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AGRICULTURAL BANKS OR MULTIPURPOSE BANKS? THE GROWTH AND DEVELOPMENT OF THREE COOPERATIVE BANKS IN EUROPE

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The Credit Agricole Mutuel in France, the Deutsche Genossenschaftsbank in the Federal Republic of Germany, and the Raiffeisen-Boerenleenbank in the Netherlands have many points in common, or at least many similarities: their history, nature, development in an agricultural and rural environment neglected by the traditional banking system, and primary mission, which is financing agriculture and the cooperative sector. However, after becoming sufficiently large, they began to more closely resemble their competitors, the multipurpose commercial banks. Do the limitations imposed by the need to develop and to use modern management systems create a danger for these banks? Will they lose their originality in a world where uniformity is common fare?

Impact of Agricultural Development

At the end of the 19th century, specific needs led to the creation of specialized credit for financing farming and its complementary activities in the form of storage and marketing cooperatives. Conventional banks had long neglected the credit needs of small and medium sized farms. These farmers had limited needs, lived far from the cities, made small profits, and did not keep records.

Banks had even greater reservations about farm cooperatives. Weak financial structures (particularly the nearly total absence of any net worth), numerous management problems, and the ticklish problem of controlling creditors in case of liquidation, caused bankers to regard cooperatives with great caution.

In France, Germany, and the Netherlands, the vacuum left by the conventional banking system was gradually filled by small mutual credit associations, formed by farmers or other rural people. These banks prospered, gradually bringing credit to the vast majority of farmers and many other rural people. At the beginning of this century, these banks merged or were federated at the regional level. Later, a central bank formed an umbrella over the whole system.

Cooperative banks have developed along with agricultural modernization. This modernization has been especially marked since World War II. Modernization was largely a result of cooperative banks. In return, the banks also profited. In fact, by neglecting agriculture, conventional banks have overlooked a number of factors which have become valuable assets in the hands of the cooperative banks: (1) the virtual absence of any risk in financing farms which at the outset are relatively debt free and whose production is protected by effective barriers in the form of tariffs; (2) the size of the farm and rural populations whose earnings, and therefore savings potential and loan needs, rose sharply since the end of World War II; and (3) the development of business relations between farmers and agribusinesses has made it a common occurrence for farmers to use bank services.

Maintaining a very decentralized structure has, in effect, been an effective management tool. Constraints in agricultural financing and history (multiple cooperative credit banks) offer an explanation as to why the structure has remained more decentralized than in other banking systems (except for peoples' banks).

At present, cooperative managements still exist at the local and regional levels. It is, however, less noticeable at the national level, in spite of the fact that representatives of the lower level banks control the activities of the central bank. This control is very limited in Germany and especially so in France, because the central banks are public institutions.

Credit for Small and Medium Sized Farms

From the beginning, cooperative banks have striven to offer, within the limits of their possibilities, three large credit categories related to the farmers' three big needs: short term credit for financing floating assets; medium term credit for financing normal equipment; and long term credit for financing purchases, land development, and, occasionally, buildings.

Loans are usually made on a longer term basis than those made by commercial banks. This provides better conditions for slow turnover activities requiring large amounts of capital. These terms may extend to 20 or 30 years.

Although loans to farmers are made on a particularly long term basis, cooperative banks usually offer farmers preferred interest rates. In addition, these rates are often lowered by the government, which may subsidize interest rates. This is justified on the basis of the small profits made on capital invested in agriculture. Of course this practice is relatively limited in the Netherlands. It is more widespread in Germany (one-third of agricultural financing). Both of these countries have a system in which this subsidy can be used by the beneficiary in the bank of his choice, not necessarily a cooperative bank. The government of Germany also provides public funding, with very favourable conditions, for certain particularly expensive investments. In this case, the bank serves only as an intermediary between the government and the farmer. In France, subsidized loans represent a large proportion of all agricultural financing (about 40 percent). Credit Agricole Mutuel has a monopoly on the allocation of government subsidized farm loans in France.

Among the various guarantees usually demanded of borrowers, joint security is a specific characteristic of cooperative banks. There are many different types of farm guarantees used, all in relation to the large variety of assets. In all totally or partially owned farms, farmers can offer prime quality guarantees—mortgages. This is an advantage for their banker who consequently runs nearly no risk. Cooperative banks have not neglected to make extensive use of this type of security.

Tenant farmers, on the other hand, cannot be offered the possibility of a mortgage because they are not property owners. There are, however, other forms of security which are commonly used, including one that is completely original: one or more farmers agree to pay the debt if the borrower defaults. This system is not used as often now and because of the risks involved for the surety and because credit is more readily available to tenant farmers.

Recently the approach of financing for specific objectives has been giving way to a global approach, in which all of the farmer's needs are considered. This development has come into sharper focus with the application of the 1972 Common Market directive on agricultural modernization. This directive anticipates drawing up actual farm development plans. In this way, cooperative banks finance several thousand development plans each year in France, Germany, and the Netherlands.

Expansion into Nonagricultural Sectors

There were technical, economic, banking, and financial reasons that led to this change. The technical reasons result from the fact that farmers have been tending to get involved in pre- and post-production activities: pre-production through the financing needed for supplies, but also for various necessary services in running a farm (veterinary, insemination, farm machine repair, builders, farm machine manufacturers); and post-production, through financing storage, packaging, processing, and marketing agricultural produce. This expansion was further encouraged by the fact that these businesses were frequently run on a cooperative basis.

The economic reasons are based on the relatively slow development (even lately) of farm activity. This has led the cooperative banks to look for other clients and other sources of capital outside of agriculture. The banking reasons are based on the fact that a modern bank's services largely exceed what is necessary for managing a farm. These services include investments as well as loans and auxiliary services (keeping accounting records, travel agency, currency distributors, and money exchange).

Finally, purely financial reasons have led cooperative banks to look for resources outside of agriculture, with special emphasis on family households. In fact, the agricultural sector used to save more than it borrowed, but now the situation is reversed. Like other productive sectors, agriculture borrows more than it saves. A purely agricultural bank would therefore lack sufficient resources to cover its financing.

Organization and Management of Cooperative Banks

Cooperative banks have successfully avoided transforming their local banks into simply powerless branch offices. Local banks in Germany and the Netherlands, as well as regional banks in France, are true banks with at least a high level of independence in terms of implementing business policy and allocating normal loans. Nevertheless, financial resources are frequently pooled for large loans. At this point the central bank steps in, either participating in the financing (in the Netherlands and Germany), or as the coordinator of activities between regional banks (in France).

With the diversification and enormous complication of banking functions, it is difficult to find members who really participate in running their bank. Many members only participate in management by attending general meetings. It is difficult to find competent persons who are available to perform normal management tasks (in principle, administrators are not paid).

Increasing the field of activity creates the problem of extending membership to other professions. The problem seems relatively minor in Germany and the Netherlands, where the membership was never limited to farmers. It is, however, a more delicate problem in France where farmers still have a very large majority of the responsibilities.

The development of large banking groups really poses the problem of a bank's relationship with the government. This relationship is based on certain points: (1) legal control of everyday management, especially in France where the Caisse Nationale is a public institution; (2) utilization of the banking group to distribute certain state aids; and (3) orienting allocation of resources.

Conclusion

Cooperative banks are gradually becoming more like other banks, even if they maintain certain individual characteristics, a very decentralized management, and decisionmaking power that remains at least partially in the hands of its members.

COMPARISON BETWEEN THE THREE INSTITUTIONS

- Crédit Agricole Mutuel
- D.G. Bank
- Rabobank

1977

	FRANCE	GERMANY	NETHERLANDS
Gross domestic product (U.S. \$ billions)	380,66	516,20	106,39
Final agricultural production (U.S. \$ billions)	27,0	24,0	9,0
Total population (Millions)	53,0	61,4	13,9
Number of agricultural farms	1.148,0	858,7	137,0

31.12.1976

	Crédit Agricole Mutuel	D.G. Bank	Rabobank
<u>I - Organization</u>			
Local and Regional Banks	3.094	5.014	1.028
Offices	9.800	19.500	3.130
Members	2.945.500	8.000.000	890.000
Current accounts	8.989.700		2.345.000
<u>II - Assets</u>			
Total Assets of the Group (U.S. \$ billions)	51,7	89,4	20,7
<u>III - Deposits</u>			
Total deposits (U.S. \$ billions)	41,9	83,1	19,8
Part of the Institution in the source of funds (in %)	15,8	20,0	40,0
<u>IV - Loans and Credit</u>			
Total loans (U.S. \$ billions)	34,0	59,1	17,9
i.e. - loans to farmers (in %)	44,0	7,0	18,5
- loans to cooperatives (in %)	12,0	7,2	11,5
Part of the Institution in total do- mestic credit (in %)	12,5	15,0	17,5