

FINANCIAL MODELS AND FUNDING SOURCES FOR ITALIAN WINE COOPERATIVES

October 2024



In this article, we will analyze an example of Italian wine cooperative that manage the entire wine production chain, from receiving and processing grapes supplied by their members to transforming them into musts and wines, packaging, and subsequent commercialization both in Italy and abroad.

Originating and developing in regions where cooperation and collective effort have always been distinctive and deeply rooted, specifically in Emilia-Romagna (Italy), the cooperative Terre Cevico aims to find common commercial outlets to enhance local wines. Initially acting as intermediaries for large private companies to facilitate the market placement of bulk wines, over time, they grew, developed, and established themselves as a significant industrial player in the production of packaged wines in various formats (from pouches to bricks, barrels to bottles, bag-in-box to bag-in-tube, and even cans), developing both their own brands and private labels, and involving numerous agricultural producers. This growth journey, from 1963 to the present day, has been made possible thanks to a financial model that owes much of its characteristics to the cooperative model.

Capital Structure and Membership

The share capital, representing the risk capital contributed by members, is a fundamental aspect of cooperatives. Embracing the cooperative principle of "open door," Terre Cevico has encouraged membership from all those who meet the requirements specified in their bylaws, often imposing a symbolic membership fee. This choice aims to promote the retention and growth of the volume of products supplied and processed, maximizing the economic use of production facilities. This inclusive approach is also strategic for managing generational transitions within the membership base, ensuring a continuous influx of new, entrepreneurial members.

While this approach may not immediately favor the capitalization of the cooperative, statutory rules often provide for a withholding on the value of products supplied by members, contributing to the growth of the share capital proportionally to production value over time. This creates a stable and constant capital base.

Additionally, Terre Cevico's statutes typically allow for a special category of members, called "supporters" (Italian: "sowventori"), who contribute financially to the cooperative without participating in the mutualistic exchange of supplying grapes, thus providing additional financial support. Agricultural members who cease their activity and receive the return of their invested capital often choose to become supporting members to maintain their historical connection with the cooperative, a bond often lasting a lifetime and passed down from generation to generation.

Undivided profits and self-financing

Thanks to specific tax legislation, cooperatives like Terre Cevico can largely exempt net profits from distribution among members, instead allocating them to undivided reserves of net worth to self-finance and enable growth and development. This self-financing derived from undistributed profits is a critical tool that has enabled Terre Cevico to achieve substantial capitalization. Realizing profits after satisfactorily compensating members' production, and generating a surplus for further investment, is crucial for sustaining this model. In the event of dissolution, undivided profits must be allocated to mutual funds established to support cooperative development, ensuring the cooperative benefits future generations.

Social Loans

An important debt instrument available to cooperatives is the Social Loan, which allows them to raise savings from their members, remunerating them through interest rates determined by the Board of Directors. This tool supports activities within the cooperative's scope, fostering a strong sense of mutual support among members. Although legislative changes have diminished the tax advantages of social loans, they remain a vital source of funding, especially when members choose to credit their earnings from grape sales to their savings accounts within the cooperative. This collected liquidity supports the cooperative during peak financial demand periods, reducing reliance on external short-term bank loans.

External Financing

Cooperatives also engage with the banking sector for their financial needs, working with both large national and international banks for substantial investment and commercial projects, as well as with small local banks to maintain ties with their territory and member base. Long-term and medium-term financing aligns with investment returns, and government guarantees facilitate credit access, supporting growth and technological innovation.

Innovative Financial Tools

Thanks to the tools made available by the banking sector, we highlight, as it is particularly relevant for the agri-food sector and specifically for companies that require medium/long production times for product 'aging' or 'maturation,' the financing obtained to support working capital invested in inventory through a so-called 'revolving' (Italian: "rotativo") pledge on the value of stored products. Developed in Italy, again in Emilia-Romagna, initially to support ham processing plants and cheese companies involved in cheese aging, this financing method has also spread to the wine sector to support the production of wines that require refinement, such as, in our example, Amarone produced by Terre Cevico's subsidiary located in Verona.

Finance Supply Chains are also being implemented, allowing Terre Cevico to advance payments to members for delivered products through credit assignments to financing banks, thus providing additional financial services without affecting individual producers' debt capacity. The Finance Supply Chain involves the use of a simple and intuitive app, enabling cooperative members to transfer their credit to a financing bank through a process known as "Confirming."

This arrangement is secured by Terre Cevico's creditworthiness and rating, allowing the bank to offer credit to members at interest rates comparable to those applied to the lead company, Terre Cevico itself. In the future, this tool will also be extended to non-member suppliers, such as transport companies and packaging material producers, offering them similar benefits of credit access through invoice anticipation. In return, Terre Cevico gains longer payment terms, improving its working capital and financial position.

Subsidized Financing and Tax Credits

Cooperatives benefit from various subsidized finance instruments, such as European and national funds supporting agricultural investments (e.g., PSR Rural Development Plan, Development Contracts), and tax credits for specific investments (e.g., Industry 4.0 Tax Credit). These instruments are crucial in planning and executing significant investments, enabling cooperatives to modernize their infrastructure and operations, as demonstrated in the case of our example.

By leveraging these diverse financial models and funding sources, Italian wine cooperatives can sustain growth, foster innovation, and ensure the long-term success and stability of their operations, benefiting both current and future members.



To find out more please contact one of our experts below:



GIANLUCA TELERA
Partner at Uniaudit
Sustainability Specialist
gianluca.telera@uniaudit.it

Written in collaboration with:

