

History of Crédit Agricole

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The issue of credit for French farmers at the end of the 19th century



- **Farmers struggled to obtain credit facilities** that were adapted to their needs - i.e. long-term, flexible and inexpensive
- **Two attempts to set up banks for the agricultural sector collapsed** : in 1852 Crédit Foncier de France which quickly shifted towards urban real estate financing , In 1861, Société du Crédit Agricole, which collapsed only few years after its creation. (in 1877)
- **Act of 1884 authorized** the creation of farmers' unions,
- **The first “Société de Crédit Agricole” was established in 1885** as a farmers' union on the model of mutual and co-operative banks in Germany (Raiffeisen Banks)
- **It was located in Salins, district of Poligny**, in the Jura region.

Creation of Crédit Agricole, 1894



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- **Jules Méline is the father of the Act which authorised the creation of Crédit Agricole's local banks** by members of farmers' unions, on 5th November 1894. The banks would be owned by their members, according to the principle of mutualism.
- **The first local banks (CL, for “Caisses locales”) were created** by agronomists, teachers and landowners, with farmers still in the minority.
- The 1894 Act did not confer any financial advantages, and **the CL quickly found themselves facing financial problems**, such as a **lack of capital and insufficient collateral** from small farmers

Support from the State and creation of Crédit Agricole's regional banks,

- ▶ In 1897, the Banque de France accept discounted notes from farmers' unions and provide resources to Crédit Agricole in the form of an endowment of 40 million gold francs and an annual payment of 2 million francs.
- ▶ **Act of 1898 authorized farm warrants**, which helped to resolve the issue of collateral,
- ▶ **The Act of 31 March 1899 instituted Crédit Agricole's regional mutual banks, (CR, for "Caisses Régionales")**. There were 9 of these in the first year. These co-operative banks represented the **second level in Crédit Agricole's institutional pyramid**, bringing together the local banks in each region and encouraging the establishment of new local banks

The rise of the local and regional banks, 1900-1919

- ▶ **More and more local and regional banks (CL and CR) were established** at the turn of the century. In 1914, each french department had at least one regional bank (90 CR).
- ▶ **However, financing remained predominantly short-term** and, despite increasing savings inflows, **the government continued to provide three quarters of source funds**

The Act of 5 August 1920 and the creation of the Office National de Crédit Agricole

- To create a central clearing organisation for the CR , **the Act of 5 August 1920 established the “Office National de Crédit Agricole” (ONCA). This public-sector entity was renamed “Caisse Nationale de Crédit Agricole” (CNCA) in 1926**, putting greater emphasis on its role as a bank for the CR.
- CNCA represented the third **level in Crédit Agricole’s institutional pyramid.**

1920-1945

- Crédit Agricole increased its **geographical coverage** in France.
- In 1920, it obtained authorisation to grant loans to **small tradesmen in rural areas**, and actively financed the rural electrification programme
- In 1928, **it made use of the first subsidised loan schemes to grant low-interest loans to farmers.**
- The local and regional banks did not escape the **crisis of 1930**; those most exposed received support from the CNCA,
- **Crédit Agricole financed wheat stocks** when the National Cereals Board (ONIC) was established in 1936.
- The payment methods used led to the **increased use of cheques and bank accounts in rural areas**

1945-1966: significant savings inflows



- In 1945, Crédit Agricole was able to issue 5-year notes, a savings product that was highly successful.
- The CR opened a great many new offices (1,000 in 1947, 2,259 in 1967), and sales staff sold 5-year notes and long-term bonds issued in 1950.
- These increases in savings inflow enabled Crédit Agricole to become self-financing in 1963
- 1959 was an important date as Crédit Agricole obtained authorisation to finance its customers' principal residence in rural areas, regardless of the owner's status.

The FNCA

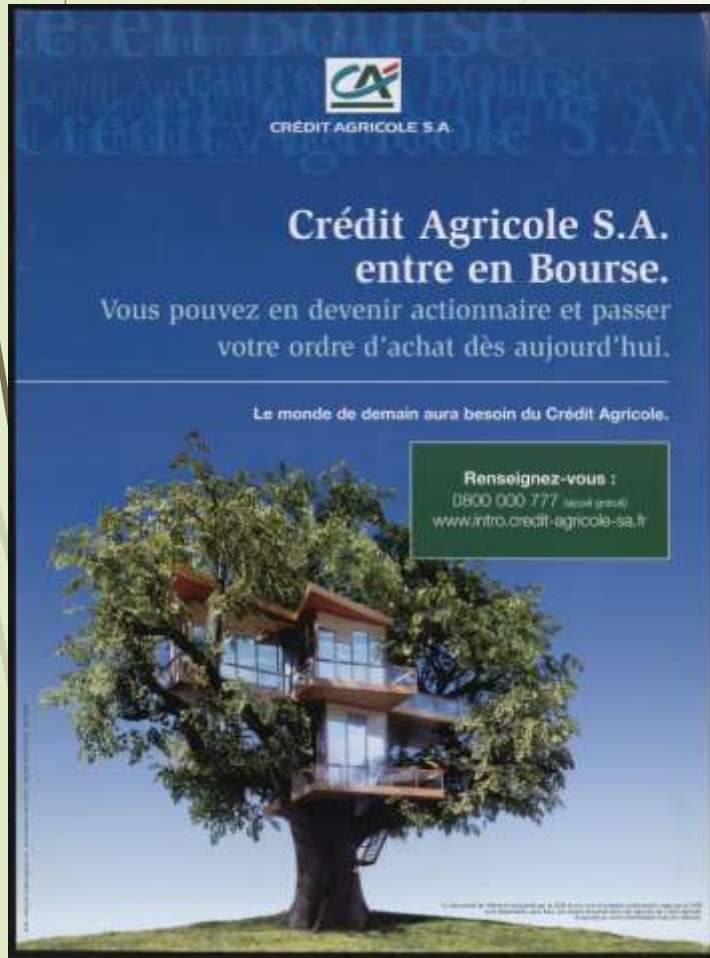
- In 1945, the “**Fédération Nationale du Crédit Agricole**” (FNCA) was created. This association provided representation for the CR with the public authorities



Becoming a universal bank, 1966-1988

- **Crédit Agricole's range of activity increased** (extension of rural areas, loans to small and medium-sized businesses)
- **CNCA established subsidiaries:** Union d'études et d'investissement (UI) in 1967, for equity investments; Segespar in 1968 for asset management; and Unicrédit in 1971 for loans to agri-food businesses
- **Creation in 1966 of a marketing department** to manage the Crédit Agricole brand, and establish a marketing strategy
- **On the international front, Crédit Agricole opened its first branch in Chicago in 1979**

Significant institutional changes, 1988-2001



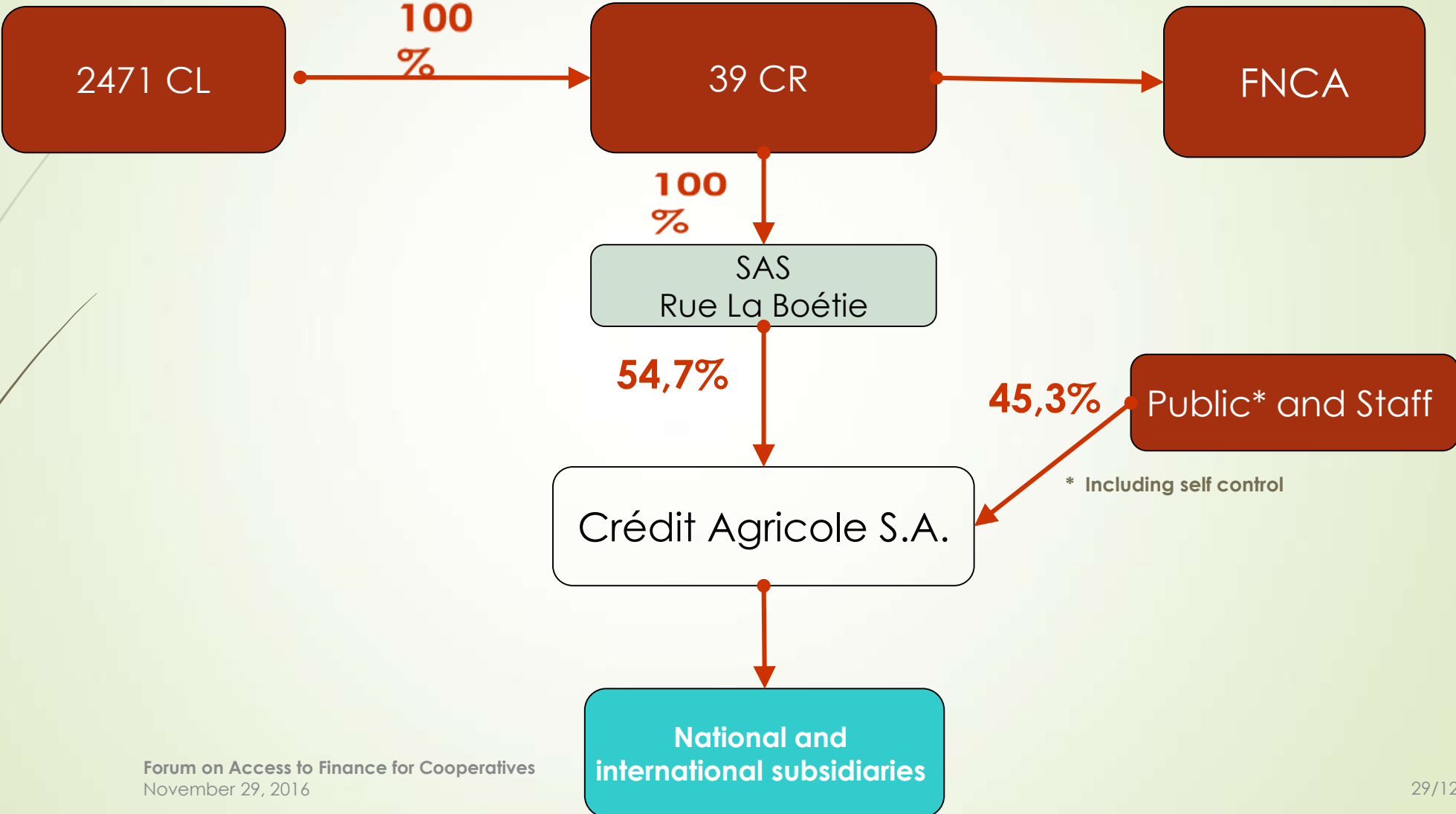
- **Privatisation Act of 18 January 1988:** CNCA was transformed into a public limited company and sold by the government to the CR (90% of capital) and to staff (10%). Crédit Agricole thus became fully independent of the government.
- **The CNCA was listed on the stock exchange in 2001 under the name Crédit Agricole S.A. (CAsa),** giving the CR, its majority shareholders, a listed vehicle through which to carry out major acquisitions for external growth.
- In 1990, Crédit Agricole lost its monopoly on low-interest loans to farmers and, in 1991, gained access to **financing of large corporations.**

Business diversification:

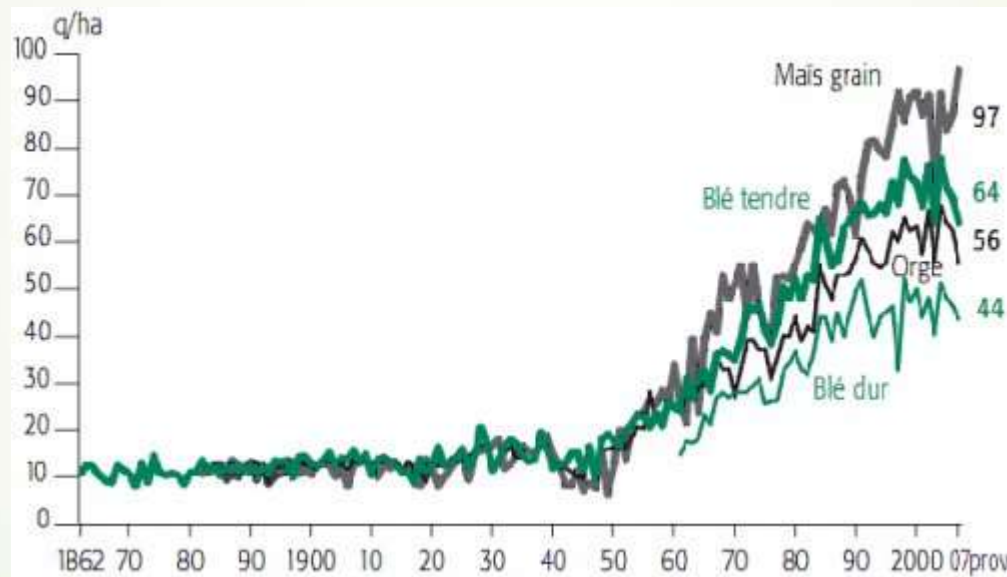
- ▶ **Insurance:** the **Predica** life insurance subsidiary was created in 1986 and became no. 1 in France in 1994, and **Pacifica** was established in 1990 to cover the non-life segment.
- ▶ **Investment banking :** acquisition of **Banque Indosuez** in 1996,
- ▶ **Consumer credit :** acquisition of the market-leading company **Sofinco** in 1999 and of **FINAREF** in 2003
- ▶ **Global banking :** acquisition of **Crédit Lyonnais** in 2003

Crédit Agricole Today

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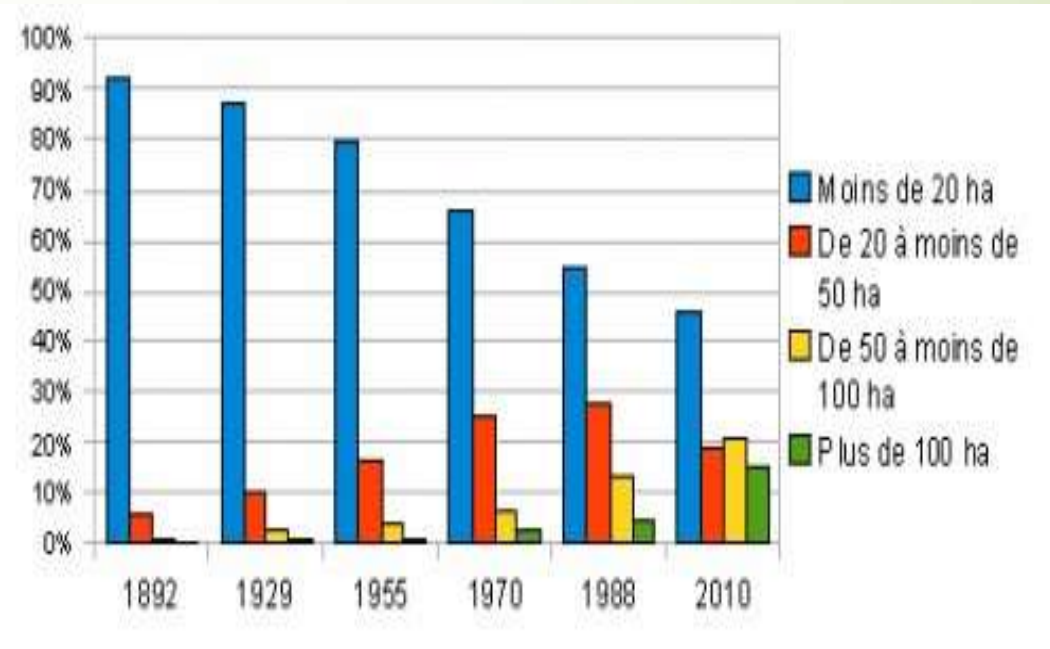
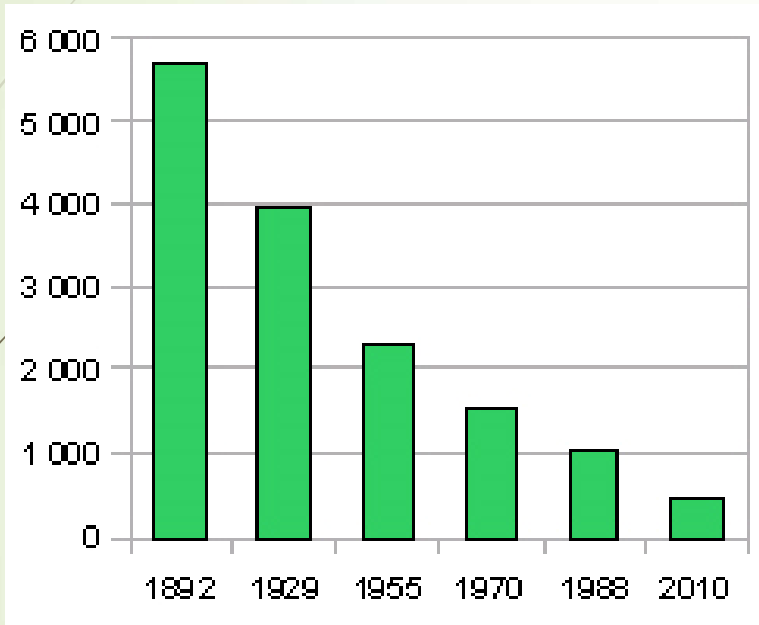
Crédit Agricole helped to modernise french agriculture



The CA helped develop productivity...

Source : graphique extrait de Agreste Primeur n°210, 2008

Crédit Agricole helped to modernise french agriculture



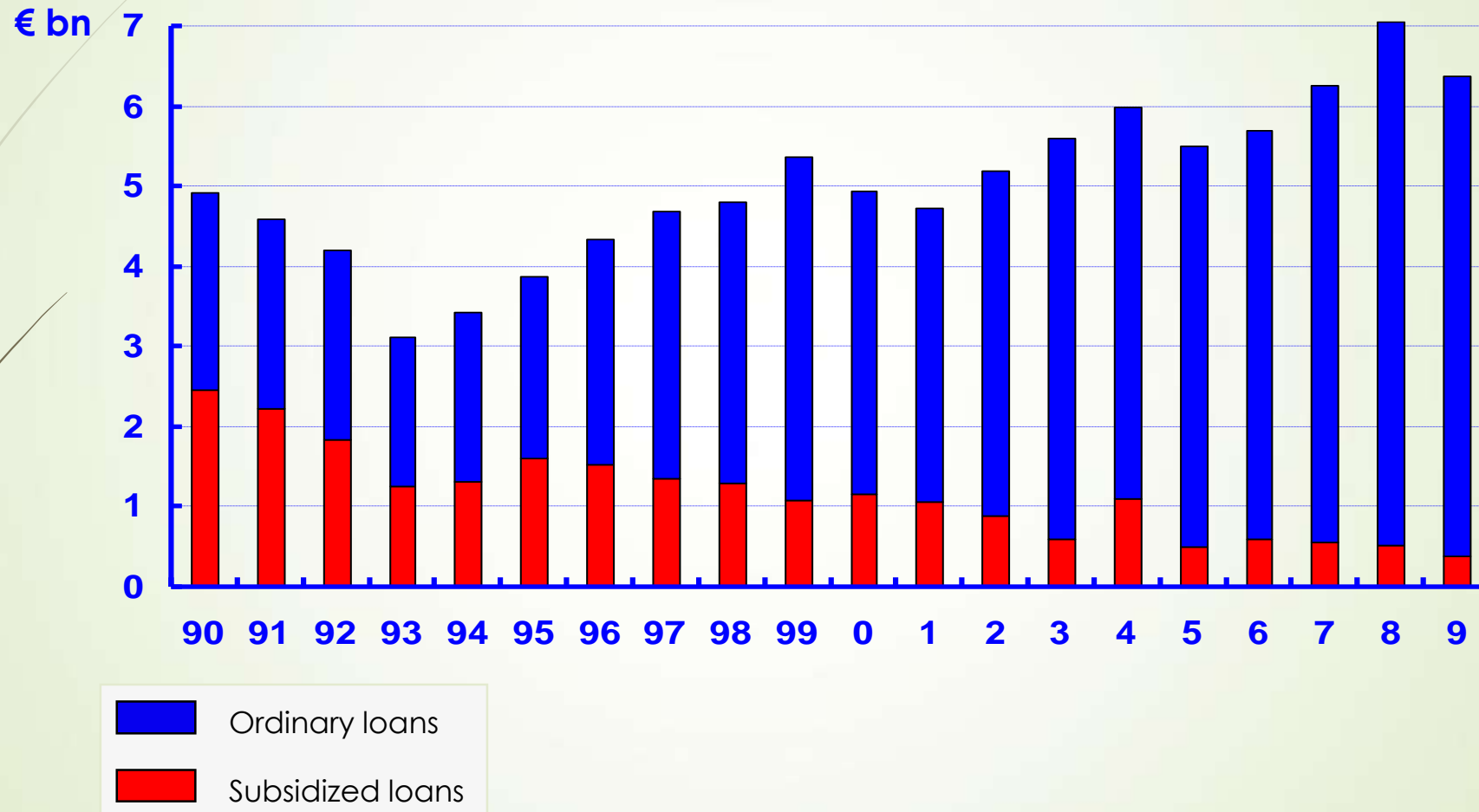
.....through a large restructuration and reparable (SAFER) which led to a huge rural exodus , possible because of the strong development of industries and services ...

Source : Duby, Wallon 1977 ; Agreste - Enquête structure 2007 et recensement agricole 2000 et 2010

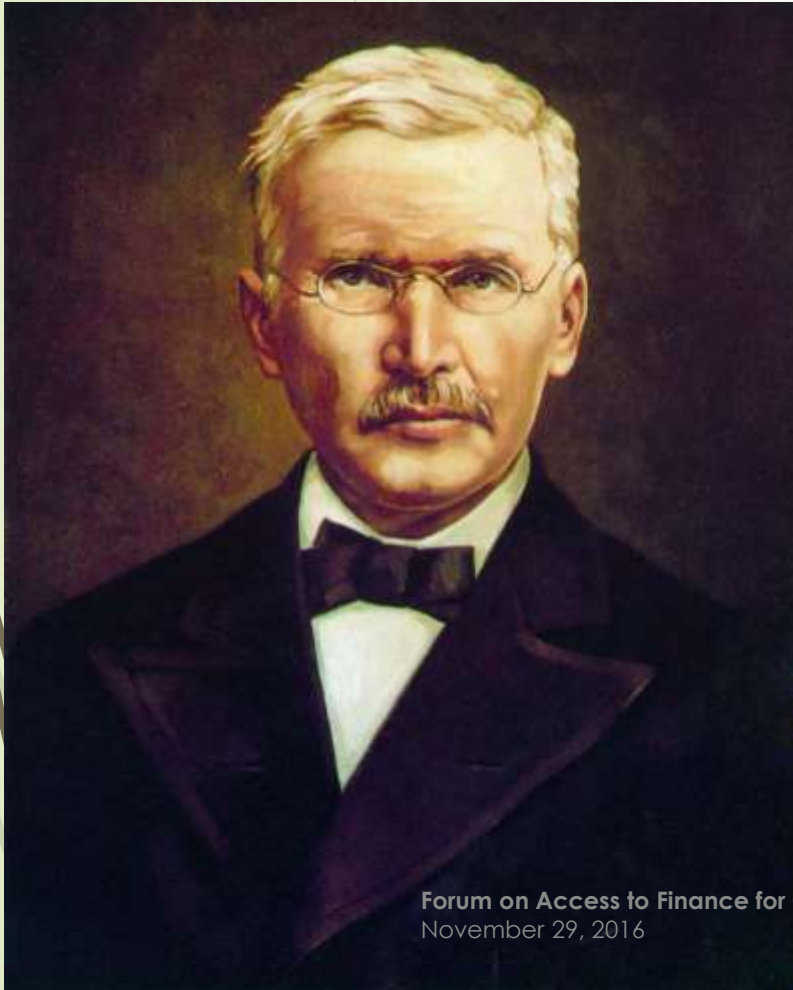
Crédit Agricole helped to modernise french agriculture, thanks to a favorable environment

- **Marshall plan** 1947-1951,
- New varieties created by **INRA** (created in 1946) ,
- **European common agricultural policy** launched in 1962, with price guarantee ,
- **Public investments** (irrigation: *SCP* : Société du Canal de Provence, *BRL* : Compagnie d'aménagement du Bas-Rhône et du Languedoc, *CACG* : compagnie d'aménagement des coteaux de Gascogne...) ;
- Development of
 - **co-operatives** , crucial to increasing usage of inputs and to marketing crops,
 - **chambers of agriculture**, to disseminate best practices
 - Unions specialised in **accounting and management consulting** (CER France)

Subsidized loans helped to keep low interest to the farmers



International references : Germany , Nederland



- ▶ Friedrich Wilhelm Raiffeisen : philosopher of Mutualism. He inspired the Raiffeisen banks in Germany, the Credit Agricole in France, the Rabobank in Nederland and The Desjardins' Group in Quebec
- ▶ A follower of Friedrich Wilhelm Raiffeisen, Father Gerfacus van den Elsen, was at the origin of mutual banks in the south of Nederland. In 1898 these mutual banks were **regrouped** into two federations : Raiffeisen Banque de cooperative Centrale in Utrecht (6 local banks) and Cooperative Centrale Boerenleenbank in Eindhoven (22 local banks). In 1972 these two federations merged and took the name of **Rabobank**. Its history was then similar to that of Crédit Agricole in France. Rabobank is now a major financial player in the World.

International references : Quebec



- **In Quebec, the history of Desjardins's group has been very similar.** In 1900, Alphonse Desjardins, a follower of Friedrich Wilhelm Raiffeisen, created the first local mutual bank in Quebec. In 1906, the government of Quebec adopted a law authorizing the creation of co-operatives. Many other local mutual banks were then created. These local banks were regrouped into regional unions and a federation .
- **Theses structures merged in 1999 in a unique organisation :** the Mouvement Desjardins. In 2014, the Mouvement Desjardins was **the leading mutual financial group in Canada** and the fifth in the World.

International references : Armenia



- **A successful story** : ACBA-CREDIT AGRICOLE BANK was created in 1996 on the model of a Régional Bank of Crédit Agricole France
- **Its development was initially based on short-term micro-credits granted to farmers.** Later, ACBA succeeded in transforming itself into a general bank, with the technical and financial support of Crédit Agricole France.
- **It is a co-operative bank specialised in providing financing to the farmers.**

International references : Armenia

ACBA-CREDIT AGRICOLE BANK today :



- **One of the first banks in Armenia.** 50 % market share in agricultural loans (96% in the subsidized agricultural loans program of the government) and 12 % market share in consumer loans, 1 257 employees, 318 000 clients, and 57 branches.
- **715 rural associations** regrouped in 10 regional unions. These are the owners of the capital of ACBA CREDIT AGRICOLE BANK, which defines the strategy and coordinates the network's activities.

Which lessons?

The success of The Raiffeisen banks in Germany, Credit agricole in France, Rabobank in Nederland, Mouvement Desjardins in Quebec and ACBA in Armenia was mainly due to the following characteristics :

- **Responsibility and independence** : because of the mutualist status
- **Geographical, professional, and psychological proximity to the farmers** : decision making is made by the local banks
- **Professionalism** – good knowledge of the agricultural economy,
- **Adequate legal and regular environment** : farm Warrants, legal status for the local banks etc ...
- **Help from the State** (endowment , warranty for savings notes, subsidised interests etc...)
- **Adequate agricultural policy**

Financing co-operatives

Co-operatives are business units : the risk is analysed by the banks with the methods used for businesses (available cash flow, balance between borrowed money and capital etc...)

- ▶ **The rating methods are similar** for co-operatives and corporates
- ▶ **The warranties requested by the bankers are similar** (debt securities, guarantees on stocks, guarantees on fixed assets, director's security etc...)

Financing co-operatives

However co-operatives are also very specific :

- **Chairman and board of directors elected each year by the farmers** : what about management continuity ?
- **The capital is made of the shares subscribed by the farmers** and is often considered as too weak.
- **The purpose of the co-operatives is not to maximise profit but to optimise the price paid to the farmers...**

Financing co-operatives

- ▶ **Because of these specificities, it is necessary to keep a very open-minded approach, based on confidence and the long term**
- ▶ **In France, this has been possible, due** to the professional proximity between the elected members of the boards of the local banks and the elected members of the board of the co-operatives
- ▶ **But it has not been easy.** Some cooperatives have collapsed, because their managers forgot the main rules of good corporate management practice.

Conclusions

- 1) **The agricultural development is based on three complementary pillars :**
 - technical,
 - commercial,
 - financial.
- 2) **The weakness of agricultural credit is an obstacle,**
- 3) **The mutualist model has been efficient in France, the Netherlands, Germany, Quebec and Armenia.**
- 4) **But is it directly transferable to a country like Georgia, which has a different historical, cultural, economical context?** It is necessary to have a pragmatic approach, based on the reality of the country.