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The Maltese Central Co-operative Fund and its Financing of Co-operatives: An Analysis

Peter J. Baldacchino[a] Anna Marie Cini[b] Norbert Tabone[c] Simon Grima[d]

[a] University of Malta, Professor Department of Accountancy, Faculty of Economics, Management and Accountancy, peter.j.baldacchino@um.edu.mt
[b] University of Malta, Graduate Accountant– Department of Accountancy, Faculty of Economics, Management and Accountancy, annamariecini@gmail.com
[c] University of Malta, Lecturer - Department of Accountancy, Faculty of Economics, Management and Accountancy, norbert.tabone@um.edu.mt
[d] University of Malta, Head and Associate Professor Department of Insurance and Deputy Dean of the Faculty of Economics, Management and Accountancy, simon.grima@um.edu.mt

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Abstract

Purpose: (i) to ascertain and analyze the funding of the Central Co-operative Fund (CCF); (ii) to assess whether the CCF has achieved its intended role of utilizing its funds optimally and why, or why not, this is so, and (iii) to evaluate and recommend ways on how the role of the CCF may be improved.

Methodology: The study made use of a mixed-methods research methodology. Semi-structured interviews were conducted with four CCF representatives, seven co-operative experts and nine co-operative representatives. These were followed by a review of the financial statements of the CCF for the period 2012-2019.

Findings: The findings indicate that over the years, the CCF has managed to accumulate a substantial amount of funds. The financing role of the CCF is essential for the co-operative movement in Malta. Despite the numerous financial difficulties faced by Maltese co-operatives, the use of CCF financing by co-operatives as against other non-CCF financing has been relatively poor. The study concludes that the Maltese CCF is adequately funded via the 5% annual co-operative contributions. With respect to its utilization of funds, the CCF has clearly not achieved this objective optimally in that it has not played its expected role in the financing of Maltese co-operatives. The study concludes that the CCF has potential for a much-increased role than it has at present in assisting co-operatives in their financing requirements.

Originality/Value: This study is meant to raise public sector awareness on the need to improve Maltese CCF practices with respect to their definability, formulation and monitoring. It is hoped that the recommendations of this study support the competent authorities in addressing the identified existing deficiencies, thus enabling them to enhance CCFs and render them improved vehicles for sector development. Ultimately, an improved CCF would aid in the financing difficulties faced by Maltese co-operatives. This, in turn, would support the growth and development of the Maltese co-operative movement.

Introduction

Different international organizations and authors have attempted to conceptualize the notion of co-operatives. One such definition, which is being taken as the working definition of a co-operative for this study, is:

> an autonomous association of persons united voluntarily to meet their economic, social and cultural needs and aspirations, including employment, through a jointly-owned and democratically-controlled enterprise, in accordance with co-operative principles. [Cooperative Societies Act (CSA) 2001, Art. 21, p.9]

The Maltese co-operative institutional framework identifies three different types of institutional bodies: the co-operative associations (Associations), the fund and the regulator, who all have different roles in the Maltese co-operative movement (Baldacchino et al. 2017). The Associations comprise 'Koperattivi' Malta and the Malta Co-operative Federation. Then, there is the Central Co-operative Fund (CCF/Fund), and the regulator being the Co-operatives Board (Baldacchino et al. 2018) (Baldacchino et al. 2020).

Co-operatives can achieve their intended purpose of ensuring that a co-operative movement can develop and prosper through membership, commitment, co-operation and a balance between the economic and social needs (Dogarawa 2010). For this to occur, co-operatives must be able to meet the necessary finance whilst fulfilling their social mission (Baldacchino and Camilleri 2013) (Grima et al. 2016)

Literature Review

The Maltese Central Co-Operative Fund

Art. 91 of the CSA (2001) established the CCF as having a distinct legal personality, with co-operatives contributing 5% of the surplus generated in each accounting period. It continues to add that:

> "The Fund shall be used in furtherance of co-operative education, training, research, and for the general development of the co-operative movement in Malta."
> (CSA 2001, Art. 91(2), p.35)

The 5% annual contribution is deemed as essential for co-operative growth as it contributes indirectly to the co-operative's financing requirements (Mifsud 2006).

The Maltese CCF was first introduced in the 1978 Act with the main aim of fostering solidarity amongst co-operatives whilst promoting the co-operative movement (Fabri 2006). The CCF is primarily funded through yearly co-operative contributions and income from investments held with Maltese commercial banks (Spiteri 2012). As per recent changes to the Fund regulations [Central Co-operative Fund (Amendment) Regulations 2019 (L.N.81), Art. 4], hereinafter referred to as L.N.81 (2019), the fund is obliged to pass on 70% of the annual co-operative contributions to the Associations, leaving only 30% of the annual co-operative contributions at its discretion.

Co-Operative Financing

Co-operatives need to satisfy both the economic and social aspects, as they need to satisfy the needs of their members, as well as the well-being of their communities (Novkovic 2008). The financing aspect is important in satisfying the needs of such an association of persons (Périlleux, Nyssens 2017). This is because co-operatives must be competitive and effective in maintaining financial stability in order to satisfy such needs and aspirations (Puusa et al. 2013).

In contrast to other business models, the co-operative model is founded on principles and does not operate just for profit (Mazzarol et al. 2018). As a result, co-operatives find it challenging to raise financing to meet their growth needs and be able to meet their values and principles (Mamouni Limnios et al. 2016). The Maltese co-operative model is shaped by various financial constraints (Baldacchino, 2013) which is attributed to the co-operative business model often being perceived as financially weak, especially as traditional lenders do not recognize co-operatives, given that the primary objective of a co-operative is not profit maximization (Nuruddeen 2018). Gauci (2017) identified various limitations faced by Maltese co-operatives relating to financing by commercial banks. Such limitations include the need for co-operatives to provide collateral, the limited amount of knowledge about co-operatives by banking institutions, and the notion that co-operatives are not successful entities and lack financial expertise (ibid.). Such limitations, coupled with the inexistence of co-operative-related financial institutions in Malta, contribute to the difficulty faced by Maltese co-operatives to raise the needed finance.

The Financing Role of The CCF

The Maltese CCF is managed by a committee composed of eleven members; six independent members chosen by the Minister, two members from each Association and one member elected by the joint consent of the two Associations (Central Cooperative Fund (CCF) 2020).

The fund provides start-up, website and training grants as well as an interest subsidy scheme (Tabone 2013). However, few co-operatives apply for such grants given that the majority are not tailored to the specific needs of individual co-operatives (Camilleri 2012).

Up to 2019, co-operative financing was distributed through a three-tier system [Central Co-operative Fund Regulations 2016 (L.N.344), Art. 16]. However, this legal notice was amended through L.N. 81 (2019) (Cooperatives Europe 2020). The three-tier system that had previously been in effect was removed, resulting in changes in the funding distribution. With this change, the fund is obliged to pass 70% of the annual co-operative contributions to the Associations [Central Co-operative Fund (Amendment) Regulations 2019 (L.N.81), Art.4].

According to Baldacchino and Camilleri (2013), with proper management and transparency, the fund has the potential to assist those co-operatives presenting a sound plan by providing them with short-term micro-credit. Alternatively, the fund could assist them in accessing other sources of finance, particularly from commercial banks, by providing such institutions with the necessary guarantees or collaterals (Baldacchino, Borg 2016, Camilleri 2012).

Buttigieg (2004) also suggested that, along with direct capital injections, the fund could furnish co-operative managers with more guidelines on the use of funds to better assist them in their financing competences. Furthermore, appropriate schemes and grants could be introduced, particularly in carrying out feasibility studies and the drafting of business plans (Baldacchino, 2013). Moreover, the fund could also finance the provision of consultancy services to co-operatives (Mifsud 2006). Tabone (2013) also stated that the fund could further contribute to the success of co-operatives by providing more educational programmes than at present.

Given that no co-operative financial institution has as yet been established in Malta, and in light of the minimum capital requirements outlined in Article 7 of the Banking Act (1994), the fund's net assets could be utilized in the formation of a co-operative financial institution in a joint venture with other capital providers (Brincat 2014).

According to Baldacchino et al. (2019), the co-operative movement in Malta has remained stagnant over the years and this could also be partly attributed to a lack of education and awareness of the co-operative model. The authors argued that the CCF could utilize part of its funds to raise more awareness and familiarity of such model. This is because, in order for a co-operative movement to develop, the community needs to attain a higher level of trust in the co-operative system as well as in the services offered by the co-operatives and their managers (Münkner 2014).

The Need For The Study And Its Objectives

Co-operatives are founded on principles, which distinguish them from other types of business models (Mazzarol et al. 2018). Regardless of these characteristics, financial stability remains critical to success. As a result, co-operatives must strike a balance among their social, economic, cultural and financial needs and aspirations (Lauermann et al. 2018). This is because a co-operative can only fulfil its purpose if it can meet its financial obligations (Puusa et al. 2013) (Pavia et al. 2021). A study carried out by Baldacchino and Camilleri (2013) highlighted that the current co-operative environment in Malta faces financial limitations, especially when it comes to obtaining external finance. This study suggested that co-operative institutional bodies should have a more active role in the financing of Maltese co-operatives. This shows that the financing role of the CCF is essential for the advancement of the co-operative movement in Malta. Any findings emerging from this study might lead to an improvement in the CCF. Ultimately, an improved CCF would aid in the financing difficulties faced by Maltese co-operatives. This, in turn, would ensure the development of the Maltese co-operative movement.

Methodology

The Research Tool

To address the intricacies of the research objectives and enhance the soundness of this study, a mixed-methods research approach was necessitated. Primary data was collected by conducting semi-structured interviews with twenty participants. The interview schedule designed for this study consisted of a combination of both open and closed-ended questions. These were followed by an analysis of the relevant parts of the financial statements of the CCF in the period 2012 to 2019 relating to the funding of the CCF and its financing to Maltese co-operatives.

The Research Population

For this study, the researchers sought to obtain the perceptions, knowledge, and experience of participants in the research area and therefore non-probability purposive sampling was deemed the most suitable sampling technique. This study sought the views of twenty representatives within the CCF, the Maltese co-operatives and other experts associated with the co-operative movement. This was considered as enough to ensure qualitative saturation since these representatives provided a collective answer representing specific areas of the CCFs and are considered experts and more knowledgeable in their field (Grima et al. 2021).

The Analysis

IBM SPSS Statistics (Version 26) was used to analyze the data gathered from the closed-ended questions of the semi-structured interviews. In addition, Microsoft Excel was used for analyzing the data obtained from the relevant parts of the financial statements of the CCF during the period 2012-2019. Specifically, the Kruskal-Wallis Test was used for the questions answered using the Likert scale to compare the mean rating scores provided to a question/statements among three independent groups (CCFreps, Experts and Co-opreps). Where statistical significance emerged from the Kruskal Wallis Test, a post-hoc test on each possible pair was conducted using the Mann-Whitney U Test. The Mann-Whitney U Test compared the mean rating scores for each possible pair (CCFreps vs. Co-opreps, CCFreps vs. Experts and Experts vs. Co-opreps) to identify if one or more pairs might have a different mean score than one or more of the others.

Finally, the income statements of the fund were extracted from the financial statements and Microsoft Excel was used to compute the averages, visually represent the data, and analyse the financials to enable comparison at the Findings and Discussion stages of this study.

Limitations

Only 12.86% (9/70) of Maltese co-operatives participated in the study and hence, this study does not represent a comrpehensive representation of the situation of the Maltese co-operative movement. In addition, only four CCFreps could participate given that the CCF Committee had not been fully composed during the data collection process of this study. However, as noted above, since the participants are considered as the most knowledgeable and experienced in the field, the results represent a satisfactory response rate and can be generalized. The participants' perceptions are considered to represent the perception of a larger group and are compatible with those of other CCFreps, Experts and Co-opreps who did not participate directly in this research, but have voiced their opinions with these experts.

Findings

The CCF and its Funding

The findings indicate that the 5% annual contribution by co-operatives is adequate for the CCF to function successfully. Some Co-opreps (3/9), on the other hand, pointed out that if the CCF continued to carry out its function as it used to in the past, the 5% contribution might indeed be too high for its needs. This was due to the failure of the CCF in managing its funds in the best interest of co-operatives, particularly because it opted to invest the majority of its accumulated funds in financial securities rather than in the co-operatives themselves.

L.N.81 (2019) obliges the CCF to pass on 70% of the annual co-operative contributions to the two Associations, leaving the remaining 30% at the fund's discretion. The findings indicate that the majority of interviewees agreed to such a change, however, most Experts (4/7) claimed that the 5% annual contribution should be either fully or mostly left at the discretion of the CCF. Others commented that prior to the change, most of the funds of the CCF were being allocated for the administrative expenses of the two Associations. However, following this change, there would be no demands in this respect from these Associations. A number of Co-opreps (6/9) added that the CCF had several accumulated funds originating from past contributions and whilst the change in legislation was now imposing limited discretion to the CCF in the distribution of new funds, the CCF still had the discretion to use such accumulated funds and reserves.

The findings also indicate that the fund would remain relevant and able to execute its functions in the best interest of co-operatives with both the available accumulated funds and the retention of 30% of the annual co-operative contributions at its discretion. However, a number of respondents (8/20) added that, while there would be no short-term problem in light of these changes, a long-term issue would result if the CCF continued to pass on 70% of the annual co-operative contributions to the Associations. This is because the remaining 30% of the annual co-operative contributions would not be adequate to sustain the future financing of co-operatives as it was envisaged that more project requests would be lodged by co-operatives in the future. These respondents added that the best course of action would be for the Associations to be self-financed through direct fees from their members.

As shown in Figure 1, from 2012 to 2018, the CCF had a consistent surplus after deducting all expenses. In 2019, owing to a one-time compensation being passed on to one of the Associations, the CCF ended up with a deficit. Yet, it still had a total of €4.5 million in accumulated funds and reserves.

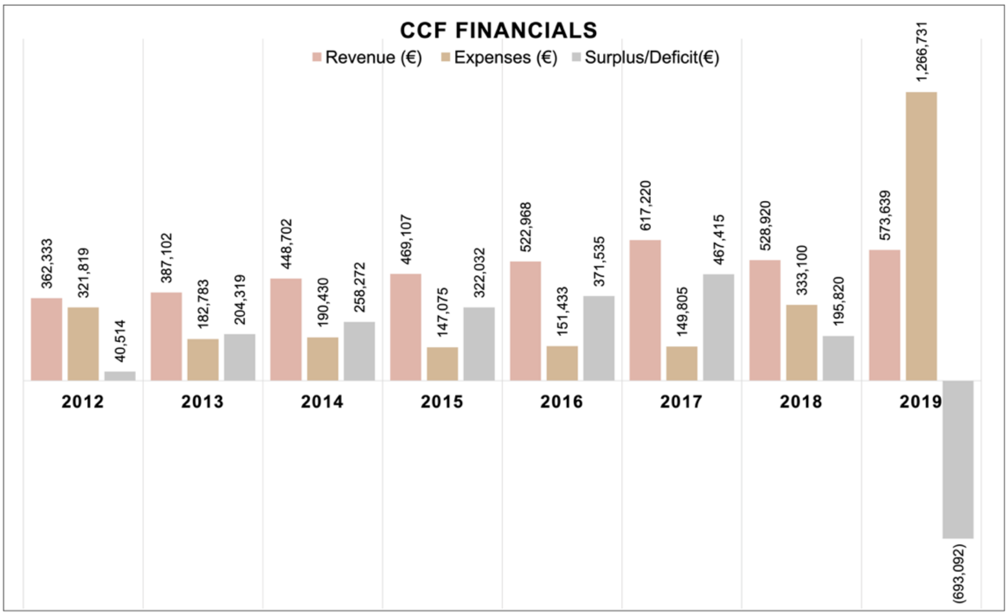

Figure 1: CCF Financials 2012-2019

Source: ***Adapted from the Central Co-operative Fund Financial Statements 2012-2019 (CCF 2020)***

The Financing Role of the CCF

The findings indicate that co-operatives found it difficult to obtain short-term bank financing, long-term institutional loans, increase share capital by external injections, Malta Enterprise grants and also to give financial collaterals and guarantees to any supplier of finance. The findings also show that unfortunately, financial institutions lacked knowledge about the co-operative model and were hesitant in granting them credit, especially at the co-operative start-up stage. In addition, few co-operatives had fixed assets at their disposal to put up as collateral, especially worker and social co-operatives.

The findings indicate that CCF financing was much lower in comparison with other financial sources such as Malta Enterprise grants, injections of own share capital, long-term institutional loans, ploughed-back surpluses, EU funding, short-term bank financing and supplier credit.

Most interviewees (4Experts, 7Co-opreps) acknowledged that, despite the difficulties faced in obtaining non-CCF financing, few co-operatives utilized CCF financing as the CCF financed co-operatives solely through grants. A few CCFreps (2/4) argued that co-operatives rarely applied for any financing for any specific projects apart from the grants/schemes referred to.

When asked about the extent to which the distribution of funds by the CCF needed to give relative importance to environmental, social, financial and other requirements, respondents stated that environmental, financial and social requirements did not need to be much differentiated in the relative importance ($3.20 \leq \bar{x} \leq 3.40$), although social requirements seemed to be marginally more important than the others. However, they referred to other requirements which, in their opinion, were also important, these mostly including social marketing (9/20) but also education (4/20) and innovation (6/20) requirements.

Interviewees were then inquired as to how frequently have individual applications, for funding by co-operatives or Associations on their behalf had been accepted to date by the CCF. This question elicited a substantial difference in responses ($p=0.013$). Experts and Co-opreps stated that they were never or rarely accepted ($0.22 \leq \bar{x} \leq 1.29$). On their part, CCFreps were undecided in this question with their response being significantly different ($p=0.004$) than that of Co-opreps. CCFreps (3/4) added that financing applications relating to information campaigns and grants/schemes, although few, were normally accepted. However, the CCF typically refused to finance social events as they were considered wasteful. Moreover, two CCFreps pointed out that, regulations were not flexible enough to enable the approval of those projects, which although worthwhile, were not considered to be strictly for 'research' or for 'the general development of the co-operative movement'.

Interviewees where then asked whether the CCF would manage to optimally allocate its distribution funds, to co-operatives, following the recent changes in legislation. Figure 2 shows the overall results; almost half (45%) considered the changes positive, 40% found them negative whilst the other 15% were neutral about the changes. The latter added that the optimal management of CCF funds depended on the CCF's ability to define its changed role vis-à-vis the Associations, and to work within clearly set parameters.

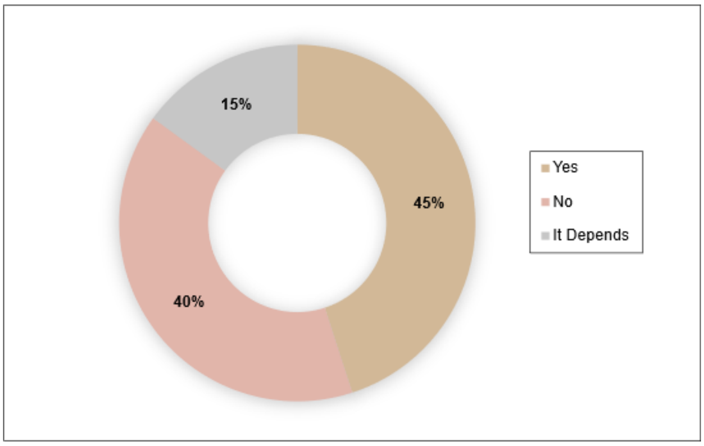

Figure 2: Optimal Allocation of Funds

Source: Authors' Compilation

The majority of interviewees (3CCFreps, 4Experts, 2Co-opreps) who were positive about the changes stated that more emphasis than before had been given to the financing of co-operatives through their Associations. Given that Associations are constantly in contact with their members, they should now be more able to implement specific initiatives aimed at meeting their requirements. Furthermore, they added that since the Associations are now obliged to meet their administrative commitments from the 70% of the member co-operatives contributions being passed on to them, the CCF should now be able to focus more on project proposals. However, contrastingly, a few Experts (3/7) added that the redistribution of 70% of the annual co-operative contributions to the respective Associations could be found to be detrimental to the co-operatives themselves, unless proper safeguards were put in place to ensure fair allocation of funds to their members. Respondents (2Experts, 6Co-opreps) who were negative about the changes expressed their scepticism as to whether, under the new regulations, the considerable funds being passed on to the Associations would be utilized in the best interest of their co-operative members. One danger with having two Associations would be the incurrence of unnecessary new expenditure such as the doubling of the subscriptions for foreign affiliations. Furthermore, it would probably be difficult to prevent each Association from paying higher salaries to their staff and management unless additional oversight controls were introduced. In this scenario, the probability would be that fewer overall resources would remain for the direct interest of co-operatives.

Figures 3 and 4 indicate the amounts and percentages of the CCF 2012-2019 contributions being redistributed to the co-operatives themselves. Figure 3 shows that even though CCF contributions rose over the years, the amount of co-operative financing actually decreased during this period. In Figure 4, it may also be noted that while during 2012-2016 the distributions to co-operatives as a percentage of the CCF contributions redirected to co-operatives ranged between 3% to 4%, it fell to 1% during 2017-2019.

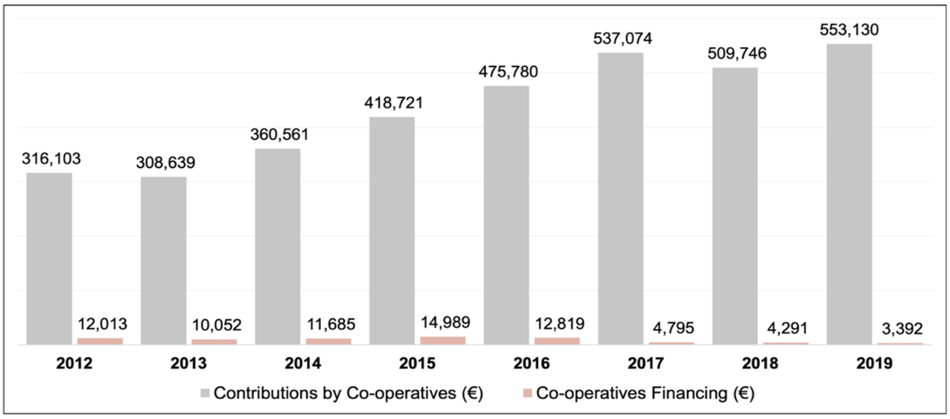

Figure 3: CCF 2012-2019 Contributions and Portions Redirected to Co-operatives

Source: Adapted from Extracted from Central Co-operative Fund Financial Statements 2012-2019 (CCF 2020)

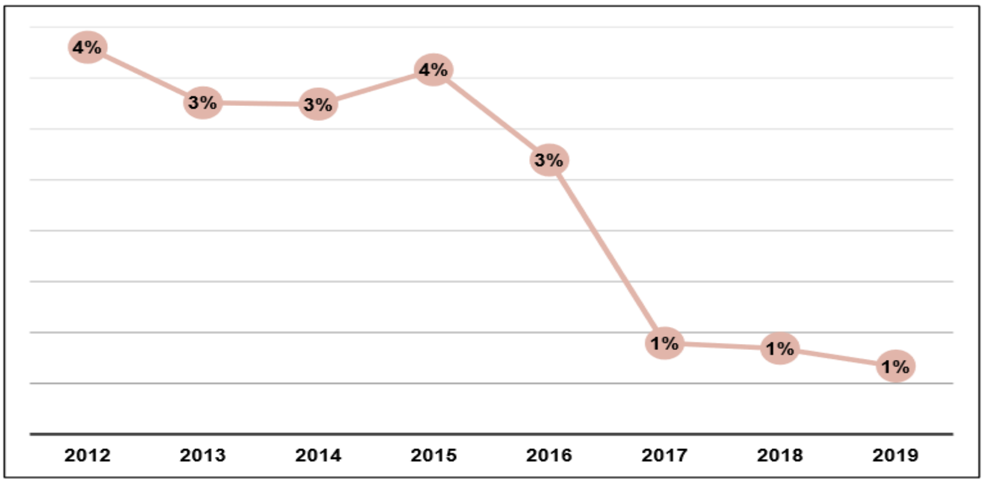

Figure 4: % of Contributions Redirected to Co-operatives

Source: Authors' Compilation

Proposed Improvements to the CCF

Respondents were presented with several statements relating to possible new financing initiatives that the CCF could adopt. Responses as to whether the CCF should offer more programmes than those currently being offered varied significantly($p=0.035$). CCFreps and Experts agreed ($3.00\leq\bar{x}\leq3.50$), with the Experts level of agreement varying considerably($p=0.014$) from that of Co-opreps who agreed much more strongly ($\bar{x}=4.00$). A few Experts (3/7) added that the provision of more programmes should only be made if there was no overlapping with the programmes offered by the Associations. On the other hand, most Co-opreps (5/9) added that even those programmes offered by the Associations should be offered by the CCF, as there may be co-operatives who do not want to form part of the Associations.

Respondents also agreed, verging towards strong agreement ($2.86\leq\bar{x}\leq3.89$), when asked whether the CCF should furnish co-operatives with more guidelines on the use of funds, by financing the provision of more educational courses and/or training courses.

All groups of respondents were in agreement ($3.29\leq\bar{x}\leq3.56$) as to whether the CCF should help the financing of co-operative start-ups in their registration process, with most(12/20) adding that the CCF should provide a whole start-up package to incentivize individuals to form co-operatives.

Interviewees agreed, verging to strongly agreed ($2.50\leq\bar{x}\leq3.67$), with the statement as to whether the CCF should provide short-term micro-credit facilities. However, a number of interviewees(2CCFreps, 4Experts, 4Co-opreps) added that, with the current regulatory framework, the CCF cannot provide direct short-term micro-credit facilities, highlighting that the CCF does not have the necessary expertise to carry out proper due diligence.

Interviewees agreed ($2.86\leq\bar{x}\leq3.33$) that CCF funds should be utilized to provide guarantees or collaterals to co-operatives when these apply for loans from commercial banks, and such banks find them otherwise amenable for such loans.

Interviewees agreed, verging to strongly agreed ($2.50\leq\bar{x}\leq3.67$), with the statement as to whether the CCF should provide short-term micro-credit facilities. However, a number of interviewees(2CCFreps, 4Experts, 4Co-opreps) added that, with the current regulatory

framework, the CCF cannot provide direct short-term micro-credit facilities, highlighting that the CCF does not have the necessary expertise to carry out proper due diligence.

Responses as to whether CCF financing should include the provision of loans for varying time periods up to ten years varied significantly($p=0.042$). CCFreps disagreed ($\bar{x}=1.00$), Experts were neutral ($\bar{x}=2.43$) whilst Co-opreps agreed ($\bar{x}=3.22$), with their level of agreement being significantly different ($p=0.013$) than that of CCFreps. CCFreps(3/4) added that the CCF should never provide direct loans, as it does not have a banking licence and also because once co-operatives are up and running, the CCF should not help individual co-operatives to make their investments. They added that the CCF has irregular cashflows as contributions vary each year depending on co-operatives' performance and the economic environment, which render it risky to lend long-term. They even pointed out that the CCF did not have the necessary expertise and systems in place to establish which co-operatives have a low probability of default. On the other hand, Co-opreps (7/9) stated that given that it is difficult for some co-operatives to obtain long-term loans from commercial banks, this would be a step forward towards ameliorating the financial difficulties faced by co-operatives. However, a few Co-oprep s(3/9) added that provision of loans should not exceed a maximum period of four years and should only be provided to start-up co-operatives and to those co-operatives which do not have fixed assets to put up as financial collaterals/guarantees when applying for loans from commercial banks.

Finally, responses as to whether the CCF should provide financial aid to co-operatives in difficulty varied significantly ($p=0.033$). CCFreps disagreed ($\bar{x}=1.00$), Experts disagreed, verging to neutral ($\bar{x}=1.57$), whilst Co-opreps agreed ($\bar{x}=3.00$) with their level of agreement being significantly different ($p=0.016$) than that of CCFreps. CCFreps (4/4) added that providing financial aid might incentivize co-operatives to intentionally allow their co-operative to fail as they know that there is the fund to bail them out. On the other hand, the majority of Co-opreps (6/9) stated that the fund should provide financial aid indirectly to co-operatives in difficulty by engaging consultants to help them get back on their feet. Others (5/9) pointed out that direct financial assistance should be provided in circumstances affecting all co-operatives having difficulties, such as in the current pandemic which impacted most Maltese co-operatives, especially producer ones.

The interviewees were then asked if they had any recommendations on ways to improve the role of the CCF and any initiatives, which the CCF should finance in future years. As may be seen in Figure 5, respondents emphasized mostly on the need for the CCF to provide consultancy services, this including assistance for co-operatives to draft their business plans and to obtain EU funding. They also referred to the need for more direct CCF communication with co-operatives, this including helping them to have better deals with financial institutions.

Figure 5: Other Possible CCF Improvements

Source: Authors' Compilation

Discussion

Have the CCF Financing Initiatives Achieved the Fund's Intended Role?

The few contributions being re-invested in co-operatives suggests that the current initiatives in the form of grants may need to be changed if the financing of Maltese co-operatives is to improve. Such grants may have been inadequate owing to their insufficient promotion, their smallness (typically fixed at €1,000 only), as well as their limited applicability to co-operatives with adequate securities. Given such limitations, it is not surprising that there has been insufficient development in co-operative financing.

Why has the CCF to Date Not Achieved its Intended Role of Optimizing the Utilization of its Funds?

Owing to the various financial difficulties faced by co-operatives, the role of the CCF is important for the advancement of the co-operative movement in Malta. The findings, however, indicate that the CCF has not played an active role in the financing of Maltese co-operatives, which confirms the conclusions of Baldacchino and Camilleri (2013). As a result, the CCF failed to meet its stated objectives, corroborating what Baldacchino and Falzon et al. (2017) reported. According to the findings, three major barriers contributed to this failure: lack of expertise, regulatory framework defaults and hitches in the application process.

Expertise is a necessary requirement for a well-functioning CCF Committee as it has a direct impact on the effectiveness of its role. The findings indicate that, in order for such a Committee to be effective, its members must possess a diversity of knowledge, particularly about co-operatives and financial management. Yet, questions arise as to how diversified such Committee knowledge has been over the years. Indeed, both types of expertise have been lacking to date.

In this regard, one may ask why consultants have not been engaged to assist the CCF Committee so as to make up for such deficiencies. The relatively large-sized Committee to date has not in itself rendered it effective because the Committee still lacked adequate knowledge diversity. In this connection, even a smaller Committee could have fulfilled its role better if its knowledge gaps were made up by relevant expert consultants. The non-inclusion of members with other areas of knowledge such as business management, marketing and EU funding were serious shortcomings in the composition of the Committee.

The findings also suggest that, in agreement with Baldacchino et al. (2019), for the CCF to satisfy the financing needs of Maltese co-operatives, a number of present regulatory defaults must be addressed in order to ensure that the CCF can take the necessary initiatives in the future. The CCF regulations have not been flexible enough to allow for the financing of numerous projects, as many such projects are deemed to fall outside the remits of the legislation. This lack of flexibility lies within the definition outlined in Art. 91(2) of the CSA

(2001). Given that, in accordance with the law, the funds should be used for 'the general development of the co-operative movement', any focusing on individual co-operative financing has been controversial. Therefore, modifying the law to encompass the different financing needs of individual co-operatives would widen the extent and scope of co-operative financing.

In addition, despite the CCF still being adequately funded with the retention of 30% of the annual co-operative contributions at its discretion, more emphasis needs to be given to the outright re-distribution of the other 70% of the annual co-operative contributions to the Associations. The introduction of L.N.81 (2019) was meant to end the disagreements between the two Associations and be consistent with the recommendations put forward by the NAO (2019). Yet, questions arise as to whether such large re-distributions are in the best interests of co-operatives. The call by respondents to introduce oversight controls on the use of such funds by the Associations seems to be reasonable enough. However, an alternative way to finance the Associations could be that of the CCF retaining the full annual contributions at its discretion yet allowing the Associations to obtain funds with respect to their planned yearly expenditure, this being capped up to 70% of the annual contributions received by their respective members. Such financing would be subject to the respective Associations presenting the CCF with an appropriate business plan outlining how the funds will be used. In addition, limits on the amount of funds that may be used for the Associations administrative expenses may be imposed to incentivize the Associations to be more efficient in their operations, allowing for maximum financing of co-operative ventures. The fund could also consider obliging the two Associations to publish periodical Key Performance Indicators, including the percentage spent on administrative expenses and that on financing co-operative related projects.

How Can the CCF Role of Optimizing the Utilization of its Funds be Improved?

Educational Initiatives

Co-operative education is a vital prerequisite for the success of the co-operative movement. Yet, knowledge about the co-operative model seems to be lacking particularly among financial institutions. This is causing co-operatives financial limitations in acquiring the needed finance. this regard, the CCF may perhaps consider the provision of added focus on the financing of educational initiatives, not only to current co-operative members but also to the public at large. This is because, if the public is made more aware of the potential benefits gained by membership in well-run co-operative societies, it is probable that more co-operatives would be set up. In addition, the dissemination of more co-operative knowledge would help to ensure that professionals, especially those engaged within financial institutions, become more knowledgeable and appreciative of the differences between the capitalist and the co-operative models, thereby becoming able to enhance their present handling of co-operative financing demands. As regards the promotion of educational material, as also required by the fifth co-operative principle, this could be done by the CCF financing the publishing and wide dissemination of a quarterly co-operative magazine

New Financial Grants

The fund may consider adopting the grant framework as outlined in Figure 6. This is an adaptation on Singapore's Enhanced CCF Grant Framework tailored to the needs and requirements of Maltese co-operatives. By providing such a Framework, the fund may be able to fulfil its legal duty to utilize its funds particularly for the advancement of co-operative development, education, training and research.

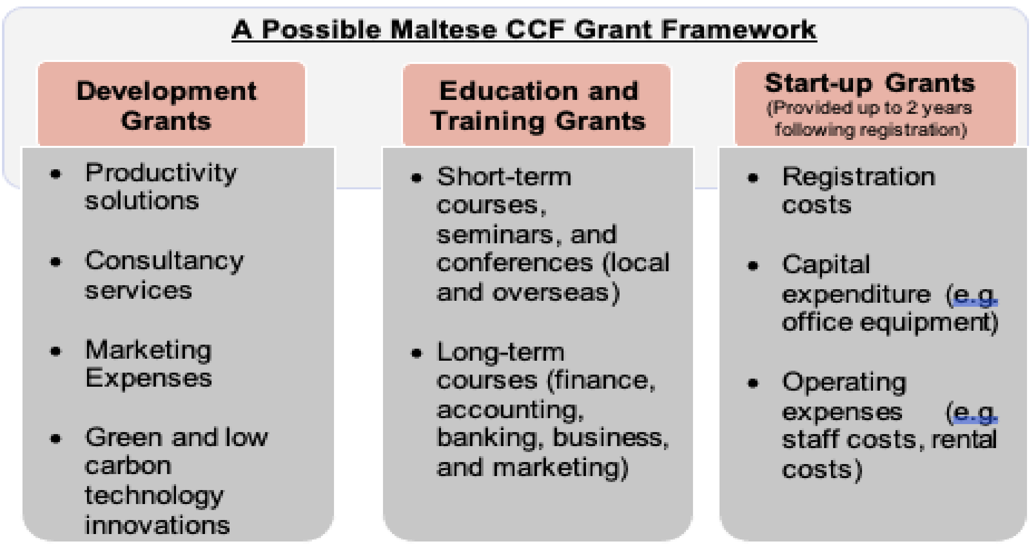

Figure 6: A Possible Grant Framework

Source: Adapted from Singapore National Co-operative Federation (SNCF 2020)

As regards development grants, the CCF may provide productivity solutions by providing grants on hardware and software aimed at enhancing co-operatives' productivity, thereby generating higher returns. In addition, grants for consulting services may be provided, ranging from advice on EU funds to business strategies and feasibility studies. Furthermore, grants for social media and other types of marketing will assist co-operatives thrive by enhancing the marketing of their services. Finally, grants for renewable and low-carbon technology innovations may be made available to assist co-operatives in bringing sustainable breakthrough technologies to the market. In terms of education and training, the CCF may provide grants for the organization of short-term and long-term courses by co-operatives, thus assisting them in improving staff skills and knowledge for effectively operating their co-operative. Finally, by providing start-up grants covering co-operative initial registration costs, initial operational expenses, and other capital expenditure for up to two years following the establishment of new co-operatives, the CCF would further encourage new co-operatives to join the movement.

Other Financial Assistance

Entities must be competitive and financially stable to be effective and operate successfully. Yet, as aforementioned, co-operatives face financial constraints, particularly because traditional lenders lack knowledge about co-operatives and are not familiar with Nuruddeen (2018). It has been observed, that co-operatives face the greatest financial challenges when it came to securing short and long-term finance as well as providing financial collaterals and/or guarantees to financial institutions. The function of assisting co-operatives to obtain and raise the required finance has not been carried out at all by the fund. This indicates that it is defaulting from its duty of assisting co-operatives as required statutorily.

For the fund to obtain a licence so as to be in a position to act as a direct lender to co-operatives in line with the Banking Act, there is the need for legislative changes and the imposition of institutional minimum capital requirements on the fund. The present lack of the necessary legislative provisions and banking expertise, as well as the absence of official procedures in assessing the borrowing capacity of applicant co-operatives, are all appreciable hindrances to the fund in applying this function of direct lending to co-operatives. Nonetheless, as stated by Baldacchino and Camilleri (2013), the fund may still help co-operatives obtain any needed short-term microcredit. It may also collaborate with the established financial institutions in the provision of long-term loans. As shown in Figure 7, such collaboration may include, in particular, the provision of financial guarantees and collaterals to such institutions so as to enable co-operatives to obtain the necessary loans. Furthermore, the participation in the lending process of the fund – being typically wiser in the ways of co-operatives - may help ensure that due diligence process is carried out appropriately on the applicant co-operatives.

The reserves accumulated by the fund over the years, although relatively large, must still be utilized carefully as more co-operative requests for financing are submitted for consideration. This should entail the setting up of policies as to which co-operatives are to be prioritized for financial support. For example, are social, worker and start-up co-operatives to be given priority over other co-operatives such as producer and consumer ones? If so, what is the order of precedence of such prioritization? Furthermore, can such prioritization also take into account any co-operatives that are in financial emergencies? In the setting out of policies, such questions must be clearly answered if the Fund reserves are to be optimally utilized.

The CCF and its Future

If in the future the fund will be retaining its low current level of financing co-operatives, it will still probably be registering surpluses over the years. However, if such a scenario persists, the future need of the CCF becomes questionable. On the other hand, there are limitations as to what level the fund may be able to increase its financing of co-operatives if it is to retain financial viability. One way out of this, proposed in the findings, could be to incentivize the self-financing of Associations. The administrative expenses of the Associations could be financed directly via members' subscription fees. On the other hand, CCF financing may be devoted exclusively to co-operative projects. For this to be realized, an appropriate reduction would need to be made to the 5% annual contribution by co-operatives to the fund. A clear advantage of such changed arrangements would be that the Associations would be continually pressed to make efficient use of the members' fees as their member co-operatives would be free to change from one Association to the other. The probability would therefore be that the more efficient the Association, the more it will grow at the expense of its competitor/s. Furthermore, the state has a constitutional obligation towards co-operatives and their development. It could be a catalyst in the establishment of an autonomous co-operative-related financial institution to assist co-operatives better than at present. This could merely involve structural changes to the CCF in order to transform it into a viable financial institution. Alternatively, the CCF may ultimately give way to a completely new institution such as a European Credit Union with a branch in Malta.

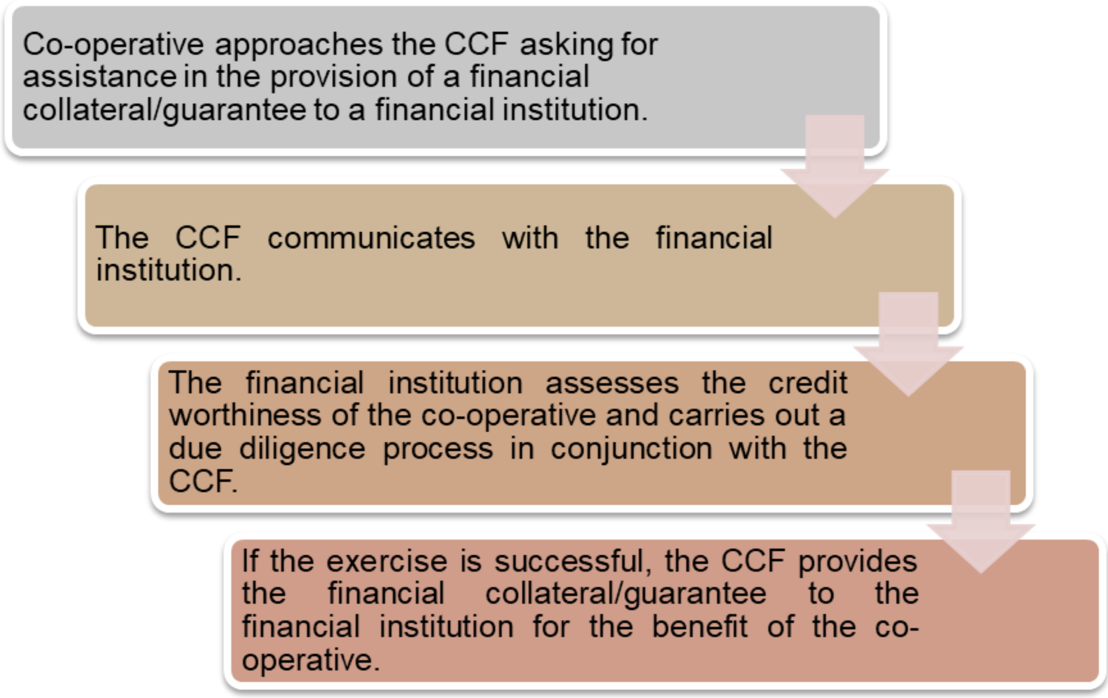

Figure 7: A Possible Financial Collateral/Guarantee Process

Source: Authors' Compilation

Conclusion

The study concludes that the Maltese CCF is adequately funded via the 5% annual co-operative contributions. Even with the recent enactment in the law of having the CCF pass on 70% of the annual co-operative contributions to the Associations, the Fund should still be sufficiently funded to carry out its current functions. However, if the CCF continues to be limited to its current financing functions, then it will continue being ineffective. On the other hand, if the initiatives undertaken by the CCF increase significantly, then financial viability might become questionable in the future.

With respect to its utilization of funds, the CCF has clearly not achieved this optimally in that it has not played its expected role in the financing of Maltese co-operatives. Much of its expenditure has not been incurred for the promotion of co-operative projects but towards the administrative expenditure of either the fund itself or of that of the two Associations. This is mostly due to a lack of expertise, deficiencies in the regulatory framework and hitches in the application process.

Therefore, the study concludes that the CCF has a much more potential future role than it has at present in assisting co-operatives in their financing. Such potential may only become a reality by the CCF playing a more active role. In fact, as yet, much needs to be done for the CCF to meet the various needs of Maltese co-operatives. Among other initiatives, it is clear that added focus need to be given by the CCF on improved educational initiatives, new types of financial grants, and stronger assistance in the form of financial guarantees/collaterals.

The Maltese CCF has been long established. However, it has evidently not extended its roots and branches sufficiently for the healthy growth of Maltese co-operatives. At the end of the day, whatever fruits one will benefit from in the future will be the result of an investment of time, money, and resources. As stated by Buffett (n.d.) long ago, Someone is sitting in the shade today because someone planted a tree a long time ago.

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APPENDIX – Interview Schedule

Section 1: The CCF and its Funding

CCF Funding and its Adequacy

1. Kindly specify your level of agreement to the following statements.

(*0=strongly disagree; 4=strongly agree)*

By requiring co-operatives to annually contribute 5% of the surplus generated in each accounting period, the CCF has managed to generate sufficient funds to foster a culture of solidarity amongst co-operatives.
The 5% annual contribution by co-operatives is: adequate for the CCF to function properly. too low for it to function properly. too high for the needs of the CCF to function properly.

Number of Interviewees = 20															
Question Number	Strongly Disagree			Disagree			Neutral			Agree			Strongly Agree		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q1i	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*4*	*3*	*2*	*1*	*3*	*2*	*2*	*3*
Q1iia	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*0*	*3*	*2*	*1*	*2*	*2*	*5*	*4*
Q1iib	*3*	*6*	*4*	*1*	*0*	*3*	*0*	*0*	*2*	*0*	*1*	*0*	*0*	*0*	*0*
Q1iic	*2*	*7*	*2*	*1*	*0*	*4*	*1*	*0*	*3*	*0*	*0*	*0*	*0*	*0*	*0*

Impact of Recent Regulatory Changes on the CCF

2. L.N.81 of 2019 has recently reserved 70% of the annual co-operative contribution of each co-operative to the fund for the financing of the two co-operative associations. Furthermore, it permits limited discretion to the fund in the distribution of the remaining 30% of such annual contribution.

a. To what extent do you agree to such limitations?

(0=strongly disagree; 4=strongly agree)

Number of Interviewees = 20															
Question Number	Strongly Disagree			Disagree			Neutral			Agree			Strongly Agree		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q2a	*0*	*4*	*0*	*1*	*1*	*2*	*1*	*0*	*1*	*1*	*2*	*2*	*1*	*0*	*4*

b. In your view, in the light of these changes, will the fund be able to have sufficient funding to remain both relevant and effective in achieving its objectives?

Other CCF Income

3. Other comments relating to the funding of the CCF (if any)?

Section 2: The Financing Role of the CCF

The Financing Significance of the CCF

4. Kindly specify your level of agreement to the following statements.

(0=strongly disagree; 4=strongly agree)

The financing role of the CCF is particularly important because it is more difficult for co-operatives than other similarly sized entities:

to obtain short-term bank financing.

to obtain long-term institutional loans.

to increase their share capital by external injections.

to increase their share capital by the retention of surpluses.

to obtain supplier credit.

to obtain Malta Enterprise grants.

to obtain EU funds.

to give financial collaterals and/or guarantees to any supplier of finance.

Number of Interviewees = 20															
Question Number	Strongly Disagree			Disagree			Neutral			Agree			Strongly Agree		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q4a	*0*	*0*	*2*	*1*	*0*	*2*	*1*	*1*	*0*	*0*	*3*	*2*	*2*	*3*	*3*
Q4b	*0*	*0*	*2*	*1*	*0*	*2*	*1*	*1*	*0*	*0*	*3*	*0*	*2*	*3*	*5*
Q4c	*1*	*1*	*2*	*1*	*0*	*1*	*0*	*4*	*2*	*0*	*2*	*2*	*2*	*0*	*2*
Q4d	*0*	*2*	*3*	*1*	*0*	*1*	*1*	*4*	*2*	*0*	*1*	*2*	*2*	*0*	*1*
Q4e	*0*	*2*	*4*	*1*	*0*	*2*	*1*	*2*	*1*	*1*	*3*	*0*	*1*	*0*	*2*
Q4f	*0*	*1*	*2*	*1*	*0*	*1*	*1*	*1*	*1*	*0*	*2*	*0*	*2*	*3*	*5*
Q4g	*0*	*2*	*2*	*1*	*0*	*2*	*1*	*4*	*2*	*0*	*1*	*0*	*2*	*0*	*3*
Q4h	*0*	*0*	*2*	*1*	*0*	*2*	*1*	*3*	*1*	*0*	*2*	*1*	*2*	*2*	*3*

CCF vs Non-CCF Financing

5. Further to Qn 4, how would you compare the actual use by co-operatives of CCF financing as against their use of:

short-term bank financing

long-term institutional loans

injections of their own share capital

ploughing back of their own surpluses

supplier credit

Malta Enterprise grants

EU funds

(0=CCF funding much lower; 4=CCF funding much higher)

Number of Interviewees = 20															
Question Number	Much Lower			Lower			About the Same			Higher			Much Higher		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q5a	*4*	*7*	*7*	*0*	*0*	*1*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*0*
Q5b	*3*	*6*	*7*	*1*	*0*	*1*	*0*	*1*	*1*	*0*	*0*	*0*	*0*	*0*	*0*
Q5c	*4*	*5*	*6*	*0*	*1*	*1*	*0*	*1*	*2*	*0*	*0*	*0*	*0*	*0*	*0*
Q5d	*4*	*7*	*6*	*0*	*0*	*1*	*0*	*0*	*2*	*0*	*0*	*0*	*0*	*0*	*0*
Q5e	*4*	*7*	*7*	*0*	*0*	*1*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*0*
Q5f	*3*	*6*	*5*	*0*	*0*	*2*	*1*	*1*	*2*	*0*	*0*	*0*	*0*	*0*	*0*
Q5g	*3*	*6*	*7*	*1*	*1*	*1*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*0*

Source: Authors' Compilation

The Financing Mechanisms and Priorities

Financing Mechanisms

6. Up to 2019, the distribution of funds by the CCF to co-operatives had to be based on the three-tier distribution system.

i. In your view, to what extent was such a system implemented? If such a system was indeed implemented, to what extent was it successful? *(Only CCFreps (G1) were able to respond this question)*

ii. In your experience, did the CCF ever implement any other annual distribution system beyond the three-tier one?

Relative Importance of Different Requirements in Financing Distribution

7. In your view, to what extent does the distribution of funds by the CCF need to give relative importance to co-operative requirements that are *(0=not important at all; 4=very important)*:

social
environmental
financial
other *(please state if any)* ____________

Number of Interviewees = 20															
Question Number	Not Important at All			Not Important			Neutral			Important			Very Important		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q7a	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*3*	*1*	*1*	*2*	*3*	*5*	*4*
Q7b	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*3*	*2*	*2*	*1*	*2*	*4*	*5*
Q7c	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*2*	*3*	*2*	*0*	*2*	*1*	*5*	*4*

Source: Authors' Compilation

8. In your view, to what extent has the importance, if any, as stated in Qn.8 been taken into account to date in the financing of projects *(0=not at all taken into account; 4=very highly taken into account)*?

Number of Interviewees = 20															
Question Number	Not at All			Not Highly			Neutral			Highly			Very Highly		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q8	*1*	*5*	*4*	*1*	*1*	*3*	*1*	*0*	*2*	*1*	*1*	*0*	*0*	*0*	*0*

<u>The Application Process</u>

9. In your experience, how frequently have individual applications for funding by co-operatives, or associations on their behalf, been accepted to date by the CCF? *(0=never; 4=always)*.

Number of Interviewees = 20															
Question Number	Never			Rarely			Sometimes			Very Often			Always		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q9	*0*	*3*	*7*	*0*	*1*	*2*	*3*	*1*	*0*	*1*	*2*	*0*	*0*	*0*	*0*

10. In your view, to what extent have such co-operative applications for funding from the CCF been unnecessarily expensive *(0=not high at all; 4=very highly)*?

Number of Interviewees = 20															
Question Number	Not at All			Not Highly			Neutral			Highly			Very Highly		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q10	*2*	*6*	*5*	*2*	*1*	*3*	*0*	*0*	*0*	*0*	*0*	*1*	*0*	*0*	*0*

<u>Impact of Recent Regulatory Changes on Co-operatives</u>

11. With the new distribution regulation, will the fund manage to allocate optimally its distribution funds to co-operatives? Please comment.

Section 3: Proposed Improvements to the CCF

Possible New Financing Initiatives by the CCF

12. Kindly specify your level of agreement to the following statements with regards to possible new financing initiatives by the CCF (*0=strongly disagree; 4=strongly agree).*

The CCF should provide more programmes than those currently being offered.
The CCF should provide short-term micro-credit facilities.
The CCF should help the financing of co-operative start-ups in their registration process.
CCF funds should be utilized to provide guarantees or collaterals to co-operatives when these apply for loans from commercial banks.
The CCF should furnish co-operatives with more guidelines on the use of funds, by financing the provision of more educational courses and/or training courses.
CCF financing should include the provision of loans for varying time periods up to ten years.
Provision of financial aid to co-operatives in difficulty.

Number of Interviewees = 20															
Question Number	Strongly Disagree			Disagree			Neutral			Agree			Strongly Agree		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q12i	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*2*	*3*	*0*	*2*	*3*	*9*
Q12ii	*1*	*1*	*0*	*0*	*1*	*0*	*1*	*0*	*1*	*0*	*3*	*1*	*2*	*2*	*7*
Q12iii	*0*	*0*	*0*	*0*	*0*	*1*	*1*	*1*	*0*	*0*	*3*	*1*	*3*	*3*	*7*
Q12iv	*1*	*0*	*0*	*0*	*1*	*1*	*0*	*2*	*1*	*0*	*1*	*1*	*3*	*3*	*6*
Q12v	*0*	*1*	*0*	*0*	*0*	*0*	*1*	*1*	*0*	*0*	*2*	*1*	*3*	*3*	*8*
Q12vi	*2*	*1*	*0*	*1*	*1*	*1*	*0*	*0*	*1*	*1*	*4*	*2*	*0*	*1*	*5*
Q12vii	*2*	*3*	*0*	*0*	*0*	*0*	*2*	*1*	*3*	*0*	*3*	*3*	*0*	*0*	*3*

Other Proposals

13. What other recommendations if any would you make so as to improve the role of the CCF?

14. Are there any initiatives or projects which you think the CCF needs to finance in future years?

15. As regards the competence of members to be appointed on the CCF Committee, Art. 4(2)(i) of the Central Co-operative Fund Regulations states that members are *'expected to have extensive knowledge in a field related to their appointment including, but not limited, to co-operatives, financial management, legal and accountancy'*. Kindly specify your level of agreement with regards to the level of knowledge necessary in the following fields for effective membership in the CCF Committee (*0=strongly disagree; 4=strongly agree).*

Co-operatives
Financial Management
Legal Expertise
Accountancy

Number of Interviewees = 20															
Question Number	Strongly Disagree			Disagree			Neutral			Agree			Strongly Agree		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q15a	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*3*	*4*	*7*	*6*
Q15b	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*2*	*0*	*1*	*1*	*5*	*3*	*4*	*4*
Q15c	*0*	*0*	*0*	*0*	*0*	*1*	*1*	*3*	*1*	*3*	*1*	*5*	*0*	*3*	*2*
Q15d	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*3*	*1*	*1*	*0*	*6*	*2*	*4*	*2*

16. How far do you think that the knowledge specified as in Qn.16:

has been applied in CCF committees to date?

=not at all; 4=very highly)

is being currently applied in the CCF Committee?

=not at all; 4=very highly)

Number of Interviewees = 20															
Question Number	Not at all			Not Highly			Neutral			Highly			Very Highly		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q16a	*0*	*1*	*2*	*0*	*1*	*3*	*2*	*4*	*4*	*0*	*1*	*0*	*2*	*0*	*0*
Q16b	*0*	*4*	*3*	*0*	*1*	*3*	*3*	*2*	*3*	*1*	*0*	*0*	*0*	*0*	*0*

17. In your view, to what extent may any gaps in the collective knowledge mix of the CCF Committee be filled by the hiring of consultants? (*0=completely filled; 4=completely unfilled)*

Number of Interviewees = 20															
Question Number	Completely Filled			Filled			Neutral			Unfilled			Completely Unfilled		
	G1	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***	***G1***	***G2***	***G3***
Q17	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1*	*1*	*4*	*3*	*6*	*5*