

## THE GOVERNANCE STRUCTURE OF PORTUGUESE AND SPANISH CREDIT COOPERATIVES: DIFFERENCES AND SIMILARITIES

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### Abstract

The literature recognizes that credit cooperatives are the “appropriate technology” for relatively backward economies, but should fade away or disappear altogether as economic development proceeds. However, surprisingly, they are among the fastest growing groups of financial institutions in some advanced economies. Though the credit cooperatives in Portugal and Spain present relatively small market shares, they perform a very important role in the rural economy. Over the last decades, the Iberian credit cooperatives have adopted a process of economic and financial restructuring, through an intensive wave of mergers and the creation of banking networks: *Caja Rural* Group, in Spain, and *Crédito Agrícola* Group, in Portugal. Despite that common path, the Iberian reality is still very different. In this paper we describe the historical roots of Portuguese and Spanish cooperative credit, focusing our analysis on the governance structure, especially on the issues arising from the strict application of traditional cooperative rules.

**Keywords:** credit cooperatives, property rights, governance

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### Introduction

It is widely recognized that credit cooperatives can play a key role in the developing of economic disadvantaged regions. Credit cooperative are typically seen as filling a market niche consisting of low-income entrepreneurs, small businesspeople, or farmers who need credit but who have essentially no collateral with which to secure a loan. That was the case of Portuguese Agricultural Credit Cooperatives (ACC). Agriculture was (and still is) considered a risky economic activity. This makes the availability and cost of agricultural credit an enormous constraint to farmers, especially the smaller ones, who form the basis of Portuguese agriculture.

In much of the literature on credit cooperatives is the notion that they are “appropriate technology” for relatively backward economies, but should fade away or disappear altogether as economic development proceeds. However, and surprisingly, they are among the fastest growing groups of financial institutions in some advanced economies, namely Germany, France, Finland or Netherlands, where credit cooperatives present 19, 21, 32 and 40% of deposit market shares (Unacc, 2005b). Though the

ACC<sup>44</sup> in Portugal and Spain do not present this kind of market shares, they perform a very important role in the rural economy.

Over the last decades, the Iberian credit cooperatives have adopted a process of economic and financial restructuring, through an intensive wave of mergers and the creation of banking networks: *Caja Rural* Group, in Spain, and *Crédito Agrícola* Group, in Portugal. Despite that common path, they are very different.

Considering that an effective governance structure helps to improve performance and thereby underpinning growth and boost the well being of the cooperative stakeholders and the local community, in this paper we describe the historical roots of Portuguese and Spanish ACC, focusing our analysis on the governance structure, especially on the issues arising from the strict application of traditional cooperative rules.

Thus, the remainder of this paper consists of four sections. Section 2 provides a brief description of the origins of agricultural cooperative credit in Portugal

<sup>44</sup> The Spanish Agricultural Credit Cooperatives are known as “Cajas Rurales” and the Portuguese Agricultural Credit Cooperatives are known as “Caixas de Crédito Agrícola Mútuo”

and Spain. Section 3 presents the governance structure of Portuguese and Spanish ACC and section 4 offers some concluding remarks.

## 2. The origins of agricultural credit cooperatives in Portugal and Spain

The origins of the Iberian agricultural cooperative credit go back to the 16th century, to the Communitarian Granaries, an organization that lends seeds and other agricultural inputs to small farmers with the corresponding return and interest usually paid in goods.

In the end of 19th century, the massive arrival of agro and cattle breeding products from overseas resulted in ruin for many European farmers. The technologic revolution in the long course transportation led to an enlargement of national and international transactions of farm products, and the increase of competition generated a situation of supply surplus generalised in the cereal sector and in less way in meat sector. The agricultural prices and incomes decreased, although the intensity of this process varied accordingly to the measures taken to address the problem. The most usual was the elevation of the customs tariffs. That protecting barrier intended to keep national market for domestic producers, even if that meant higher prices for the consumers, but it wasn't enough to break the global tendency. The readdressing of agricultural activity to new productions with a growing demand, as the vegetables and fruits proved to be the most efficient answer. However, these agricultural transformations emphasized the farmers' difficulties in accessing financial services (Carnero and Nuez, 2002). Agriculture was (and still is) considered a risky economic activity, so, banks were not interested in agricultural credit, neither in loans to poor farmers. Additionally, the loans offered by the local users have high interest rates, impossible to sustain. This makes the availability and cost of agricultural credit an enormous constraint to farmers, specially the small ones, who are the basis of Iberian agriculture. Given that prevailing economic environment, public entities considered agricultural cooperative credit the most appropriated form of financial organization to reduce or eliminate this market failure (Cabo and Rebelo, 2005a; Martínez-Soto, 2003).

The genesis of Agricultural Credit Cooperatives occurs in German, being followed by other countries (Table 1 below). Although its impact over the rural economies was not the same: in Netherlands and Denmark or Switzerland the intense activity of these organizations allowed them to overcome the recession, adapting to the new international market environment; in France and Germany the effects were more moderated, and in Ireland and Occidental Mediterranean Countries its incidence was null given that their development was weak (Carnero and Nuez, 2002).

**Table 1.** Evolution of ACC in Europe

Country	Year of foundation	# ACC in 1921-25
Germany	1869	20.202
Italy	1883	1.928
Belgium	1892	1.925
France	1893	7.887
Netherlands	1895	1.249
Russia	1897	7.738
Spain	1892	499
Portugal	1896	95

Source: Carnero and Nuez (2002) and Cabo (2003)

The legal birth of ACC occurs in 1906 in Spain and 5 years later in Portugal. The earliest ACC were linked to the local agricultural syndicate and could not run outside its domains. The majority of the Iberian ACC were of small size and membership consisted of small farmers with low incomes. Additionally, the management activity was exercised by voluntary individuals with no business or financier skills.

Guinnane (2001) suggests a range of problems affecting financial transactions in the rural areas, resulting of ACC only carrying out very simple operations, usually lending. That is: (a) fraud, by the decrease of cooperative's resources via the theft of assets and the alteration of accountability books, or via self-interest operations, like provide loans to individuals less reputable associated with management members; (b) difficulties in maintaining in order the accountability books reflecting the input and output flows, and (c) mismanagement, consequent of bad strategic decisions, usually because of the lack of management expertises and other skills to perform the work.

This first period was of absolute failure: in one hand, the capital provided by the state was insufficient to accomplish the objectives; by other hand, cooperatives were used to pursuit managers' personal goals, being common to find management mistakes and even frauds when audited (Cabo, 2003).

The fail of these state interventions rely on the assumption that it was a problem of will (bankers lack of will to serve small farmers and users will to explore these farmers) and not a problem of difficulty. According to this belief, the only needs were a legislative intervention and the supply of financial support. Consequently, state interventions were unable to remove the obstacles that limit the development of financial services in rural areas and to reduce the costs originated by the efforts to overcoming these difficulties. The boundary of rural finances can not be expanded by regulations and laws (Martínez-Soto, 2003).

Still, in the second quarter of the twentieth century the state discover another function of the agricultural credit cooperatives: these organizations were used to restrict the expansion of the communist ideology and to control the rural population. So, state and big farmers join efforts to encourage syndicates

and agricultural cooperatives as a way to reduce social conflicts.

This new mission for the agricultural credit cooperatives was supported by some legal arrangements. In Portugal, these cooperatives were putted under the dependency of Caixa Geral de Depósitos, a state owned and simultaneously the biggest Portuguese bank institution. Under this enslavement the Portuguese ACC hibernated until the democratization of the country, consequence of the carnation revolution in 25th April of 1974. Until 1976, the Portuguese ACC had a reduced role in Portuguese banking activity, with a share of only 1% of total deposits and credit. Following the 1974 political changes, Portuguese ACC were considered in the framework of a financing strategy for the development of the agricultural sector. So, during the eighties of last century the Portuguese ACC activity showed a spectacular energy, expressed by annual growth rates for deposits and credits of, on average, 40 per cent and 32 per cent, respectively. Nowadays, the set of Portuguese ACC is the second largest national banking network with a standalone brand (Cabo and Rebelo, 2005a).

The supply of an efficient and sustainable financial service to rural populations implies the accomplishment of a range of conditions, specially the reduction of transaction costs, which was difficult to achieve for banks in the earlier years. It was complicated to set up healthy financial relationships and it was costly to gather "informational capital" about the clients. Cooperatives have two competitive advantages: their clients are their members, so the costs of gathering "informational capital" were reduced, additionally, because all cooperative members solidarity respond to the cooperative losses, they actively monitor each others.

The micro financing services provided by the earliest ACC was not totally unsuccessful. In some regions (Navarra, Valencia, Murcia, and Andalucía) they obtain relatively good results regarding territorial coverage and sustainability, which allowed them to supply financial services (lending) to low income clients (Martínez-Soto, 2003).

During the last two decades the world banking industry has been exposed to a multitude of new developments and challenges. Globalization, economic integration, deregulation, technological progress and an increasing financial culture are significantly reshaping the industry. The banking scene has changed even more radically in the European Union (EU), where the introduction of the "European passport" (the EU-wide banking permission) in 1992 and the single currency (for EMU countries) in 1999 have removed institutional obstacles to compete in the whole EU market. This changing banking environment has focused attention on the competitive conditions in Europe and on the viability of its sheltered banks.

In order to confront this competition, credit cooperatives have opted for integration strategies and

inter-cooperation between entities in order to operate in the financial market, without losing the competitive advantage of personalization, the key to their functioning, and combining universal banking and specialised banking principles. So, in the nineties of the last century, following the tendency of other European credit cooperative systems, the Iberian ACC engage in the creation of economic groups and, simultaneously, a concentration process thought mergers operations to achieve minimum efficient size.

So, in 1989, 24 Spanish ACC found the Asociación Española de Cajas Rurales (AEER), which will be the foundation of the financial group Caja Rural, to establish strong bonds between the credit cooperatives, to improve their structures, functioning and organization within the bank system (Melián, 2004).

The Spanish ACC form a cooperative banking system which is formed as a model of a federate bank similar to other European systems. Nowadays, the Caja Rural Group is the fifth most important Spanish banking group. The Group includes 96% of the Spanish ACC (74 of 77) which represent 97% of the total assets of Spanish ACC. Only three entities have not joined the group. In figures, the group has a 6% market share of deposits, assets up to 50,000 million euro, 4,200 branches spread across the country and approximately 15,100 employees (Unacc, 2005a).

Credit cooperative partnerships which are the basis of European cooperative banking systems participate in the decision making of central cooperative banks through their representatives. The associated ACC has mixed organizational structures, maintaining their individual structures for the traditional business but developing the banking federation model at the group level. The basic characteristics of this model of federate bank are based on the fulfilling principles of decentralization, subsidiary, solidarity, inter-cooperation and territorial (Palomo, 2000).

Cooperative banking systems consist of specialised institutions which offer centralised banking and parabanking services to credit cooperatives, such as insurance, funds, management, infrastructure and logistics as well as centralised processing of information. Thanks to economies of scale in the management of a volume of operations, the profitability of such processes rises and the excess of cost in offering these services individually decreases. The AEER is the institution that coordinates and represents the Group which credit cooperatives are linked to. To support the Caja Rural Group activities, other companies were created, like the Banco Cooperativo Español<sup>45</sup> (BCE), in 1990, an

45 The BCE is composed by several societies: Rural Inmobiliario, SL – a real-state firm; Gescooperativo, SGIIC, SA – an investment funds management firm; Rural Informática, SA; Espiga Capital Gestión, SGSCR – a capital of risk management firm; and BCE Formacion, SA.

informatics firm: Rural Servicios Informáticos<sup>46</sup> and an insurance firm: Seguros RGA<sup>47</sup>, both in 1986 (Ibarrondo, 2002).

The BCE is the central bank<sup>48</sup> for the associated ACC. It coordinates the ACC financial policies, acts as an ACC agent in some operations and supplies specific financial services. Although the BCE follows the same line as its European homologous, it stands out among them for the fact that part of its share capital belongs to a central entity of another nationality. So, Spanish ACC have 85% of the BCE equity proportionally to their assets and the remaining 15% belong to the Deutsche Zentral-Genossenschaftsbank (DZ Bank), the German central cooperative bank (Melián, 2004).

In 1998, the BCE joined the UNICO Banking Group. This group, created in 1977, is made up of the central entities of the most important European banking groups, as the German DZ Bank, the Austrian Raiffeisen Zentralbank (RZB), the Belgian KBC Group, the OKOBANK of Finland, the Caisse Nationale de Crédit Agricole (CNCA) of France, the Dutch RABOBANK, the União Suíza de Bancos Raiffesisen of Switzerland and the Italian Istituto di Credito delle Banche di Crédito Cooperativo. Its aim is to achieve international cooperation of the European cooperative bank.

In Portugal, although the creation of an economic group took place a couple of years later, in 1992, the Crédito Agrícola Group is formed by firms covering a wide range of services, from insurance to informatic services, and so on. See the organigram of the group in appendix.

We can see that the range of companies that compose the Crédito Agrícola Group is very similar to the Caja Rural Group, with Caixa Central assuming, simultaneously, the functions of the Spanish BCE and the AEER coordinating and representing functions. Nonetheless, there are some significant differences that we must highlight, differences linked to the way the Group's companies are managed and the relation between the associated ACC and the system itself.

An evidence of these differences is given by the way the groups present their annual accounts. In the Portuguese Crédito Agrícola the annual accounts are

consolidated, i.e., the accounts of the various companies' group are presented altogether in only one report. In the Spanish Caja Rural the annual accounts are presented individual by the various companies, i.e., there is presented the annual report of BCE, the annual report of AEER, the annual report of RGA, and so on. Another difference, already referred, is the participation of a foreign entity in the capital of Spanish ACC central bank. Plus, the coordinating and representing functions of Portuguese Caixa Central go farther than the Spanish AEER case, as we will see in the next section.

The creation of banking groups was followed by a concentration phenomenon, through ACC mergers. This phenomenon was much more intense in the Portuguese case, as we will see.

When the Portuguese ACC system (SICAM) was created in 1992, 211 ACC participated on it. Cabo (2003) illustrates the SICAM situation at that time: "From the ACC with deposits under 10 million euro, 86% presented a solvency ratio below 4; that percentage drops to 58% on the middle size ACC and to 46% on the big ones. The administrative costs per deposit unit were, on small size ACC (deposits < 10 million euros), 43% superior to SICAM average, and 52% above the big ACC average". The same study refers that to generate consistent returns; a typical ACC must have a volume of deposits up to 70 million euro, value not achieved by 96,6% of the ACC!

The restrictions to internal growth imposed by the AAC characteristic<sup>49</sup>, the lack of funding and time, let SICAM decision makers to engage an intense process of mergers. This process was so intense that, in ten years, the ACC' average assets grewed more than four times (Cabo, 2003), and in 2005 the number of ACC was reduced to 111. Table 2 below shows the Portuguese merger process evolution.

As we can see, the concentration phenomenon is much more expressive in the Portuguese case. Not only the number of merger operations is higher, but also, mergers involving more than two ACC are a usual event. While in the Spanish ACC only one merger operation involve more than two partners (three ACC and creates the second biggest Spanish ACC), in Portugal there are two mergers operations involving seven ACC!

46 The Rural Servicios Informáticos, is the company in charge of the definition and implementation of the automatic information processing system.

47 Seguros RGA is the insurance entity for all the associated ACC. It was created with the aim of expanding the range of products offered by this ACC, introducing them in the insurance field. It is composed by four firms: Seguros Generales Rural, SA; Rural Vida, SA; Rural Pensiones, SA and RGA Broker Correduría de Seguros, SA.

<sup>48</sup> Central cooperative banks are partnerships though shares, which are legally established as mainly limited companies, whose shareholders are credit co-operatives which form each respective system of cooperative banking.

<sup>49</sup> The activity of Portuguese ACC is restricted to the county ("concelho") where it is located, i.e., the ACC are regional organizations and their product markets are limited.

**Table 2.** Portuguese ACC Merger Activity

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
# of ACC involved	11	27	17	20	25	4	19	9	10	11	8	6	18
# operations	3	10	7	8	11	2	9	4	5	5	4	3	8

**Table 3.** Spanish ACC Merger Activity

	1990	1991	1993	1998	1999	2000	2001	2002	2003	2005
# of ACC involved	2	4	4	2	2	4	6	9	4	2
# operations	1	2	2	1	1	2	3	4	2	1

Comparatively to their Spanish pairs Portuguese ACC are much more smaller<sup>50</sup> which explain this energetic merging activity. According to Cabo and Rebelo (2005a) size is a fundamental issue for ACC. The small ACC suffer growth difficulties that prevent them from reaching a minimum efficient size, which would allow them, for example, to support technology investments and to recruit qualified staff.

Strange is the occurrence of merger operations between Saving Banks and Spanish ACC, the last ones being incorporated, in the three events we observe. That occurrence was never experienced in Portugal, where ACC only merger with their pairs.

### 3. The Governance Structure of Portuguese and Spanish ACC

Except banking operations, like other cooperative organizations, Portuguese and Spanish ACC are governed following the traditional cooperative structure with open membership, democratic control and restricted residual claims. The strict application of these rules can promote a set of vaguely defined property rights, namely free-rider, horizon, portfolio, control problems and influence costs, with negative effects on the transaction costs (Cook and Iliopoulos, 2001).

Table 4 shows the main features of Spanish and Portuguese ACC. Although, Iberian ACC have some differences with effects on their performance, specially, regarding the product range, the democratic decision making, return on equity, governance bodies and supervision entity.

The activity of Portuguese ACC, both in deposits and credit, is essentially centred on the agricultural sector, with a restrictive product range what carries the risk of specialization. After Portugal joined the European Union, in 1986, Portuguese agriculture witnessed economic erosion, negatively conditioning the profitability of the financial

institutions more directly involved in agriculture ventures (Cabo and Rebelo, 2005a).

This limitation was overcome by Portuguese ACC through the Caixa Central. Acting as central ACC agent, single ACC can perform various operations out of their product market and “services to members only” restrictions. Additionally, through the singles, the Caixa Central, beside deposits and loans, offers a wide range of financial services, including, for instance, insurance operations, financial advice, and exchange foreign currency.

Democratic decision making carries some well known costs (as the monitoring problem, the follow-up problem, the influence cost problem and the decision problem) which rise as membership becomes more heterogeneous, reducing the commitment and increasing the free rider problem (Bijman, 2002; SpØgard, 1994). Democratic decision making is the rule both in Portugal and Spain, but in the Spanish case one important exception is made. That is not the case in Portugal where member power is always independent of the participation in the equity, which disincentives to major participations (free rider problem). Additionally, when the cooperative follow the rule of one-member-one-vote regardless of the amount of equity held, votes cannot be accumulated into blocks and there can be no monitoring by block shareholders (as suggested by Becht *et al.* (2002)). Consequently, the costs of changing control over these banks are high. In the Spanish ACC, the proportional exception to democratic decision making and the possibility of delegate voting power, allows overcoming this constraint. According to Chaves and Soler (2004) approximately only 60% of the Spanish credit cooperatives make use of the democratic voting rule, the remaining cooperatives prefer the proportional voting or other method.

The equity problem referred above is inflamed by the return on equity issue. Portuguese law requires that the net benefits be transferred into reserves, with only 30% of returns allowed to be distributed, which constitutes a disincentive to invest in the ACC, therefore the participation on the equity has as an exclusive aim: the benefit from the services of the

<sup>50</sup> The 111 ACC integrating Portuguese the system in 2005 have only 600 branches, and assets up to 9.000 million euros.

organization, mainly credit. As noted by Nilsson (2001), the property rights allocation within the traditional cooperative structure does not provide members with the necessary incentives to invest, causing negative consequences in the capital structure. Figure B, in appendix, contains a description of the consequences/effects of the "cooperative nature" on the financial structure of Portuguese ACC. Their Spanish partners compensate the participations exceeding legal minimum shares with remuneration until 6% above the legal interest rate (Chaves and Soler, 2004). This works as an incentive to major participations.

Portuguese ACC have three governance bodies (Figure 5): general assembly, management board<sup>51</sup> and audit board. The general assembly includes all the members of the coop and usually meets twice a year, one for the appreciation of the annual activities plan and concomitant budget, and the other for the appreciation of the annual operating activities plan and budget, and the annual activities report which includes the balance sheet and income statements.

The ACC is run by the management board<sup>52</sup> that is elected by the general assembly and his main task is to oversee the daily operations of the cooperative. The audit board, also elected by the general assembly, has as main task to assure to the members that the AAC is being managed according to the law and the cooperative principles and that annual balance sheets and income statements reflect the true economic and financial position of the cooperative.

Comparing the two models of corporate governance we highlight the absence in the Spanish ACC of an audit board. The fact of the law does not require it is quite strange, considering the quasi-public nature of the cooperatives. Despite that, the bigger ACC usually have one audit board on their structure, answering to direction. Besides, that fail in the law is partially overcome through the requirement of an auditor's report on the annual accounts, which is not requested in the Portuguese ACC case (only in the group annual accounts case it is required).

Regarding supervision, both Portuguese and Spanish ACC are subject to the central bank supervision, Bank of Portugal and Bank of Spain, although there are some differences too.

In the Portuguese case part of the supervision functions of Bank of Portugal are passed to Caixa Central. So, in terms of the governance, the Caixa Central is responsible for the coordination and the

control of all the affiliated<sup>53</sup> singles' operational processes, i. e., it is the guardian of the system with a high capacity to interfere in the management of the singles and even replace their board of management.

The higher the transaction costs of changing control, the greater the inefficiency must be to trigger a change (Gorton and Schmid, 1999). In the Portuguese ACC system control changes are usually proposed by the central ACC that operates the auditing function and therefore, is the first to learn about managerial failures. In cases of gross management failure or fraud, the management can be formally discharged by the Caixa Central. Long-term inefficiencies can be solved through obligated mergers with more efficient ACC. ACC mergers act as an external control mechanism because, although mergers are friendly (they must be approved by the general assembly) the influence of central ACC is considerable, being this top institution the trigger and even the one that choose the merger partners (Cabo, 2003).

To illustrate the importance of Caixa Central supervision powers, see Cabo and Rebelo (2005b) study on the control mechanisms of Portuguese ACC. Cabo and Rebelo (2005b) identify two types of governance mechanisms in Portuguese ACC: internal governance mechanisms, as management board or chairman change mechanisms and external governance mechanisms, as mergers and Caixa Central intervention<sup>54</sup>, by a Caixa Central nomination agent or even a management board replacement. The authors conclude that the first are not related to the ACC performance, which indicates potential weakness of the ACC internal control mechanisms.

In the Spanish ACC case we do not recognize this type of intervention by the AECR, supervision power are in the Bank of Spain domains only. In the period 1997-2005, Spanish credit cooperatives experienced 17 disciplinary proceedings by Bank of Spain, none of them in the 2002-2004 period. Unfortunately, we were not able to know who these cooperatives are, but, considering that ACC represent 93% of the credit cooperatives operating in Spain, this number can say anything (or nothing).

<sup>51</sup> The common designation (in the literature) is board of directors, but considering the small scale of ACCs operations and their organizational structure, management board seems to be more appropriated to describe their role.

<sup>52</sup> The board of management usually includes three members who must be elected among the ACC members. Management skills are required. Thus, the board of management can include two additional individuals (management experts) not members of the ACC.

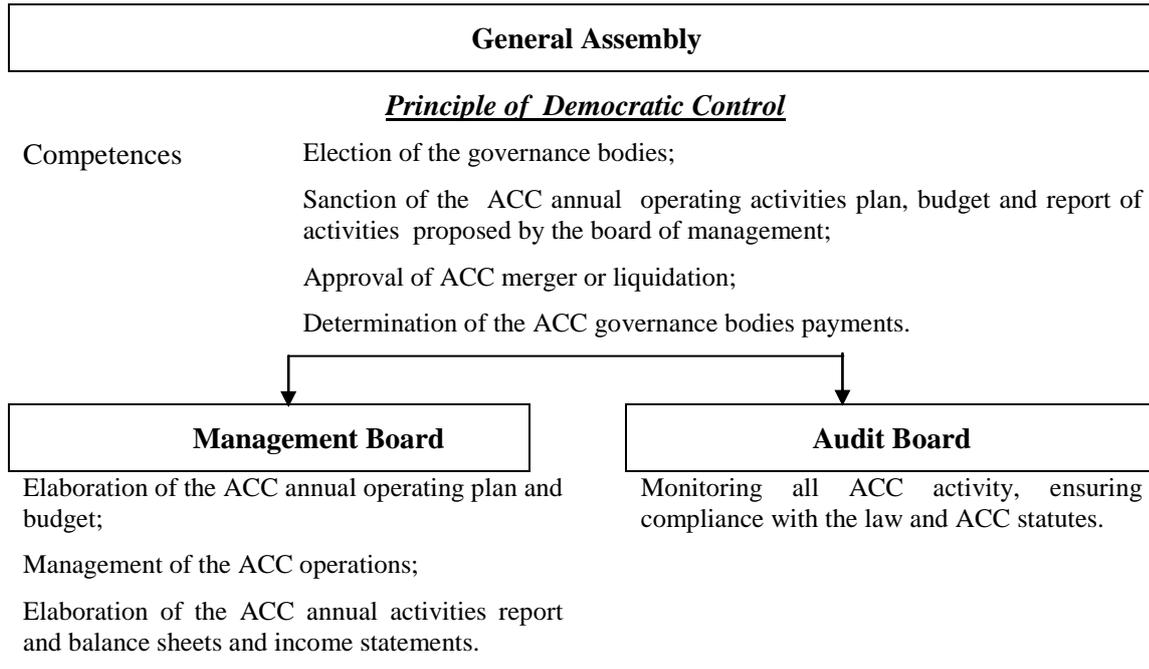
<sup>53</sup> ACC are free to stay out of the ACCIS, but in that situation they must comply with the more demanding regulations applied to the other institutions of the Portuguese banking system.

<sup>54</sup> In the 9 years period of the study (1995-2003), the authors identify 51 Caixa Central ACC interventions corresponding to ACC with a Caixa Central agent nomination and 79 board management board replacements.

**Table 4.** Main features of Spanish and Portuguese ACC

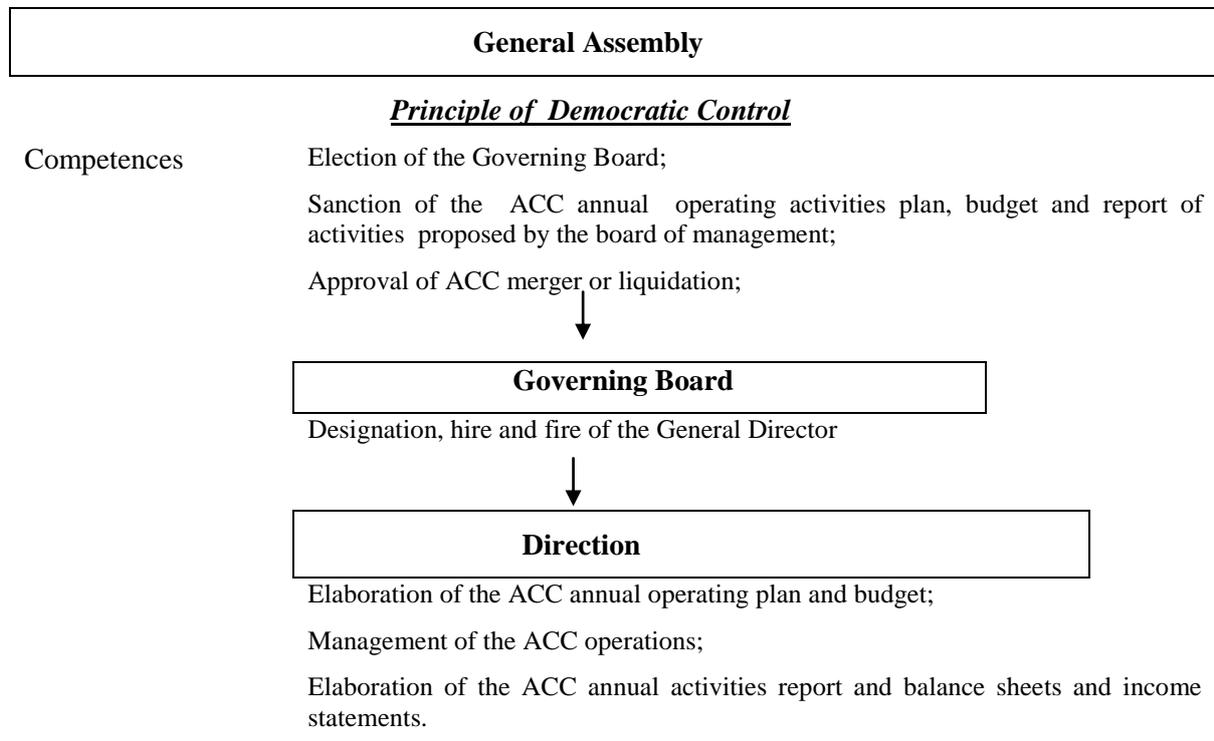
	<b>Portuguese ACC</b>	<b>Spanish ACC</b>
<b>Product</b>	ACC activity is restricted to a limited range of operations connected to the rural world and to Members only	ACC activity is not restricted to specific operations; the only requisite is the supply of financial services to rural communities. The “members only” condition applies.
<b>Members</b>	Open membership. Natural and legal persons allowed but must be connected to agricultural activities.	Open membership. Natural and legal persons allowed. To found an ACC is required one Agricultural Cooperative or fifteen farmers as members founders.
<b>Territory</b>	ACC activity is restricted to the county (“concelho”) where it is located. The expansion outside is only allowed to neighbour counties and if no other ACC operates there.	ACC activity is restricted to their territory, as defined in their statutes. The expansion to outside must be preceded by the equity changes needed.
<b>Equity</b>	Minimum fixed.	Minimum amount variable according to their territory and the number of habitants living on it.
<b>Shares</b>	Minimum share.	Minimum share. Maximum of 20% if the member is a legal person and maximum of 2.5% if the member is an individual person.
<b>Capital Market</b>	No market to capital shares. Shares only transferable to the ACC itself and only if legal requirements of minimum equity, reserves and solvency ratio is accomplished.	No market to capital shares Shares only transferable to the ACC itself and only if legal requirements of minimum equity, reserves and solvency ratio is accomplished.
<b>Return on equity</b>	Transferable to reserves. Once the legal reserves requirements and solvency ratios are accomplished, the exceeding can be distributed to the members until the maximum 30% of it.	Transferable to reserves. Once the legal reserves requirements and solvency ratios are accomplished, the exceeding can be distributed to the members according to the ACC statutes. Participations above minimum share can enjoy remuneration until 6% above legal interest rate. Distribution to employees is contemplated.
<b>Democratic Decision Making</b>	One member – one vote Member power independent of the participation in the equity	One member – one vote Exception: If ACC statutes contemplate it, member power can be proportional: (a) to the member shares, (b) to the member activities with the ACC, or (c) to the number of cooperative members if it's a cooperative. Limits of 20% if the member is a legal person and of 2.5% if the member is an individual person. Votes can be delegated to other members, respecting the limited previously referred.
<b>Governance Bodies</b>	General Assembly, Management Board and Audit Board	General Assembly and Governing Board
<b>Supervision Entity</b>	Bank of Portugal. Caixa Central	Bank of Spain. Autonomous Communities

**Figure 5.** Portuguese ACC Governance scheme



Spanish law only request that credit cooperatives have 2 governance bodies: the general assembly and the governing board. Figure 6 below illustrates the Spanish ACC governance scheme.

**Figure 6.** Spanish ACC Governance scheme



#### 4. Conclusion

Iberian ACC have very similar histories, a common birth and parallel youth paths. Their legally appeared in the beginning of the twentieth century, usually created in a top-down process. Connected to the rural

economy their financial health is a reflection of rural economy health. However, in a world where agriculture and the rural economy are losing place ACC must readdress their operations and *modus operandus* to survive.

In the last decades various structural changes have an impact on the intensity of application of cooperative principles and contribute to its identity crisis. This context results in conflicts in the definition of the ACC' mission and on a deficient ability to raise equity capital, what can jeopardise the ACC survival, at least, their cooperative form.

Except banking operations, the Portuguese and Spanish ACC are ruled following the traditional cooperative structure with open membership, democratic control and restricted residual claims. Although, Iberian ACC have some differences with effects on their performance, specially, regarding the product range, the democratic decision making and return on equity. These differences brake the negative investment cycle originated on the property rights allocation within traditional cooperative structure, and reduce monitoring costs. At the present, Bank of Portugal and SICAM authorities are negotiating a new legal framework for Portuguese ACC activity. Look to other cooperative groups and learn with their experience should be beneficial to the future of Portuguese ACC.

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Figure A. Organigram of the ACC Group

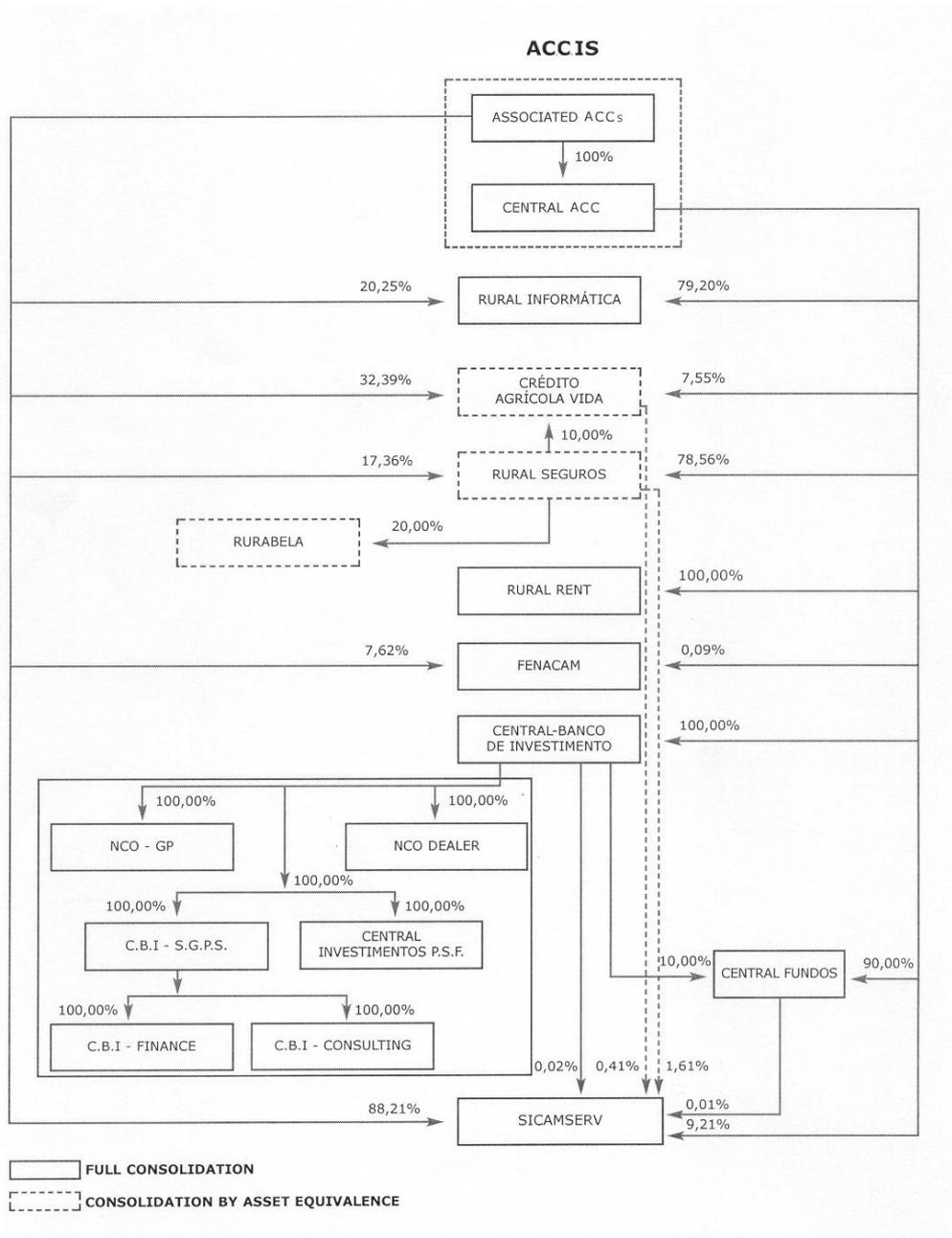


Figure B. Cooperative principles and financial structure of ACC

<i>OWNER-USER</i>	⇒	Member groups with different objectives and interests (saver-borrower conflict)
		↓
		Difficulty in the choice of the correct strategy
<i>DEMOCRATIC CONTROL</i>	⇒	Member power is independent of the participation in the equity
		↓
		Disincentive to major participations
<i>EQUITY OWNERSHIP</i>	⇒	Equity
		↓
		Minimum participations are required as admission condition
<i>RETURN ON CAPITAL</i>	⇒	NO MARKET FOR CAPITAL INVESTED/NO RETURN ON CAPITAL
		↓
		There is no incentive to invest in the ACC. The main source of equity is the annual net benefit (surplus) transferred to reserves