting from the merging of the existing CCAM

beginning of the system was an absolute failure: the capital provided by the state was insufficient to accomplish the objectives, the cooperatives were used to pursue managers' personal goals and management errors and even fraud were commonly found during auditing (Cabo 2003). Despite these setbacks, the number of CCAM grew significantly until the 1929 financial crisis (see Table 1). Subsequently, CCAM were placed under the umbrella of the Caixa Geral de Depósitos, a public institution and also the largest Portuguese bank. During the dictatorial and fascist regime 'Estado Novo' (1931–1974), the CCAM were used to restrict the expansion of communist ideology and for political control of the rural population. It was a lifeless period for the CCAM. Thus, until 1976 CCAM played a minor role in the banking system, with a share of only 1 % of total deposits and credit.

Following the political changes in 1974, all private financial institutions were nationalized, except for the CCAM and foreign financial institutions. Moreover, the CCAM started a lobby movement for autonomy, expanding their implantation and broadening their activity, and in 1978 the National Federation of Agricultural Cooperative Credit Institutions (FENACAM) was created to support and represent the interests of its members, both nationally and internationally. In 1982, the 60-year-old Agricultural Cooperative Credit law underwent profound alterations with the publication of a specific Legal Regime for Agricultural Cooperative Credit (RJCAM). Subsequently, the CCAM threw off the guardianship of the Caixa Geral de Depósitos and the Caixa Central was founded in 1984 with the purpose of regulating the credit activity of CCAM members. In 1986, Portugal joined the European Union (EU), and the following 10 years were a period of profound changes in the Portuguese economy. The CCAM were considered important players in the framework of a financing strategy for the development of the agricultural sector. Thus, during the 1980s CCAM activity experienced spectacular growth as reflected in annual rates greater than 40 % for deposits and approximately 35 % for loans and net assets on average (Cabo 2003). However, it was a decade of wild growth and mismanagement, negatively influencing the performance of CCAM and jeopardising their survival.

In 1991, the Integrated System of Agricultural Cooperative Credit (SICAM) was created through an association of the Caixa Central and the CCAM. The Caixa Central was empowered to supervise, intervene in, guide and represent the SICAM. The SICAM established a regime of co-responsibility between the Caixa Central and its members, so solvency and liquidity supervision was accountable on a consolidated basis. A more demanding framework for the creation and functioning of the CCAM, together with the reinforcement of their funds, ended the joint liability of CCAM members. The *'agency agreement'* allowed the CCAM to broker operations forbidden in their normal scope of activity by acting as agents of the Caixa Central. Four years later, in 1995, the RJCAM was modified, widening the scope of CCAM operations to other activities connected with the rural world, such as hunting, fishing, agro-tourism and handicrafts, and allowing the CCAM to share with their members part of the net benefits (limited to 30 % of net profits and in accordance with legal and prudential equity requirements) and convert reserves into capital shares transferable to members. These modifications were crucial for boosting the ability of the CCAM to attract new (and more heavily investing) members, improving their capitalization. In addition, the new diploma expanded the Caixa Central's activities, converting it into a truly universal bank.

In 2009, new changes were introduced to the RJCAM, adopting a governance model closer to that adopted by investors' own firms and extending the activities and membership of CCAM, widening the members' scope as well as enabling CCAM to extend credit operations to non-members or for purposes not agriculturally related. Furthermore, once CCAM complied with the prudential requirements applied to banks, they were authorized to perform the majority of commercial activities carried out by other financial institutions. Table 1 summarizes the dynamic of the creation and evolution of CCAM during the last century.

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

Figure 1 illustrates the age of existing CCAM in 1990. We can see that more than 40 % of the existing CCAM were still juvenile, created in the 1970s and 1980s. With the exception of the island of Madeira, the entire continental (mainland) territory was already covered by CCAM, which, allied to regional restrictions on their activity, made it economically and legally impossible to establish new CCAM.

With the formation of the SICAM in 1991, the CCAM entered into an era of consolidation and the creation of new CCAM was a rare event. Thus, during the last two decades, together with the organic growth of the CCAM, a regional merger process occurred and consequently the number of CCAM cooperatives fell from 220 in the 1990s to 85 in 2010. Mergers between local CCAM have considerably increased their size, both in terms of assets and number of branches per CCAM. Profitability (return on assets—ROA) has also improved. Indeed, at the time the

Fig. 1 Year of creation of CCAM. *Source:* Cabo (2012)

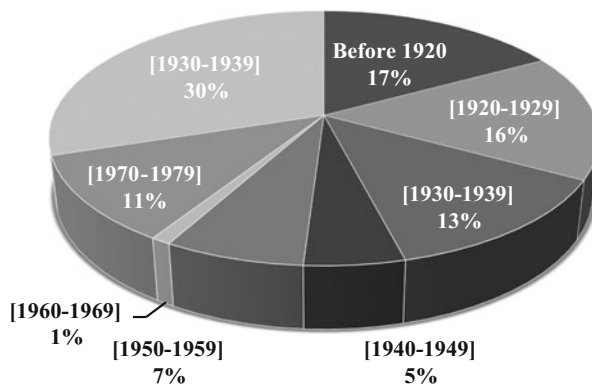


Table 2 Evolution of the SICAM 1995–2010

	Number of CCAM	Number of branches	Average assets per CCAM (million euros)	Average number of branches per CCAM	ROA ^a (%)
1995	186	465	22.28	2.5	-0.3
2000	140	–	47.56	–	0.7
2001	132	568	54.88	4.3	1.0
2002	126	580	61.50	4.6	0.4
2003	120	598	67.00	5.0	1.0
2004	118	616	71.80	5.2	1.0
2005	111	628	82.00	5.7	0.9
2006	105	632	91.60	6.0	1.0
2007	100	647	102.50	6.5	1.1
2008	92	670	116.90	7.3	1.1
2009	88	680	127.60	7.7	0.3
2010	85	689	132.40	8.1	0.3
2011	84	686	133.16	8.2	0.4
2012	84	686	140.70	8.2	0.3
2013	83	683	144.70	8.1	0.0

Source: Adapted from Cabo (2012)

^aRatios for 1995–2006 calculated in accordance with Portuguese rules (PCSB), transitional rules in 2007 (NCA) and IAS for 2008–2010

SICAM was created, the CCAM presented overall negative net results,² but the ongoing restructuring process allowed the CCAM to improve their performance (see Table 2) and experience profitability levels similar to those of the Portuguese banking system in general.

²The 1992–1993 Portuguese agricultural crisis together with the difficulty of CCAM in attracting new members resulted in the continuous degradation of CCAM results, which became negative from 1992 to 1995 (Cabo 2003).

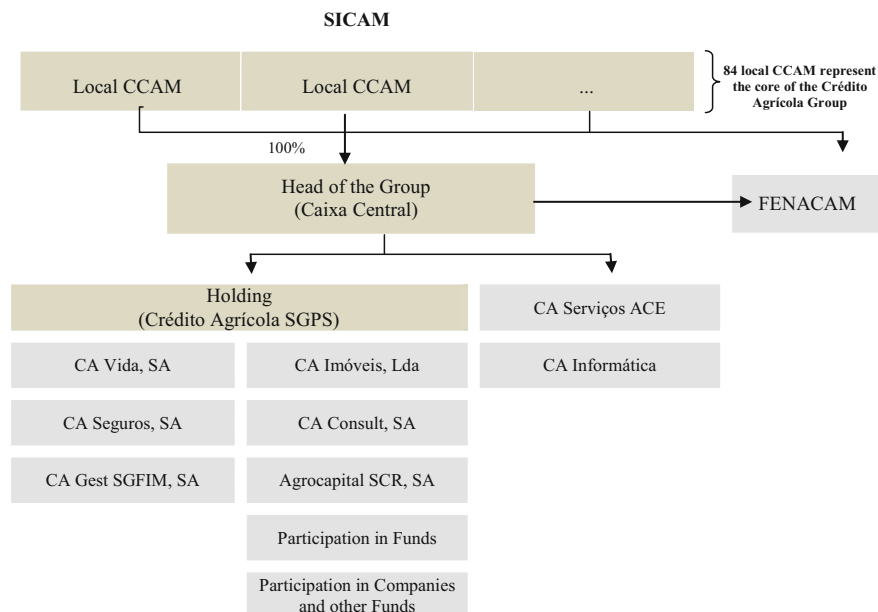


Fig. 2 Crédito Agrícola Group. *Source:* Adapted from Crédito Agrícola (2015)

Simultaneously, in the 1990s the Crédito Agrícola Group was founded. Nowadays, the Crédito Agrícola group is one of the leading financial groups in Portugal, composed of a large number of small- to medium-sized cooperative banks (CCAM) and some specialized companies, such as the shared services centre CA Serviços, under the supervision of the Caixa Central de Crédito Agrícola Mutúo, resulting in the group represented in Fig. 2.

3 Crédito Agrícola in Portuguese Banking

Today, Crédito Agrícola is a financial group that spans the country. In 2014, it comprised the following: approximately 400,000 members; 1.2 million customers, mainly small- and medium-scale savers, farmers, small- and medium-sized enterprises and traders; 84 local banks—the CCAM—with a network of 700 branches, scattered across the mainland and in the autonomous region of the Azores; a balance sheet of 14,000 million euros; equity totalling 1,100 million euros; a solvency ratio—Core Tier 1—of 11.9 %; a transformation ratio less than 90 % (Crédito Agrícola 2014, 2015).

These figures rank Crédito Agrícola as the fifth Portuguese financial group. Based on the 2013 balance sheet, Crédito Agrícola is ranked by The Banker

(2014), in relation to Portugal alone, as second in terms of soundness of capital/assets ratio, fourth for ROA and profits on capital, seventh according to Tier 1 capital size and eighth by assets. Table 3 presents the main indicators of the eight major retail banks operating in the Portuguese banking system for 2013. Together, these banking institutions have a market share of over 85 % of employment, the retail network and assets and a share of 90 % of customers' loans and deposits.

Considering the leading Portuguese retail banks, almost all of them suffered losses during the 2013 financial year and for some of them these were the equivalent to the losses they suffered during the 2 preceding years. The exception was Santander Totta, a subsidiary of Spanish Grupo Santander, and the CCAM integrated system. Looking at the banking industry results in these 7 years since the beginning of the financial crisis, among the eight major retail banks operating in Portugal, Crédito Agrícola is the only one that has not experienced negative profits.

In the words of a Crédito Agrícola leader: *'Profit is not an obsession, it's a consequence'* (Crédito Agrícola 2015: 17). This business approach has proved to be the source of Crédito Agrícola's strength and resilience. Indeed, the conservative management adopted by Crédito Agrícola has meant comfortable solvency levels and solid capital ratios, giving Crédito Agrícola a solid security buffer crucial in the context of the current economic and financial crisis. This fact, together with other particularities of Crédito Agrícola, has meant that the quantitative impact of the current negative business environment has not affected Crédito Agrícola to the same extent as other banking groups. The cooperative business model upon which Crédito Agrícola is founded has proved to be resilient during hard times, with its robust capitalization and ample liquidity. Low but steady results have allowed Crédito Agrícola to bolster its asset situation, which is still very robust even today. Given the cooperative nature of Crédito Agrícola, profits are mostly directed to the reinforcement of equity. This continuous capital reinforcement is reflected in robust solvency ratios. Over time Crédito Agrícola has shown a Core Tier 1 solvency ratio comfortably above the minimum level of 10 %. The 11.9 % ratio, obtained in December 2013 (against 11.6 % in December 2012), reflects the stability and robustness of Crédito Agrícola's equity. Also, the global solvency ratio of 11 % recorded in December 2013 is above the minimum level of 8 % set by the Bank of Portugal.

Indeed, Crédito Agrícola is one of the few Portuguese banking groups that did not resort to the banking recapitalization line of credit created within the scope of the Portuguese financial assistance programme. Furthermore, at present, after some 7 years of global and European financial crisis, Crédito Agrícola still shows a very comfortable liquidity position and very ample capital ratios, even with the new concepts and levels established in the new European regulations, e.g. Common Equity Tier 1 capital, a key element in the new regulations, the minimum level of which is set at 7 %; Crédito Agrícola's Common Equity Tier 1 capital stood at 13 % in the first semester of 2014. Structural analysis shows the robustness of Crédito Agrícola (see Table 4).

Table 3 Top eight Portuguese retail banks as at December 2013

	BES	CCAM	Montepio	CGD	Millennium BCP	Banco BPI	Santander Totta	Banif
Employment ^a	5,908	3,765	3,881	9,049	8,323	6,151	5,481	2,258
Market share ^b	11.2 %	7.2 %	7.4 %	17.2 %	15.8 %	11.7 %	10.4 %	4.3 %
Branches ^a	612	683	456	804	758	631	610	276
Market share ^b	11.0 %	12.3 %	8.2 %	14.4 %	13.6 %	11.3 %	11.0 %	5.0 %
Net assets ^c	66,167,561	12,968,918	26,466,936	93,835,993	76,792,289	41,173,146	40,260,304	14,689,832
Market share	15.3 %	3.0 %	6.1 %	21.7 %	17.8 %	9.5 %	9.3 %	3.4 %
Net loans ^c	35,872,194	7,491,909	15,139,969	59,557,428	40,298,300	23,199,771	26,216,988	7,205,286
Market share	14.8 %	3.1 %	6.2 %	24.6 %	16.6 %	9.6 %	10.8 %	3.0 %
Total deposits ^c	33,446,504	10,209,731	13,620,187	58,132,643	34,851,314	18,657,772	20,690,967	6,303,216
Market share	15.6 %	4.8 %	6.4 %	27.2 %	16.3 %	8.7 %	9.7 %	2.9 %
Equity ^c	5,701,684	1,105,873	1,700,006	4,922,234	1,774,286	1,304,962	1,471,116	834,577
Net profit ^c	-462,568	1,506	-262,513	-1,090,515	-1,958,730	-27,431	2,449	-494,341

Source: Authors' calculation based on company annual reports; Bank of Portugal and Portuguese Banking Association statistics (Associação Portuguesa de Bancos 2015; Banco de Portugal 2015)

^aFor domestic activity only (#)

^bMarket share for the universe of Portuguese Banking Association affiliates

^cValues in thousands of euros and for separate balance sheets

Table 4 Crédito Agrícola's performance as at December 2013

Performance indicators	SICAM	Portuguese banking system ^a
Transformation ratio ^b	80.3 %	116.9 %
Efficiency ratio ^c	68.2 %	72.0 %
Return on Assets (ROA) ^d	0.01 %	-0.8 %
Return on Equity (ROE) ^e	0.3 %	-11.6 %
Core Tier 1 Ratio (Basileia II) ^f	11.9 %	12.3 %
Customer claims		
Deposits: claims per 1000 accounts	0.08	0.21
Mortgage credit: claims per 1000 contracts	0.72	1.01
Consumer credit: claims per 1000 contracts	0.17	0.48

Source: Crédito Agrícola (2014), Associação Portuguesa de Bancos (2015) and Banco de Portugal (2014a, b)

^aData for domestic banking groups and stand-alone banks, on a consolidated basis excluding insurance companies

^bGross loans/deposits for SICAM and Net loans/deposits for Portuguese banking system

^cStructural costs/net worth [structural costs include amortization + general administrative expenses + staff costs; net worth includes financial margin + net commissions + other income (including results from financial operations)]

^dNet profit/average net assets

^eNet profit/equity

^fBasic own funds/weighted risks (assets + off-balance sheet items) (Data for Crédito Agrícola Group)

As Table 4 shows, Crédito Agrícola presents a lower transformation ratio of 80.3 %, this indicator remaining at a clearly conservative level. Historically, it has never presented a value higher than 90 %, a percentage much lower than the general position of other financial institutions, which exceed 100 %. This has a positive influence in terms of the liquidity and solvency of CCAM. As mentioned, this is an important strategic advantage for Crédito Agrícola as it provides an ample margin for expanding its portfolio. The value of deposits continues to far surpass loans granted, keeping the SICAM in a strong position in terms of balance sheet liquidity. However, this does put pressure on the profitability of CCAM as the remuneration of excess liquidity by the financial markets is currently extremely unfavourable. Indeed, the worsening operating conditions, in which compression on the financial margin was compounded by the need to set aside higher provisions, resulted in the CCAM results being downsized. Thus, in 2013 Crédito Agrícola's financial results decreased considerably compared to 2012, which in turn were lower than in 2011. With regard to the individual CCAM, the financial results can be explained essentially by the rather considerable losses that occurred in a small number of associates, offsetting the profits obtained by the others, for which reason it should be noted that several CCAM, even against this difficult economic backdrop, managed to increase their earnings compared to recent years (Crédito Agrícola 2014).

Table 5 presents the evolution of the SICAM's performance prior to and after the 2008 financial crisis. The results show that despite the worsening operating conditions for banking activity, the SICAM proved able to endure with relative success, keeping above the waterline and not experiencing negative profits.

Table 5 Evolution of SICAM performance 2005–2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Transformation ratio	91.4 %	89.2 %	86.1 %	81.5 %	87.1 %	88.0 %	86.2 %	86.9 %	82.2 %	80.3 %
Efficiency ratio	52.5 %	55.2 %	58.4 %	54.1 %	55.5 %	69.4 %	67.1 %	64.7 %	65.3 %	64.0 %
Core Tier 1 ratio	10.4 %	10.5 %	11.6 %	11.6 %	12.2 %	12.1 %	12.7 %	12.5 %	11.6 %	11.9 %
ROE	13.7 %	11.8 %	11.5 %	13.0 %	12.4 %	4.2 %	3.5 %	4.5 %	3.8 %	0.1 %
ROA	1.0 %	0.9 %	1.0 %	1.1 %	1.1 %	0.3 %	0.3 %	0.4 %	0.3 %	0.0 %
Net profits (millions euros)	90	87	96	113	121	42	36	47	41	1.5

Source: Crédito Agrícola (2014)

As shown in Table 5, as a consequence of the 2008 financial crash and subsequent economic and sovereign debt crisis, the SICAM's efforts to control the increase in structural costs below net worth in recent years have been quashed by the harsher operating conditions. The deep economic crisis that has repressed the Portuguese economy for several years has affected the performance of the Portuguese banks in an extremely negative manner. The Portuguese banking industry has experienced a considerable increase in overdue debts, which has resulted in the need to increase provisions significantly. On the other hand, the recession has led to a fall in the value of real estate assets, reducing the value of collateral and forcing the recognition of impairments, sometimes of considerable value, with regard to the properties acquired by means of debt recovery processes. In a context in which the financial margins of institutions have also evolved negatively and in which, as far as debt is concerned, opportunities to generate new business have become scarcer, the pressure on provisions and the value of impairments, as well as the declines in assets, have led to appreciable losses in practically every banking group of relevance within the Portuguese banking industry. Consequently, the SICAM experienced a continuous drop in earnings from banking after 2008 and in 2013 banking activities obtained net earnings of only 1.5 million euros, corresponding to a decline of more than 98 % compared to results obtained in the years prior to the 2008 crisis, essentially due to the fall in the financial margin and the need to increase provisions both with regard to non-performing debt and direct or indirect devaluation of collateral. Thus, return on operations overall was poor, with ROE at 0.1 %, well below the figure of 12.4 % for 2008.

3.1 Regional Development

The real importance of Crédito Agrícola in the Portuguese banking industry lies in its business approach. Notable for their unique proximity to their communities, the CCAM are a powerhouse for local and regional development, fulfilling Crédito Agrícola's corporate mission '*... contributing to the development of Local Communities*' (Crédito Agrícola 2009). The CCAM meet this goal by virtue of being spread across the entire domestic territory, with the exception of the island of Madeira.

Despite their roots in rural communities, the actual mission of the CCAM is not restricted to such communities and Crédito Agrícola is currently positioned as a local universal bank: '*The perception in urban centers is that the Crédito Agrícola is a rural bank, which is a farmers' bank. Its genesis is agriculture but we are present and engaged in the development of all regions, whether rural or urban. We are a universal bank for sustainable development of all the communities where we operate*' (Crédito Agrícola 2015: 33). Figure 3 illustrates Crédito Agrícola's local market share per district.

Apart from the two metropolitan areas, Crédito Agrícola has a solid presence, as shown in Fig. 3, with a market share of more than 15 % in some regions—the north,

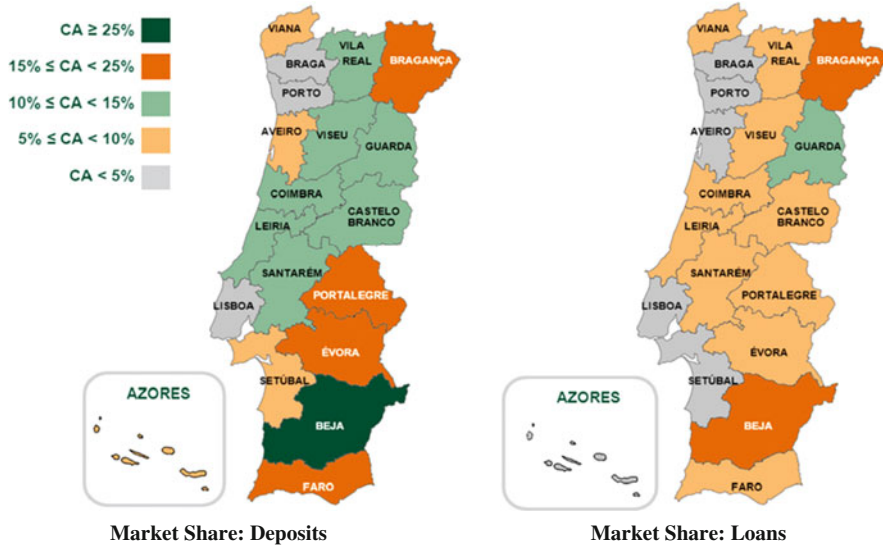


Fig. 3 Crédito Agrícola’s local market share per district. *Source:* Crédito Agrícola (2013)

centre and south of the country. In some parts, this figure rises to over 30 %. However, there is another, more important point: in hundreds of places across the countryside, the only link to the financial system available for the local economy is the Crédito Agrícola network or its facilities—the ATMs, automatic banking counters or POSs—installed by the local CCAM (Credito Agrícola 2011). In the words of a Crédito Agrícola leader: *‘There are about 250 branches of Crédito Agrícola where no other bank wants to be. There are 400 ATMs in isolated places, inserted in parish councils. There are branches with 1 or 2 people, which do not give a profit, do not lose money, the spirit is to serve the community’* (Credito Agrícola 2015: 31).

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

3.2 Internationalization

Although 1992 marked the beginning of international business activity, it was still a new area for Crédito Agrícola. In 2013, the overall value of foreign operations

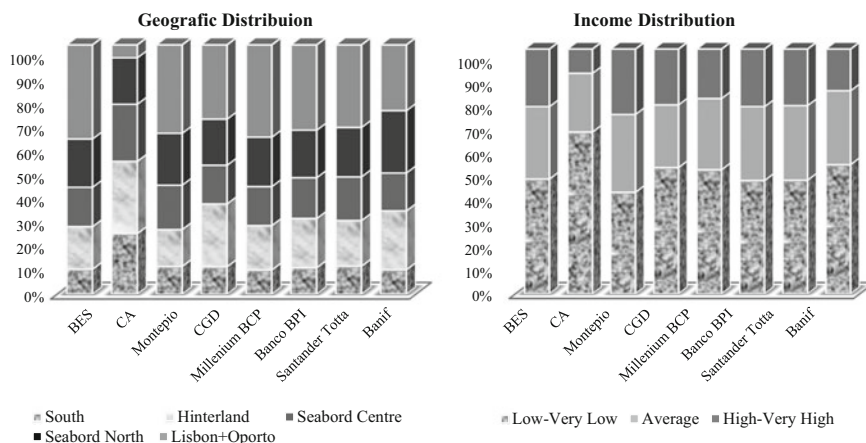


Fig. 4 Customer profile of the largest Portuguese banks. *Source:* Adapted from Crédito Agrícola (2009)

performed via Crédito Agrícola surpassed the 3000 million euros mark for the first time. Market share stands at 2.85 %. The overall amount of foreign operations for Crédito Agrícola developed positively, growing 20.7 %, compared to domestic growth during the same period of 2.4 % (Crédito Agrícola 2014).

This business area, especially emigration, is a specific segment with a role in the group which has been growing consistently over recent years, thanks to the excellent geographical distribution of Crédito Agrícola throughout the country and the dynamic approach of the group's branches abroad. Throughout 2013, Crédito Agrícola continued its efforts towards internationalization by investing in a presence in some of the markets in which Portuguese immigration is prevalent, such as France, Switzerland, Luxembourg and Venezuela. The sustained increase in emigrant remittances is symptomatic of this and in 2013 Crédito Agrícola's market share was 4 % in emigrant remittances and 4 % in emigrant deposits, to a certain extent reflecting the results obtained from this strategy.

4 Structure and Governance

Essentially, the agricultural cooperative credit system in Portugal is made up of an integrated system (SICAM) of two types of cooperatives: central and individual (associated or member), i.e. the SICAM = Caixa Central + Associated CCAM, including 84 CCAM. Together they own several specialized companies forming the Crédito Agrícola Group. The central structures of the group are the Caixa Central de Crédito Agrícola Mútuo and FENACAM. The former is a cooperative banking institution empowered to oversee, orientate and monitor operations in the

local associated banks. The latter is a cooperative institution which provides specialized services for the group.

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

Except for banking operations, the CCAM follow traditional cooperative principles, namely, open membership, democratic control and restricted residual claims. The dual nature of credit cooperatives is reflected in their formal and institutional solutions. According to the RJCAM,³ the CCAM are credit institutions of a cooperative nature, the goal of which is to undertake agricultural credit operations in favour of their members, as well as the other banking functions inherent to banking activity. Thus, the CCAM are under a special regime, essentially because of their cooperative form and their priority goal of undertaking agricultural credit operations in favour of their members.

The RJCAM specifies that CCAM be created in a cooperative form, with limited liability, and should seek, without the aim of profit, the satisfaction of their members' economic, social and cultural needs and aspirations. The CCAM thus have structural and intrinsic differences from banks as, according to the law, banks must be in the form of public limited companies (corporations) and therefore aim for profit. The RJCAM imposes several limitations resulting from its social objectives, territorial area and members' attributes. In addition, it is difficult for CCAM to increase their issued share capital as they cannot publicly do so. These limitations have their counterpart in minor issued share capital, organizational structure, technical and human resources available, solvency, control and accountability requirements (on an individual but not a consolidated basis).

The 2009 alterations to the RJCAM basically aimed to adjust the governance model of CCAM to be in line with that established for corporations in the Portuguese Commercial Companies Code (CCC) and simultaneously to widen the CCAM membership base, bringing it more in line with other financial institutions and boosting an increase in issued share capital in view of the recession felt in the agricultural sector. Table 6 summarizes the main features of cooperative credit according to Portuguese legislation.

As mentioned, Crédito Agrícola takes a specialized approach to financial services. Most of the people who use the services of the local CCAM are non-members. However any person may open an account, make deposits, obtain loans and use the services of the CCAM, complying with the limits imposed by the

³ Approved by Decree of Law n° 24/91, with the following alterations and republished in the appendix to the Decree of Law n° 142/2009.

Table 6 Overview of Portuguese credit cooperatives

Topic	Policy
Creation	Bank of Portugal approval, following the agreement of Caixa Central and FENACAM
Legal form and nature	Credit Institution, cooperative form RJCAM (and subsidiary: RG for banking activity and Cooperative Code and other cooperative legislation) applies
Operations	Granting credit primarily to members and for financing primary sector activities. CCAM complying, on individual basis, with prudential rules established in the RG, can perform operations with non-members or financing activities outside primary sector up to 35 % of net assets. Exceptionally, this limit can be raised to 50 % by the Bank of Portugal for SICAM associates at the suggestion of the Caixa Central In addition, CCAM that have adequate structural conditions and sufficient funds could be authorized by the Bank of Portugal to perform most other activities allowed to banks, with a few exceptions
Membership	Singular or collective persons who carry out any activity linked to the primary sector (production, transformation or services) in the CCAM territory (or adjacent). Membership outside primary sector activities is permitted but limited to 35 % of the CCAM members. Exceptionally, this limit can be raised to 50 % by the Bank of Portugal Minimum shareholding: 500 €; minimum of 50 members
Territorial activity	CCAM activity is restricted to their headquarter municipality. CCAM can expand to an adjacent region if there is no other CCAM operating there, or as a result of a CCAM merger
Opening of branches	Branch opening is subject to the authorization of the Caixa Central for associated CCAM and of the Bank of Portugal for independent CCAM
Shareholders' capital	Capital is variable; it can be increased by the admission of new members or higher shareholdings or by the incorporation of reserves; or it can be reduced by the exit of members or lower shareholdings or by covering losses Capital reduction is constrained by prudential rules. The maximum reimbursement value is defined by the accounting value net of compulsory reserves Capital minimum fixed by the Ministry of Finance: 7.5 million euros; SICAM associates: 5 million euros ^a
Resources	Deposits and other reimbursed funds from their members and/or customers. Access to other financing resources, namely the interbank market, requires Bank of Portugal (and Caixa Central for associated CCAM) approval General financing means are stipulated in the Cooperative Code, namely, issuing investment securities or debt
Financial applications	Besides deposits, CCAM can make applications concerning public debt under conditions established by the Bank of Portugal CCAM can only hold participations: (a) in regional unions, Caixa Central and FENACAM; (b) in enterprises the object of which is of regional interest (up to 20 % of equity); (c) to assure the reimbursement of credits; (d) when especially authorized by Bank of Portugal ^b
Governance bodies	The management and supervisory bodies (composition and competences) stipulated for corporations apply, preserving the importance and competences of the General Assembly characteristic of the cooperative model
Shares	No tradability of shares
Voting rules	Principle of democracy, voting right independent of shareholding position: one member, one vote

(continued)

Table 6 (continued)

Topic	Policy
Creation	Bank of Portugal approval, following the agreement of Caixa Central and FENACAM
Reserves	CCAM must allocate up to 50 % of net profits to reserves: (a) at least 20 % to the legal reserve until it reaches the value of issued share capital; (b) at least 20 % to the special reserve for reinforcement of equity in the case of CCAM under a financial restructuring process, until it reaches the value of the amount of the benefits obtained with the process; (c) 1–5 % to members' education; (d) a maximum of 5 % to the mutual reserve CCAM statutes can design other reserves
Profit allocation	After covering eventual losses of previous exercises, profits not allocated to the reserves can be distributed among members. The remuneration of capital shares is limited to 30 % of the results ^c Profits cannot be distributed if the CCAM do not comply with prudential rules, or if the member shareholding is lower than the minimum required, in which case that portion of the profit will revert to them
Supervision	Bank of Portugal. Caixa Central for SICAM members
Tax policy	Profits are subjected to a rate (IRC) of 20 %, excepting the results of no member operations or activities outside cooperative purposes and the taxation on a consolidated basis in which the IRC general rules apply ^d
Deposits insurance	Insurance Fund of Agricultural Cooperative Credit. This fund, as well as securing CCAM customer deposits, performs an active role in the SICAM's economic and financial restructuring process as part of its task to promote the SICAM's solvency and liquidity

Source: Cabo (2012)

^aBy 30th June 2015, CCAM capital should reach at least 5 million euros, beginning with 2.5 million euros by 30th June 2011 followed by an annual increase of 0.5 million euros

^bCCAM have direct participation in Crédito Agrícola's specialized companies under this special authorization

^cCCAM do not usually give out profit to members. Members' remuneration usually takes the form of capital share allocation resulting from the incorporation of reserves

^dAccording to the Cooperative Tax Statute, Law n° 85/98, although, according to FENACAM (2009), the cooperative credit system is, within the Portuguese financial system, the greater contributor in percentile terms. In many cases, cooperative credit system taxation is triple that of other banking companies

RJCAM (Table 6). Of the approximately 1.2 million customers of the Crédito Agrícola Group, only around 400,000 are members. With certain incentives for membership having been removed in recent tax reforms, Crédito Agrícola is attempting to encourage membership to enhance the grass roots of the movement by offering special conditions attaching to financial products and services, such as the 'Clube A' card for members. This is a hard task in a country struggling with the definition of rural regions and the agro-business industry. Entering the new millennium, the number of Crédito Agrícola members has stagnated; new entries are

scarce and diluted by the exit of members. Simultaneously, the number of CCAM customers has declined by almost 25 % in one decade. Crédito Agrícola is attempting to diversify its customer portfolio, targeting a new type of customer not linked to the primary sector activities, but it is up against the traditional Crédito Agrícola brand image and banking customers' perceptions.

Within the general prudential guidelines provided by Caixa Central, the local CCAM have control over their pricing and personal services. In general, CCAM sell products and services developed by Crédito Agrícola and pursuant to formal policies and procedures issued by Caixa Central to which the local CCAM must adhere. The CCAM operate from a common technology platform. The operations of the CCAM are restricted and limited to their headquarters region. Whenever competitive friction between local CCAM arises, any dispute is arbitrated by Caixa Central. The local CCAM consistently honour the principle of non-competition. Any new CCAM branch must be approved by the Caixa Central.

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

Caixa Central acts as central bank for the group, creating and developing a joint banking strategy. For instance, individual excess of liquidity is transferred to the Caixa Central, which can lend to non-primary economic sectors or carry out transactions in the money, foreign exchange or capital markets. It pays the market rate on liquidity deposits and following the principle of 'user payer', charges fees to the CCAM for consultative and advisory services. The Caixa Central does not attempt to generate a profit from its transactions with its member CCAM. It sets prices to recover costs. The CCAM are its only members and have capitalized on this through share investments. As in the case of local CCAM, the capital of Caixa Central is variable and can be increased by the admission of new members or higher shareholdings, or by the incorporation of reserves; shareholding reimbursement is restrained by prudential rules and requires General Assembly approval. The minimum capital of the Caixa Central, as fixed by the Ministry of Finance, is 17.5 million euros; with a minimum shareholding of 5000 € and a maximum of 10 % of capital, except in the case of extraordinary supplies.

Although the Bank of Portugal is responsible for banking sector supervision (i.e. the financial regulator), with regard to SICAM associates, the law delegates a great part of these functions to the Caixa Central which, in turn, is under Bank of Portugal supervision. The Bank of Portugal defines the relations and prudential limits applicable to the SICAM and supervises the system's accounts on a

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

In addition, without prejudicing the Bank of Portugal's authority, the Caixa Central is empowered to control administrative, technical and financing aspects of associated CCAM and their organization⁴ and management. Moreover, the Caixa Central can intervene by the assigning a representative to monitor CCAM management or the nomination of provisional directors when it encounters an unbalanced situation which could jeopardize the daily functioning of the CCAM, its solvency is at risk, or serious irregularities occur. In addition, when the member is in (or at risk of) financial imbalance and not following the Caixa Central's guidelines, the Caixa Central can dismiss all or part of the associated management and supervision boards and assign provisional directors.

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

The autonomy of the local CCAM, combined with the assistance received from the Caixa Central, creates a decentralized, but strongly orchestrated, bottom-to-top decision-making process.⁵ Figure 5 includes a summary of the skeleton of the SICAM structure governance, i.e. the different governance bodies and linkages between them.

⁴To exemplify, if the Caixa Central does not favour the registration of a member of governance bodies, the Bank of Portugal rejects the registration.

⁵Decision-making in General Assembly of Members of individual CCAM obey to the principle of democracy. This is also true for decision-making in General Assembly of Members of Caixa Central, except for some specific decisions (election of the Caixa Central board of directors, budget approval and profits allocation) in which the voting rights can differ according to the shareholding and CCAM average deposits and the solvency ratio.

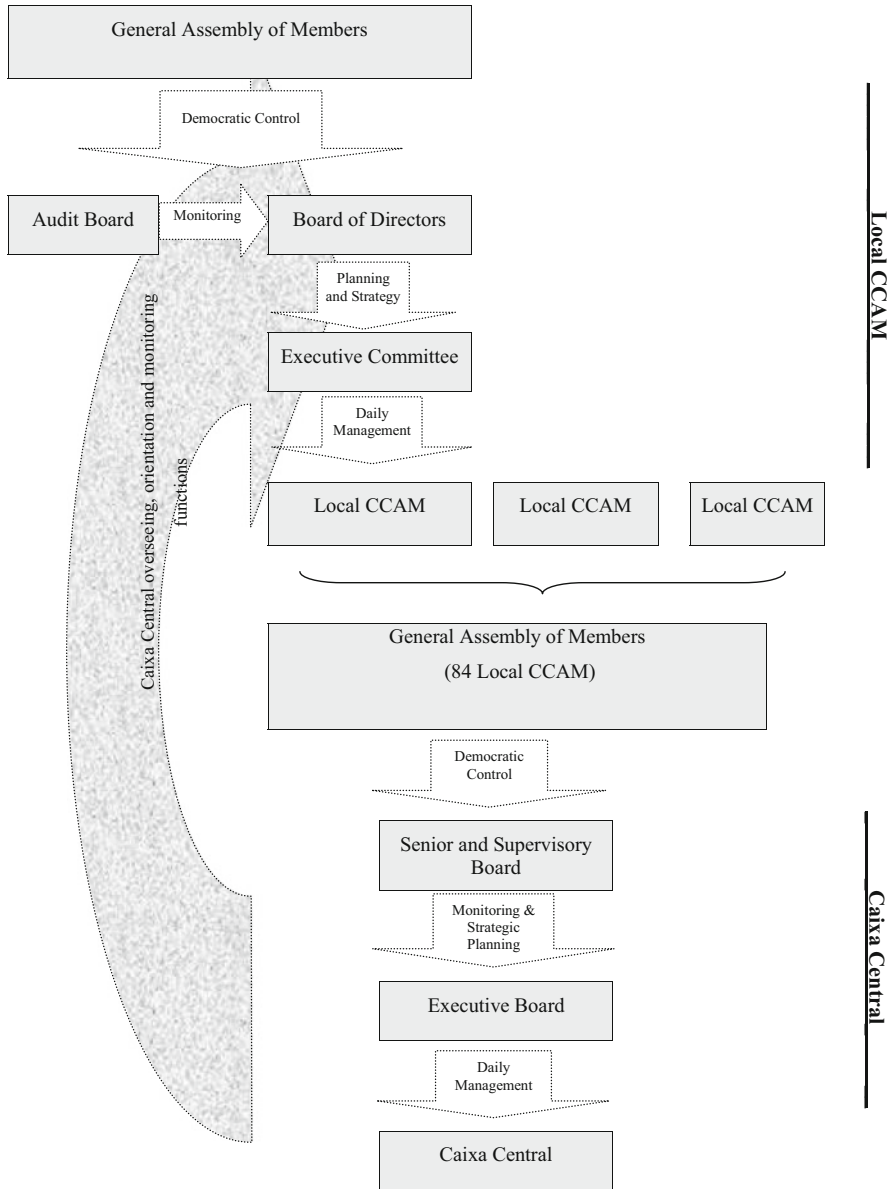


Fig. 5 Governance Structure of the SICAM. Source: Cabo (2012)

5 Conclusions

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

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

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

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

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

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

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