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Reducing Financing Costs for Local Communities' Welfare

An analysis of the Swedish local government funding agency Kommuninvest

from the perspective of the social and public economy.

Submitted by: Esther M. Schmitt

Supervisor: Prof. Dr. Rafael Chaves Ávila

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Abstract

In the aftermath of the financial crisis of 2008, many European local governments faced difficulties in financing their investments due to both a partial bank withdrawal from the local government borrowing market and money transfer cuts from the central state to the local public sector. Additionally, the new Basel III regulations are likely to negatively affect the low interest borrowing of local authorities and the current European sovereign debt crisis raises questions about the low-risk qualifications of the local public sector. This study examines to what extent the Swedish local government funding agency Kommuninvest can serve as a model for cost-efficient and diversified funding for local governments from the perspective of the social and public economy. Kommuninvest, a cooperative of financial services regulated under private law, which is 100% owned and governed by Swedish local governments, procures funds from the capital markets through the issuance of bonds and allocates them through loans to their members. I have used qualitative empirical methods based on ad-hoc questionnaires. The results are divided into two groups. The first group deals with social economy concepts: I argue that Kommuninvest can be considered as, firstly, an entity which lies at the boundaries of the social economy concept, and secondly, as a *régie coopérative*, a public cooperative. The second result group suggests that Kommuninvest can actually serve as a model tool for diversified and cost-efficient funding for other local governments. The Swedish agency benefits from a unique institutional framework of internal and external enabling conditions. However, this unique framework constitutes a limit for a successful establishment of the Kommuninvest model as other countries have their own specific cultural, political and legal contexts.

Keywords: Kommuninvest, social economy, local government funding agency, cooperative society, *régie coopérative*, pooled finance mechanism, local finance, local government, cooperation

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1. Introduction

Subnational governments¹ play a key role in public investment. In OECD countries, 72% of the direct public investments were carried out by the local and regional authorities in 2012 (OECD, 2013). The local level constitutes the actual space where citizens experience and develop their cultural, social, economic and political community. The community's welfare is based to a large extent on the public services and infrastructure which are facilitated by the public authorities. Subnational governments' responsibility to promote and ensure this space is pivotal and depends on the degree of decentralisation, meaning the distribution of competences between the central, regional and local levels.

Important changes in funding of European subnational governments occurred in the aftermath of the financial crisis of 2008. The crisis had an impact on the traditional forms of the funding of local authorities in many European countries: central governments reduced their money transfer to subnational governments and banks withdrew partially from the local authorities borrowing markets creating, for instance in France, a veritable credit crunch. Spanish regional governments (*comunidades autónomas*) lost virtually all their access to the financial market from 2011 onwards in order to finance themselves through the issuance of bonds.

Central governments tried to remedy the difficulties of subnational authorities by financing their investment through existing or newly created public institutions. In Spain, the *Instituto de Crédito Oficial* (ICO) created a business line for the local authorities and in France, the government decided in 2011 to create a so-called public pole for the finance of local authorities (*pôle public de financement des territoires*). It took form in 2013 through the foundation of a new public bank for the funding of local authorities, the *Société de financement local* (SFIL) (Bouvier, 2013).

In response to the changes, sub-sovereign funding at capital markets and collaborative funding mechanism of local authorities are on the rise in Europe (FMDV, 2015; Vetter, *et al.* 2014).

In various European countries, local authorities searched, partly in reaction to the changing market conditions, to ensure direct access to the financial markets to overcome dependency on bank finance:

¹ In this study I use the term subnational governments as define by the OECD: “*Subnational governments are defined as the sum of states (relevant only for countries having a federal or quasi-federal system of government) and local (regional and local) governments.*” OECD, 2013:93.

- Various German cities issued bonds on their own (Hannover in 2009, Mainz in 2013, and Ludwigshafen in 2014) or pooled their debt demand to issue a so-called “*club-deal*,” where the participating entity is responsible for its share; the two Bavarian cities Würzburg and Nürnberg collaborated in a joint bond issuance of EUR 100 million in 2013 and the six cities of the *Land* North Rhine-Westphalia issued together a bond of EUR 150 million in 2014.
- 44 French local authorities issued together a single bond of EUR 600 million in 2012.
- In 2013, eleven French local authorities founded *Agence France Locale*, a local government funding agency, whose shareholders are the local authorities and which provides loans only to their members.
- In the United Kingdom, the *Municipal Bonds Agency* was founded in 2014 and the first bond issuance is expected in autumn 2015.

Additionally, the new Basel III regulations² are likely to negatively affect the current low interest borrowing of local authorities. Banks may heighten their margin due to raising their own funds requirements and higher refinancing costs, which will be reflected in a higher pricing of municipal loans (Deutscher Städtetag, 2015; Brand, 2013 and 2015; Herrmann, 2012; FMDV 2014). Moreover, the European sovereign debt crisis raises questions in banks of the low risk qualifications of the public sector and the risk and profitability of the present rather low margin business sector for banks (Brand, 2014).

In the context of the described present and expected changes, the creation of a local government finance agency based on the Swedish cooperative model *Kommuninvest* could be a solution, firstly, to ease the access to cost-efficient funding and, secondly, to diversify the funding resources of local authorities.

Kommuninvest was founded in 1986 as a membership organisation, which is 100 % owned and governed by the Swedish member municipalities and member county councils. The

² Basel III requirements were presented by the Basel Committee in December 2010 in the aftermath of the financial crises of 2007-2008 to create stability in the banking system through the increment of size and quality of the capital bases of credit institutions. The European Commission adapted this proposal through two directives “of an updated capital coverage directive” (CRD IV) and a new supervisory ordinance (CRR). “*These two new sets of regulations were adopted by the European Parliament and the Council of the European Union on 26 June 2013 and took effect on 1 January 2014*” (*Kommuninvest*, 2015a:28).

agency raises funds in the domestic and international financial markets and assigns them to their members through loans and, in addition to this, provides financial advisory services. Kommuninvest has served as a model to the newly created local government funding agencies in France and United Kingdom, which were developed with the advice of the Swedish agency's founder.

Yet, in the academic field, Kommuninvest has not raised much interest. Apart from Schnitzler (2013), who argues that the credit offering of Kommuninvest is 10-20bp cheaper compared to commercial banks and suggests expanding the tax exempt status to them, no further research had been conducted regarding Kommuninvest. An approach from the social and public economy is still missing.

This lack of investigation from the social economy is surprising, as the first local government funding agency, the Belgian *Crédit Communal de Belgique* (CCB), arose important interest between scholars contributing to social economy research in the 50s and 60s of the 20th century (Lavergne, 1926, 1955; Denuce, 1950; Van Audenhove, 1958a and 1958c; Milhaud, 1961; Lambert, 1962 and 1963). Lavergne designed the CCB as the very first *régie coopérative*³, a term which he coined to designate a public enterprise which is governed by cooperative principles, and assigned to the creation of CCB as much importance as to the famous *Rochdale Principles* from the cooperative set up in Rochdale in 1844 had for the cooperative movement (Van Audenhove; 1958a). This contribution from scholars about local government funding agencies from more than 50 years ago seems to have sunk into oblivion.

Additionally, interest of scholars of social and public economy in public enterprises is reemerging as the recent publication from CIRIEC⁴ about public enterprises (CIRIEC /Bernier; 2015) and the study of the Uruguayan public cooperative *Conaprole* (Martí, 2014) show. With the end of Fordism and the beginning of neoliberal policies, the public sector reduced its scope in entrepreneurial activities through the privatisation of a wider number of public companies. However, in recent years, the public enterprises and the role of the state in economic and entrepreneurial activities and policies also experienced a new interest from different actors and scholars (CIRIEC/Bernier, 2015). Municipal bond banks raised interests, mainly from North American-scholars, who studied the regional municipal bond banks of the USA and Canada

³ Lavergne, 1912; Lambert, 1962, 1963. For more information see chapter 3.2.

⁴ CIRIEC stands for *Centre International de Recherches et d'Information sur l'Economie Publique, Sociale et Coopérative* (= *International Center of Research and Information on the Public, Social and Cooperative Economy*); an international, non-governmental scientific organisation which promotes the international exchanges between and within the enterprise serving the collective or general interest and scholars.

(Cole and Millar, 1982; Gilbert and Pike, 1998). The research department of the *Deutsche Bank* recently published abstracts about the creation of a German local government finance agency concerning the advantages and disadvantages from a financial point of view (Zipfel and Mann, 2012; Zipfel, 2013).

Therefore, I argue that the study on Kommuninvest ‘hits the *Zeitgeist*’ and will contribute to a deeper understanding of local governments funding agencies. The Swedish agency is of special interest as it seems to be an entity of the social and the public economic sector due to its hybrid nature; it is both a co-operative society and owned by public authorities, which is traditionally considered to be an excluding criterion by the social economy doctrine.

1.1. Research questions and objectives

The general research question of this study is: To what extent can a local government funding agency be considered as a model for cost beneficial and diversified access to funding for European subnational governments in the present context of increasing costs and lack of diversification in the offering of the subnational debt market from the perspective of the social and public economy?

In order to answer this question, I conducted a case study on the Swedish local government funding agency Kommuninvest. The following subquestions are introduced:

1. What is the business model of the Swedish local government funding agency Kommuninvest?
2. What are the foundations of Kommuninvest’s success?
3. Is Kommuninvest an entity of the social economy?
4. Is Kommuninvest a *régie coopérative* as defined by Lambert?

The research objectives pursued in order to answer the questions are as follows.

The general purpose is to analyse a model of access to cost beneficial and diversified funding for subnational governments in Europe in the context of increasing costs and a lack of diversified offers on the subnational debt market. The general purpose shall be pursued from the perspective of the social and public economy.

Therefore, the specific purposes are:

1. Examine the business model of the Swedish local government funding agency Kommuninvest.
2. Examine the foundations of Kommuninvest’s success.

3. Discuss whether Kommuninvest forms part of the social economy or not.
4. Scrutinise whether Kommuninvest constitutes a *régie coopérative* as developed by Lambert.

1.2.Methodology and methods

To answer the research questions, I will use descriptive and analytic methodology and will apply qualitative empirical methods. I will conduct a case study on the Swedish cooperative and local government funding agency Kommuninvest. The work is based on both primary sources and secondary sources. To examine the cooperative society Kommuninvest, I used mainly primary sources such as legislative sources, statute of the organisation, annual business reports and the company's web page. Furthermore, I developed an empirical study based on fieldwork with an ad hoc questionnaire addressed to the founder of Kommuninvest, a Board Member of the co-operative Society, the Head of Executive Functions and Director of the subsidiary company *Kommuninvest i Sverige AB*; employees of the Research, Legal, Credit and Funding departments and a Chief Financial Officer of a member municipality of Kommuninvest. Moreover, ad hoc questionnaires were carried out with two actors in Spain and Germany concerning local governments' finance. The questionnaires have been executed through e-mails, face-to-face interviews and phone calls in the period of May to July 2015.

The following table gives an overview of the interviews:

Table 1: Interviewees

Number	Type
1	Founder of Kommuninvest
2	Board Member of the cooperative society <i>Kommuninvest</i> (owner organisation)
3	Secretary of the Board of the cooperative society <i>Kommuninvest</i> (owner organisation)
4	Employee of <i>Kommuninvest I Sverige AB</i> (daughter company), Risk Evaluation department
5	Employee of <i>Kommuninvest I Sverige AB</i> (daughter company), Research department
6	Employee of the <i>Kommuninvest I Sverige AB</i> (daughter company), Legal department
7	Employee of the <i>Kommuninvest I Sverige AB</i> (daughter company), Credit department
8	Chief Financial Officer of a member municipality in Sweden
9	Employee of the public Valencian Institute of Finance (Institut Valencià de Finances), Spain, Legal department
10	Lord Mayor of a German municipality

Source: Own elaboration

The secondary literature includes academic literature, articles of think tanks and institutions (*World Bank, Swedish Bankers Associations, Organization for Economic Co-operation and Development etc.*) and press articles.

This work contributes to the investigation field of social and public economics. To theoretically support my analysis of Kommuninvest, I will rely on various concepts. These include the concept of a local government funding agency, a local credit bank, social economy, a consumer cooperative for financial services and the concept of the *régie coopérative* by Lambert (1962, 1963).

1.3. Structure

The work is divided into seven parts. In chapter two, I will justify why it matters to study Kommuninvest. Before the outline of the theoretical framework, a brief literature overview is provided in chapter three. Chapter four provides an introduction about the Swedish social economy and the cooperative law, the local and regional governments and the funding of welfare. The fifth chapter is dedicated to Kommuninvest's study. I will examine the reason for its creation, the mission, vision and values, its business model as well as the foundations of success of Kommuninvest. Thereby, I will especially consider enabling internal and external factors of the agency's institutional framework. Chapter six draws on whether the local government funding agency forms part of the social economy and whether it can be qualified as a *régie coopérative* or not. Finally, I will present the summary and conclusions.

2. Why it matters to study *Kommuninvest*: A short overview of the European subnational finance and borrowing market

Across OECD countries, local and regional governments play a key role in public investment as is reflected by the figure of 2012: sub-sovereigns accounted for 72% of the direct public investment (OECD, 2013).

The political responsibility of subnational governments to promote and ensure this space depends on the degree of decentralisation; namely on the distribution of competences between the central, regional and local levels. The fiscal competences and financial autonomy of subnational governments rely upon the design of fiscal institutional framework between the national and subnational level. In federal states, subnational governments tend to have higher public investment shares than in unitary countries; an exception of the latter being present Japan and France (OECD, 2013).

Subnational governments' revenues derive from various sources with changing proportions between the four sources: taxes, transfers of the central state, user fees and property income. Two categories of predominant funding sources are presented: a dominant tax income model as the main source of income, such as in Spain (61.4% of tax revenues in 2012) and Sweden (60.6%) or a transfer-based revenue model, such as in the United Kingdom (71.4%), the Netherlands (71.2%) and Greece (65.3%). Italy has a mixed revenue system based mainly on both cited funding sources: taxes (45.3%) and the transfer of the central state (44.8%) (OECD, 2013).

The need of European subnational governments for new investment can be considered as important from various perspectives. Firstly, due to the financial crisis in 2008 and the current sovereign debt crisis, public direct investment per capita has significantly dropped down. On average, the public investment of subnational governments has dropped down -7% for the period of 2007-2012 and -15 % between 2010 -2012 in OECD-countries (OECD, 2013). In Europe, Ireland, Iceland and the Mediterranean countries (Spain, Italy, and Portugal) were particularly concerned by these developments. According to the OCED, the majority of countries sought to “*reduce subnational government's budget deficits and preserve welfare, health or education*” (OECD, 2013:100). The lack of subnational public investment may have long-term negative consequences for the societal well-being and economic development as well as of a deterioration of assets of subnational governments (OECD, 2013).

Secondly, investment needs of subnational governments are crucial in those countries where significant differences in the quality of public amenities and infrastructure between

regions or municipalities exist. These disparities are either politically not wanted and/or sanctioned by the constitution and legal framework.

For instance, in Germany, the doctrine of *Daseinsvorsorge* (services of general interests) coined by E. Forsthoﬀ (1938) describes that all public services, which are considered as “public interests,” should be provided by local governments to their citizens. The Federal Constitutional Court (Bundesverfassungsgericht (BVerfGE)) described it in its verdict from 10th September 2008 (BVerfGE 66, 248, 258) as a service “*which the citizens unavoidable need to secure a decent existence*” (BVerfGE, 2008, paragraph12).

However, disparity between German local authorities in the provision of public services and infrastructure grew and are increasing unequal living conditions for citizens. German subnational governments deplore a massive investment backlog (“*Investitionsstau*”) accumulated during the last two decades due to missing funds for investment. 118 billion euros is the actual amount of lacking investments in municipalities, as calculated by the German public bank *KfW* (DStGB, 2014). Half of the missing investments concern the traffic infrastructure. The second position in the ranking of lacking infrastructure concerns mostly schools and child care facilities, due to growing requirements and increasing demand over the last years (Maly, 2015 and DStGB, 2014). The current Minister of Economics, Sigmar Gabriel, set up a commission of experts, whose mandate is to develop public investment strategies, including a specific municipal investment programme (Federal Ministry of Economics, 2015).

Thirdly, the ageing of the population of the European Union will bring deep changes in age structure for the upcoming decades (European Commission, 2014). It will require public investment to cover the increasing needs in health care and nursing services of the aged population. Moreover, following the European Commission’s studies, investing in research and development in order to foster the industries’ and services’ productivity through the introduction of new technologies is pivotal to compensate for the shrinking labour force (European Commission, 2012, 2014).

For their long-term financing for larger investment projects, subnational governments may procure additional external funds. Borrowing is mostly done by financial institution; the access to direct borrowing schemes from the capital market is costly for smaller authorities (FMDV, 2014). The European local and regional borrowing market differs from country to country, so the borrowers are commercial banks, public banks, saving banks and cooperative banks. But, as described in chapter one, during and following the financial crisis of 2008, financial institutions reduced their borrowing activities, so that often European municipalities and regions had difficulties to carry out loan-financed investments, especially longer investments (FMDV, 2014; Deutscher Städtetag, 2015).

Additionally, the European banking sector is currently undergoing substantial changes due to the implementation of the Basel III requirement. The higher requirements for banks' equity capital are expected to turn municipal loans more expensive, despite its generally low-risk character (Deutscher Städtetag, 2015; Fritsche and Vetter, 2013, Brand, 2014). Municipal loans are, under commercial aspects, a less interesting market due to relatively low margins. According to the association of German cities, *Deutsche Städtetag*, German banks have already heightened their margin for long term loans for German municipalities (Deutscher Städtetag, 2015).

Therefore, in a context of increasing demand for European sub-sovereign public investment by simultaneously expected decreasing cost-efficient loan offerings, securing cost-efficient short and long term finances as well as diversifying funding sources for subnational governments are fundamental challenges.

3. Literature Review and Theoretical Framework

3.1. Literature Review

The Swedish local government funding agency has until today not raised much interest in the academic field. Apart from Schnitzler (2013), no further research has been conducted about Kommuninvest. Based on a sample of 26 member municipalities for the period of 2005-2010, empirical evidence suggested 10-20bp cheaper loans from the agency compared to commercial banks. Schnitzler argues that this effect is partly due to tax-exemptions which favour Kommuninvest over commercial banks and, therefore, suggests expanding the tax exempt status to the latter. An approach on Kommuninvest from social and public economics is still missing.

This lack of investigation from the social economy perspective is surprising as the first local government funding agency, the Belgian *Crédit Communal de Belgique* (CCB), aroused important interest between scholars contributing to social economy research in the 50s and 60s of the 20th century (Lavergne, 1926, 1955; Bartier, 1960; Milhaud, 1961; Lambert, 1962 and 1963). The *Annals of Collective Economy* (today: *Annals of Public and Cooperative Economics*) published several articles from the CCB managing director (Denuce, 1950) and secretary (Van Audenhove, 1958a and 1958c). The CCB was set up in 1860 by a Royal Order as a limited liability company “*to raise funds on the capital market by issuing bonds and to use the funds so raise to provide credit for municipal and provincial authorities (which formed the membership of the society) and intermunicipal associations*” (Lambert, 1962:4). Denuce (1950) described the history of CCB’s creation in 1860 as well as social and economic aspects. This was enriched by Bartier (1960) through a deepening on the creators and founders from CBB. Milhaud (1960) rewarded the “*astounding achievements of the Municipal Credit Society of Belgium*” (1960) after a hundred years of its existence, which he identified with: a successful adoption of the local governments’ principle of self-government to the institution, a provision of credit on very favourable terms all over the decades (aside from the two world wars), a successful cooperation between local governments and a continuous ability of the institution to adopt to changing circumstances.

A profound study on CCB’s legal and financial aspect showed that “*its peculiar nature has enabled it to combine the advantages of a private enterprise with those of an institution run with the general interest alone in view*”- this type of combination “*must seem revolutionary*” at its time of creation (Van Audenhove, 1958a:321). Van Audenhove (1958c) stressed that the

CCB was Belgium's first inter-municipal cooperation and set "*a tremendous development of cooperation between local authorities*" and led subsequently to a veritable movement of cooperation which counted with 144 inter-municipal associations in 1958.

Lavergne designed the CCB as the very first *régie coopérative* and assigned as much importance to the creation of CCB as to the famous *Rochdale Principles* from the cooperative set up in Rochdale in 1844 for the cooperative movement (Van Audenhove; 1958a). Lavergne coined the term *régie coopérative* at the beginning of the 20th century to designate a public enterprise which is governed by cooperative principles – he developed this namely on the analysis of Belgian public cooperatives. Lavergne's book "*L'ordre coopératif*" (1926) devotes one chapter to the CCB. Also, Lambert (1962, 1963) studied the Belgian experiences of public cooperatives and refined Lavergne's concept of a *régie coopérative*. These contributions from scholars about a local government funding agency from more than 50 years ago, seem to be sunk into oblivion.

Martí stressed that few *régie coopératives* exist around the world (Martí, 2014). This is perhaps the reason why few publications (apart from Lavergne's huge work on *régie coopératives*: Lavergne, 1925a, 1925b, 1926, 1937, 1955) have been made. Recently, a study on the Uruguayan national milk producer's public cooperative *Conaprole* was published (Martí, 2014). Other experiences with public cooperatives have been documented for Canada (Fay, 1937), Colombia (Zabala Salazar, 2004) and Portugal (Salazar Leite, 2011). Since 1939, Colombia is affiliated with numerous *régie coopératives* which offer public services (Martí, 2014). In Portugal, the public cooperative is called "*cooperativas de interesse public*" (= cooperative of public interest), which is regulated by a decree of 1984 and the cooperative law of 1996 (Martí, 2014). Yet, according to the Portuguese legislation, apart from public authorities, public companies, cooperatives, association and even users of the services or products may be members of such a public cooperative.

Moreover, the interest of scholars of social and public economy in public enterprises is reemerging as shows in the recent publication from CIRIEC about European public enterprises which analyses 15 different cases (CIRIEC /Bernier; 2015). With the end of Fordism and the beginning of neoliberal policies, the public sector reduced its scope in entrepreneurial activities through privatisation of a wider number of public companies. In recent years, the public enterprises and the role of the state in economic and entrepreneurial activities and policies also experienced new interest from different actors and scholars (CIRIEC/Bernier, 2015).

North-American scholars studied the throughout the 1970s established agencies (in US-terminology so called: municipal bond banks), which have a regional scope within the respective state (US) or province (Canada). Empirical studies were carried out on the impact of municipal bond banks on borrowing costs of participating municipalities: Cole and Millar (1982) show evidence for lower interest costs in times of market turbulence; Katzman (1982) indicates increasing benefits in cost-efficient lending offering of municipalities – inversely varying to the size and the rating of the authority. Gilbert and Pike (1998) compare standalone issuances with pooled finance through municipal bond banks of Canadian municipalities. The results showed similarities with previous American studies which showed evidence of cost-savings for municipal borrowers – especially when they were small, unrated and used long term borrowing.

In Europe, the research on local government funding agencies seems to be yet in its infancy. Žigiene and Grigaitis (2003) published a case study about the Danish agency Kommune Kredit. Perhaps, no further publications on European agencies were found as firstly, the interest for local government finance only significantly aroused in the last decade and secondly, as local government funding agencies seem to be a niche theme within local government finance research.

However, we find papers from practitioners of local government's pooled finance (Anderson and Andersson, 2005) as well as institutional papers on European pooled finance mechanisms for local and regional governments. For instance, the publications from the Global fund for cities' development (FMDV) (2014, 2015), the European Association of Public Banks (2011), the World Bank (El Daher, 2000; 2009), the Deutsche Bank (Zipfel and Mann 2012, Zipfel 2013), the Norddeutsche Landesbank (Nord/LB) (2015) and the United Cities and Local Governments (UCLG) (2009).

The Global fund for cities and development (FMDV), published in July 2015, a policy paper which benefits lie in categorising and characterising three types of subnational pooled financing mechanisms: a) the local governments' funding agencies which are used mainly in Europe and owned mostly by local government members, b) municipal bond banks used as dominant finance sources in the USA and Mexico and owned by the public sector entity, and c) modified pooled financing funds found in developing countries owned by the public sector, or based on Private-Public-Partnership, or a private entity (FMDV, 2015:13-14).

Anderson and Andersson (2005) contribute with an overview on the local government agencies with a focus on Nordic countries in Europe and evaluating factors of success as well as internal and external enabling conditions. They stress that successful implementation of an agency requires the highest standard of accounting and risk management and transparency policies of the agency and the local government members. Trust between the agency and the local government as well as between the local governments themselves are “*maybe the most important factor(s)*” and the enhancement of a “*positive peer-pressure in questions related to local creditworthiness*” (Anderson and Andersson, 2005:51).

The global report on decentralisation and local democracy (UCGL and the World Bank, 2009) mentions local governments funding agencies in the context of new funding methods of local governments. Due to the limitations of private-public partnerships (PPP) for public finance, local governments funding agencies are reemerging. Bond issuance for a city seems to be limited: “*bond finance can be feasible for a handful of well-managed local governments*” (UCGL and World Bank, 2009:297), but no further discussion or evaluation concerning the bundling of debts for the emission of municipal bonds is outlined.

Finally, the research department of the Deutsche Bank recently published abstracts about sub-sovereign bond issuance in Europe, underlying that municipal bond issuance is a more recent phenomenon, especially for Germany (Vetter *et al.*, 2014). Additionally, other publications focus on the creation of a German local government finance agency discussing its advantages and disadvantages from a financial point of view (Zipfel and Mann, 2012; Zipfel, 2013). Zipfel (2013) takes a stand which stresses the opportunities for German local governments – but argues that such an agency cannot solve general structural financial problems which many municipalities encounter.

3.2. Theoretical Framework

In the following part, I will develop the theoretical framework that provides the basis for the analysis of the cooperative model Kommuninvest. The concepts of local government funding agency (LGFA), the local credit bank, social economy, the co-operative society of financial services and *régie coopérative* will be presented.

3.2.1. Concept of local government funding agency

A local government funding agency (LGFA) is a financial institution created for and often by local public authorities. Mann and Zipfel (2012) stress the bundling of subnational governments’ demand for capital as the main activity of LGFA. Andersson and Anderson

(2005) define it as follows: “A *Local Government Funding Agency (LGFA)* is basically an organisation for channelling borrowed funds from the capital markets to local authorities for the financing of local public projects.” (Andersson and Anderson, 2005:4).

After Gerlich (2015), there is no standard definition for an issuing agency: “Key characteristics that are typical of agencies (e.g. a guarantee/liability mechanism from a regional or local authority), mean that distinctions are blurred, hampering a precise classification.” (Gerlich, 2015:8). The author therefore proposes a definition of agency based on three criteria: 1) a public mandate such as e.g. the economic development, 2) strong links with the public sector and 3) very high importance for the finance of the public sector (Gerlich, 2015).

To sum up, an LGFA seeks financial funds by issuing bonds on the domestic and/or international capital markets. These funds are usually allocated to local authorities through short or long term loans at cost effective conditions. From the perspective of an investor of the issued bonds, an LGFA operates in the so-called SSA-segment of the capital markets, the sub-sovereigns, supranationals and agencies segment.

In United Kingdom and United States, the terms municipal bonds agency or municipal bond bank are often used to refer to LGFA. Schnitzler define a municipal bond bank as “a financial intermediary that solely functions as a bridge between municipalities and capital markets” (Schnitzler, 2013:1).

The *Crédit Communal de Belgique (CCB)* was the first LGFA to be created in Belgium in 1860 from the initiative of the minister of finance Frère-Orban. The objective was to ease the access of local and regional governments to cost beneficial funding. Its creation represented a political and economic innovation of major importance, as the idea of a co-operative and institutionalised project to procure funding which was governed by and for local governments was not known in Europe up to this date (Van Audenhove, 1958c). CCB lent to municipalities and counties, but also to inter-municipal associations (Lambert, 1962). CCB existed until its merger in 1996 with the *Crédit Locale de France* to form the bank *Dexia*.

3.2.2. Concept of local credit bank

The concept of local credit bank describes a financial institution, whose mission is to provide loans to local and regional governments within cost efficient conditions. This financial institution is created on the initiative of local governments, of the central government or by a joint action. A great diversity characterises the provision of funds. They may stem from transfers of the central government (as a loan or as a non-repayable grant), of local governments, from the issuance of bonds on the markets, savings of citizens and/or from

income generated by non-profit orientation (Garrido Buj, 1987). Juridical status is defined by private, public or "mixed" law (Garrido Buj, 1987). According Buj Garrido (1987), institutions based on private law had a tradition mainly in Scandinavian countries.

A local government funding agency is one form or subcategory of the local credit bank.

The *Local Credit Bank of Spain (Banco de Crédito Local de España)* was established by public authorities and private institutions as a limited company to finance local entities in 1925. It was nationalised in 1962 on the basis of the Banking Act. Later, in 1971, on behalf of the *Ley de Organización y Régimen de Crédito Oficial (Law of Organisation and Status of Official Credit)*, the *Local Credit Bank of Spain* became an official credit institution under the legal form of a limited company. In 1991, the central government created the public bank holding *Argentaria*, where all public banks were gathered together. Between 1993 and 1998, *Argentaria* was privatised under the social democratic government of the Prime Minister Calvo-Sotelo. Later on, the commercial bank *BBV* merged with *Argentaria* to form the bank *BBVA*. Finally, in 2009, the *Banco de Crédito Local de España (S.A.)*, which had persisted as a subsidiary in *Argentaria*, was merged through absorption by the *BBVA*.

3.2.3. Concept and entities of the social economy

The first European experiences of social economy were had in the late eighteenth and nineteenth century as a self-help response by the working class to their difficult living conditions in the emerging industrial age. However, it took many decades before the first modern social economy concept was developed by the French economist Charles Gide. Social economy agents identified themselves as such for the first time in France in 1980 on the basis of common principles formulated in the *Charte de l'économie sociale*. At the European level, the CEP-CMAF (*Conference Permanent European Cooperative, mutual funds, associations and foundations*, since 2008: *Social Economy Europe*) formulated the *Charter of Principles of the Social Economy* in 2002 (Chaves and Monzón, 2012).

The Principles are the following:

- The primacy of the individual and the social objective over capital
- Voluntary and open membership
- Democratic control by membership (does not concern foundations as they have no members)
- Combination of the interests of members/users and/or the general interest
- Defence and application of the principle of solidarity and responsibility
- Autonomous management and independence from public authorities

- Use of most of the surpluses to pursue sustainable development objectives, services of interest to members or the general interest

From the academic field, an operational definition of social economy has been developed reflecting the principles of the *Charter of Social Economy Principles* and the theoretical advance, as presented in the following:

“The set of private, formally-organised enterprises, with autonomy of decision and freedom of membership, created to meet their members’ needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote, or at all events take place through democratic and participative decision-making processes. The social economy also includes private, formally organized organisations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them.” (Chaves and Monzón, 2012:23).

The principal entities of the social economy are cooperatives, mutual societies, non-profit associations, foundations and social enterprises.

Within the socio-economic and political system, we situate the social economy as the sector between the private capitalist economic sector/business sector and the public sector/government sector. The social economy, which had grown considerably at the beginning of the twentieth century, redressed during the years of the mixed economic system in Western countries between 1945 - 1975. The mixed economic system combined private economic freedom with public interference in economic activities to correct market failures. This Keynesian model implied social policies such as income redistribution and resource allocation as well as anti-cyclical policies (Chaves and Monzón, 2012). With the end of Fordism, the European and North American states introduced politics of retrenchment that reduced the welfare state (Pierson, 1994). The social economy re-emerged and experienced a considerable growth in the last decades, contributing to resolve new social problems such as long term unemployment, young unemployment, education and social exclusion.

3.2.4. Concept of consumer cooperative of financial services

A co-operative society is a member-based organisation which carries on economic activities to satisfy their members’ social, economic or cultural needs based on certain values and principles. In the academic field, there is no consensus on the cooperative society definition. Nachar (2013) gives an overview about the different concepts. Monzón (2010) highlights the

double condition as a member and user of the cooperative. That means that the users of the cooperative's services or goods are usually the members.⁵ The development of the cooperative business requirements is an instrumental activity which involves activity in the market with non-member third parties (Monzón, 2010).

Mostly, authors when defining a cooperative society, also refer to the Statement of the International Cooperative Alliance (ICA).⁶ In 1995, ICA approved the *Statement on the Cooperative Identity* which is represented in a resumed form in the following table:

⁵ For cooperative societies the term member and not to shareholder is used. Shareholder is usually the term to refer to non-cooperative companies.

⁶ ICA was established in 1895 as an independent, non-governmental organisation to represent and serve cooperatives worldwide (Fjørtoft and Gjems-Onstad, 2013). The organisation counts with 283 member organisations across 94 countries representing one billion of individuals (August 2015 and ICA, 2015).

Table 2: Statement of the International Cooperative Alliance on the cooperative identity of 1995

Definition	A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise
Values	Self-help, self-responsibility, democracy, equality, equity and solidarity
Principles	Are guidelines by which cooperatives put their values into practice
Principle 1	Voluntary and open membership to all persons able to use their services without discrimination (open door: double status of shareholder and user)
Principle 2	Democratic management by members with equal voting rights (one member, one vote) in primary cooperatives and democratic organisation for cooperatives of other level
Principle 3	Economic participation of the partners inspired by the cooperative values: Return surplus to members in proportion to the transactions of these with the cooperative; creation of a cooperative indivisible heritage; if there is any retribution compulsory retribution relating to the contributions of social capital, it will consist of limited interest
Principle 4	Autonomy and independence of the cooperative. The signing of agreements with other organisations and external investors shall not prevent the democratic control of the user members on the cooperative
Principle 5	Education, training and information
Principle 6	Cooperation among cooperatives, strengthening the cooperative movement by the development of local, national, regional and international structures
Principle 7	Concern for community. Cooperatives work for the sustainable development of their communities

Source: Monzón, 2012:15 and ACI, 2015

In regards to the definition about the cooperative identity of the ICA, cooperatives have a common identity based on values and principles. Yet, a threefold classification of cooperatives

differentiates three types of cooperatives based on the nature of activities and the relationship of the members to their cooperative: consumer cooperative, producer cooperative and workers cooperative (Fici, 2013). The consumer cooperative is perhaps the most classical form of cooperatives. The *Rochdale Society of Equitable Pioneers* was the first famous cooperative, which was established in England in 1844. 28 workers came together to provide themselves with elemental daily products at cost efficient conditions. Thus, they founded a consumer cooperative which eliminated the retailer and therefore produced cost effectiveness in the procurement chain. The workers then bought their products in the cooperative's own shop.

The consumer cooperative aims, therefore, to satisfy the consumption need of goods or services of its members at cost beneficial prices by previously manufacturing or buying them. The objective is thus to achieve savings in the members' income through less spending.

A producer cooperative aims at increasing the members' income. In order to do so, the members contribute their goods or services to the cooperative. The processing, transforming, marketing and/or selling of goods and services is organised by the cooperative aiming at bargaining faire prices to obtain a decent income for its members (Lambert, 1963).

The workers' cooperative's objective is to meet the employment needs of its members. Therefore, the cooperative activity is the work contribution of its members or, in other words, the activity of the cooperative is the employment of its members. These cooperatives are active in any economic field and produce or provide a grand variety of goods and services (Fici, 2013).

Summarising the above and adopting it to a consumer cooperative of financial services, the objective of such a cooperative is providing financial services to its members (sometimes also to third parties) at cost beneficial conditions. The objective is not profit optimisation, which shall be distributed to the members, but an optimisation of need satisfaction. The members of the cooperative are responsible for the economic-financial activities and take all important decisions democratically as anchored in its bylaws. In the General Assembly, the members, who are at the same time the users, exercise their right to vote regardless of their social capital contribution, but instead, based on the cooperative principle of "*one member, one vote*" (Sanchis, 2013). Generated profits are subjected to reinvestment in the cooperative in accordance with legal requirements. Additionally, the benefits can be used for redistribution among members in the form of a cooperative income according to the cooperative activities (instead of according to the capital contribution) (Sanchis, 2013).

Therefore, a cooperative of financial services is a mutual organisation, where the members of the entity are also the users of financial services. These financial services were later extended to non-members as well. The *raison d'être* of the cooperative is thus their non-profit

end, the satisfaction of the financial services needs of its members and not actually the profit earning itself.

3.2.5. Concept of *régie coopérative* by Lambert

Lambert, a Belgian economist and former president of CIRIEC, favoured that all economic activities should be organised according to the co-operative principles (Lambert, 1962). He also refined the concept of a *régie coopérative*, a public company inspired and governed by co-operative principles. His predecessor was Lavergne (1926, 1956), who had, since the very beginning of its academic dedication, developed the theory of a *régie coopérative*. A *régie cooperative* is a cooperative that is regulated under public law (Annals of Public and Cooperative Economics, 1973). Lavergne's teacher was the famous economist Charles Gide to whom he dedicates as well the publication *L'ordre coopératif* (1926), where he exposed its concept about a *régie coopérative*.

Lambert's concept is based mainly on the analysis of Belgian public co-operatives such as Lavergne's theory. A *régie coopérative* is an association whose members are public authorities such as local, regional and/or central authorities which execute economic activities like the production of goods or the provision of services, covering the costs by selling them (Lambert, 1962). Therefore, when Lambert refers to a *régie coopérative*, he does not refer to a certain legal form, but to an inter-municipal society or association of public authorities which fulfil the following criteria:

1. *“A public co-operative owes its creation essentially to a decision by a public authority; it is a decentralised public service.*
2. *As it is an association of democratic institutions, it necessarily applies the principles of democracy.*
3. *As its aim is to cover its costs from the sale of goods or services it provides, it is an undertaking.*
4. *It enjoys a considerable measure of administrative, commercial and financial autonomy.*
5. *It applies the principle of the open door except where technical considerations make it impossible.*
6. *Its aim is not to earn a profit, but to provide a service. The consequence is that, if it makes a profit and distributes it among public authorities, this can only be a secondary aspect of its activity – but nevertheless an aspect which renders it imperfect.” (Lambert, 1962:12,13).*

Lambert gives the *Crédit Communal de Belgique (CCB)* as an example per excellence for a *régie coopérative* (1963) (see chapter 3.2.). The CCB was ruled under private law as a limited liability company whose shareholders were the local and regional governments. It was democratically governed by its shareholders and established as a voluntary cooperation project between local authorities. As a local government funding agency, the CCB's aim was to procure funding on the capital market to lend the funds to its members and inter-municipal associations.

Lavergne denotes the *Crédit Communal de Belgique* was the world's first *régie coopérative* (Freitag and Pohl, 1994). Following Van Audenhove "*Lavergne attaches as much historical significance to the founding of the CCB as he does to that of the Co-operative Society of the Equitable Pioneers of Rochdale in the field of consumers' co-operation*" (Van Audenhove; 1958a, 322).

Lambert favours the integration of the *régie coopérative* within the doctrine of cooperativism. The co-operative movement traditionally excluded a public cooperative as it was considered contradicting the fourth Co-operative Principle: the autonomy and independence of public powers (ICA, 1995).

Both Lavergne and Lambert assume that the term *régie coopérative* is not too appropriate as the term *régie* is connected with a public company concept with a larger dependency of the State or with a direct management through the State by a minister or a deputy-major; whereas a *régie coopérative* enjoys larger independency of the state (Lambert, 1963). Lambert suggests the use of the term *public services co-operatives*: "*actually, the term [régie coopérative] is not too satisfactory, and it would be better to speak, as André Buttgenbach does, of "public services co-operatives"*" (Lambert, 1963:207).

However, Lambert kept using the term which Lavergne coined: "*Lavergne readily admits that the phrase is not perfect, but he notices that it has been quite commonly used, at least in co-operative literature. For the same reason, I also use it*" (Lambert, 1963:208).

Therefore, I will use the term public service co-operative as a synonym for *régie coopérative* in this work.

4. Swedish social economy, local governments and the finance of welfare

This chapter outlines characteristics of Sweden which are important to contextualise Kommuninvest. First, we will look at the development and definition of the social economy and the national cooperative law. Second, a brief introduction to the role of local and regional governments will be given. Third, the characteristics of the subsovereign debt market are illustrated.

4.1. The social economy

4.1.1. Development and definition of the social economy

It is not easy to translate the term social economy into the Swedish context (Pestoff, 2004). This is due to its historical development which has led to an unique institutional pattern:

“Sweden is the sole example of a country with a universal welfare state and a Social Democratic welfare state regime included in these efforts. As such it presents some unique features of the European social economy, including a large public sector, a strong etatist tradition and a weak but growing role for third sector providers of personal social services” (Pestoff, 2004:63).

There are profound links between the cooperatives and the third sector on the one side and the welfare state on the other side. As Stryjan and Wijström (1996) and Lohrendahl (1997) highlighted, in the first part of the twentieth century, the organisations of the third sector laid the groundwork for the establishment of the Swedish welfare society. However, as Pestoff states, when Scandinavian countries try to link their historical development to the originally French concept of social economy, they refer less to non-profit organisation or voluntary organisation as in continental Europe, but rather to *folkrörelser*, the popular movements (Pestoff, 2004).

Popular movements emerged in the nineteenth and in the beginning of the twentieth century in urban and rural areas. People came together to enhance the living conditions of the entire society through social change. In many cases, these movements lacked a legal form. Instead, some became registered as *ideell förening* (Pestoff, 2004).

Popular movements were member-based and democratically-governed social movements, which differ in various aspects from voluntary or non-profit organisations in other parts of Europe or North America. They were movements for ordinary citizens who understood the movement as a protest against the clerical, capitalist and bureaucratic dominating groups of the society (Pestoff, 2004). These movements operated in networks; for instance, with trade unions, political parties, association of adult education, consumer cooperatives and so on (Pestoff, 2004). They strived to enhance the living conditions based on self-help – an approach that opposed the middle and upper class charitable organisations. Furthermore, representatives of major popular movements had been incorporated in the public administrative bodies at the beginning of the twentieth century. From this, a special relationship based on collaboration and cooperation rather than on competition between the popular movements and the state developed and became known as the “*Swedish model*” (Lorendahl, 1997). These corporatist arrangements, developed within the social-political system, persisted until the 1990s in Sweden (Pestoff, 2004). Popular movements led to a very unique third sector.

The cooperative sector is also closely linked to the Swedish popular movements. The first cooperative, a consumer cooperative, was founded in 1850 (Fjørtoft and Gjems-Onstad, 2013). Swedish cooperativism, as in other Scandinavian countries, developed mainly within three sectors: consumer, housing and agriculture (Fjørtoft and Gjems-Onstad, 2013). Recently, a second wave of creation of cooperatives in the social field was observed. In 1991, the conservative party broke the continuity of social democrats ruling at the general elections. The party adopted policies of *systemsifte* (transformation of the system) which resulted in budget cuts for the provision of public services to then be transferred to firms or the third sector (Stryjan and Wijkström, 1996). Because of this, the state broke with its almost monopoly on the provision and distribution of social services, which represented the core element of the welfare state from the 1950s onwards (Stryjan and Wijkström, 1996). These had been the entities of the social economy, which paved the way for the universal welfare state. However, with the establishment of a strong public sector, these entities withdrew from the sector. The result of the *systemsifte* was a “*new Swedish model*,” a welfare state where public provision is replaced to a large extent by cooperatives and non-profit organisations. In particular, many small scale so-called social service cooperatives were created by citizens to provide child care, elderly care and other social and medical services to their members and third parties (Pestoff, 2004). Lorendahl characterises this transformation process as “*cooperativisation*,” as it is based mainly on cooperatives, rather than privatisation, which is based on corporate firms (Lorendahl, 1997). The withdrawal of the state led to a growing share of the third sector – a phenomenon which is well-known in the theory of social economy (see chapter 3.2.3.).

After Sweden joined the European Union in 1995, the Swedish government gave a mandate to a parliamentary committee to conduct a study on the Swedish definition of the term social economy. The Swedish perception of social economy is slightly different from the European Union definition, as Pestoff states:

“However, the definition proposed is more akin to ‘non-governmental organisations’ or NGOs than to ‘non-profit organizations’ or NPOs. Unfortunately, it fails to include the more specifically economic aspects of the activities of such organizations. But the term ‘social economy’ is often understood in Sweden as the economic and/or social activities of popular movements.” (Pestoff, 2004:65).

Unlike some European countries such as Spain and France, Sweden does not have a law on social economy.

Despite the differences between the countries of the European Union regarding the historical development of the social economy sector and its concept, the last report of the *European Economic Social Committee* (Chaves and Monzón, 2012) tried, on basis of a common definition (see chapter 3.2.3.), to quantify the contribution of the social economy to the whole economic sector. In Sweden, the social economy sector plays an important role as an employer: it accounts for 507,210 workplaces for 11.16% (2009-2010) of the total paid employment; because of this, Sweden leads the European Union’s ranking of the social economy sectors’ working population (average of EU-27: 6.53%) (Chaves and Monzón, 2012).

4.1.2. Cooperatives and the Law on Economic Associations

Cooperativism has a tradition in Sweden which traces back to the middle of the 19th century. Cooperatives are not constitutionally guaranteed, but the right of freedom of association is traditionally strongly protected by customary law (Fjørtoft and Gjems-Onstad, 2013). In 1985, the first act on cooperatives was enabled; right now the fourth generation is in vigour and the fifth is forthcoming – since the government established a law commission to revise the latest cooperative law which presented its report in 2010 (Fjørtoft and Gjems-Onstad, 2013). However, Sweden does not have a cooperative act in a strict sense and a cooperative is not a particular legal form in Swedish law; most companies which could be calcified as cooperatives, as they apply to a wide extent of international cooperative principles, are regulated under the Act on Economic Associations from 1987 (lag 1987:667 om ekonomiska föreningar) (Stryjan, 2015; Fjørtoft and Gjems-Onstad, 2013). Additionally, Sweden also implemented the

European Unions' regulation 1435/2003 on the Statute for European Cooperative Society (SCE) through a separate act: the law 2006:595 om europakooperativ of June 1st, 2006 (amendments 2008:10; 2009:17). Until today, the interest for the legal form of a European Cooperative Society seems to be rather low. Moreover, only one co-operative was created in Sweden on the basis of this legal form (Stryjan, 2015). The following section involves the Act on Economic Associations.

The Act on Economic Associations was written while keeping co-operatives in mind, but regulates a broader range of entities which carry out economic activities – this differs from a corporate firm (*aktiebolag*). After Stryjan, the act:

“(...) defines an incorporation form in terms that are broader than the strictly cooperative, that is terms that are applicable for, and resorted to by a broad range of actors—from purely commercial ventures (e. g. freight companies, industrial parks and retail chains) to voluntary associations (that are entirely unregulated in Swedish law). Consequently, central cooperative features are often left unregulated or proposed as a mainstream rule with the qualifier "unless the bylaws contain a different provision".” (Stryjan, 2015:4).

The act gives a detailed regulation, but safeguards at the same time a wide extent of freedoms for cooperatives to act upon. As in most EU countries, housing, tenant, mutual assistance for unemployment and bank and insurances cooperatives are subjected to special acts (Stryjan, 2015).

The purpose of an economic association is to promote economic interests through economic activities based on members' participation (chapter 1, 1§). Members can be consumers or other types of users, suppliers or workers who participate through their own work or in other manners (chapter 1, 1§). Unlike the co-operative doctrine, which highlights the *needs of its members* of cooperatives (instead of the *interests of the members*) and are therefore considered as *not for profit organisations*, the Act on Economic Associations defines the economic entities as *for profit organisations*. Hence, specific co-operative features have to be introduced by the members in the cooperative's bylaws.

The economic associations are free to carry out their business activities in any field (Fjørtoft and Gjems-Onstad, 2013). The field of activity has to be exposed in the bylaws. A

particularity is that economic associations are not subjected to official branch classification as in several other countries; for instance, Spain. The same can be noticed when it comes to economic interactions with non-members concerning the services or goods which the cooperative provides or produces. The law does not stipulate any limitations; even patronage dividends can be handed out to non-members. Yet, there might be restrictions for certain branches (Stryjan, 2015).

A minimum of three persons of natural or legal character are required to set up an economic association. It is not necessary that all founding members are users of the cooperative. According to Stryjan: *“The definition in 1§ of the law suggests that most founder members should be realistically expected to participate in the association’s envisaged economic activity for the association to be entered on the register of economic associations.”* (Stryjan, 2015:6). The membership has to be based on the principle of voluntary and open membership. No minimum amount of capital is required for the set-up of the economic association. The newly created association’s bylaws have to be approved by its members. The association has to then apply to be registered at the *Bolagsverket*, the Swedish Companies Registration Office in a separate register; once registered, economic operations are protected through a limited liability.

Economic associations are democratically governed unless the bylaws indicate differently. Hence, the cooperative principle of *“one member, one vote”* is applied. Members have the right to decide upon the association’s affairs at the General Assembly, which must be held yearly (7 chapt. 4§). Members elect the members of the Director Board from themselves (unless the bylaws state it differently). The Director Board has executive functions to carry out the guidelines of the economic activities and the representation of the organisation. A CEO may be appointed by the Board (in companies with over 200 employees this must happen). CEOs and managers are usually not members (Stryjan, 2015). Furthermore, the members approve the yearly income statement and financial statement, decide whether to discharge liability of the board, decide about the allocation of surpluses or losses and decide upon matters which the bylaws provide. The General Assembly elects, unless the bylaws stipulate it differently, external auditors which control and audit the activities of the company. No other supervisory organ is stipulated in the act.

The share capital of the economic association consists of the total amount of the member shares, whose value is determined by the members in the bylaws. Regarding other financial aspects, the law *“does not set binding rules, beyond the requirement that such rules should be approved by the assembly and included in the bylaws, and defining the procedure for changing once-approved rules”* (Stryjan, 2015:7). The law suggests that members can

contribute through yearly membership fees and patronage dividends for members and non-members, if so decided by the assembly.

Unlike in some EU countries such as Belgium or Italy, where the legislation awards special tax treatment to cooperatives, and takes into account the special identity of cooperatives (Fici, 2013), the Swedish legislation does not provide tax benefits for economic association with cooperative character. The Italian law distinguishes between “mutual cooperative societies” and “other” or “not mainly mutual cooperative societies.” The former ascribes the typical characteristics of cooperatives, which must be fulfilled by the cooperative in order to benefit from special tax treatment – this means “*restrictions on activity with non-members and on the distribution to members of dividends on the paid-up capital, of reserves, and of residual assets in the case of dissolution*” (Fici, 2013:59). The Swedish Law on Taxation aspires to treat economic associations the same way as joint stock companies (aktiebolag), therefore, no significant differences persist among them (Stryjan, 2015).

4.2. Local and regional governments and their role in providing welfare

Sweden is a decentralised unitary state, where subnational governments have strong political weight within the political system. Local and regional governments traditionally have their own administration and enjoy broad autonomy. The legal framework, which determines the grade of autonomy and the competences of subnational governments, is established by the constitution and the national parliament (Riksdag) through legislation (Ministry of Finance: 2005). The Swedish constitution grants in article 2 and 7 local self-government and the right of local governments to levy taxes which provides them a certain financial independency from the state.

Article 2

(2) Swedish democracy is founded on freedom of opinion and on universal and equal suffrage. It shall be realised through a representative and parliamentary polity and through local self-government.

Article 7

(1) There are primary and regional local government communes in Sweden. The decision-making power in the communes is exercised by elected assemblies.

(2) The communes may levy taxes in order to perform their tasks.

(Monday Morning, 2012:26)

The Local Government Act (LGA) (1991:900), which came into force in 1992 and has undergone several amendments, regulates the competences of municipalities and county councils. It stipulates that local governments from the primary and regional level may attend to matters of general concern which are related to their geographical area and may not be undertake activities which enter into the state competences (see chapter 2 of the LGA). The subnational level consists of the local level including the municipalities (*kommun*) and the regional level including the county councils (*landsting*) (chapter 1 of the LGA).

The 290 municipalities (*kommun*) differ substantially in size and population (Schnitzler, 2013). Swedish municipalities have 32,478 (2011) inhabitants on average, which makes them large communities compared with the European average (Monday Morning, 2012). The competences of municipalities include the provision of a wide range of public goods and infrastructure: primary and secondary education, child care, assistance for elderly, aid for people with disabilities, public housing, local infrastructure and technical services (water and sewage, gas and electricity, local and regional transport, collection and disposal of garbage). The Swedish municipalities have a high proportion of the total public spending with 47.5% compared to the OECD average which accounts for 23.2% (Monday Morning, 2012).

The twenty county councils are responsible for health services, which account for 90% of their budget. Additionally, they take care of public transport, culture, certain kinds of middle-level education and regional development.

Two thirds of the activities of local and regional governments are funded by the income tax of the local community's residents. The constitution guarantees Swedish local governments to levy their own taxes and fix the rates. Other sources of income are the budgetary allocations from the central government, fees on social and medical services as well as financial income, which derives from interests and the sale of public enterprises shares (Ministry of Finance, 2005).

The budget of a municipality or county council is a key element of the government's policy. On the basis of this budget, priorities are marked, resources are allocated and the political agenda for the upcoming year is defined and, ultimately, the specific action programme for the upcoming year will be set up.

4.3. Financing welfare and the subnational debt market

The Swedish Local Government Act regulates in chapter 8 the borrowing from local and regional local governments. No superior state body has the competence to supervise or to approve the borrowing and financial activities of the sub-sovereigns (Åkelius *et al.*, 2000). For larger investment projects such as infrastructure, public sector housing and energy supply, local governments procure external funding on the subnational debt markets. Municipalities are not restricted to use any financial instrument available in the national or international markets (Åkelius *et al.*, 2000).

However, chapter 8 of this act limits the scope of financial actions of municipalities and county councils by requiring balanced finance (so-called “golden rule” of public finance). According to Åkelius *et al.*, this has two main objectives: “*The aim of the balance requirement is that each generation must bear the costs of services which they themselves vote for. Another aim is to create confidence among lenders in the ability of the municipalities and county councils to fulfil their financial obligations*” (Åkelius *et al.*, 2000:374). Long-term financial stability is also the objective of the prohibition of raising loans by municipalities and county councils for operational purposes. It also limits the borrowing of local authorities regarding speculation or profit generation on the basis of arbitrage (Åkelius *et al.*, 2000).

Three main sources of funding exist for Swedish local and regional authorities to borrow: from commercial banks, to take out a loan -since its creation in 1986 - from Kommuninvest and to issue bonds. However, only large cities like Stockholm, Gothenburg and Uppsala issue bonds regularly (Schnitzler, 2013). Other municipalities do not issue bonds, as they are too small to finance the bond placement and therefore rely on banks or other financial institutions such as life insurance companies (Åkelius *et al.*, 2000). The local authorities and the companies owned by them normally approach different lenders to obtain the best price for their borrowing programme; so they act totally commercially in the procurement of funding. Thereby, municipalities “*borrow without a special security*” (Åkelius *et al.*, 2000:376).

As displayed in the following table, we find four categories of banks in Sweden and the respective number of them:

Table 3: The Swedish banking system

Bank type	2000	2014
Swedish commercial banks	22	38
Foreign commercial banks	21	29
Savings banks	79	48
Co-operative banks	2	2
Total number	124	117

Source: Own elaboration on the basis of Swedish Bankers' Association: 2015b.

When looking at the numbers of entities presented in table 1, commercial banks have the biggest weight in the Swedish banking system. They are the main financier of local authorities (Schnitzler, 2013). The “big four“ are Nordea, Handelsbanken, SEB and Swedbank. The second pillar of the banking system consists of savings banks, which are characterised by a large number of small size entities. The number of institutions has decreased due to mergers in the period of 2000 to 2014 from 79 to 48 entities (Swedish Bankers' Association, 2015). Despite a long tradition of cooperatives in Sweden, only two of them are co-operative banks according to the information of the Swedish Bankers’ Association (e.g. JAK Members 38,000 members in 2011), but the European Report on social economy in the European Union states that there are 55 entities (Chaves and Monzón, 2012). The weight of Swedish co-operatives definitely lies in the consumption, housing and social services sector (Fjørtoft and Gjems-Onstad, 2013).

Moreover, there are institutions which the Swedish Banking Association accounts separately as the “*other credit market companies*” (Swedish Bankers Associations, 2015). Within this category, there are 35 finance companies, the corporate institutions and Kommuninvest as a local government finance institution. All corporate and local government finance institutions share in common their procurement funding by issuing bonds or certificates.

5. The local government funding agency Kommuninvest

This chapter presents the Swedish local government funding agency Kommuninvest. The focus will be set on the reasons and the context of Kommuninvest's creation, the legal and organisational structure, its governance model and its economic activities.

5.1. Context and creation

In the 1970s and 1980s, the Swedish government began, after a phase of economic recession, to introduce austerity policies. Against this background, the need was born for a secure source of financing for local governments independently from the central state or banks (Kommuninvest, 2015). The initiator of Kommuninvest Lars M. Andersson, was Head of Finance of a local authority in the neighbouring county of Örebro. He describes the circumstances as follows:

“When we did financing of the cities, I could see that it was very difficult to make the different providers of credits to compete. At that time, it was mostly banks that gave credit to local authorities. I thought that the price of these were far too high, because they had margins of about 250bn for a loan. Sometimes, when you get the same price from every one you would think this is normal.” (Interviewee 1, 29/05/2015).

Andersson formed a steering group together with local politicians to evaluate the idea of a financing vehicle which would allow small municipalities to procure funds directly from the capital markets. New rules deregulated the financial markets and now permitted access to financial markets (Interviewee 1, 29/05/2015). Finally, Kommuninvest was founded in November 1986 as a co-operative project between nine municipalities and the Örebro County Council in the province of Örebro. The objective was to pool the debt demand and procure joint funds from the capital market through the issuance of bonds.

Kommuninvest was developed from scratch, as the founding members did not know their Danish, Dutch and Belgian counterparts⁷, which were founded many years before (Interviewee 1, 29/05/2015). Van Audenhove (1958c) noticed that the foundation of the *Crédit Communal de Belgique*: “was established as a practical expedient to solve a practical problem; its founding was not governed by any doctrinal considerations” (Van Audenhove, 1958c:464). I make the same conclusion regarding Kommuninvest's creation.

⁷ The *Crédit Communal de Belgique* was founded in 1860, *KommuneKredit* (Denmark) in 1898, *BNG* in 1914 and *NWB Bank* in 1954 (both Netherlands).

During the start-up phase of Kommuninvest, the founders faced various obstacles. Andersson (29/05/2015) highlighted different market barriers such as those of administrative and regularity character and those of resistance of competitors. Moreover, to build up the necessary trust between the members was also a major challenge. The following table presents the obstacles related to the internal and external stakeholders, which Kommuninvest had to overcome.

Table 4: Stakeholders and the obstacles in Kommuninvest's foundation process

Stakeholders	Obstacle
<i>Internal stakeholders</i>	
Members	Lack of trust, lack of experience in cooperation, rivalry between neighbouring local authorities
<i>External stakeholders</i>	
Central government	Worried about its own project of local authorities, doubting the feasibility of such a project
Financial supervising authority	Resistance to give regulatory permission, questioning legitimacy
Civil servants of the Ministry of Finance	Resistance, believe that local authorities can't manage their own financial institution, fears of loss of control
Banks	Resistance, fearing the loss of market share creating market barriers

Source: Own elaboration based on the interview with interviewee 1, 29/05/2015.

5.2. Objectives, mission, vision and values

Section 1 of the bylaws of the co-operative society states the objective of Kommuninvest, which is the fulfilment of a common vision and business concept. The objective is the promotion of the members' financial interests through the best possible borrowing conditions and financial advice.

The mission is, as indicated by the bylaws, to finance the development of the local and regional sectors in Sweden for a sustainable and beneficial society. Kommuninvest's vision is to become the best organisation in financing local governments world-wide.

The co-operative values democracy, self-help, self-responsibility, solidarity, equality and equity as defined by the International Co-operative Alliance (see chapter 3.2), are reflected in Kommuninvest's value system. Kommuninvest is a project which is fundamentally grounded on the idea of self-help and solidarity:

“I think the most important value is solidarity. The whole beginning of Kommuninvest is based on solidarity between local authorities to make it possible to lend money for investment” (Interviewee 2, 09/06/2015).

The member of the Director Board of the cooperative society Kommuninvest, who is a politician of the Municipality of Vindeln, considers the values of solidarity and self-responsibility as “*very important*,” followed directly by democracy and equity. Self-responsibility is a core element of the institutional framework in which the Swedish municipalities are embedded. This value could be considered the other side of the coin of the large, constitutionally-granted autonomy of local governments. Kommuninvest is governed by local authorities who are responsible for the economic activities and grant needed for the companies liabilities.

Moreover, the Director Board' member stresses Kommuninvest's particular understanding of democracy and equity (Interviewee 2, 09/06/2015). Despite the differences in size and capital contribution of the municipalities, each member has the same voting right in the General Assembly:

“It shows that everyone has the same value. (...) Of course it has been discussed. But we felt that is a good rule. We think that is a good type of democracy.” (Interviewee 2, 09/06/2015).

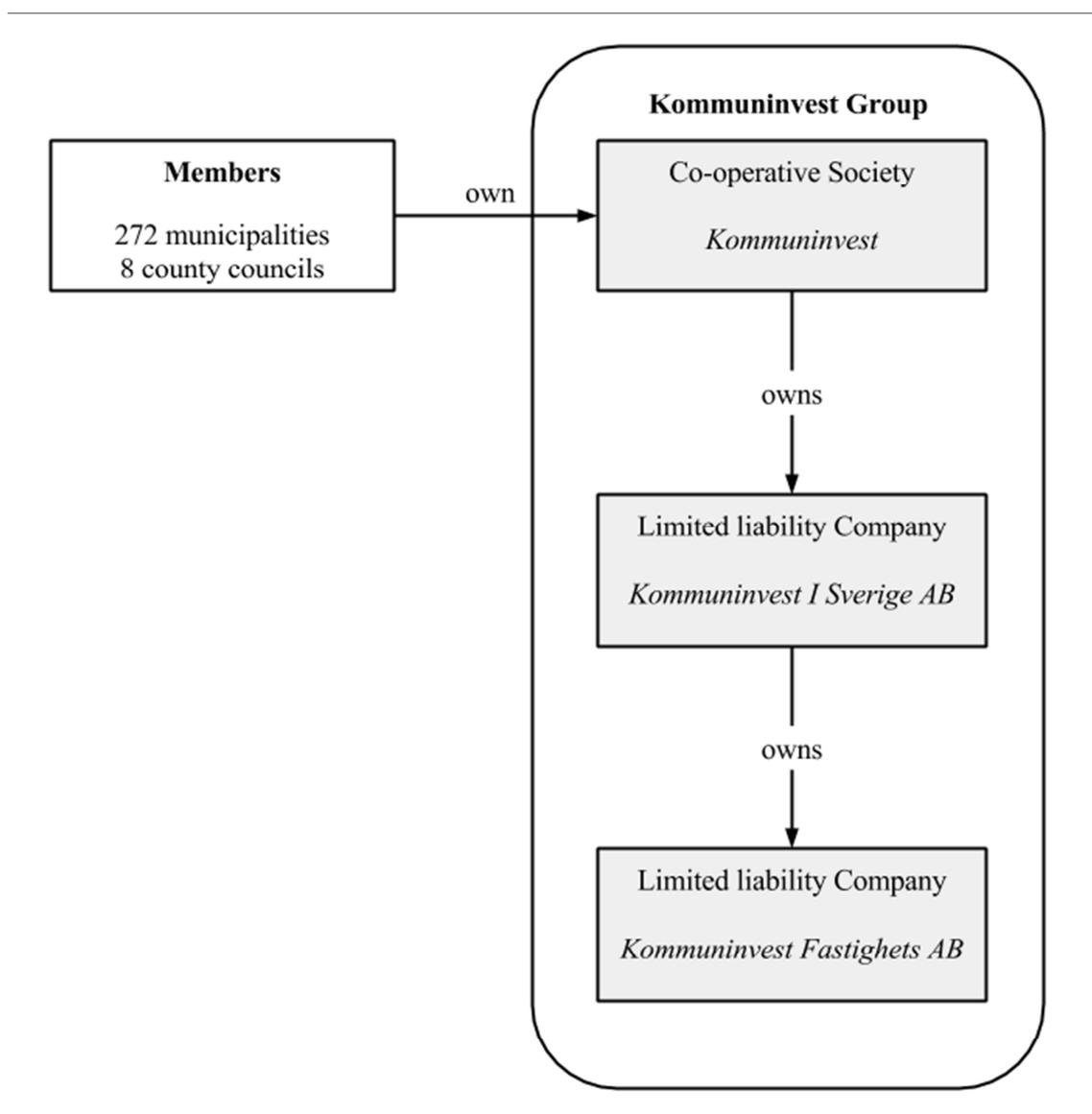
According to its internet site presentation, Kommuninvest feels committed to the following values: democracy, equality, innovation, efficiency and professionalism.

5.3. Legal and organisational structure

Kommuninvest is arranged into a particular legal and organisational structure which is composed of two core entities, the cooperative society *Kommuninvest* and the limited company *Kommuninvest I Sverige AB*, which together form the Kommuninvest Group. This organisational structure facilitates the separation of the political from the business level. It thereby prevents or at least reduces the political influence of granting loans to municipalities, so only socio-economic and financial aspects will be the criteria for lending to local authorities.

Kommuninvest's legal and organisational structure is displayed in the following table:

Table 5: The legal and organisational structure of Kommuninvest



Source: Own elaboration.

The co-operative society (Kommuninvest ekonomisk förening) is the parent company and is 100% owned by its members, the local and regional governments. The co-operative society is responsible for managing the joint and several guarantees, which constitutes a key element of Kommuninvest's high creditworthiness. Moreover, the members decide on Kommuninvest's objectives as well as the business guidelines which will be carried out by the daughter company *Kommuninvest I Sverige AB*.

Kommuninvest is a consumer cooperative of financial services whose members (=owners) are also the users of the society. Associations or companies owned by the members or which are closely linked to them can also take out loans from Kommuninvest. The

cooperative society is regulated under the Law of Economic Association of June 11, 1987, n. 667, (in Swedish: Lag (1987) om ekonomiska föreningar), which regulates most Swedish cooperatives. The co-operative society was founded in 1993 as the ownership organisation for the limited liability company which existed previously. Opting for the legal form of a co-operative society was a pragmatic decision, in order to adjust more easily to the growing number of new members (Interviewee 1, 29/05/2015).

The daughter company *Kommuninvest I Sverige AB* is held 100% by the cooperative society. The company carries out the economic activities of Kommuninvest Group. It deals with the issuance of bonds and the granting of loans and financial advice for the local authorities. At the end of 2014, the company had 77 employees, whereas the co-operative society does not have any employees (Kommuninvest, 2015a).

Kommuninvest was established as a limited company and adopted the status of a credit market company (and not that of a bank) in June 1995. Its activities are regulated under the Swedish Banking and Financing Business Act (2004) and are supervised by the Swedish Financial Supervisory Authority *Finansinspektionen* (FI) (Swedish Central Bank, 2014).

The corporation owns 100% of *Kommuninvest Fastighets AB*, which is a *real estate group company*. Its main task is to manage the property of Kommuninvest Group (Kommuninvest: 2015a).

Kommuninvest's legal structure is regulated by private law. In Sweden, no public law company status is available for the public sector. The nature of a private company guarantees a lot of independency from the central state. At the same time, as Kommuninvest is publicly governed by the public sector, the company is run for the general interest purpose.

5.4. Governance model

This chapter presents the governance model of Kommuninvest. The presentation is set on the co-operative society as a) an entity of the social economy and b) the subordination of the limited company to the co-operative society.

5.4.1. Members

According to section 3 of the cooperative's bylaws, members of the co-operative society can only be Swedish municipalities (*kommun*) and county councils (*landsting*). At the end of 2014, Kommuninvest accounted for 272 municipalities (out of 290) and eight county councils

(out of twenty). They currently represent 94% of Swedish municipalities and 40% of the county councils.

Kommuninvest's members are quite diversified in terms of size, number of inhabitants and wealth. The smallest municipality Bjurholm (2.451 inhabitants in 2014) is also a member of the second largest Swedish city Göteborg (541.145 inhabitants).

5.4.2. Governance bodies

The decision-making and supervisory bodies of the co-operative society are: the General Assembly, Director Board, Managing Director, Auditors and the Nominating Committee (section 9 of the bylaws).

The policy-making body of the co-operative society is the General Assembly, which is composed of all its members. A session is held at least once a year (section 10, bylaws). Members are represented in the General Assembly through a politician of the respective local or regional government. Therefore, one can find every political colour in the General Assembly, reflecting the political landscape of the local and regional level.

Each member has one vote in the General Assembly independent of its size, lending volume and capital contribution (section 10 of the bylaws). The members decide the society's affairs. For instance, they adopt the "*owner's directives*," which give the guidelines for the economic activities of the daughter company, they adopt the financial statement and balance sheet of the cooperative, decide on the allocation of surpluses, elect the Board Members and determine the fees of the Board Directors, Auditors and members of the Nominating Committee (section 10 of the bylaws).

A Nominating Committee is responsible for the preparation of the meeting of the General Assembly. "*The Board is responsible for the organisation of the Society and the management of the Society's affairs*," as developed in section 11. The appointment of the Board Directors is proposed by the Nominating Committee; it shall consider the actual political landscape of the member municipalities.

The Board shall appoint the managing director of the co-operative Society. He is responsible for the day-to-day management of the society.

The General Assembly appoints one authorised public accountant or registered accounting firm and two lay auditors. The Auditors have to “*examine whether the activities have been conducted in an expedient and, from a financial perspective, satisfactory manner and whether the activities have been conducted in accordance with rules and principles of municipal law relating to municipal activities conducted through companies*” (section 13 of the bylaws).

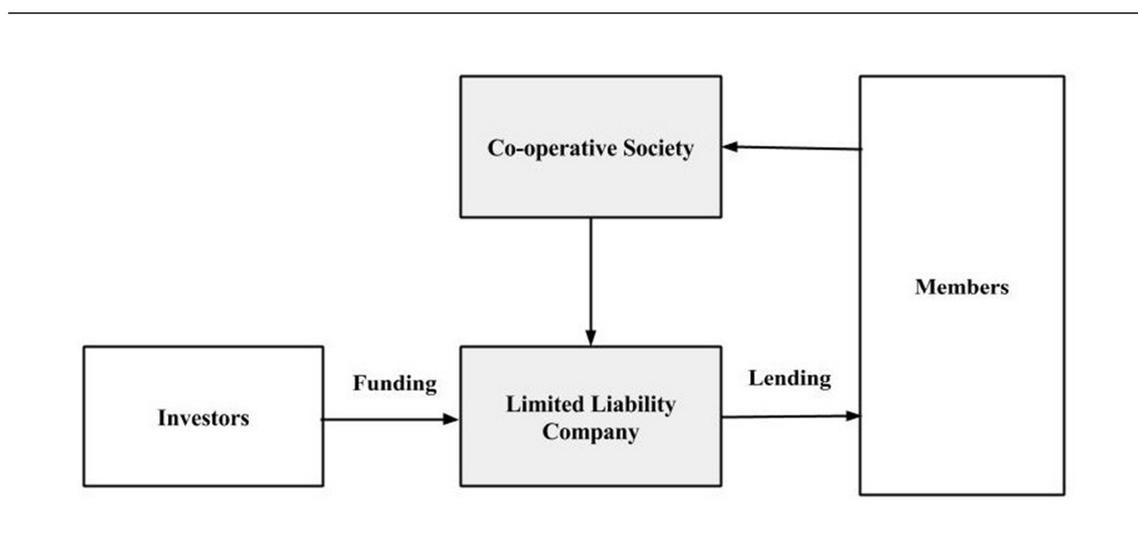
5.4.3. Incompatibility

Employees of the limited company are not eligible to fulfil a position at the Director Board, the Nominating Committee or as Auditors of the co-operative society (section 9 of the bylaws). Because of this, Kommuninvest aims to maintain its dual organisational structure which shall ensure the independency of the operational business activities (especially the lending) of Kommuninvest from the political sphere, as well as the members’ local and regional governments.

5.5. Areas of activities

The business operations are carried out by the credit market company *Kommuninvest I Sverige AB* based on the “*owner’s directives*” which adopt the cooperative’s General Assembly. The business model of Kommuninvest is based on a very simple idea as shown in the following chart:

Table 6: The business model of Kommuninvest



Source: Own elaboration.

The limited liability company borrows funds from the financial market mainly through the issuance of bonds. The funds are granted as short and long term loans to the members or the companies and associations owned by the members.

5.5.1. Funding

Kommuninvest procures funds through issuances of bonds and commercial papers in the domestic and international financial markets. Kommuninvest's borrowing schemes benefit *Kommuninvest I Sverige AB* with the highest credit rating of AAA/Aaa along with a stable outlook from Moody's and Standard & Poor's and a favourable demand for low-risk issuers (Kommuninvest: 2015c). The total borrowing amounted to SEK was 297.1 billion (EUR: 31 billion) in 2014 which presents a growth of 14.01% compared to 2013. This demonstrates that Kommuninvest is a significant issuer of securities in the international investment market in the category: "*Sovereigns, Supranationals and Agencies*". Kommuninvest lies in the range of its Nordic counterparts which have a total funding volume of between EUR 10-45 billion in 2014.

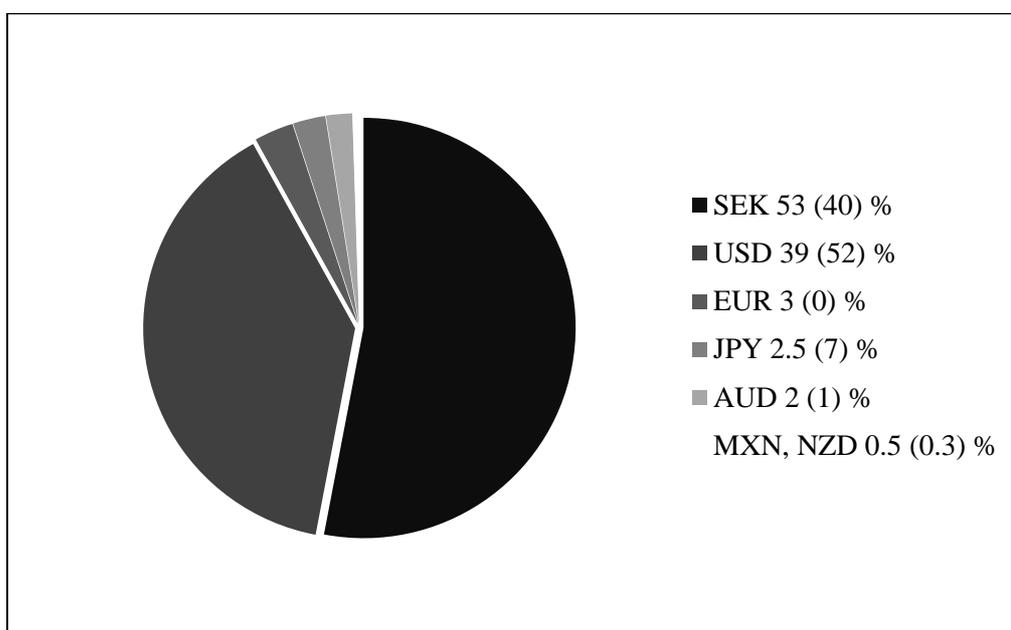
The funding objective is to procure financial means at favourable terms in order to transform them into cost-efficient lending for its members:

"Kommuninvest's task is to borrow money in the Swedish and international capital markets with the lowest possible risk and on the most favourable terms and, at the next stage, to offer the Swedish local government sector financing that is as stable and cost efficient as possible." (Kommuninvest, 2015a:6).

The borrowing strategy is based on two pillars: to assess the demand based on regular revisions of lending forecasts and to focus on the diversification of the funding sources. Diversification is created by markets, currencies, instruments and maturities (long and short term). Kommuninvest seeks from this diversification to broaden the investor's base to overcome dependency from few investors and to spread the risk of currency changes and development of markets.

Bond issuances were executed in Swedish Kronor, US-Dollars, JPY, Euro, Canadian Dollars (CAD), Australian and New Zealand Dollars (AUD and NZD). The instruments to borrow through are the Swedish benchmark programme, other benchmark programmes (US benchmark program fixed and floated, Australian fixed) private placement, public bonds and uridashi bonds.

Table 7: Kommuninvest's borrowing by currencies in 2014



Source: Kommuninvest, 2015:12.

By the end of 2015, the issuance of an inaugural Green Bond is expected to be launched. Green Bonds procure funding which will be eligible for renewable energy, energy efficiency, green buildings, public transportation, waste and water management, adaptation measures in buildings and infrastructure and environmental management (Kommuninvest, 2015d). A new green loan is to be offered to the members starting 1 June, 2015. With the issuance of a Green Bond, Kommuninvest follows the trends of various issuers to answer an increasing worldwide demand for sustainable and responsible investment.

The trend of the issuance of Green Bonds started recently; often, each issuer defines their own programme. However, as Gerlich (2015) underlines, in recent times, different organisations such as the organisations such as the *Climate Bonds Initiative (CBI)* or the *International Capital Market Association (ICMA)* developed guidelines for green bonds.

Regarding the first local governments funding agencies to issue Green Bonds, KBN Kommunalbanken Norway and the Dutch BNG must be cited; both had their inaugural issuance of these bonds in 2014.

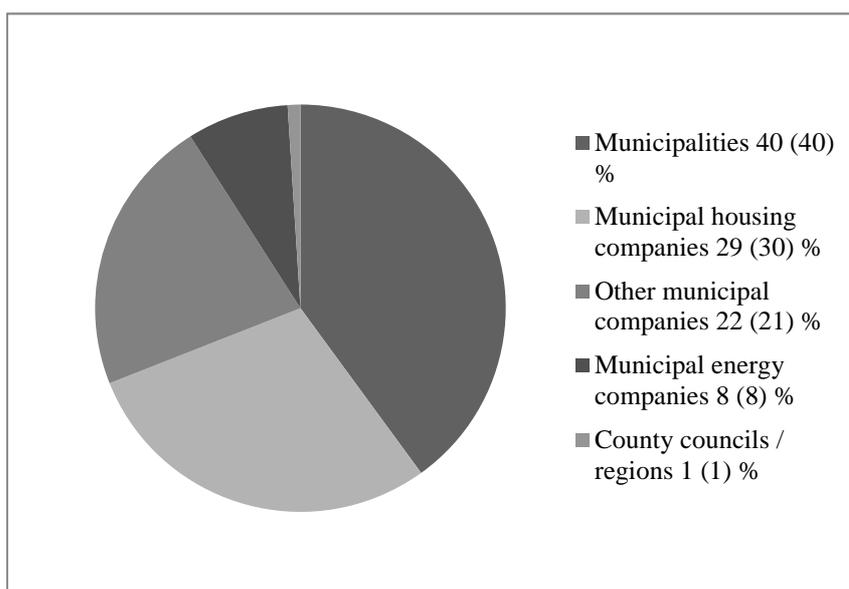
5.5.2. Lending

Kommuninvest not only provides loans to its members, but also to companies under the member's control. These companies have to be held by the members with a minimum of 50% of the companies' shares. In addition, the concerned member must also guarantee the loan for the respective company. However, foundations or associations of the members are only required a "close relationship" with a member and a member's guarantee for the loan (Kommuninvest, 2015c).

The portfolio of Kommuninvest consists of short-term and long-term loans with variable and fixed interest rates. In 2014, Kommuninvest borrowed a volume of SEK 222.8 billion (= EUR 23.3 bn at the exchange rates from August 2015) which had been distributed between 791 customers, of which 280 were members of Kommuninvest. 40% of all loans were allocated to municipalities, 29% to municipal housing companies, 8% to municipal energy companies and 1% to the counties (Source). Thereby, lending volume grew by 6.8% in 2014 compared to the year before (Kommuninvest, 2015a).

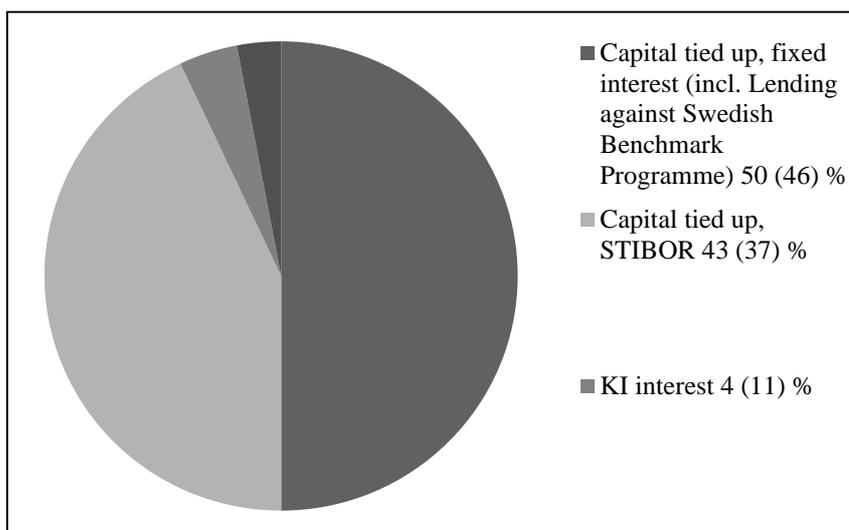
Marginal differences exist for the pricing of loans for the municipal borrowers: the spread is from 6bd between the highest and the lowest interest rate for the same type of loan (Interviewee 5, 31/08/2015). According to Kommuninvest's solidarity understanding, there big differences could not persist (Interviewee 5, 28/05/2015).

Table 8: Lending portfolio by type of borrower in 2014



Source: Kommuninvest, 2015a:11.

Table 9: Lending portfolio by loan product in 2014



Source: Kommuninvest, 2015a:11.

Pricing policies are orientated by market conditions. As Schnitzler (2013) estimated for the analysed period from 2005-2010, Kommuninvest was able to offer 10-20bd below the offering of its competitors (Schnitzler, 2013). However, prices of Kommuninvest's loans rose in the last years. The objective of this price policy was to obtain benefits for the agency's capitalisation in order to meet the Basel III requirements. Kommuninvest's loans were less

attractive to the members as the competitors provided more cost-efficient borrowing schemes (Interviewee 5, 28/05/2015).

5.5.3. Services

Recently, Kommuninvest also provides financial expertise to the municipalities. Employees of the risk department are available to talk to the municipalities to improve their financial management (Interviewee 5, 28/05/2015). Kommuninvest provides policy documents to the politicians to be able to better control the debt management of their respective community (Interviewee 5, 28/05/2015).

Moreover, in 2014, Kommuninvest developed a new debt management system for the municipal sector which offers competitive features and lower prices compared to that of competitors (information of Kommuninvest). By the end of 2014, 82 out of 280 members had subscribed to this new debt management system (Kommuninvest: 2015b).

5.6. Overview about the economic and financial situation

The Kommuninvest Group's economic and financial situation shows a stable development when comparing the economic results and financial ratios of the years 2010 and 2014. First of all, Kommuninvest's offering was attractive for local authorities, as Kommuninvest gained 20 new members between 2010 (260 members) and 2014 (280 members). Consequently, Kommuninvest's balance sheet total increased in the very same time frame by SEK 121.9 billion from SEK 190.2 billion (2010) to SEK 312.1 billion in 2014 (= EUR 32.8 billion). Thanks to this, Kommuninvest is situated between its Nordic counterparts which have a balance sheet total of EUR 48.8 billion (Kommunalbanken, Norway), EUR 30.0 billion (MuniFin, Finland) and EUR 27.0 billion (KommuneKredit, Denmark). Kommuninvest's total assets increased due to its growing lending volume. It increased 66.6% between 2010 and 2014: Kommuninvest's lending volume amounted to SEK 133.7 billion in 2010, whereas it was SEK 222.8 billion in 2014. The group held a share of 44.0% in the Swedish local government borrowing market in 2014. Net profit rose 275.0% for the same time period (2010: SEK 191.6 million and 2014: SEK 718.6 million), which indicates a significant gain in profitability. Comparing the cost/income ratio (= total expenses in relation to net interest and other operating income) of 2010 and 2014 confirms the assumption of Kommuninvest's improvement in cost efficiency as the ratio was lowered from 43% (2010) to 32% (2014)

(Kommuninvest, 2015a). Administration expenses (excluding the stability charge) amounted to as low as 8 basis points (0.08%) as a proportion of lending (whereas to 0.10% in 2010).

The Kommuninvest Group pursues a “*conservative asset-liability management*” (Standard & Poor’s, 2014), which ensures that the maturity and amount of borrowing exceeds that of lending. The group’s funding amounted to SEK 297.1 billion (EUR 31.0 billion) in 2014 and its total lending amounted to SEK 222.8 billion (EUR 23.2 billion) that same year. The annual borrowing with a maturity longer than one year was SEK 81.2 billion. Kommuninvest’s prudent asset-liability management is reflected by a liquidity and maturity transformation which relies on long-term borrowing used for short-term loans. The average period for which capital was tied up in lending was 2.2 years, whereas that of borrowing was 5.7 years in 2014. The average maturity transformation rate is -3.5 years, which reflects a prudent risk strategy. This is particularly noteworthy since it demonstrates that Kommuninvest has remained profitable despite the negative transformation (normally banks borrow at short maturities in the form of deposits and lend at long maturities to earn the positive transformation spread).

Kommuninvest’s robust capital position was reflected in a core Tier 1 ratio of 35.6% in 2014 (and 40.0% in 2010), a Tier 1 capital ratio of 35.6% in 2014 (and 40.0% in 2010) and a total capital ratio of 47.4% in 2014 (and 60.0% in 2010) (Kommuninvest, 2015a:2). However, a weak point of Kommuninvest’s balance sheet is its thin equity-to-assets ratio. It is measured with the so-called leverage ratio and was 0.79% in 2014 and shows the necessity for Kommuninvest to increase its equity in order to meet the new requirements of Basel III for 2018.⁸ A capitalisation strategy has been adopted by the co-operative society’s Annual General Meetings in 2014 and 2015. It has been decided to re-inject the members’ surplus of the years 2014 and 2015, to raise the capital contribution of each member based on the inhabitants of the respective local authority and to introduce separate capital contributions, the so-called debenture shares also open for non-members of the co-operative society to increase the group’s capital (see chapter 5.2.1.).

⁸ The requirements of Basel III concerning the leverage ratio for 2018 are not yet fixed, but are to be expected between 1,5% to 3% for the Kommuninvest Group following the information of Kommuninvest (Interviewee 5, 31/08/2015).

Table 10: Facts and figures of the Kommuninvest Group in 2014 (2013)

Figure/Ratio	Description
Foundation	1986
Legal form	Double structure: the owner organisation (or mother company) is the cooperative society <i>Kommuninvest</i> ; the operations are conducted through the credit market company <i>Kommuninvest I Sverige AB</i> , together they form <i>Kommuninvest Group</i>
Members	280 (278)
Of with municipalities	272 (270), 94% of the municipalities
Of with county councils	8 (8), 40% of the county councils
Guarantee	explicit, irrevocable, unlimited, joint and several guarantee from members
Credit Rating	AAA/Aaa with stable outlook (Standard & Poor's/Moody's)
New borrowing in long term debt instruments	SEK 81.2 (96.2) billion
Total borrowing	SEK 297.1 (260.6) billion
Lending volume	SEK 222.8 (208.6) billion
Employees	77 (70)
Balance sheet total	SEK 312.1 (277.5) billion
Net profit	SEK 718.6 (745.6) million / 568.4 (590.7)
Core Tier 1 capital ratio in %	35.6 (37.6)
Tier 1 capital ratio in %	35.6 (37.6)
Total capital ratio in %	47.4 (56.4)
Leverage ratio	0.79 (0.58)

Source: Own elaboration based on Kommuninvest, 2015a.

5.7. The success of Kommuninvest

5.7.1. Bases of evaluation: Purpose and impact on the society's welfare

Evaluating Kommuninvest shall be based on the fulfilment of its general purpose as defined in section 1 in the bylaws of the co-operative society: *“to put into practice a common business concept and vision in its activities consisting of the promotion of the financial interests of its members by creating the best possible conditions in the long term for the members’ borrowing and the creation of optimal conditions for members’ activities in the financial area by providing support to the members”* (Kommuninvest, 2015c). Furthermore, we will take into account Kommuninvest’s impact on the society.

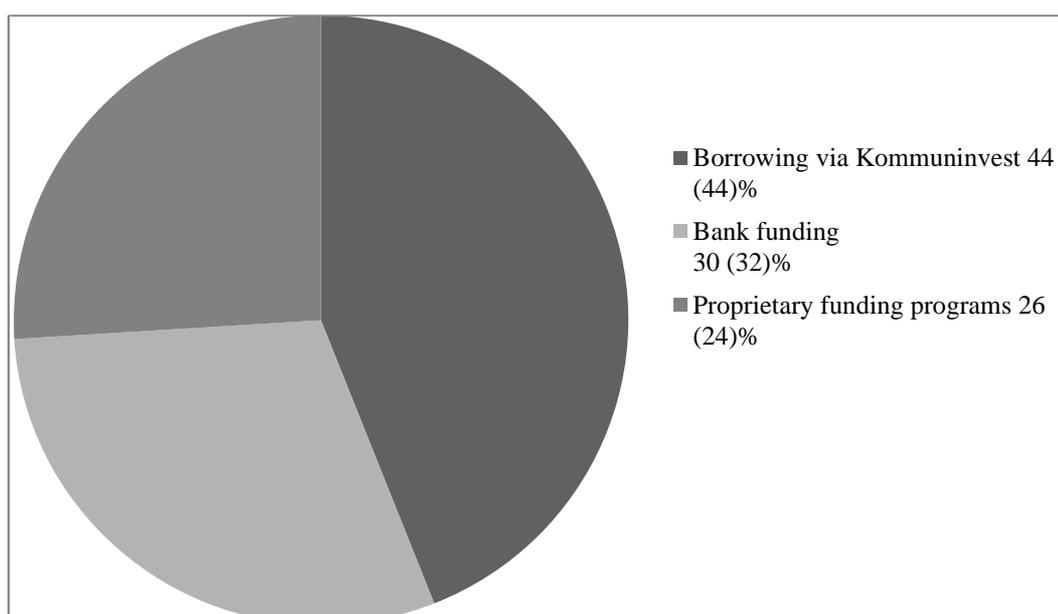
a. Purpose’s fulfilment

Concerning the purpose’s fulfilment, I consider its utility for its members, which shall be reflected in the lending volume, the relative loan prices and the market share and the development of members’ number.

Kommuninvest was created as a regional funding agency in the County Örebro. However, in 1993, it transformed into a national-wide agency due to the increased demand of Swedish local and regional governments. Within 29 years, a small initiative of 10 subnational governments developed into a project which makes up 280 (90%) of the Swedish regional and local governments in 2014 (Kommuninvest, 2015a).

Kommuninvest is the sector’s principal lender as the following table shows:

Table 11: Market shares of local government borrowers

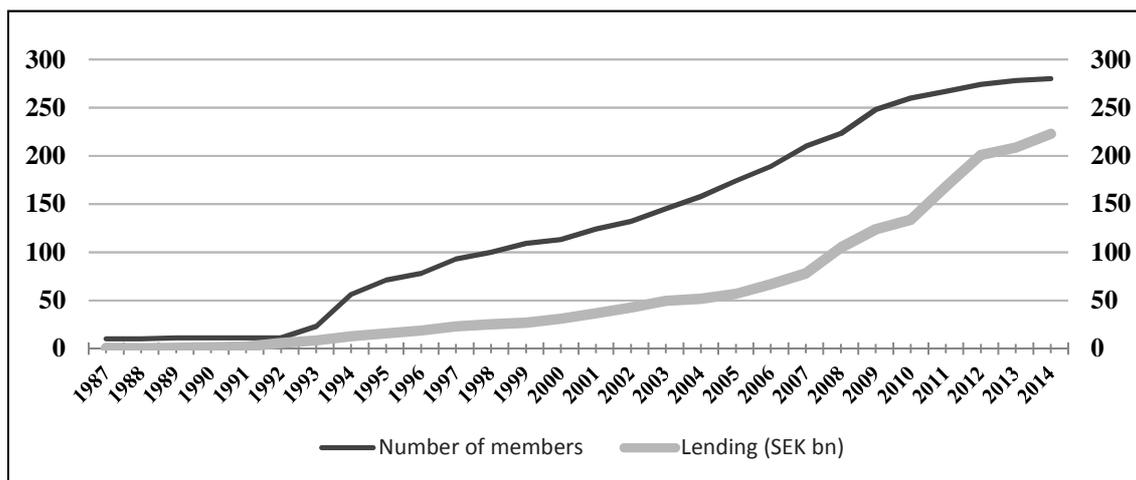


Source: Kommuninvest, 2015a:2.

The agency occupies a market share of 44% (2014; 44% in 2013) in the local government borrowing market in 2014. The other lenders are banks (30 % in 2014/32% in 2013) and proprietary funding programs (26%/24%).

The shares increased in the aftermath of the financial crises: in 2006, Kommuninvest held around 20% of the market, whereas it held 44% in 2014.

Table 12: Development of lending and members 1987-2014



Source: Kommuninvest, 2015a:11.

The lending volume has especially increased since 2000. The primary reason for this development is the continuously high number of new members. Also, the banks reduced their lending volumes in the wake of the new regulations of the financial crisis (Kommuninvest, 2014). My analysis of the market shares' development of European local government funding agencies of the recent years shows that most European agencies increased their market shares between 2006/2007 and 2013. This development seems to be the consequence of the change in business strategy of the banks following the financial crisis: many reduced their activities in the subnational debt market.

Moreover, Schnitzler (2013) estimates that Kommuninvest's loans had been 10-20 bd below the alternative offerings of commercial banks in the period of 2005 to 2010. He based the empirical study on a sample of 26 member municipalities. A fundamental part of the agency's general purpose is to provide cost-efficient lending for its members.

Kommuninvest's utility for its member is also reflected by this fact: *"To date, no member has left the partnership, which we see as a clear evidence of the perceived business benefit"* (Kommuninvest, 2015a:6).

Moreover, the well-accepted, newly-introduced debt management program service in 2014 (one-third subscribed in the first year) indicates the utility of Kommuninvest's services for its members. At the same time, it is not surprising, as Kommuninvest is a membership organisation where the members are the clients at the same time and decide upon new services and thereby contribute to Kommuninvest's need-tailored offering.

b. Impact on society's welfare

The municipalities and county councils serve the public interest as they carry out public functions prescribed by the constitution and legislation. Representatives, who are legitimated through general elections, adopt policies for their respective communities. Kommuninvest has a public sector mandate which instructs it to provide funding solely to its members, who are the local and regional governments as well as companies and associations under their control. Therefore, Kommuninvest's impact on the welfare of the society is given through investment loans in public infrastructure and services which benefits the whole community and enables the society's welfare. Moreover, loans are invested in real economy and subsequently stimulate the local economy and support the endogen development.

To conclude, Kommuninvest is successful in attaining the cooperative's purpose and contributing for the collective good.

5.7.2. The foundations of Kommuninvest's success

The key to Kommuninvest's positive outcome lies in the sound implementation of a business model which makes it attractive and beneficial for its members. Additionally, the agency is embedded in a specific institutional setting of enabling conditions (Anderson and Andersson, 2005).

Kommuninvest is comprised of good governance, a strong financial risk management and its quality of assets (Standard & Poor's, 2015). Additionally, a low cost/income ratio of 32% (2014) reflects an efficient management. Moreover, the financial disintermediation and the possibility of the agency to procure low interest rate funds from the capital market due to the high creditworthiness of *Kommuninvest I Sverige AB* as a low risk issuer and a favourable demand for subsovereign bonds are at the heart of its successful business model. Cheaper funding permits in turn transfer the cost reduction to the subnational governments through their cost efficient lending programs. *Kommuninvest i Sverige AB's* creditworthiness is assessed as AAA / A-1+ with a stable outlook (June 2015) from Standard & Poor's and with Aaa from

Moody's (June 2015). This means that Kommuninvest reaches the same notes as the sovereign state who usually presents the maximum rating which is possible for local government funding agencies as local governments are linked, albeit stronger or weaker, to the central state they belong to.⁹

A specific institutional framework of internal enabling and external enabling factors permits Kommuninvest to develop this co-operative project of subnational governments. I differentiate between internal enabling conditions which describe the internal setting of Kommuninvest and the external enabling conditions which are provided by the political and legal system as presented in the following table:

⁹ Creditworthiness is usually assessed by rating agencies such as Standard & Poor's, Moody's and Fitch and/or by the investors themselves based on similar criteria. The solvability of the financial institutions comprises the following aspects: the asset quality, liquidity sources, and guarantee for the financial liabilities, the access to central bank financing, risk management, capitalisation, shareholder support and the broader institutional framework in which the organisation is embedded. The risk of the loan book is assessed, which, in the case of local funding agencies, is comprised of lending from only the low risk public sector. Moreover, the financial and economic situation of the company is scrutinised (Standard & Poor's, 2015a). The rating agencies use similar scales for credit rating. For instance, Standard & Poor's applies for the evaluation of the issuer as well as for the issuance of long term obligation: a credit rating in a scale in ten major steps from the highest note AAA to the lowest note D. "AAA" note suggests that: "The obligator's capacity to meet its financial commitment on the obligation is extremely strong.," whereas "D" suggests that the issuer or the issuance is in default (Standard & Poor's, 2015b).

Table 13: A unique institutional framework

<i>Internal enabling conditions</i>
Trust and cooperation Governance model Ownership structure Joint and several guarantee from the member for the enterprise's liability
<i>External enabling conditions</i>
Decentralisation – autonomy of subnational governments Implicit state guarantee for no defaulting of subnational governments Right of subnational governments to levy taxes Tax-exemption for subnational governments revenue Access to central bank financing Culture of consensus

Source: Own elaboration.

a. Internal enabling factors

The most important internal enabling factors are trust and cooperation, the choice of governance, the ownership structure and a joint and several guarantee.

Trust and cooperation

Kommuninvest would not have been possible without the trust and willingness of the local governments to cooperate. One could think that this is a factor of minor importance. As a matter of fact, I argue that the contrary is the case: No larger co-operation project between local governments existed in Sweden before. Kommuninvest's initiator and first president, Andersson, stressed the difficulty to overcome the local politicians' mind-set of rivalry between neighbouring communities in order to set up a common financial cooperation (Interviewee 1, 29/05/2015).

As the prisoner's dilemma¹⁰ suggests, rational individuals might not cooperate even though it seems to be in their best interests as they would gain important benefits from it which they otherwise would not receive. Yet, mistrust or other considerations may cause the individual to not choose the optimal strategy. Regarding Kommuninvest's foundation, this means that the local governments of the county of Örebro might gain access to more cost efficient and diversified funding by bundling their borrowing needs. Thanks to this, they would obtain a sufficient volume to borrow on the capital market and commonly bear the costs of the bond placement. Only larger cities had and have direct access to the funds of capital markets.

Therefore, trust-building between participants of co-operative projects was therefore a key element in the Kommuninvest foundation process. In the case of mutual distrust, no transaction takes place; thereby, there is the any possibility of gaining benefits (Hillman, 2003). According to Hillman, the following aspects are crucial to establish and sustain trust between individuals (Hillman, 2003:595-597):

- a history of transaction with honest behaviour
- (regular) transactions between the individuals
- small group
- individuals value their reputations for further transactions with the same individuals
- disciplining can take place.

In larger groups, where interactions between all the individuals are not possible, as is the case in large anonymous populations, *social norms of trust and cooperation* enable cooperative behaviour (Hillman, 2003).

Kommuninvest started with nine neighbouring municipalities and one county council; therefore, it was a small group where regular transactions could take place. Clear mechanisms and peer review were introduced in the very early stages of Kommuninvest's creation to enhance trust between local authorities as well as between the agency and the local authorities. Kommuninvest's initiator Andersson states:

¹⁰ The game theory's prisoner's dilemma was developed by Flood and Dresher in 1950. This large application applies to real world situations where co-operative behaviour is involved.

“We had to work a lot with getting this type of trust. We had to build very clear routines how to supervise local authorities, how to make it very transparent, how to make everyone really clear about the rules of the company, so that they were convinced that if somebody would not have the same credit quality any more than they would be dealt in a different way. (...) This check of financial situation was partly done by them [local authorities]. We had the credit committee compromising five or six chief financial officers from different local authority. They were to study each new application of membership before it was granted” (Interviewee 1, 29/05/2015).

The founding members decided to equip Kommuninvest with a several and joint guarantee of the members for the company’s financial liabilities. This is a crucial element where trust and cooperation are virtually materialised. To opt for this guarantee was extremely difficult according to Andersson, as the local authorities did not have the confidence in the financial management of the other members (Interviewee 1, 29/05/2015). This is not a singular phenomenon, as the following interview sequence from a German newspaper suggests. The head of treasurer from the German city Essen was asked about the creation of a LGFA:

“That would be disastrous,” he said. “Then cities and municipalities had to bear liability for others, without being able to influence their financial management. That cannot work.”

(Original: „Das wäre katastrophal“, sagte er. „Dann würden Städte und Gemeinden für andere haften, ohne auf deren Finanzgebaren Einfluss nehmen zu können. Das kann nicht funktionieren“, so Klieve.“ (Handelsblatt, 2012))

In many cases, lack of experience in co-operation, or even existence of particularism and rivalry between local governments may hinder the emergence of voluntary co-operative projects between local governments. This especially seems to be the case for financial co-operation; moreover, if this includes bearing the financial liability of a commonly governed company.

Governance model

Kommuninvest adopted a governance model which relies on a double structure separating the political and professional level. The choice for this governance model reduces the risk of political intrusion in the accommodation of loans and the misuse of funds. Kommuninvest’s double structure consists on one side of the owner organisation, or the cooperative society, which develops the general guidelines of Kommuninvest and decides on

the applications of new members. On the other side, the daughter company with the juridical form of a limited company carries on the operational business activities. The limited company solely decides upon professional criteria regarding the loan granting to members.

Political entanglement in the lending programs of financial institutions present a possible risk. For instance, in Spain, the saving banks (*cajas de ahorros*) are regulated as foundations under private law. They have reserved 50% (in the region of Valencia and Madrid, the percentage was higher) of the seats of their directory for local politicians. In some cases, such as in the region of Valencia, grants were given on political considerations to finance huge public works, which led to the financial ruin of the saving bank (Sanchis, 2013).

Ownership structure

I consider the ownership structure of Kommuninvest as an enabling factor to sustainably meet the funding needs of local authorities. The owners of Kommuninvest are the subnational governments on a voluntary basis. This model stands in contrast to the Norwegian LGFA Kommunalbanken, where the central government is the sole shareholder; or to the Netherlands, where the two LGFAs are held in mixed ownership including the state, water boards and local governments. In these cases, the users or clients of the financial services are not the owners or only partially owners even. However, all shareholders act in the public interest. This commitment to the common good cannot be ensured when the LGFA is based on private capital where private shareholders pursue their interests and the distribution of dividends makes it necessary to raise the margin of loans (Van Audenhove, 1958a). In Belgium, the liberal financial minister Frère-Orban rejected the proposals of the two financial experts appointed by him who suggested basing the establishment of a LGFA on private ownership as he wanted to insure the LGFA's public interest commitment (Van Audenhove, 1958a).

Joint and several guarantee of the members

Kommuninvest's borrowing is guaranteed jointly and severally by the members of the cooperative society. The choice of adopting this form of member's guarantee ensures the foundation for the agencies' strong creditworthiness as the guarantee type is fundamental for an agency rating (Vetter *et al.*, 2014). A joint and several guarantee is as follows:

“entails that the creditor, in the event of a payment default, may immediately demand payment from either Kommuninvest or from one of the guarantors [= members, E.S]. The creditor need not first attempt to secure payment from Kommuninvest but may demand the amount in full from one or more of the members” (Kommuninvest, 2015b).

Without the idea of solidarity between members, a joint and several guarantee is hardly able to be put into place. Solidarity is a basic value of the Statement of the co-operative identity adopted by International Co-operative Alliances (ICA).¹¹

b. External enabling factors

Kommuninvest benefits from an institutional setting from the Swedish cultural, political and legal system. We will outline the factors of decentralisation, which include: the right to levy taxes, the implicit state guarantee for local authorities in case of extreme budget crisis, tax exemption for municipal revenues, the access to central bank finance as well as a culture of consensus.

Decentralisation

Sweden's political system grants subnational governments a high degree of political autonomy and the right of self-government. The relationship between the State and the local authorities and the legal status of local authorities differs significantly from centralised countries. Decentralisation in a political system is a process which concerns the political, administrative and fiscal levels and implies the transfer of authority, responsibility and resources from the state to the local authorities. Besides the capacity of policy-making (legislative power) and the implementation of policies (executive power), the capacity to raise taxes in order to allocate funds for the implementation of policies is essential. As we saw in chapter four, the Swedish constitution grants greater autonomy to local government. Article two grants the right of local self-government and in order to be able to respond financially, the right to levy taxes is also given as a political responsibility. The Local Government Act (1991:900) specifies in its provisions the empowerment of local authorities. The act empowers the establishment of cooperation between local authorities in chapter 3.

Since in decentralised states the local governments enjoy the necessary degree of autonomy, they are more likely to develop an agency for local finance as a co-operative project of and for local governments such as Kommuninvest. Therefore, it may not be surprising that the first local government agency, *Crédit Communal de Belgique* (CCB), was founded three

¹¹ The first credit unions, founded in Germany in the middle of the nineteenth century by Schulze-Delitzsch and Raiffeisen, also adopted a joint and several guarantee (*Solidarhaftung*) from its members. Later, this form of guarantee had been softened (Eichwald and Lutz, 2011).

decades after the constitution of the Belgian federal state which favoured a greater autonomy of provinces and municipalities:

“Belgian public law, which in many respects broke completely new ground, allowed a considerable measure of autonomy. To-day many of the so-called powers of local authorities are devoid of all substance; but at that time they extended into some of the most important fields of governmental activity. In particular, the finances of the provincial and municipal authorities were kept completely separate from those of the central government” (Van Audenhove, 1958c:461).

Agencies of local finance may otherwise be governed and owned by the state – especially in centralised states. *Kommunalbanken*, the Norwegian local government funding agency, is governed by the State, even though we find a similar political system in Sweden. The Japanese agency for local finance transformed from a state-owned project to a co-operative project between local and regional governments in 2008. Japan is a centralised country which recently started decentralised policies.

To sum up, decentralisation is enabling external factors to establish a local government funding agency whose shareholder are local authorities. Organising funding to a larger extent independently from the central government boosts the principle of subsidiarity and strengthens local democracy.

Implicit state guarantee for local authorities

A further institutional enabling condition of Kommuninvest’s particular institutional framework is the fact that Swedish municipalities and county councils cannot be declared bankrupt as they benefit from an implicit state guarantee (Standard and Poor’s, 2011). Over the past hundred years, no Swedish municipality went into bankruptcy. The Swedish court declared in its verdict, that the national law would not warrant bankruptcy of Swedish municipalities (Monday Morning, 2012:24).

The consequences of a missing state guarantee – either implicit or explicit – in case of a severe budget crisis of a subnational government can signify that the city has to declare its default as was the case for the municipality of Detroit (USA) in 2014 and of Leukerbad (Switzerland) in 1998.

The case of Swiss municipality deserves additional attention as the municipality was a member of the Swiss local government funding agency *Emissionszentrale Schweizer*

Gemeinden (ESG).¹² In 1998, the ESG was confronted with the bankruptcy of one of its members, the municipality Leukerbad from the Kanton Wallis. The issuance of new bonds was nearly impossible as the ESG had lost their good creditworthiness (Rehm and Tholen, 2008). Even though ESG introduced new regulations to regain the investors' trust, it could not totally recover from this image loss (Zoller, 2010). In 2011, the General Assembly decided on the ESG's liquidation and this came into effect in December 2013.

However, following Vetter *et al.* (2014), a state guarantee for subnational authorities also bears the potential risk of excessive indebtedness of the sub-sovereign entities as the entities do not have to carry the ultimate responsibility as they will be bailed out by the state in case of default. Therefore, balanced-budget for sub-sovereigns is important. The Swedish Municipal Act incorporates the requirement of a balanced budget for the authorities, but compliances are not effectively pursued:

“For example, there is a balanced-budget requirement that obliges an LRG [= Local and Regional Governments] to present a budget document for the coming three years that establishes that an LRG's revenues are greater than its expenditures. If the actual result shows a deficit, however, the Municipal Act gives the LRG three years to make up the deficit.

However, we note that, although awareness has increased over the past few years, throughout the sector there are still numerous deviations from the balanced-budget requirement. Moreover, as there are no sanctions for noncompliance, LRGs are left on their own to balance their accounts” (Standard and Poor's, 2011).

Right of local and regional authorities to levy taxes

Local government's right to raise taxes is guaranteed in the Swedish constitution in art. 7: *“The municipalities may levy taxes in order to perform their tasks”* (Monday Morning, *et al.*, 2012:23). Both the guarantee based on common law and the constitutionally guaranteed right to levy taxes leads many to consider Kommuninvest as a low risk issuer for investors (BaFin, 2003, Standard and Poor's, 2011). The right to levy taxes ensures the local authorities a financial independency from the central state and assures them with the access to liquidity.

¹² The ESG was founded in 1971 as a cooperative society and as a voluntary inter-municipal project. In 2008, it was made up of almost 1.000 out of 2.900 municipalities from all parts of Switzerland. The agency acted as an intermediary for the pooling of municipal debt. Two thirds of the members participated regularly in the pooling of debts on the domestic capital market. The average bond issuing had a volume of 120.000 Swiss francs (Rehm and Tholen, 2008). It reached a market share of 2% and issued a total of almost 4 billion Swiss francs (Zoller, 2010).

Tax-exemption for subnational governments revenue

Kommuninvest has to contribute taxes on their benefits as does any other company. In contrast to other countries, Swedish taxation law treats a cooperative society in general the same way as a joint stock company (Stryjan, 2015). Yet, the members of Kommuninvest, the subnational governments, are tax-exempted for their revenues (Swedish Association of Local Authorities and Regions, 2015). As they serve the public interest, the revenues benefit the citizens as a whole. According to information from Kommuninvest, the decision to distribute surpluses to members was taken in 2012 and applied in 2013 for the first time. All distributed dividends had been re-injected into the company by the members (Interviewee 5, 31/08/2015). Schnitzler's assumption of "*Kommuninvest's complete tax exemption*" (Schnitzler, 2013:3) cannot be confirmed.

Access to central bank financing

For financial institutions, access to finance sources of the central bank is a further element of the institutional framework of Kommuninvest, which could be especially important when interbank lending or liquidity shortage may occur.

Culture of consensus

As Kommuninvest is a voluntary cooperation project between local authorities, politicians from the municipal and the county council committee from all political colours have to work together. The elected politicians represent their respective community in the cooperative society – as members of the General Assembly (legislative organ) or of the Board of Directors (executive organ). They adopt the common guidelines of Kommuninvest (see chapter five). Despite their different political backgrounds, a pragmatic and purpose-oriented approach characterise the interaction between the members of Kommuninvest. The local politician of the municipality of Vindeln, who is one of the actual 15 members of the Board of Directors, states this in an interview:

"It is not like in the Riksdag (parliament), because everybody is a member of Kommuninvest. We are in Kommuninvest for one reason; we want the best possibilities for the members to lend money. So we have the same goal. It has never been a problem, every party work together" (Interviewee 2, 09/06/2015).

Kommuninvest is embedded in a political system whose political decision-making process is known for its culture of consensus. Even though this culture has undergone change towards stronger polarisation, these characteristics still exist (Petersson, 1991). As Petersson underlines, the political decision-making process is:

“The concept of a culture of consensus does not presuppose a total absence of conflicts and disagreements. Instead implies a special method for reaching collective decisions. A central element of this method is the sounding out of affected interests, i.e., that different groups are given the opportunity to state their views and be heard, and that decisions emerge through processes of deliberation and consultation” (Petersson, 1991:176).

This political culture eases the implementation of a joint governed enterprise where major decisions have to be taken by the local politicians regardless of their ideological background.

6. Debate

6.1. Is Kommuninvest an entity of the social economy?

Since Kommuninvest is a co-operative society whose members are local and regional authorities, one can ask whether Kommuninvest is an entity of the social economy. The social economy is understood as the area between the capitalist market and the public sector (Chaves and Monzón, 2012). Therefore, the independence of public authorities is a basic principle.

I refer to the definition of Chaves and Monzón (2012), outlined in chapter three, to discuss whether Kommuninvest could be considered an entity of the social economy or not. The analysis of these factors is based on the cooperative's bylaws and the practice of the cooperative.

An analysis is schematically presented in the following table:

Table 14: Analysis of Kommuninvest as an entity of the social economy

Criterion	Characteristics	Evaluation	Fulfilled
Private company formally organised	Companies that are regulated under private law	Kommuninvest is a company with the legal form of a co-operative society regulated by private law; that of June 11, 1987, n. 667, regarding economic associations (in Swedish: Lag (1987) om ekonomiska föreningar).	Yes
Member Organisation	Created to satisfy the needs of its members	According to section 1 of the bylaws, it is a membership organisation whose members have come together for a joint project in order to promote their financial interests.	Yes
Economic activities	Produces goods and / or provides services	Kommuninvest provides financial advice, offers loans and procures funding through the issuance of bonds.	Yes
Freedom of accession	Accession is voluntary and new members are admitted on basis of the provisions of the statutes	According to section 3 of the bylaws, municipalities and county councils of Sweden can submit their application which fulfills the requirements. Application of the principle of open doors for Swedish municipalities and counties (Kommuninvest: 2015a).	Yes
Organisation of people	Primacy of people and social objective over capital	Kommuninvest does not pursue profit maximisation itself, it is therefore a <i>not for profit organisation</i> (section 1 of the bylaws), but seeks to meet the economic needs of its members through better credit conditions (Kommuninvest: 2015a).	Yes

Democratic entity	Democratic control of the company exercised by its members	According to section 10 of the bylaws, each member has one vote in the General Assembly. This right to vote is independent of the size, turnover or capital contribution (Kommuninvest: 2015a). <i>"The same members determine the focus of operations and have the ultimate responsibility for the organisation."</i> (Kommuninvest: 2015a, 4)	Yes
Distribution of benefits	Eventual distribution of benefits or surpluses among the members are not directly linked to the capital contributions of the member	Section 18 of the bylaws states that surpluses firstly have to be allocated to the legal reserve . After fulfilling this, the General Assembly may decide to distribute: 1. a dividend on a debenture contribution and what remains shall be allocated in combination or by election in one out of three options: 2. as interest on members' paid up capital contributions 3. as a bonus based on each member's volume of business 4. as a capital contribution issue allocated pro rata to the total amount on the members' paid up capital contribution	Partially
Autonomy of decision	management autonomy and independence of control from external capital contributors, associations or the public authorities	The members have the full capacity to elect and dismiss the governing bodies, to manage and control their activities. They are independent from external capital contributors. However, the members are as well in the local authorities part of the public sector	Partially

Source: Own elaboration on the basis of the definition of Chaves and Monzón, 2012.

The analysis shows that Kommuninvest completely fulfils seven out of eight criteria of a social economy's entity. We will develop each of these points, but go further into detail concerning especially the criterion of the autonomy of decisions, as it was indicated that Kommuninvest only partially meets this criterion, which deserves a deeper discussion in the following section.

a. **Private company formally organised**

Concerning the criterion of a "private company which is formally organised," Kommuninvest fulfils it completely, as it is a company regulated under private law. As the vast majority of Swedish cooperatives (Pestoff, 2004), Kommuninvest is regulated under the Law of Economic Associations of June 11, 1987, n. 667, (in Swedish: Lag (1987) om ekonomiska föreningar), which regulates cooperatives and other types of economic associations.

b. Member organisation

Being a member organisation, Kommuninvest's *raison d'être* are the members and their needs. Services are directed to the member and the companies held by them. Kommuninvest is, according to section 1 of the bylaws, an association whose members have come together for a joint project in order to promote their financial interests, but not solely for the purpose of profit maximisation. Unlike the cooperative doctrine (Lambert, 1963), the Swedish cooperative law does not refer to "members' needs," but to "members' interests". As Stryjan highlights, this classifies Swedish cooperatives per definition to a *for profit* enterprise (Stryjan, 2015). However, Kommuninvest underlines in the bylaws its *not for profit* orientation: "*The Society shall not be managed for the purpose of making a profit*" (Kommuninvest, 2015c, section 1).

c. Economic activities

Kommuninvest carries out economic activities through the provision of financial services to its members and companies owned by them.

d. Freedom of accession

All Swedish "*primary municipalities and county councils, or another equivalent body or region which may be formed either in accordance with the Changes to the Division of Sweden into Municipalities and County Councils Act (1979:411)*" (section 3 of the bylaws) are free to join the co-operative if they fulfil the requirements. These include sharing the Society's interests, exercising proper financial management over their activities and conducting the activities as defined in the Municipality Act (section 3 of the bylaws).

e. Organisation of people

Kommuninvest is a people organisation understood as an association where the person and the social objective rule over the capital. By people, I refer to natural and legal persons, whose characteristics are not those of shareholders, who are *investors* but not *users* of the company's services and seek primary profit through dividends. Kommuninvest is not a *for-profit* enterprise and seeks to meet the economic interests of its members who are at the same time owner and user:

"Activities shall be conducted based on well-founded economic and commercial principles, taking into account the fact that the Society shall not be managed for the purpose of making a profit" (section 1 of the bylaws).

f. **Democratic entity**

There is no doubt that Kommuninvest is a democratic entity, in the sense that the control over the co-operative society is exerted by the members and implies democratic governance based on the principle of “*one member, one vote.*” The current trend in cooperative legislations derogates from this principle and allows proportional voting rights according to the volume of business (Fici, 2013). The shares of Kommuninvest are held only by the members, which allow them to exercise full control over their company. Every member has one vote in the General Assembly independently of its size, business volume and capital contribution (section 10 of the bylaws). Because of this, financially stronger municipalities or county councils cannot dominate financially weaker ones.

The Pioneers of the famous Rochdale consumer cooperative of 1844 elaborated the Cooperatives Principles on which the co-operative movement is based (see chapter 3.2.). Fici (2013:49) recalls that the Rochdale cooperative enshrined the democratic principle of “*one member, one vote*” together with the “*equality of sexes in membership.*” However, barriers for women’s active participation in cooperatives still persist:

“Since cooperatives, like other forms of enterprise, reflect the broader society in which they operate, it is not surprising that gender imbalances do exist, despite the cooperative principles and values that proclaim equality and equity. Among the most important gender issues in cooperatives today are women’s low level of active participation and their under-representation in decision-making and leadership” (Nippierd, 1999:176).

I argue that gender equality and active participation should be a major concern for cooperatives if we want to considerate cooperatives as democratic entities. Therefore, I will deepen the gender equality within Kommuninvest in the following section.

The Kommuninvest Board of Directors consists of 15 members; out of which, five are women. This figure reflects a certain active participation of women in co-operative society. Kommuninvest is not a workers cooperative, whose employees are the members of the cooperative. So one could say, employment practice shall not be considered concerning gender equity. As put forward by the author, the cooperative’s identity is not fully credible if the principles and values are not extended also to the employees. Therefore, the gender equity is also considered when it comes to the staff of Kommuninvest. Out of 77 employees of Kommuninvest, 44% are women and among the senior executives, this proportion is even higher as 50% are women (Kommuninvest, 2015a). Kommuninvest peruses a diversity policy considering its annual report: “*the ambition is to be able to attract, retain and develop skilled*

employees, regardless of gender, ethnic background, religion or faith, age, disability, sexual orientation or transgender identity” (Kommuninvest, 2015a:14).

To sum up, Kommuninvest fulfils even the broader understanding of democratic entity.

g. **Distribution of benefits**

The question of benefits distribution of a social economy entity is a core criterion which differentiates such an entity from a private capitalist company: the eventual distribution of benefits among the members is not directly linked to their capital contributions. Distribution of benefits is not the *raison d'être* of an entity of social economy. Fici translates this meaning to a cooperative society:

“Since cooperatives are entities running an enterprise with and in the interest of their members, they do not seek to maximize profits but their members’ aggregate welfare as consumers, providers or workers of the cooperative enterprise. This means that a cooperative’s annual profits should in principle equal zero in order for a cooperative to demonstrate that it effectively acted in favour of its members” (Fici, 2013:39).

Nevertheless, if any surplus is generated, the co-operative doctrine states that the mode of surplus allocation has to be carried out on the basis of the members’ volume of transactions with the cooperative during the financial year and not based on subscribed capital or held shares (Fici, 2013). I want to stress the difference of terminology related to benefits of cooperatives: those benefits which are generated by cooperative transactions are called surpluses - whereas benefits which derived from transactions with non-members are known as profits. The distribution related to subscribed capital is usually limited, but if allowed, it shall be connected to the condition of membership following the International Co-operative Alliance: *“members usually receive limited compensation, if any, on capital subscribed as a condition of membership”* (ICA, 2015). Yet, it should be considered that remuneration of subscribed capital of the members may invite members to subscribe more capital contribution which helps to counterweight the weak point of cooperatives; otherwise known as obtaining equity capital (Fici, 2013).

Kommuninvest’s bylaws foresee a hierarchy in the allocation of surpluses. Following section 18 of the bylaws, surplus has to be allocated firstly to the statutory reserve as the law requires it. The General Assembly may then decide on the distribution of a dividend on a debenture contribution subscribed by members or non-members. The remains may be distributed among the members according to three different options:

Table 15: The distribution of surpluses

<p>Section 18 of the bylaws: Distribution of surpluses</p> <p><i>Once the statutory allocation has been made to the statutory reserve, unrestricted equity may be appropriated by the general meeting of the Society as follows:</i></p> <ol style="list-style-type: none"><i>1. distributed as a dividend on a debenture contribution according to Section 7;</i> <p><i>What remains thereafter shall be:</i></p> <ol style="list-style-type: none"><i>2. distributed as interest on members' paid up capital contributions according to Section 15; and/or</i><i>3. allocated among the members in the form of a bonus based on each member's volume of business according to Section 15; and/or</i><i>4. allocated among the members as a capital contribution issue according to Section 5.8.</i> <p><i>Any surplus which is not allocated by the general meeting in accordance with 1-4 above shall be brought forward to the following year's accounts.</i></p>
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Source: Kommuninvest, 2015c.

The options of surplus allocation of section 18.2 – 18.4 are considered part of the co-operative practice. Option three: “*in the form of a bonus based on each member's volume of business*” (section 18.3), refers to the classical way of allocation of surpluses within cooperatives, the so-called “cooperative return” or “patronage refund” (Fici, 2013). The volume of transactions with the co-operative society is defined by Kommuninvest as follows:

“Volume of business” means an economic measurement reflecting the extent to which the members have used services and other resources during the financial year, based on loan volume, interest paid, compensation and similar grounds” (section 15 of the bylaws).

Those members, who participated to a larger extent in the fulfilment of the purpose of the cooperative through their transaction with the cooperative, are rewarded.

Option two (section 18.2) refers to the remuneration of the members' contribution to the equity of the co-operative through interests.

Option four (section 18.4) is a form of enhancing the amount of the equity of the company through “reinvesting” the surplus as an additional members' capital contribution. As stated in section 5, to which section 18.4 refers to, the capital contribution issue is allocated *pro rata* to the total amount of the members' paid up capital contribution.

Considering the practice of Kommuninvest's allocation of surpluses of the financial year of 2014, the following results are presented:

Table 16: Allocation of surpluses in 2014

Type of allocation	SEK	In percentage
Statutory reserve	35,760,540	4,998 %
Bonuses distributed to members in proportion to member's share of the total volume of business volume in 2014	634,641,649	88,706%
Interest of 2.5 per cent on members' contributions	44,808,351	6,026%
Brought forward to the new account	229,142	0,032%
Total	SEK 715,439,682	100,000%

Source: Own elaboration on behalf of the Kommuninvest, 2015a:38.

The chart represents the proposal of the Board of Directors of the co-operative society, which was submitted to the Annual General Meeting in April 2015 to decide upon. The distribution was made on the provision of the bylaws before its amendments, which were adopted from the members of the General Assembly and were registered on June 11, 2015 in the respective registration. The amendments significantly changed the mode of surplus allocation as will be explained in the following – through the new requirement of section 18.1 - to distribute on debenture capital contribution.

On the basis of the old bylaws, the following distribution was performed. Kommuninvest followed the legal obligation of assigning a part (5% of the surpluses) to the legally mandatory reserve fund (chapter 10 of the Law on Economic association), resulting in incrementing the equity of the cooperative.

The rest was distributed according to two options, which are described in the bylaws. The major part, 88.7% of the total amount of surpluses, was distributed after section 18.3 of the bylaws as a bonus on the volume of lending decided between the member and the co-operative society. This kind of surplus allocation is the classical way of cooperatives, as it is based on the transaction, which the member carried out with the co-operative society.

“That volume of business refers to the sum of the interest expenses on each member's loans from Kommuninvest i Sverige AB for 2014. The volume of business for each member also includes interest charged to the member's companies, etc. in the manner stated in Section (...)” (Kommuninvest, 2015a:38).

Finally, a minor part, 6%, was allocated after article 16.2. It was distributed as interests on the basis of the members' capital contributions.

The proposed practice on the distribution of allocation of surpluses for the financial year of 2014 fulfils the distribution's criterion of a social economy entity.

Additionally, it should be mentioned that Kommuninvest's surplus distribution model aims at using the refunds for capitalisation of Kommuninvest (Kommuninvest, 2015e). If the daughter company *Kommuninvest I Sverige AB* generates profits, the co-operative society then decides in the General Assembly the allocation of surpluses and the distribution to its members. In a second step, the members of the General Assembly vote new member capital contributions which will be transferred as a capital injection to the daughter company if the members decide this.

In 2014, the General Assembly decided new capital contributions at the same amount as the distribution of surpluses to members were set (SEK 696,5) (Kommuninvest, 2015e). The same procedure was to be applied for the General Assembly which came together in April 2015:

“The estimated but not yet approved capital injection relating to the results for 2014 amounts to SEK 680.0 (696.5) million” (Kommuninvest, 2015a:16).

The amendments of the bylaws suggest in section 18.1 that after having satisfied the statutory reserve, the General Assembly may decide further distribution of surpluses, but it must, therefore, be considered before the dividends on debenture capital contributions.

This amendment was adopted due to the so-called Basel III requirements which make it necessary for Kommuninvest to meet the leverage ratio requirement. Kommuninvest leverage ratio was below 0.5% and it has to raise likely to 1,5% or even 3,0% to meet the requirements of the new regulation by 2018.¹³ Therefore, capitalisation of the co-operative has been built up through profit accumulation and *“it may in the future involve direct capital contributions from members of Society and other form of capital”* (Kommuninvest, 2015a:30).

The newly-introduced debenture capital contribution may be subscribed by members or *“members may transfer the rights which are associated with the debenture capital contributions (debenture shares) to non-members following approval by the board of directors”* (section 7 of the bylaws). Debenture capital is a form of issuance of obligation in order to gain more equity for the company. Holders of debenture do not gain voting rights nor do they become members of the society. However, in order to give an incentive to investors, they must receive a dividend, which is why this form of surplus allocation gets preferential treatment in the bylaws. Three mechanisms ensure that this form of the society's capitalisation does not affect the autonomy of the co-operative society: a) the Board of Directors decides what persons may subscribe

¹³ According to information from Kommuninvest, the required leverage ratio minimum for Kommuninvest is not yet known (Interviewee 5, 31/08/2015).

debenture capital contributions, b) the Board of Directors decides on the amount which will be subscribed c) the General Assembly decides if allocations are possible and the amount of allocations of surpluses.

“The board of directors shall be entitled to decide what persons may make debenture capital contributions, the amount in which such contributions may be made, and the terms and conditions which, in addition to the foregoing, are to apply in each individual case” (section 7 of the bylaws).

This new form of distribution is not fully in line with the co-operative doctrine as the distribution now becomes possible for capital, which does not require membership. At the same time, this very same fact of not admitting membership safeguards the full control over the society by the user and members of the co-operative society. Therefore, I argue that Kommuninvest partially fulfils the criterion of distribution of benefits.

h. Autonomy of decision

The criterion of the autonomy of decision and independence of public authorities is understood by Chaves and Monzón (2012) as management autonomy and independence from the public authorities, external capital contributors, individuals or organisations. I will use the following determining indicators inspired by Fajardo (2014, 2015) to discuss whether the criterion is fulfilled or not:

- the nature of the members
- the purpose and function of the co-operative activities
- under which law the company is regulated
- the mode of governance (the influence of other actors of public character or external capital contributors or through agreements from other organisations).

By the nature of members, I refer to either the public or private character of the member. By the purpose and function of the co-operative activities, I consider whether the activities are a private undertaking based on voluntariness or entered into the legally and/or constitutionally prescribed functions of public authorities. Concerning the law of the company, I refer to whether it is regulated under public or private law; this indicator is closely linked to the indicator just previously mentioned. Finally, relating to the mode of governance, I want to highlight whether there is a possibility or not of influencing other actors of public characters, external capital contributors or others.

The following table presents the analysis according to these indicators:

Table 17: Analysis of the autonomy of decision-making and independence

Indicator	Description	Character
Nature of the members	Subnational authorities	Public
Purpose of the cooperative	Satisfy the collective interest and also indirectly the general interest of the whole Swedish society	Mutual
Function of the activities	Satisfaction of the members' need (<i>cost beneficial access to loans etc.</i>) which does not enter in the functionality, tasks or services which are legally or constitutionally prescribed to local governments. The local governments develop the business activities in the private sphere.	Private
Legal form	The cooperative is regulated under the private law of June 11, 1987, n. 667, regarding economic associations (in Swedish: Lag (1987: 667) om ekonomiska föreningar).	Private
Governance	Governance is exerted by the members; there is no influence by other public authorities such as the central state and the newly introduced possibility of debenture capital contributions through non-members (section 7 of the bylaws).	Member based

Source: Own elaboration based partly on Fajardo, 2015.

The nature of the members is obviously of public character, as the members are subnational authorities. Kommuninvest was founded in order to meet the collective interest of its members (section 1 of the bylaws), therefore, the purpose possesses mutual character. Indirectly, Kommuninvest contributes to the objective of its members who act in the name of the general interests of the respective Swedish population of their municipality or county council. Hence, Kommuninvest's corporate statement is: "*We finance welfare*" (Kommuninvest, 2015b).

Although, this mutual purpose of Kommuninvest does not enter in the functionality, it is neither a task nor a public service which was prescribed to the Kommuninvest on the basis of a legislative act or the Swedish constitution. Hence, it is a voluntary cooperation project between the associated members which develop business activities within the private sphere. Kommuninvest is regulated under private law, namely, *the Law of economic associations of June 11, 1987, n. 667 (in Swedish: Lag (1987) om ekonomiska föreningar)*. When it comes to the governance of Kommuninvest, the members are free from any public influence such as the central state. No state representative or commissar is there to exercise influence over the

governance of Kommuninvest. Furthermore, the new form of external capital contributions, which have been introduced in the bylaws in section 7, do not provide voting rights to creditors in the General Assembly as they are a form of obligation and not an acquirement of cooperative shares.

One may conclude that, since Kommuninvest's business activities are developed in the private sector and its purpose is mutual and the governance is based solely on the members, that autonomy of decision-making and independence from other public influence is almost totally achieved. Nonetheless, the nature of the members themselves stays public as they are local and regional authorities. Consequently, the co-operative society cannot be defined as a free sphere of political influence. But besides this fact, I could not detect further influence.

To sum up, Kommuninvest fully meets six out of eight criteria of the social economy concept. Regarding the criteria *distribution of benefits* and *autonomy*, Kommuninvest partially matches the criteria. Therefore, Kommuninvest shall be regarded as an entity that is situated on the boundaries of the concept of social economy.

Further, it shall be readdressed that the declaration of the agents of the European social economy, the *Charter of Principles of the Social Economy* (2002) and also scholars include entities of the concept of social economy which do not meet all of the social economy's criteria. This is the case of foundations, which do not meet the criteria of democratic governance. Moreover, in Spain, the catalogue of the law of social economy (Law 5/2011) (in Spanish: Ley de la Economía Social (Ley 5/2011)) includes an entity such as fishermen's associations [*cofradías de pescadores*] which is part of Public Law Corporation. These fishermen's associations are not for profit organisations which “*not only carry out public functions but also engage in economic/business activities in the private sphere to benefit their members*” (Fajardo, 2015:2).

Social economy shall be identified rather “*with activities conducted in the private sphere by organisation that pursue specific aims and act in accordance with certain principles*” (Fajardo, 2015:2) than with a legal form. A definition of entities of the social economy on the basis of the legal form may make it easier to the public administration and perhaps to scholars as well, but this kind of definition carries also risks blurring the practice of social economy – the focus shall be set on the actual fulfilment of principles for the actions of social economy enterprises as a legal form does not guarantee the practice of social economy principles (Fajardo, 2014). I adhere to Fajardo's suggestion (2014) to focus on the pursued aims, the application of certain guidelines of actions and the nature of the economic activities, rather than on the legal form of the entity and the *nature of its members*, to determine the belonging of an entity to the social economy.

6.2. Is Kommuninvest a *régie coopérative*?

We will examine whether Kommuninvest is a *public service cooperative* (or *régie coopérative*) as defined by Lambert (Lambert, 1959, 1962). The analysis is based on information of the bylaws, the Annual Report of 2014, interviews and secondary sources.

The following chart shows the analysis in a schematic form focusing on the key elements of Lambert's concept.

Table 18: Analysis of Kommuninvest as a *régie coopérative*

Factors	Description	Evaluation	Fulfilled
Creation	Public cooperative that essentially owes its creation to the decision of a public authority	Kommuninvest was created by ten Swedish local governments. However, it was a "private" decision by public authorities in the sense that no law prescribed it.	Yes
Membership	It is not the nature of law under which the cooperative is constituted; it is membership which is decisive for determining if it is a private or public co-operative.	Kommuninvest is 100% owned by local governments. Therefore, its character is public according to Lambert.	Yes
Functionality	The activities carried out by the <i>régie coopérative</i> are a decentralised public service.	Kommuninvest's services are directed to its members, the local authorities. Therefore, its services are considered after Lambert as indirect public services, as the citizens will profit from this indirectly, through the services which the municipalities will provide based on the investments made possible through Kommuninvest.	Yes
Democratic entity	Democratic principles are necessary to be applied, which concerns the democratic election of the directors.	Kommuninvest's governance is democratic as it applies the principle of " <i>one member, one vote</i> ." The Board of Director is elected by the General Assembly	Yes
Economic undertaking	It is an economic undertaking as the objective is to cover the costs of the sale of goods or services which it provides.	" <i>Activities shall be conducted based on well-founded economic and commercial principles, taking into account the fact that the Society shall not be managed for the purpose of making a profit.</i> " (section 1 bylaws)	Yes

Autonomy	The company has considerable administrative, commercial and financial autonomy.	Kommuninvest is autonomous from the central government in financial, administrative and commercial terms. It does not receive, for instance, any financial transfer.	Yes
Open and voluntary membership	Principle of voluntary and open membership, except when technical considerations make it impossible to apply	Kommuninvest is open to all Swedish local governments (section 3 of bylaws). The application for membership must be submitted to the board of the Society, which decides upon the election of new members.	Yes
Not for profit enterprise	Goal is not profit-orientated but rather to provide a service. The consequence is that, if profits are generated and distributed to the public authorities, this can only be a secondary aspect of its activity.	As stated in the bylaws in section 1, Kommuninvest is a <i>not for profit</i> enterprise: “ <i>the Society shall not be managed for the purpose of making a profit.</i> ”	Yes

Source: Own elaboration on the basis of Lambert (1962).

Kommuninvest fulfils all criteria which we extracted from the concept of Lambert and is therefore considered a *public service cooperative*.

The creation of Kommuninvest is based on the decision of public authorities: of nine municipalities and the county council of Örebro. Contrary to Lambert's example, the LGFA *Crédit Communal de Belgique*, which was established by special legislation, a Royal Decree, Kommuninvest is constituted on general legislation, the Law of Economic Associations. However, according to Lambert, legal terms and conditions do not determine the public character of the enterprise; but rather the ownership does. Therefore, it is the legal nature of the members which assign a public character to the enterprise (Lambert, 1962).

When it comes to the criteria of a voluntary and open membership, there is no doubt that Kommuninvest fulfils these criteria as shown in table 16 and in the analysis developed in chapter 5.2.

Lambert defines the economic activities of the public co-operative as a decentralised public service. It is an emanation of the state in its acting as a provider of services as opposed to its acting as a power when enacting, for instance, criminal law (Lambert, 1962):

“(…), it [the State] may set up a special institution, grant it a considerable degree of administrative autonomy and assign it some of this own assets, in such cases, we have

decentralised public services, of which public co-operatives are one particular type” (Lambert, 1962:6).

According to him, public services for citizens are provided either through a public agency (an administrative body) at free or nominal charge (such as public schools), or a public undertaking, “*an entity very closely connected with the State, with a system of management in which capitalist influences are present (...)*” (Lambert, 1962:8). As Lambert highlights, there is a “*fundamental distinction*” between the two governance forms. Kommuninvest’s services are directed to its members; the local authorities who in turn provide public services for their respective communities. Following Lambert’s approach, Kommuninvest provides an indirectly public service.

Considering the democratic criterion, Kommuninvest goes beyond Lambert’s democratic requirements for a *régie coopérative*. According to Lambert, a *public co-operative* shall not be governed by the State (for instance, through the appointment of company’s manager), but shall be managed by the public authorities who were democratically elected: “[the State] *place the management of the decentralised institution in the hands of an association of democratic institution*” (Lambert, 1962:8). Hence, Lambert’s democratic criterion does not imply the fulfilment of the co-operative principle of “*one member, one vote*”.

“The principle of democracy is applied in public co-operatives just as in other co-operatives. Admittedly, the system is one of indirect democracy, just as in a wholesale store formed from a federation of private law cooperatives. For instance, the members of the general meetings of the Belgian Communal Credit Society are mayors, deputy mayors, municipal councillors, and life aldermen, that is to say, men who have been elected to their positions by a two-stage-election. Obviously, if these persons were appointed by an autocratic central authority, the institution in question would not be co-operative in character” (Lambert, 1962:7-8).

Kommuninvest members are democratically elected by the citizens of their respective communities. Furthermore, Kommuninvest applies within its organisation the co-operative principles of “*one member, one vote*” as every member has one vote independent of its size, capital contribution and the volume of its transactions with the enterprise. But, as previously stated, Kommuninvest goes beyond Lambert’s understanding of the democratic criterion.

Following Lambert, an economic undertaking produces goods or provides services which are sold to cover costs or “*slightly below costs*“ (Lambert, 1962:8). Effectively, Kommuninvest carry out economic activities in a cost-covering way; this even goes beyond the criterion of Lambert offering its products in a competitive market situation - whereas Lambert suggests that some public co-operatives might be the only provider of services or goods as regulated by the State (e.g. post or water provision in his context of the 1960is). Kommuninvest does not receive subsidies from the public authorities to carry out its undertaking nor are the cooperatives’ benefits tax exempted. However, Swedish local governments do not have to pay income taxes, such as received dividends (Swedish Association of Local Authorities and Regions, 2015).

Furthermore, Kommuninvest’s autonomy goes much further than Lambert suggests. By a certain degree of administrative, commercial and financial autonomy from the central public authorities, Lamberts refers to two factors: a) the methods by which director and managers are appointed (which I explained before when discussing democratic aspects) and b) the administrative rules within the *public service cooperative*. Relating to the latter, Lambert considers that the following rules and practices which he observes in the Belgian *régies coopératives* are implied in a *public service cooperative*: the reservation of a seat for a government commissioner, the government commissioner’s rights to supervise, attend and speak at all organs’ meetings and the obligation to submit regularly the balance sheets to the commissioner. This interference from the central government authorities is acceptable and even necessary according to Lambert:

“Thus the autonomy of a public cooperative is not unlimited. In any case, it could not be so. A public co-operative is a public service, and if there were given full autonomy, the consequences might run counter to the general interests of the State and chaos and wastage might result” (Lambert: 1962,10).

Kommuninvest disposes a fully commercial, financial and administrative independency of the State. The members develop the economic guidelines and carry out the economic activities autonomous from external State interference. The sole owners of the Kommuninvest Group are the members’ local authorities. Lambert considers “*mixed association*,” which we call today Private Public Partnerships, “*incompatible with the character of a co-operative society*” (Lambert, 1962:5). Kommuninvest’s autonomous governance is not harmed through its subjection to the supervision of *Finansinspektionen (FI)*, the central administrative authority,

which supervises banks, credit market companies, insurances and other financial organizations in Sweden.

Kommuninvest is a *not for profit* organisation as stated in section 1 of the bylaws. There is no doubt that profit is only a secondary aspect of the economic activities as Lambert suggests.

To sum up, I consider Kommuninvest a *régie coopérative* as defined by Lambert.

Yet, Lambert's concept contains certain limits. Admittedly, it helps to identify if a public enterprise is governed by a basic interpretation of the cooperative principles. However, there exist significant differences between *régie coopératives* (see table 19; Martí, 2014; Lavergne, 1926). Therefore, I suggest, along with Florio and Fecher (2011), to develop a richer conceptual fond and thereby to gain a more differentiated image of the entrepreneurial and economic activities of the public and social economy sectors.

7. Conclusions

The aim of this study was to examine to which extent the Swedish local government funding agency Kommuninvest could be considered a model for cost-beneficial and diversified access to funding for European subnational governments in the present context of increasing costs and lack of diversification in the subnational debt market.

I used descriptive and analytic methodology and applied qualitative empirical methods. The empirical study was based on field work with ad hoc questionnaires addressed to the founder, a board member and employees of Kommuninvest, as well as to a financial chief officer of a member community to gain understanding about the Swedish agency. Moreover, I carried out ad hoc questionnaires with up to two actors on local government finance from Spain and Germany to gain a better understanding if such an agency could serve as a model in other European countries.

The results can be divided into two main groups: The first part presents the results concerning Kommuninvest's model and the foundations of success. The second part of results deals with social economy concepts.

The model Kommuninvest was born in a context of little competition in the local government's borrowing market. Swedish local and regional authorities had to pay high margins on granted loans from commercial banks and other financial institutions. Following this, ten local and regional governments created a local government funding agency from scratch in 1986 with a regional scope. This voluntary co-operation model soon raised the interest of other Swedish subnational governments, so that Kommuninvest transformed from 1993 onwards into an agency with a national scope admitting new members from all over Sweden. Kommuninvest functions as a member organisation which is owned and governed 100% by its members, the local and regional authorities and directs services only for its members and the municipal companies owned by them.

Kommuninvest consists of two core legal entities based on private law: the cooperative society *Kommuninvest* and the limited liability company *Kommuninvest I Sverige AB* which together form the Kommuninvest Group. In Sweden, no cooperative law in a strict sense exists, but virtually all cooperatives are regulated under the law of economic association (Stryjan, 2015). Kommuninvest is a cooperative society of financial services whose purpose is to satisfy the financial needs of its members through the assignment of loans and provision of financial advice.

I argue that Kommuninvest could be considered successful in attaining its own target, demonstrating its utility for its members and contributing indirectly to the society's welfare. I indicated that Kommuninvest was founded by ten local authorities and in only 25 years, it developed and stabilised a successful business model. 90% of Swedish local authorities are members and Kommuninvest is the sector leader with a market share of 44% in 2014. Kommuninvest has increased competition in the local and regional debt market. Its lending volume accounted to SEK 222.8 billion in the same year and offered a cheaper offering on an estimated range of 10-20bd than commercial banks in the time period of 2005-2010 (Schnitzler, 2013). However, in the last years Kommuninvest has heightened its margin to capitalise with the expected benefits from the enterprise in order to prepare for Basel III requirements.

Besides providing cheaper funding, the agency has increased the financial expertise of the members and enhanced the transparency of the financial and economic situation and actions of local and regional governments. The members are exposed to peer pressure to improve their own creditworthiness through professionalised financial management as, firstly, the agency's high rating is based on the mercy of the member's sound financial and economic situation and, secondly, all members assure through the joint and several guarantee complete commitment to Kommuninvest. The agency is especially precious for smaller member communities, which besides having no direct access to the capital market due to the small volume of debt demand, are also more likely to be cut off from financial expertise concerning the capital markets, along with expertise of debt management and enhancement of creditworthiness.

I argue that Kommuninvest's positive outcome for its members is due to different factors along with its unique institutional framework. In comparison to commercial banks, Kommuninvest benefits from factors which influence a competitive offering. First of all, the possibility exists for Kommuninvest to procure funds from the capital market at low interest rates due to the highest credit rating of *Kommuninvest I Sverige AB* and a favourable demand for subsovereign bonds. Additionally, a low cost/income ratio of 32% (2014) reflects an efficient management. Apart from Kommuninvest's *not for profit* orientation, its financial disintermediation and the tax-exemption for subnational governments' revenues (which enables a tax-free re-injection of surplus distribution for the capitalisation of the company) permits the offering of cost-efficient loans.

Moreover, the Kommuninvest is embedded in a unique institutional setting which is reflected in internal and external enabling conditions. As far as internal factors of the agency, I qualify those which form part of the inner organisation of Kommuninvest. I identified the following as internal factors: the trust and cooperation between the agents, the choice of the

ownership structure and the governance model, and the application of a joint and several guarantee towards the investors for the enterprise's liabilities.

Besides regulatory obstacle, a main challenge for Kommuninvest's creation was to insert trust between agents of local authorities as a condition for the inter-cooperation. As the prisoner dilemma suggests, the challenge consists in how to overcome mistrust between two or more involved parties in order to cooperate to gain benefits, which they otherwise could not achieve on their own. In the case of Kommuninvest, through the bundling of common debt demand, local authorities obtain direct access to funds of the capital markets, which would have been otherwise too costly and/or not possible as their demanded volume is not significant enough – especially for small and medium size communities. Therefore, at the very beginning of Kommuninvest's existence, mechanisms were established which enhanced mutual trust and cooperation such as lending between municipalities and a common financial committee of financial chief officer of all participating municipalities which evaluated the credit worthiness and decided about granting loans (Interviewee 1, 29/05/2015).

Furthermore, the governance model based on a double legal and organisational structure separates the political and professional level. Thanks to that, it reduces the risk of political intrusion in the granting of loans and the misuse of funds through local politicians. Moreover, the governance model reflects Kommuninvest's understanding of equity and democracy, as every member of government has one vote in the General Assembly of the co-operative society independently from its size, its capital contribution and the transaction volume within the cooperative.

The ownership structure of Kommuninvest secures the sustainability of public mandate, the persecution of the local and regional authorities' interest and their empowerment. Kommuninvest is 100% held by local authorities - in contrast to the Norwegian agency *Kommunalbanken*, where the state is the sole shareholder or to an agency which is based on private shareholders, as for instance, the initiative of the German *Kommunale Finanzagentur* of the *Kandler Gruppe* (Kandler Gruppe, 2015).

The choice to opt for a joint and several guarantee of the members for Kommuninvest's liabilities allows for the transport of the highly rated Swedish municipal creditworthiness through this guarantee to the agency (Anderson and Andersson, 2005) - as it is the central element for Kommuninvest' triple A rating, allowing the agency to fund itself at favourable terms and positively impacts the costs of members' borrowing from Kommuninvest.

Furthermore, Kommuninvest benefits from external enabling conditions: the Swedish constitution attributes a high degree of local autonomy and the right of self-government of local governments to the local and regional. They have a considerable political and financial responsibility in the provision of public services and infrastructure for their citizens. Without a high degree of decentralisation, an agency as a cooperation project between subnational governments hardly exists.

The subnational authorities have the right to levy taxes and furthermore, they benefit from an implicit state guarantee that no local or regional government may be declared bankrupt (Monday Morning, 2012). Both aspects contribute to the evaluation of Kommuninvest as a low risk issuer.

The agency has to tribute its taxes to its profit as any other company; however, municipalities and county councils are tax-exempted what concern their dividends. The latter helps to contribute to Kommuninvest capitalisation as the members decided to re-inject the dividends in the company.

Moreover, the culture of consensus of the Swedish society is another enabling factor. The agency is established as a voluntary cooperation project between subnational authorities and politicians from all political colours and all of Sweden' regions have to collaborate; namely in the General Assembly and the Board of Directors of the co-operative society in order to elaborate on the "owner directives," the general guidelines of the Kommuninvest Group. Swedish culture of consensus implies a special collective decision based on deliberation and consultation (Pettersson, 1991). A pragmatic approach of the participating members makes the common project possible (Interviewee 2, 09/06/2015). Finally, Kommuninvest profits from a direct access to central bank financing, which helps it to encounter possible market liquidity risks.

The second part of our results shows deals does Kommuninvest is an entity which can be situated on the boundaries of the social economy concept, as the agency completely fulfils six out of eight criteria.¹⁴ Yet, the criteria of the *benefits' distribution* and *decision autonomy* were partially met. With the amendment of the bylaws at the General Meeting in April 2015, the co-operative society introduced debenture capital contribution which can be transferred from members to non-members and gives the holders the right to preferential surplus distribution (but

¹⁴ The criteria were extracted from the social economy concept from Chaves and Monzón (2012) and are the following: 1) private company formally organised, 2) member organisation, 3) economic activities, 4) freedom of accession, 5) people organization, 6) democratic entity, 7) distribution of benefits, and 8) autonomy of decision.

no voting rights) – surplus distribution to non-members is considered an excluding criterion by the social economy's doctrine. Concerning the criterion of *autonomy of decision*, Kommuninvest has full autonomy as no interference from the state or external capital contributors affect the decision process. Of course, the members of the co-operative society are themselves public authorities. I adhere to Fajardo's suggestion (2014, 2015) that, to determine the belonging of an entity to the social economy, the focus shall be rather set on the pursued aims, the fulfilment of the action's principles of the social economy and the nature of the economic activities. Kommuninvest pursues a mutual aim based on solidarity and on a democratic governance model - which are characteristic features of cooperatives and entities of the social economy sector (Chaves and Monzón, 2012). The nature of Kommuninvest's economic activities is not public as they are not legally or constitutionally prescribed public functions. The business activities result from a voluntary cooperation project between the associated members and are developed in the private law sphere.

My analysis showed that Kommuninvest exceeds Lambert's requirements for a *régie coopérative* (1962, 1963) in many aspects; according to him, the ownership turns the enterprise into a public enterprise (1962). I indicated that Kommuninvest provides an indirect public service for the Swedish citizens; it is a *not for profit* organisation which carries out economic activities and is democratically governed and also benefits from the autonomy of the central government. Lambert's concept helps to identify if a public enterprise is governed by a basic interpretation of the cooperative principles. Furthermore, there exist significant differences between *régie coopératives*. Therefore, I suggest, along with Florio and Fecher (2011), to develop a richer conceptual fond and to gain a more differentiated image of the entrepreneurial and economic activities of the public and social economy sectors.

I conclude that Kommuninvest is valuable to serve as a model for other European countries for cost efficient and diversified funding – to the extent that the Swedish model benefits from an institutional framework, which is unique. An establishment of such an agency in another country would, therefore, has to consider and to adapt to the cultural and political system of the respective country. Also, the creation of such an agency should not be misunderstood as an encouragement for excessive indebtedness of subnational governments. Such an agency should only secure loan granting for investments and not for the daily operations of the local authority.

The limits of this study are firstly, that one cannot draw general conclusions since the analysis is limited on a case study and secondly, Kommuninvest was not compared with other financing instruments concerning price efficiency.

Further research projects could examine and search for empirical evidence the following assumption that the pooled debt demands of subnational authorities based on a lasting and institutionalised cooperation (in contrast to sporadic club-deals) effectively boosts the principle of subsidiarity and strengthens local democracy as participation, cooperation and institutionalised interactions between agents at the local and regional level. Moreover, the study and comparison of the institutional design of different local government agencies is recommendable. To develop as well a broader theoretical understanding of the institutional diversity in the public and social economic sector could be explored.

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Annexes

- a) Table 19: Comparison of European Local Government Funding Agencies

- b) Ad hoc questionnaires

Table 19: Comparison of European local government funding agencies

Country	Sweden	Belgium	Denmark	Netherlands	Netherlands	Norway
Name	Kommuninvest	Crédit Communal de Belgique (CCB)	KommuneKredit	Bank Nederlandse Gemeenten (BNG)	Nederlandse Waterschapsbank (NWB Bank)	Kommunalbanken
Establishment	1986	1860 (-1996)	1898	1914	1954	1926
By whom?	Created through the initiative of 10 local governments	Established by a special act: the Royal Order dated 8 December 1860	Established by a special act	Founded by 37 municipalities. The Crédit Communal de Belgique serves as a model.	The water boards impulse to creation	A bill established the LGFA as a state administrative body
Legal form	Cooperative society (mother company), limited liability company (daughter)	Limited liability company	Association	Limited liability company	Limited liability company	Limited company
Issuer Rating (Moody's/S&P)	Aaa/AAA	n.a.	Aaa/AAA	Aaa/AA+	Aaa (cr)/AA+	Aaa/AAA
Sovereign Rating	Aaa/AAA	n.a.	Aaa/AAA	Aaa/AA+	Aaa/AA+	Aaa/AAA

Ownership	Local and regional governments	Local and regional governments	Owned by its members which are all the municipalities and regions of Denmark	50% are held by the State 46.4% by 406 municipalities and 3.6% by 11 out of 12 provinces and a water board	81% of the shares are held by Dutch water authorities, while 17% by the State 2% by provinces.	Since 1999, it has been owned by the Kingdom of Norway after a conversion to a state company.
Guarantee	Joint and several guarantee from the members	Municipal loans municipalities were guaranteed by the central governments	Joint and several guarantee	Implicit support form Dutch Ministry of Finance	Funds are lent under the guarantee of funds that are ultimately backed by the Dutch government.	Explicit state guarantee, afterwards the guarantee was substituted by a maintenance obligation.
Total lending (€) in 2014	24.2 billion	n.a.	19.8 billion	83.5 billion	49.4 billion	28.0 billion
Loan production in 2014 (€)	10.9 billion	n.a.	2.3 billion	9.2 billion	6.0 billion	4.8 billion
New funding in 2014	4.5 billion	n.a.	235 million	14.9 billion	13.3 billion	13.25 billion

Country	Switzerland	Finland	Italy	France	United Kingdom
Name	Emissionszentrale Schweizer Gemeinden	MuniFin	Cassa del Trentino	Agence France Locale	Municipal Bonds Agency
Establishment	1971(-2013)	1989/1993	2005	2013	2014
By whom?	By the suggestion of the Swiss Association of Municipalities (Schweizerischer Gemeindeverband)	By the Keva (Local Government Pensions Institution) with the full support of the member bodies.	By the Province of Trentino	11 founding members (region, departments, cities and inter-municipal entities) on the basis of the Law of separation and regulation of bank activities	Impulse by the English Local Government Association and the Welch Local Government Association (WLGA)
Legal form	Cooperative society based on private law	Limited liability company	Limited liability company	Dual structure: limited company (mother company) and limited company (daughter company)	Current transformation process in a limited liability company
Issuer Rating	n.a.	Aaa/AA+	n.a.	Aa2/-	n.a.
Sovereign Rating	n.a.	Aaa/AA+	Baa2/BBB-	Aa1/AA+	AA1/AAA
Ownership	Local governments	Local and regional governments' members.	Autonomous Province of Trentino	100% local and regional authorities.	60 councils joined the LFGA as investors
Guarantee	guarantee from local governments	Joint guarantee from local govts through Municipal Guarantee Board	Guarantee of the Province of Trentino	Pro rata guarantee from the local and regional governments	n.a.

Total lending (€) in 2014	n.a.	19.2 billion	n.a.	n.a.	n.a.
Loan production in 2014 (€)	n.a.	2.8 billion	n.a.	n.a.	n.a.
Few funding in 2014	n.a.	7.4 billion	n.a.	Not issued in 2014	Not yet issued

Source: Own elaboration on behalf of webpages and annual reports of the agencies, direct exchange and secondary literature.

Questionnaire for a master thesis. Interviewee 1: Founder of Kommuninvest

(29th May 2015)

Structure of the interview:

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C. Historical context of Kommuninvest's creation.....	99
D. Kommuninvest's creation: causes, aims, actors, process and challenges	99
E. Kommuninvest: legal form, regulation and supervision	100
F. Outlook on the creation of new LGFA.....	100
G. Kommuninvest: challenges now and tomorrow	100

About yourself

1. What is your professional background?
2. What was your position at the time when you initiated Kommuninvest?
3. Do you know the cooperative principles of the International Cooperative Alliances (ICA)?

About local governments and the municipal debt market

1. According to you, how are the competences divided between the central state and the local government in Sweden?
2. Which role do local governments play in providing welfare to Swedish citizens?
3. Which public services have the local governments to provide to their citizens?
4. What are the financial resources of local governments?
5. Does the central state provide financial resources to local governments?
4. How do local governments procure funding?
5. Who are the credit lenders of local governments?
6. Are Swedish municipalities generally entitled to form associations between themselves?

7. Can you give some examples for associations between municipalities?
8. Does inter-municipal (and inter-county) co-operation rely on special legislations like acts/ royal order?

Historical context of Kommuninvest's creation

1. Which internal and external economic and political factors lead to the creation of Kommuninvest in 1986?
2. Did the deregulation of financial markets in the 80s hinder the access of local governments to funding on the markets? If yes, why and to which extent?
3. Did the central government 'policies affect the budgets of local governments?
4. Did the economic recession has an impact on local governments and if so, how exactly?

Kommuninvest's creation: causes, aims, actors, process and challenges

1. Why was Kommuninvest founded?
2. What is the "story" behind the name "Kommuninvest"?
3. What was your role in the creation process of Kommuninvest?
4. Did you have a model of a LGFA in mind for Kommuninvest's creation, if so, which and why?
5. What objectives did you pursue with the creation of Kommuninvest?
6. Which were the short term and long term objectives of Kommuninvest at its beginning (aims, expected scope)?
7. Did any similar financial institution exist previously in Sweden?
8. Was the creation based on any special government act or Royal Order?
9. Which actors participated in the creation of Kommuninvest?
10. Did the central state contribute to the foundation process?
11. Did citizens of municipalities or of counties participated in the process?
12. What role did every type of actor have in the creation process?
13. Which legal and political obstacles did you face during the creation process?
14. Did you face (any) economic challenges while creating Kommuninvest?
15. When did Kommuninvest decide to admit new members and why?

Kommuninvest: legal form, regulation and supervision

1. Why did you choose as the legal forms the limited company and later that of a credit market company?
2. Why did you choose the legal form of a cooperative?
3. Which advantages are there in choosing these legal forms?
4. Which alternative legal forms were available?
5. Why did you form a group - or in other words why two separate organizations?
6. Which legal framework regulates the activities of the credit market company?
7. Is the credit market company regulated by a Swedish bank regulation act?
8. Is Kommuninvest supervised by public bodies?

Outlook on the creation of new LGFA

1. Which factors should be taken into account for a proper evaluation of a successful LGFA creation?
2. Which factors shall be considered to in the process of implementation of a newly created LGFA?
3. Which are the factors for a successful LGFA business model?
4. Do you favour the creation of new LFGA in the world, if so, why?
5. How would you assess the creation of a LFGA in Germany?
6. How do you evaluate the creation of a LFGA in Spain?

Kommuninvest: challenges now and tomorrow

1. How does Kommuninvest prepare for the Bases III regulations?
2. What impact does the Swedish Parliament Act about local government financing have on Kommuninvest?
3. Do you expect that demographic changes in Sweden will have an effect at the activities of Kommuninvest?
4. How a low interest rate on the market does affect your activities?
5. What do you expect how local governments' debt ratio will affect your activities in the next 20 years?

Thank you very much for your time and effort!

Interviewee 2. Questionnaire for a master thesis.
Board Member of the Co-operative Society Kommuninvest

(9th June 2015)

1. **Please present yourself** (your background, political party, position in the municipality and mandate time in the board of the co-operative society).

2. Why did you stand as a candidate for the Board of the co-operative society Kommuninvest? Please make reference to a) your personal motivation and b) the main challenges which you associated with the function.

3. Please evaluate the following values concerning the importance they have for the co-operative society. A) Choose two values which may be either qualified as “very important”, “important” or “less important”.
 - democracy
 - self-help
 - self-responsibility
 - solidarity
 - equality
 - equity

Group	Degree of importance	values
A	very important	
B	important	
C	Less important	

B) Please give an example for each value how it is applied and practised within Kommuninvest.

4. In Europe the International Co-operative Alliance (ICA) is very important for the co-operative movement to express a common identity based on values and principles. In your opinion, in which ideology is Kommuninvest based?
5. Could you describe possible areas of conflicts between a) the Board of the Co-operative Society and the members and b) the Co-operative Society Kommuninvest and the Administration staff of the member municipalities (eg. Chief Financial Officer)?
6. How (was and) is it possible that the member municipalities accept to participate in a joint and several guarantee for Kommuninvest?
7. Which measures are taken to a) enhance trust between member municipalities and b) to foster co-operation between them?

Interviewee 2. Questionnaire for a master thesis.

Secretary of the cooperative society Kommuninvest

(28th May 2015)

About yourself

Please present yourself.

About Kommuninvest: legal form, values, structure, business model

I. Legal form

1. Why did you adopt the legal form of a limited company and that of a cooperative society for Kommuninvest?
2. Which advantages are there in choosing these legal forms?
3. Which alternative legal forms were/are available?

II. Cooperative society

1. What are the values of the cooperative society?
1. Do you know the cooperative's values from International Alliance of Cooperatives (ICA)?
2. Do you apply the cooperative's values from ICA in Kommuninvest?
3. On which criteria do the cooperative admit new members?
4. What are the benefits of a membership for the new member?
5. What are the benefits of new members for Kommuninvest?
6. Are there any disadvantages or restrains which might face members due to their membership of Kommuninvest?
7. Which local government is not part of Kommuninvest and according to you, why not?
8. Can you give an example how you calculate the capital contribution of a member?

9. Does the cooperative have other organs besides of the general meeting, the board, the managing director, the nominating committee and the auditors?
10. How is the election procedure of the board members?
11. Who are the board members (position in the local governments?)?
12. Does Kommuninvest have fiscal advantages because of its status as a cooperative?
13. Does Kommuninvest have fiscal advantages because of other reasons than the before mentioned?

III. Cooperative Principles

1. Which types of capital contributions from the members exists?
2. Do members have democratic control on the capital of the cooperative?
3. Is the capital of Kommuninvest totally owned by Kommuninvest cooperative society?
4. Do members receive compensation for subscribed capital (as a condition of membership), if so, on basis of which criteria?
5. Did the cooperative generate surpluses, if so, in which years and how much?
6. How does the cooperative distribute generated surpluses?
7. Are surpluses allocated in cooperative society's reserves?
8. Do legal requirements exist for constituting reserves?
9. In case of the existence of reserves, is it indivisible?
10. Did surpluses have been already distributed to members in proportion to their transactions with the cooperative (see art. 16 cooperative society statute)?
11. Are surpluses used to support other activities approved by the members?
12. Is there any other influence on the decision making of the cooperative besides that of the members?
13. Is the cooperative an autonomous from the central state or other public body?
14. Is the cooperative's activity (raising of funds) part of the by law or by constitution prescribed public functionalities of local governments?
15. Do providers of external capital exert control in the Kommuninvest group?
16. Who are the providers of external capital?
17. Did the society take loans to finance themselves?
18. Do you provide education and training for your cooperative members?
19. Do you provide education and training for your elected representatives and managers and employees?
20. What kind of training is it?

21. Why do you provide training?
22. Do you inform the general public about Kommuninvest?
23. Do you inform the general public about the nature and benefits of co-operation and co-operatives?
24. Which groups are you targeting with the information transfer?
25. Is Kommuninvest part of any association at the local, national, regional or international level?
26. Is Kommuninvest part of any co-operative association?
27. Does Kommuninvest work together with other actors?
28. Does Kommuninvest work for sustainable development of their communities?
29. Are the policies of sustainable development approved by the members?
30. Does Kommuninvest donate for charitable actions or events?
31. Do you have partnerships with other institutions or organizations in order to promote sustainability?

IV. Principles of social economy

1. Which importance has solidarity among the members within Kommuninvest?
2. Which consequences does the several guarantee have for the members – which advantages and disadvantages does it provide?
3. Please explain what it means to you: “The society shall not be managed for the purpose of making a profit...” (art. 1 statute of cooperative society).

V. Credit Market Company

1. Why did you change the legal form of the credit market company?
2. Which legal framework regulates the activities of the credit market company?
3. Is the credit market company regulated by a Swedish bank regulation act?
4. How do you describe the business model of Kommuninvest?
5. Which are the factors of success of the business model?
6. Which importance does the several and joint guarantee have for the economic activities of the credit market company?
7. What are the characteristics of Kommuninvest's bonds?
8. At which terms do you reward bonds?

9. Does the credit market company or one of its daughter companies raise funds in another way than by the emission of bonds?
10. Which risks might occur from the emission of bonds for the financial stability of the credit market company?
11. Who are the investors of your bonds?
12. Do you select investors, if so, based on which criteria?
13. What types of loans do you offer?
14. Who can borrow a loan?
15. Do you apply different lending conditions on the members?
16. Which interest rate do you apply?
17. Which interest rate do your competitors apply?
18. Which are your competitors on the Swedish municipal debt market?
19. In which activities of the local governments do you invest?
20. Which other products or services do you offer to your members?
21. Please explain the new debt management system which you introduced in 2014 for the members.

VI. Daughter companies

1. Which daughter companies does Kommuninvest have?
2. Which activities do they pursue?

VII. Challenges for Kommuninvest

1. In your opinion, which impact will have the new/in process being Swedish Parliament Act about local government financial cooperation on Kommuninvest?
2. Do you expect that demographic changes in Sweden will have an effect on the activities of Kommuninvest?
3. How does low interest rate on the market affect your activities?
4. What do you expect how Swedish local governments' debt ratio will affect your activities in the next 20 years?

Thank you very much for your time and efforts!

Interviewee 4. Questionnaire for a master thesis

(28th May 2015)

Please present yourself.

How does Kommuninvest prepare for Basel III regulations concerning capitalisation?

Thank you very much for your time and efforts!

Interviewee 6. Questionnaire for a master thesis

(28th May 2015)

About yourself

Please present yourself.

General questions about Swedish municipalities

1. According to you, how are the competences divided between the central state and the local governments?
2. Which role do local governments play in providing welfare to Swedish citizens?
3. Which public services have the local governments to provide to their citizens?
4. What are the financial resources of local governments?
5. What kind of taxes do local governments raise?
6. Which is the most important financial resource of local governments?
7. Does the central state provide financial resources to local governments?
8. How do local government procure funding?
9. How is the budget situation of local governments?
10. Are Swedish municipalities generally entitled to form associations between themselves?
11. Does inter-municipal (and inter-county) co-operation rely on special legislation like acts, royal orders...?

Interviewee 5 and 7. Questionnaire for a master thesis.

Credit Market Company

1. Why did you change the legal form of the credit market company?
2. Which legal framework regulates the activities of the credit market company?
3. Is the credit market company regulated by a Swedish bank regulation act?
4. How do you describe the business model of Kommuninvest?
5. Which are the factors of success of the business model?
6. Which importance does the several and joint guarantee have for the economic activities of the credit market company?
7. What are the characteristics of Kommuninvest's bonds?
8. At which terms do you reward bonds?
9. Does the credit market company or one of its daughter companies raise funds in another way than by the emission of bonds?
10. Which risks might occur from the emission of bonds for the financial stability of the credit market company?
11. Who are the investors of your bonds?
12. Do you select investors, if so, based on which criteria?
13. What types of loans do you offer?
14. Who can borrow a loan?
15. Do you apply different lending conditions on the members?
16. Which interest rate do you apply?
17. Which interest rate do your competitors apply?
18. Which are your competitors on the Swedish municipal debt market?
19. In which activities of the local governments do you invest?
20. Which other products or services do you offer to your members?
21. Please explain the new debt management system which you introduced in 2014 for the members.

**Interviewee 8. Questionnaire for a master thesis.
Chief Financial Officer of a Swedish Municipality**

(8th June 2015)

Please present yourself.

About the municipality

1. How is the social and economic situation of the population?
2. Which mayor challenges faces the municipality at the moment and in the upcoming years?

About the municipal budget situation and borrowing

1. Which types of financial sources did the municipality have in 2014?
2. What is the share of the local tax income in 2014?
3. What is the share of local charges and fees in 2014?
4. What is the share of loans as a form of financial resources in 2014?
5. Who are the lenders of the municipality?
6. What was the expenditure of the town in 2014?
7. For what was the expenditure of the town used?
8. What is the share of investment of the municipality's budget?
9. Which type of credit does the municipality have (cash, investment credit etc.)?
10. Which are the mayor investment projects of the municipality and how are the financed?
11. How is the municipality's actual investment rate per inhabitant?
12. How is the municipality's actual debt ratio per inhabitant?
13. To sum up, how do you evaluate the municipal budget from a financial officer's point of view?

About Kommuninvest's membership

1. Since when is the municipality member of Kommuninvest?
2. Please describe the reasons why the municipality joined Kommuninvest.
3. Kommuninvest members signed a joint and several guarantee covering the liabilities of Kommuninvest. In your opinion, what is the direct consequence of this mechanism for the municipality?
4. Do you make voluntary capital contributions to the co-operative society Kommuninvest, if so, why?
5. Does the membership of the municipality has advantages for the municipality, if so, how?
6. Do you see any inconvenient for the municipality from membership?
7. On which decisions or policies adopted by the General Assembly of Kommuninvest did/do you disagree and why?
8. Do you get informed about the decisions and policies taken by the co-operative society Kommuninvest? If so, how?
9. How do you consider the information about decisions and policies form 1 up to 5 (1 = "very sufficient" to 5 = "not at all sufficient")?
10. Do you express your opinion about the financial needs towards Kommuninvest, if so, how?

About the use of Kommuninvest's products and services

1. Which products and services of Kommuninvest did and do you use?
2. What type of credit does the municipality borrow from Kommuninvest?
3. Did the general lending conditions improved for the municipality since being member of Kommuninvest?
4. How do you validate the lending conditions of Kommuninvest in comparison to other lending institutions on which the municipality rely?
5. Did the lending conditions of Kommuninvest changed over the time?
6. Where do you invest the loans from Kommuninvest?
7. Are you interested in the new green loans of Kommuninvest, if so why?

Proposals

What do you suggest how could Kommuninvest better meet your needs?

Thank you very much for your time and effort!

Interviewee 9. Head of legal department, Financial Institute of the region Valencia (Spain)

Cuestionario de una tesis de máster

(23 de Junio de 2015)

1. ¿De dónde provienen y en qué porcentajes, los ingresos financieros de los municipios de la Comunidad Valenciana?
2. ¿De dónde provienen y en qué porcentajes, los ingresos financieros de la Generalitat Valenciana?
3. ¿Cuáles son las instituciones financieras que prestan créditos a los municipios valencianos y a la Generalitat Valenciana?
4. ¿Según su opinión, como se puede calificar la oferta de crédito para los gobiernos locales y el gobierno regional en términos de coste y diversificación?
5. *Kommuninvest es una Agencia de Financiamiento del Gobierno Local, creada por y para los municipios suecos para proveerles con créditos a un coste de mercado más favorable. Kommuninvest procura financiación mediante la emisión de bonos en los mercados financieros.*
¿Usted, considera que la creación de tal institución financiera sería deseable para el ámbito de la Comunidad Valenciana y/o de España? ¿Por qué?
6. ¿Qué ventajas y desventajas tendría la creación de una Agencia de Financiamiento del Gobierno Local para los municipios en la Comunidad Valenciana y/o en España?
7. ¿Qué trabas legales usted identifica para la constitución de una Agencia de Financiamiento del Gobierno Local para la Comunidad Valenciana y/o España?
8. ¿Qué otros posibles desafíos de carácter político, social, económico usted identifica para la creación de una Agencia de Financiamiento del Gobierno Local?

9. ¿Hubo ya intentos en la Comunidad Valenciana y en España de crear una Agencia del Financiamiento del Gobierno Local? ¿ En caso de que sí, por parte de quién, por qué y cuando?

¡Muchas gracias por su tiempo y esfuerzo!

Interviewee 10. Questionnaire for a master thesis with a German mayor

(version of 8th July, 2015)

1. Please present yourself.
2. How would you describe the City of Würzburg's financial situation?
3. What types of financial income constitute City of Würzburg's 2014 financial year?
What is the percentage of each type of financial income?
4. Who are the lending institutions providing loans to the City of Würzburg?
5. How would you describe the changes which occurred in the City of Würzburg's loan offering in terms of costs and diversification during the last 5-10 years?
6. Please explain the bond program which you initiated together with the City of Nürnberg: the actors who participated in developing and issuing the bond, the characteristics of the bond (volume, coupon, maturity, spread), who was the financial intermediary who allocated the bond, in which markets was it issued, its market acceptance, and who bought the bond.
7. What were the reasons to launch the bond program and what did you expected from it?
8. How do you evaluate the bond program (see question 6) as a mean to procure funding for the City of Würzburg? Would you recommend it to other cities, and why?
9. Recently, German cities emitted bonds together (so-called: club-deal) to procure funding. How do you interpret this evolution?
10. *The Swedish financial institution Kommuninvest is a Local Government Funding Agency created by and for Swedish local governments. Kommuninvest is a voluntary member organization and 100% owned by its local governments' members. The objective is to provide its members with credits at cost beneficial conditions. Kommuninvest procure funding through the issuing of bonds in the financial markets.*

Do you favour the creation of such a financial institution for German and/or Bavarian local governments? Please explain why?
11. In your opinion, which advantages and disadvantages do the creation of a German and/or Bavarian Local Government Funding Agency has?
12. Which legal obstacles do you identify for the constitution of a Local Government Funding Agency in Bavaria or/and Germany?

13. Which other political, social, economic challenges do you identify for the creation of a Local Government Funding Agency in Bavaria or/and Germany?
14. Has there been any attempt or debate about the creation of such a Local Government Funding Agency? If so, who participated in it, why and when?

Thank you a very much for your time and effort!