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The paradigm of contemporary business is extractive; it is oriented towards generating large profit margins from energy, resources, money, personal data, labour, health and well-being. Extractive capitalism presents us with a particular mentality in which the world is regarded as a frontier of conquest rather than a home. This mindset shapes how people relate to each other, increasingly determining relations by a culture of individualism, competitiveness, and instrumentality paired with a narrow interpretation of what one owes to nature and others. Extractivism is a mentality that reduces life into objects for the use of others as a source of profit, giving them little integrity or value of their own. While the current climate crisis, equity crisis and crisis of the natural world may challenge this model as the proper way of running an economy, we seem to be stuck with it for want of better alternatives. The big question is: What should extractive capitalism be replaced with?

A multitude of organisations around the world are already experimenting with economic practices and organizational designs that aim to regenerate, rather than extract and deplete, the very environmental, social and cultural resources which they depend upon. These organisations, we argue, show us practical ways of reimagining extractive capitalism and hold the key to the transition

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towards a non-extractive economy. By working with and learning from these innovators, we aim to understand what a non-extractive economy may look like and how to get there, while articulating in particular the role of law – both private and public – in ushering in such a non-extractive future. In this blog, Italy's *Banca di Credito Cooperativo* (BCC, location Valdarno Fiorentino) teaches us about mutualism, community-centricity and the pursuit of social inclusion, while highlighting how the law can serve as a vehicle for the non-extractive economy.

Mutualism and Community-centricit

BCC Valdarno Fiorentino is located in Tuscany, in a beautiful hilly landscape South-East of Florence. One of the bank's most important features is mutualism as enshrined in Article 2 of its Articles of Association (*Statuto Sociale BCC Valdarno Fiorentino*, 2019). BCC Valdarno Fiorentino describes mutualism in its *Bilancio di Coerenza* from 2019 as a form of business management and organisation that is defined by the objective to offer benefits through membership. Instead of pursuing individual goals, the bank and its members build reciprocal relationships that recognize the parties involved as equals. Mutualism characterizes not only the relationship between the bank and its members, but also between the bank's members themselves, between the bank and the local community in which it is embedded and between the different generations of bank members and other members of the local community. Mutualism equally guides the relationships within the cooperative banking group that BCC Valdarno Fiorentino belongs to, as well as their relations to other cooperative banking groups (see also Article 37-bis(2) of the [Italian Consolidated Law on Banking](#)).

The benefit of being a [member](#), and thus a shareholder, of the bank grants possibilities of participation and access to financial services on more beneficial terms than non-members. Membership is not about the accumulation of wealth through the distribution of dividends, as is more common in mainstream banks. In fact, the bank's capacity to distribute profits are legally limited. At least 70% of its annual net profits have to be allocated to its legal reserve.^[1] Additionally, 3% of the annual net profits are given to mutual funds for the promotion and development of cooperation in accordance with Article 37(2) of the [Italian Consolidated Law on Banking](#) and [Article 11\(4\) of Law 59/1992](#). The remaining net profits of the bank can be used to increase the nominal value of its shares or allocated to other reserves and funds.^[2] It may also be distributed to shareholders, but mutualistic limits apply to how much may be distributed (no more than TBPf+2,5%). Lastly, it may also be paid out to members as a refund, which is capped to a certain amount too.^[3] These limitations ensure that cooperative banks are not 'abused' as an investment vehicle.

Mutualism expresses itself in the "one-person one-vote" rule. The members of BCC each have one vote independent of the number of shares that the respective member holds. This leads to a democratisation of the decision-

making processes within the bank.[4] Becoming a member gives customers a chance to take a more active role in the governance of the bank so as to help ensure its flourishing and therewith the members and the community in which they operate.

Importantly, Article 45 of the **Italian Constitution** recognizes the social value of cooperation for mutual support in a non-speculative manner. The constitution expresses it will ensure through law that mutualism is safeguarded. Mutualism is thus not merely a guiding principle for cooperative banks in Italy, but is a legal concept and eligible cooperatives must meet the mutualist requirements laid down by Italian law[5] to qualify for a favourable tax regime.[6] **Mutualist requirements** that banks must adhere to are, for instance, the requirement that at least 51% of the bank's risk activities are connected to its members and at least 95% of its loans are given to customers in the geographical area in which the bank operates. Thus, mutualism fosters a close link between cooperative credit banks and their local communities, guaranteeing to a certain extent the circularity of capital in the bank's area of operation. BCC Valdarno Fiorentino invests in the people and businesses in its territory which helps develop the region, instead of allocating financial resources to distant places.

Finally, mutualism is in line with the principles of the so-called "civil economy" which are also actively promoted by Federcasse, the Italian Federation of Cooperative Credit Banks and Rural Banks, for example through events like the "*Festival Nazionale dell'Economia Civile*". Rooted in the thoughts of Italian thinker Antonio Genovesi, the civil economy as theorized by Luigino Bruni and Stefano Zamagni aims to "**humanize the economy by giving more important roles to reciprocity and human relationships in economic activity**". A business is not merely a means of wealth accumulation but helps transform its local community. Mutualistic banking is based on such reciprocal relationships, it offers an example of how organisations can structure their businesses to the benefit of their local communities. As such it can be classified as a counter-movement to the individualistic mentality that shapes our current extractive economies characterizing the operations of many mainstream banks.

The Pursuit of Social Inclusion

BCC Valdarno Fiorentino also furthers social inclusion, offering its financial services to individuals and businesses in its territory including those who may not be considered creditworthy by mainstream banks. In general, cooperative credit banks are often the only banks present in small communities and rural areas. **According to data from 2019**, this was true in the case of 633 Italian municipalities. Thus, cooperative credit banks give access to financial services in areas that are overlooked by other financial institutions.

Where mainstream banks base their lending decisions only **on hard information such as the financial statements of a business or asset-based lending**, cooperative credit banks grant loans based **on both hard and soft information**.

This process can be referred to as **relationship lending** and concerns the practice where a loan decision is based on information gathered through personal contacts with the owner of a respective business or other community members, such as business partners or customers, who can provide insights into the business owner's reliability and character. Like other banks, BCCs do a thorough assessment of the financials of a loan request, but also spend more time to understand the situation, especially where the bank considers the project valuable for the community and in line with their values.

Small firms often face difficulties to provide the necessary hard information that will convince banks that they are trustworthy to be offered financial services. This lack of information may relate to a bank's possibility to verify whether a small firm has actual access to a project that is worth funding ("**adverse selection problem**") or whether the firm will use the provided funding for the project that it requested financing for in the first place ("**moral hazard problem**"). Relationship lending is a way of **addressing this informational gap**. **Due to their exceptional closeness to their local territory, cooperative credit banks find themselves in a good position to assess the creditworthiness of their customers based on soft information**. Thus, local banks like BCC Valdarno Fiorentino can offer their services to SMEs or individuals because of their close relationship to the latter, providing necessary financial support that could not have been obtained from other banks that rely solely on hard information.

This is even true during times of hardship: **smaller banks that make use of soft information continued, at least for a while, to grant loans to their customers during the financial crisis, proving more resistant in this regard than their larger counterparts**. In addition, since lending based on soft information will often be the only opportunity for a person to gain access to financial services, relationship lending is crucial in order to **prevent the spread of informal lending processes that might result in disadvantageous lending conditions such as usury**, which designates the granting of a loan at an interest rate exceeding the possible maximum interest rate fixed by law (see Article 2(4) **Law 108/1996**). **Historically, the establishment of banks like BCC Valdarno Fiorentino have helped to address this problem**.

All of this proves that relationship lending conducted by small, local banks forms a corner stone of the Italian banking landscape, guaranteeing the provision of financial services to individuals and SMEs, who would not be eligible for a loan based on solely hard information and would otherwise remain excluded from access to the banking system, by enabling them to prove their creditworthiness.

Law as a Vehicle for Social Change

BCC Valdarno Fiorentino shows us how extractive capitalism can be reimagined. The bank provides a long-lasting contribution to its local community, contributing to the financial and social inclusion of those that are overlooked by

the extractive capitalist market players. As such, it is a source of inspiration that reminds us of how human values can prevail over profit maximisation even in today's economy. Importantly, the Italian lawmaker facilitates the flourishing of such community-centric banking. The recognition of the importance of mutualist cooperatives in the Italian constitution provides an important signal to society about the type of social market behaviour the country deems worthy of protection. Moreover, by means of law, Italy grants mutualist cooperatives tax exemptions to support community-centric banking through financial incentives.

Nevertheless, BCCs and their principles of mutualism, community-centricity and social inclusion face existential pressures due to the huge amount of banking regulation that has been poured over banks since 2018. These regulatory requirements demand changes that bring significant costs to BCCs, forcing cooperative credit banks to enhance efficiency through standardisation and economies of scale. This translates to mergers and acquisitions, enlarging these banks' geographical areas, resulting in the slow death of relationship banking. Legal changemakers still have a long way to go to examine further avenues for the law to support the vanguards of the 21st century, such as BCC Valdarno Fiorentino, and to help rethink what banking is here for.

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[1] Consolidated Law on Banking 385/1993, Art. 37(1).

[2] Statuto Sociale BCC Valdarno Fiorentino (2019), Art 49.

[3] This amount may not exceed 50% of the net profit that resides after 70% of the annual net profits have been allocated to the legal reserve and 3% are given to mutual funds for the promotion and development of cooperation. See: Banca D'Italia, Disposizioni di vigilanza 'Banche di Credito Cooperative' (2017) Sezione IV: Destinazione degli utili e ristorni (page 16); Legge 31 January 1992, n. 59; Decreto legislativo del capo provvisorio dello stato 14 December 1947, n. 1577.

[4] Consolidated Law on Banking 385/1993, Art. 34(3); Credito Cooperativo, 'Cooperazione, mutualità et localismo – La formula imprenditoriale che caratterizza le BCC si basa sulla relazione' (*Credito Cooperativo*) <<https://www.creditocooperativo.it/page/il-credito-cooperativo/mutualita-e-territorio>> accessed 04/10/2021.

[5] See for example the Italian Civil Code 262/1942, Art. 2514.

[6] See Consolidated Law on Banking 385/1993, Art. 28(2-bis) and Art. 35, in connection with Italian Civil Code 262/1942, Art. 2514; see also Decree of the President of the Republic 601/1973, Art. 14, in connection with Legislative Decree of the Provisional Head of State 601/1973, Art. 26.

(Photo: [Dagny Walter](#))

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