



# **Designing a Co-operative Entrepreneurship Initiative for Preston: Gaztenpresa and Laboral Kutxa Deep Dive presentation**

## **Project Committee meeting**

**(December 14<sup>th</sup>, 9.00-11.00)**

### **AGENDA**

09.00-09.05: Intro Julian Manley

09.05-09.30: Oscar Muguerza (Head of Business Banking Laboral Kutxa Bank) discusses/presents on Laboral Kutxa and Gaztenpresa

09.30-09.50: Questions and Answers from the Committee

09.50-10.00: Break

10.00-10.15: Comments and reflections on the development of the NW Mutual cooperative and community bank in Preston from James Moore (Chairman Community Savings Bank Association), Matthew Brown (Leader Preston City Council) and Tony Greenham (Executive Director South West Mutual).

10.15-10.40: Questions and Answers from the Committee

10.40-10.55: LKS Mondragon reflection on what has been discussed and how to bring the threads together in Preston

10.55-11.00: Final thoughts and close

## MINUTES

**Oscar:** Julian has already introduced me, but I will say what I have been in Business Banking, Laboral Kutxa for almost 13 years. And also right now I am the Vice-president of Gaztenpresa Foundation. Gaztenpresa Initiative is used to foster entrepreneurship and create new businesses and I am also coordinating Gaztenpresa and Laboral Kutxa. Gaztenpresa is often confused to be the foundation of Laboral Kutxa, but it is a part of the Laboral Kutxa structure.

Okay. I will move to the first slide. I will move quickly, because yes, I imagine all of you know that we are a part of a Mondragon group. And because Ibon and Marta are here, I guess you have received a lot of information about the Mondragon group. I only have to say that Laboral Kutxa Bank is one of the secrets of the success of the Mondragon group. That is because we were established 60 years ago, in order to help the different initiatives and cooperatives at that time. Mondragon group as a corporation does exist, but the bank was the initiative just to help finance the cooperatives and also to help people, the members of the cooperatives in their daily business activities.

Okay, here you have a timeline of the history. We started in 1959. Now, in order to first have the different initiatives... as I said in the beginning, the secret of the Mondragon group or one of the secrets at least and doing this system... we developed things of course, but right now, we are a typical commercial bank or community bank. We have all the usual products in banking, we work with a lot of clients and different kinds of customers in order to provide financial services. We have mortgages, loans, leasing, renting, we have a factory, we have a lot of products working for the community. And we have had this lender say that we are a different bank. We compete face to face with the most important banks here in Spain, but also we say that: Okay, there is another way to do banking and that part.

Just to say what is different in Laboral Kutxa in comparison with other banks. Why are the clients so loyal to Laboral Kutxa? We say that the workers who are members of the cooperative are partners, so the involvement and commitments of the workers is very high. Because we feel this is our project. We are part of the project. Usually, people start very young in the bank and finish retiring not in the same position, but in the bank. It's been unusual if someone would move from Laboral Kutxa to another bank. And it's not a question of money. It's the question of the commitment with the project. It is very important and the clients can feel this commitment. And also being a cooperative we have (as usual in different cooperatives) the transparency, democratic management, all the health care, the proximity with a high health care is very good. This is important for us. That's why in the beginning, as I said, we provide all the services that our clients need, or the products and services. This factor makes it so that

in going into the market for us the quality of services is the main factor, or at least in all their studies we appear at the top one, two, or top three in terms of quality of services rankings. And that means that our clients are very loyal to the brand. Because this transparency and this internal policy we use in our relationship with the client. And we are very close to the new businesses, we're very close to the SMEs, we're very close to their families. And also, we are very transparent in our relationship with them: in contracts, explanations and everything. We are always trying to be as transparent as we can in terms of that.

Here you can see one of the rankings, that's just good to see that we compete with all of the Spanish banking sector. In that case ING, that is not Spanish, but is operating in Spain. And you can see some banks that have a presence in the UK...Sabadell or Santander or also the BBVA, or Kutxabank. These are some of our competitors, which are 60 times bigger than we are, but we compete face to face them.

Just to talk about some figures. We have over 300 branches. Our footprint is in northern Spain. Our main business is in the north, in the Basque region, in the Basque Country. This is where we have 60-70% of our business. We have more than 1 million clients, almost 23 billion in assets, and around 2000 people working for the bank. We are a small bank in comparison to our competitors - we have 2000 people. So we are small. In terms of profits usually we have around 100 million euros per year. And in terms of banking we are in a good position in liquidity and solvency and delinquency. In this kind of nature. So we think that we're doing quite well.

And just to talk about the structure of the capital I use this example just specifically for this presentation, because it's quite internal, but I think that maybe it's interesting for you. As I said before with the workers - we are members. We have around 35% of the capital taking into account also the retiree workers. Usually some of the retiree workers recover their capital, but a lot of them keep the capital in the bank. Almost half of the capital is in the hands of the cooperatives of Mondragon and a little bit less than 20% is in the hands of clients. Before 2012 we didn't have clients in the capital of the bank. Right now we have clients in the capital because in that year we merged with another small cooperative bank and we took these clients in the capital.

Okay. In terms of profitability, we're going to see here some rankings. I will say that, to give you the idea of what I am talking about, as we're different in this kind of thing, we want to help the economy, but to do that sustainably we have to be profitable. Why? Because if we are profitable, we can use our benefits, that are sufficient to develop new activities and to help the society. And on profitability you can see return on assets and return on equity, where the rankings were in good position also. And also because we want to reinvest these profits in the society and also in the development.

Here is the explanation of how we distribute the profits. We say that 50% is going to the reserves of the bank. It has to be more solid and strong to continue with its activities. One quarter of the profits are going to the cooperative members of the bank to increase their capital in the bank. And another 25% is going to a society and going to the group. 50% is going into the cooperative and social fund to generate new cooperatives, and the new activities to support new projects; and the other part is going to a lot of activities also, not only inside Mondragon - to different activities in society. We can help an activity in a

small town here in the region because it's interesting for us and it's good for the society, but also we support a new cooperative, a new activity within the community.

I would say this slide explains one of the secrets of the Corporation because as you know, banking is quite a profitable activity. And also we have a lot of benefits and so these benefits are supporting the different activities of Mondragon. Of course it is not the only reason for the success of Mondragon, but I think it is an important one.

And just to change the subject and talk more about the support on new activities and entrepreneurship, because we were born to support new activities at that time - new cooperatives, and also we are doing that right now through Gaztenpresa. Creating employment is one of our mantras. We are constantly trying to support the different initiatives and employment. Because we are a local bank competing with international banks, where we are constantly trying to support the local activity. So it's important in talking about our business segments to talk about self-employment and SMEs. We try to support them not only through financing, of course we are a bank, we have to finance, it is our main activity, but also we provide training, education, different reports or forecasts on the economy.

Okay, I'm talking about the Gaztenpresa initiative. It started in 1996 25 years ago. It was an initiative we started in some of our branches. At one time there was a very heavy crisis. The unemployment rate among young people was 60%. So some of the directors of the branches said: Okay, we have to do something here, because we are receiving requests from people asking for loans, but they have no collateral, they have no guarantee, they have a new activity in the very tough moments. You say: Ok, it was almost impossible to finance those initiatives at that moment. So they said: Okay, we have to do something here just to help these people. It was the seed of Gaztenpresa at that moment. In 2002 it became a foundation and I will say that it's increasing activities year by year. We are always working on new initiatives, new utilities, working on new products just to be stronger and stronger each year.

What are we doing in Gaztenpresa? We support entrepreneurship - it is so simple. We support entrepreneurship regardless whether it is down or not, regardless of the people who are behind the idea, regardless whether it is a cooperative or not, regardless whether it is Spanish, Basque or not. The question is if there is a person with an idea to create a new, a new initiative, a new business, this is the Gaztenpresa place, as we usually say it. And also we try to be very collaborative especially in the Basque entrepreneurship ecosystem, because most of the budget of Gaztenpresa foundation is supported by Laboral Kutxa, so Mondragon group is there doing a good job and also the Basque government is there providing funds.

And I will also say that Gaztenpresa is very interesting, because it has a very lean structure. The foundation has only one employee, who is the managing director of the foundation and the rest are volunteers - more than 100 working in different places. Volunteers in the bank, outside of the bank, who provide mentoring. As we say the focus of the foundation is to create businesses, but we work in two in two areas. We work with the person and we work with the idea of the person. Because for us the person and the idea are of similar importance. It's not a question of: Oh, I have this very good idea...I'm going to create a new business and I am going to become a millionaire in 5 years. No, no. Maybe one person knows about how the business is run, for example, a restaurant. You are a very good cook. But

if you don't know how to manage a restaurant business, how to deal with the employees, how to deal with suppliers, how to deal with anything, you can be the best cook in the world but your business might not be successful. So we try to complement the different gaps of the person.

The roadmap of Gaztenpresa has five steps. Maybe the most important ones are the first ones: What is the idea? We work on the idea. We help people with the idea, with the financial provisions of the idea - the business plan including not only the typical business plan with profit and loss and cash and these kind of things, of course with do that, but also you have to check the competitors, you have to check the sectors...In the example of a restaurant you have to check the place that restaurant needs, you have to check a lot of things. The question that Gaztenpresa has to answer is if this project is viable or not. And after that is when the bank will start financing the person or the company. Just to explain it quite simply: one person comes to one of the branches, the branch people say: Okay, you have to go to Gaztenpresa. The person goes to Gaztenpresa and we assign a tutor, who is not a mentor. I am going to talk about mentoring later. We assign a professional, a tutor to this person in order to work on the idea and the business plan. And if they get the seal of approval from Gaztenpresa, they take the seal and go to the branch again, and get the loan or the different products of the bank.

From the beginning, more than 6000 companies have been supported by Gaztenpresa, creating more than 10,000 new jobs. In 2019, more than 400 businesses and almost 800 jobs created. This sounds very good, but from 2017, 2018, 2019 around 400 businesses are being created every year.

It is not in a presentation, but usually we do some surveys - some studies, and they show that  $\frac{3}{4}$  of the businesses that have been supported by Gaztenpresa are still in business four years later. We think that it is a very good rate. The age profile of the people that we help is around 39-40 years, which usually is the typical age for entrepreneurship here in Spain, I would say also in Europe. In terms of gender half and half; a bit more men than women, but usually it's not very different. And in regards to employment status - some people are trying to improve their employment or become their own boss. A lot of people are also coming, who are unemployed.

And our activities are universal - we are not focusing on any activity in particular. But of course, the usual activity for these kinds of micro new businesses is services - bars, restaurants, hairdressers, shops, a lot of things. Legal form: about  $\frac{3}{4}$  are sole traders and  $\frac{1}{4}$  become a company and 21% of all those are cooperatives. Of course, we are a cooperative bank but the aim of Gaztenpresa is to support the activity. The aim is not to create new cooperatives, if a business becomes a cooperative - then of course it is good, but that's the idea.

And talking about numbers of financing...Last year we financed 348 loans in amounts of more than 14 mil. euros. I would say that it was probably the best year in the history of Gaztenpresa. And from the beginning until 2019 we loaned 167 million. From the banking point of view I will say that the delinquency of non performing loans is more or less the same or even less than you have in the typical business banking activity. The average investment is 81'000 euros for each project.

Ok, what happens if a person is stuck with their business? We also work on cultivation. We do a lot of workshops, but also we are helping a lot of companies, especially right now, for example, this year we

are helping a lot of companies in terms of consolidation - to change the business plan, activity, to help, for example, start an e-commerce or selling online. You have to deal with the new characteristic of your client - these kinds of things. We are investing a lot this year due to COVID. Because in March with a lockout lockdown the market has stopped and we said that we need to consolidate different businesses. And also we are very proud of our mentoring programme - it is a volunteer programme. If there is a running activity, we can assign a mentor to this activity, trying to help in the gaps that an activity has. I'll give you my example. In Gaztenpresa I have been mentoring two projects - one was a musical one, the second one was luxury bikes. And right now I have started with another project with people working in computing. So imagine very different activities. For example I have no idea about the music, but I help this guy with financing, how to deal with suppliers, how to deal with prices, how to deal with these kinds of things. For examples with the bikes - I helped them more with the marketing part of the business, how to reach their market, how to get new clients, how to deal with the leads they are getting. These kinds of things. The success of the mentoring is the matching.

Just to talk about the work that we are doing with the COVID, with the post-COVID...We are focusing a lot on consolidation, but also supporting other projects is our mantra. In banking during a crisis it is always time for collaterals. We are developing new products and new guarantees. You have seen the Spanish public instrument...lines especially for social economy, we have developed a one year mentoring programme, just to push more projects, in the business plan - we have invested a lot in these kinds of things. And also we are working to digitise the Gaztenpresa programme, because we can forecast a huge spike in new entrepreneurship due to unemployment. Unemployment is usually a very good motivator to create a new business. And also I like this sentence: "The main thing is to keep the main thing - the main thing". We are a bank, Gaztenpresa is a foundation to support entrepreneurship - we have to do that. That's the point for us. We are saying that there is always another way to do that. Well, that was the last slide. Many thanks for your attention. Here you have my email - you can write me, or find me on LinkedIn or Twitter. I am willing to help. Time for questions...

**Julian:** Yes, Oscar, thank you so much for that. I thought that was really interesting and beautifully presented for someone like me who's not in the bank. I can see you must be a great mentor. So you have time, Oscar, for some questions?

**Oscar:** Yeah, maybe 10 minutes.

**Julian:** I know that Tony Greenham has a question because he's put one in the chat. Tony, would you like to say it out loud?

**Tony:** Good morning, everyone. Thank you for that presentation, Oscar. I was just wondering how much of your business takes place within the Basque region? And how much do you actually work outside the Basque region in terms of the loans?

**Oscar:** In terms of the bank - more or less 70%, almost 3/4 of the business is in the Basque region and 30% outside. And Gaztenpresa operates only in Basque region, because we have an agreement with the Basque government that we use Gaztenpresa only to help businesses in the Basque region.

**Julian:** Thank you. Do we have another question?

**Tony:** I do have another question. If I may.

**Julian:** Could we get to you in a minute, Tony, because I think Chris had his hand up as well. Chris.

**Chris:** Yeah, thank you for that Oscar. Good to see that you have a really friendly bank. I'm hoping that our bank is going to be equally as friendly. I'm particularly interested in how you connect with entrepreneurs and whether you proactively try and connect with entrepreneurs from areas of deprivation and ethnic minorities?

**Oscar:** Okay, it's a good question. Gaztenpresa is very lucky to be running for more than 20 years, so it is well known in the sector, but also we are spending time, energy and money in different campaigns. We do online campaigns, sometimes we use the marketing campaigns of the banks in the lines of: If you want to be an entrepreneur or thinking about creating a new business, and things like that - we can help. We have 300 branches on the street. The marketing of the banks helps a lot, to be honest. Just to give you an idea from market research - we have 2nd or 3rd place depending on the province or the area. A lot of people come to the bank asking for a loan just to create a new business. That helps a lot. And talking about minorities...we do not say: this is specifically for this kind of people, no! If they can it is the same. But for example we are taking part in a pilot with a European Investment Fund in terms of Employment and Social Innovation programme talking about migrants developing business services apart from financing.

**Chris:** Thank you.

**Julian:** And do we have another question? I know we have Tony's question...Would you like to ask your question and then get to Liz.

**Tony:** I just also had a question maybe one to follow up with? Because maybe it's technical, is there any major differences between the regulations that you have to follow as a credit union compared with what the large banks have to do?

**Oscar:** No, it's the same really. We have the same regulations that Santander or that different banks have - they are important to us. Our IT department spends half of their time in terms and regulations.

**Julian:** Thank you, Liz.

**Liz:** Hi, thanks very much Oscar. I'm really interested in the kind of wider service that you provide. And you've clearly got a long history of doing that in developing the wider service. Are you in competition with others that provide that service? How do you work with the other people who are delivering that kind of more business support service? How is it all pulled together?

**Oscar:** It's a very good question. Sometimes there is a competition, because, of course, we are not the only ones that provide this kind of service. But we don't see them as our competitors. For example, if

they do their business plan with another public agency or another agency, no problem. We take this business plan - we check. It's not a problem for us. If the entrepreneur comes with their business plan or comes with help from a public agency - no problem. We are all the time thinking in terms of collaboration. Sometimes there are cases when you do all the work, but they ask for a loan from another bank, say Santander. It can be a problem, but it's not as usual. It's more the other way around.

**Julian:** Thank you. I have a question. Oscar. You talked about the profits and how they were divided up. And you talked about 15% for Inter Cooperative Social Fund and 10% for education and promotion fund, how are those funds managed? Who decides what money goes where?

**Oscar:** There is a protocol. I can share the division in more detail. As part of the protocol, for example, each branch has a small amount just to distribute internally in the town or in the village. So there is a protocol that we use to divide the money. And each of the instruments has the internal protocol to do that. For example, if we use money for Mondragon Foundation - they have the internal protocol on how they use this money.

**Julian:** Okay, do we have any more questions for Oscar? Because I do. Chris...

**Chris:** I have just a very quick practical question around the need for good communication and the fact that lots of people do online app based banking nowadays. What are your thoughts around that and the future of how banking happens?

**Oscar:** Yeah, well, of course, the situation is changing with the clients. We see online banking or online entrepreneurship as a combination of the human touch. Because we know that it's impossible for us to win Santander in online development, win BBVA. But we have to combine both. It's not cheap at all. For example, we are using a lot of online utilities just for communication with our human relationship managers in Gaztenpresa just to have the interviews online or share the documents - these kinds of things. We are investing in the digitalization of the whole processing of Gaztenpresa.

**Chris:** Thank you.

**Julian:** Mick.

**Mick:** Hi, Oscar. Thanks very much for the presentation. It was great. I'm not very wise on banking, but I'm interested in the relationship between the bank and the community. And it seems to me that obviously it took a while to develop the bank and I imagine it's developed its size and its importance with pace latterly. It's sort of two questions for me. There are obviously plans in our region to develop a similar sort of bank. What tips can you give us to contract the time - how can we make it more quickly? Then the other one is in terms of your customers? I imagine you have everyday current accounts and such like. Like we all have it. Are you able to capitalise on the loyalty to the cooperative culture there? And in what ways do you do that? I know that this is just an anecdote now: I used to be in a thing called the Giro bank in Liverpool, which is my hometown in the UK. And lots of people were in it because it was a local bank. And it added a little bit more of a jewel aspect to it. I mean, the irony is that it was taken over by Santander. But that's another story. And so, the pace at which the banks can become



successful and the relationship between the idea of the bank and the co-operative culture - are my two questions.

**Oscar:** Yeah. To get on maybe with the first question about the social...and the community. Stakeholders have to see that you as a collaborative, always helping, sometimes asking for different things. But for me the secret is in the collaboration. Of course it takes time. We try to be honest in our dealing with everyone. If you said you are going to do something - you have to do that. That's the key. And the second one I understood that maybe you mean the relationships with the clients and how to make them more loyal? Sometimes my English is not the best in the world, as you can see. But I understood it this way. We have some clients who know that we are a cooperative, that we foster local economy, but it's not the key point. The key point is to be good in this competition. Our strength is customer's satisfaction. This is what gives us an advantage. Not because we are a cooperative and nice people. Yeah, of course, it's good, but it's not enough.

**Julian:** Thank you. Any other questions? Are you still okay, Oskar, to stay for another question. Or do you have to go?

**Oscar:** I have another meeting soon. Maybe the last one.

**Julian:** A quick question for Oscar. Anybody? All right, I'll ask a question then. You mentioned volunteers in Gaztenpresa. Who exactly are the volunteers? Where do they come from? And why do they volunteer?

**Oscar:** Well, approximately half of the volunteers come from the bank. But they come from different sectors as people working in Basque entrepreneurship. Sometimes we do campaigns just to recruit new volunteers. Sometimes you have to persuade different stakeholders to become volunteers.

**Julian:** Okay. Well, thank you, Oscar, I think we have to let you go on with your business, having volunteered to help us this morning for an hour with a very interesting talk. Very generous of you to give that time, and so much appreciated. Thank you so much.

For the rest of us, we now have a break. I think we'll call it a five minute break. We're slightly behind schedule. So we'll have a break until five past 10. And then we'll come back to be talking to James Moore and Tony Greenham about the developments in Preston and the UK. In theory, we're supposed to be talking to Matthew Brown and Martyn Rawlinson as well, but they're not here yet. Maybe there'll be here at five past 10. So see you in five minutes. And thank you once again, Oscar.

**Oscar:** Thank you.

**Julian:** Okay. Welcome back, everybody. So I've just got a message from Matthew Brown and Martyn Rawlinson. They can't join us. They're still in another meeting. So that's a bit unfortunate. But we do have, of course, Tony Greenham and James Moore, I believe... is James here? Not sure. James, are you here? Oops. Waiting Room. I am missing people...here you are. So just bear with me as I fiddle

around with the waiting room letting people in. And James is here now I think. Okay. Is that Martyn there under the name "and"?

**Martyn:** It is. I am just renaming myself.

**Julian:** Welcome, Martyn. So, Tony, Martyn and James will shortly say something about the developments of the Northwest Mutual bank, the bank that we hope will be part of the Preston model and supporting the Northwest. As far as those of us who are not in banking are concerned, something along the lines of what Oscar Muguerza was talking about. To what extent is that feasible? And is that likely to happen? Maybe, James, maybe you're the person most closely involved with the development of the bank for Preston and Northwest? Would you like to say something about that?

**James:** Yes, I'll just give you a brief history of where we got to here. At the end of 2019 Preston Council as part of its Community Wealth Building initiative talked to us about forming a bank. And really, we've been working on that for most of 2019 and into 2020. And an answer to your question is yes, it is possible to get a banking licence, but you have to convince the Bank of England to give you one. And to convince the Bank of England, you have to achieve a certain threshold, you have to convince them that this thing will make money, you have to convince them that it's got a reasonable business plan, you have to raise the money, and you have to find the right people.

So the stage we are just now, is I think we have a credible business plan. But we need to raise 20 million of cash and we need to find the key people who will actually run this bank. We've had commitments from three local councils: Wirral, Liverpool City, and Preston. And those three councils have committed 16 of the 20 million. So we're well on the way to doing it.

And the next stage is in January, for the first drawdown about money to allow us to go and get those people which will be about 600,000 pounds. And that will let us go out and find the key people and start the process of talking to the Bank of England. It'll take 18 months to two years for that process to complete. So we're still very early days and then really, we got delayed by 9-10 months with all the COVID. We were hoping to be about six months further down the line by now, but Mutual has been formed. We're ready to raise the money, the business plan is written. Once we've found those key people, we can move to the next stage.

**Julian:** Thank you, and that sounds really encouraging. You're confident that this is going to happen two years down the line.

**James:** If you give me 20 million, though, and you give me the right people, I'd be even more confident.

**Julian:** Right. Okay.

**James:** Yes, it can be done. And have you seen from what we're hearing earlier on that these things are useful. They're very necessary parts of what you want to have as the infrastructure of a strong,

vibrant, local economy. Now, whether that's supporting Mutual's or charities or local businesses, these are key things. And we are quite unusual in the UK in that we don't have them - most other places do.

**Julian:** Thank you, Tony, I know you're doing something similar in the southwest. Do you have some comments about the Laboral Kutxa, what's happening in the northwest and your work in the southwest?

**Tony:** Well. I'm not sure there's too much more to add to what James has said. Having the capital lined up is crucial. And in fact, in terms of the licence application process, there comes a point at which anyone would continue with you if you can convince them that you have got the money lined up. We are in the first stage of the banking licence application in the southwest, which is the regulators reviewing in great detail our documentation and the business plan. I think there's two parts of the pie, perhaps I'll expand slightly on what James has said is in terms of the business plan, you have to convince them that the bank will be profitable and viable, as James said, but don't underestimate the amount of technical detail and work also that has to be done. Because, banks are fairly complex things to run. So it's all achievable. But, as you'll have understood from James's timetable, it's not a process that is really possible to rush. It just takes as long as it takes. We're on track.

The reason for my question to Oscar was that, although he was confirming that they have to meet the same regulatory burden that Santander or BBVA do, and at least they had the advantage of enough to start the bank, when there was very little regulation, that is definitely much more difficult to start a bank now than it would have been in the 1950s up to the 1970s. That's why the last Building Society even that was created in this country was 1981, the ecology building society, which only required 5,000 pounds of capital to be formed. It's a much, much higher bar to create a new bank now. But, it's all possible.

And I'd say one additional thing, and hopefully this will get easier over time. Is that the regulators? We're having to sort of try to educate them about the idea of a cooperative regional bank, because it's just not something they're familiar with. It's completely different from the other startup banks that come through their doors. You think that they could just, frankly, learn about what's happening in other countries and get a bit more familiar with it, but for them, it feels really unusual and strange and unfamiliar. So again, over time, I think that will get easier. That's the theory, anyway.

One final word, though, there is an interesting opportunity coming up in that the chief executive of the PRA (Prudential Regulation Authority), said they want to put out a consultation next year on a slightly sort of more proportionate regulatory regime for smaller banks. That could definitely help in terms of assuring the success of these these regional mutual banks. So it's worth engaging with. So I think in the spring, there'll be a discussion paper, and it may be that collectively, all of us should be making strong representations that some of the regulations which are there, they are designed to regulate HSBC, and Barclays and Lloyds and some of it really is unnecessary and inappropriate, I would say for small regional bank, but at the moment, we still have to comply with it. So I think it would be helpful for the success and profitability of smaller banks if they do, as they do in Canada, Switzerland and many other places, James mentioned, this is a really commonplace form of bank everywhere apart from the UK more or less. So that's worth looking out for. Otherwise, yeah, I'm not too much more to say really...

**Julian:** Interesting what you say about the concept being alien to people, it reminds me of the work I've been doing with the Cooperative College in Manchester to create a cooperative University. The Office for students simply doesn't get it and they have their own idea about what a university is, and the idea that you would have a cooperative university and what that means is alien to them. It's similar to the kind of conceptual difficulty that they have. So we've been joined by Matthew Brown and Martyn Rawlinson. I don't know if either of you would like to make a comment about this. Of course, you missed Oscar's fantastic presentation, but we're now talking about the potential bank in the Northwest. If Matthew, Martyn, you'd like to make a comment about this from the council's position.

**Martyn:** Just quickly, Julian, if you don't mind. We are now sharing skills and information with other organisations trying to set up Mutual, so that's really positive. And we're just totally committed to it. I've been convinced of the need for a co-op bank since I visited Mondragon a few years ago. And we remain absolutely committed to it. And the current climate just outlines how important it is. And it is more important now, in fact, because it's the public sector, and the third sector and the charity sector, that whole sharing economy type that will hold us through COVID, and this is absolutely vital. And the more we share, and the more we learn through events like this, and through sharing skills and resources, the faster all the regions can have a regional bank, like Laboral Kutxa and others. Thank you.

**Julian:** Thank you, Martyn.

**Matthew:** Yeah, Julian, in terms of timescales, we're hoping to get a report to cabinet next month that will secure more investment towards the Northwest mutual in conjunction with Liverpool and Wirral. So that's quite an exciting milestone because the bank has been registered, it's got an account, obviously, we need to then get a team that will take it forward towards applying for a banking licence, and also, mapping where the banking provision needs to be, because there's lots of gaps in terms of lending to businesses and also to individuals. So, you know, it's quite ground-breaking stuff, it is quite revolutionary. This idea of the community being in charge of its own money, at the moment - it isn't. We are depending on quite extractive, speculative ways of organising money in our communities and a regional cooperative bank will be very common sense, actually... it will lend to the businesses that had no access to the large banks during COVID and before and also, potentially make us tackle deprivation because you've got lots of very small enterprises, especially deprived communities, which really struggle but just need 3000-4000 pounds just to survive, and the large banks aren't lending to them, they'd rather lend to each other. So this is a key part of community wealth building. And the big part of it as well is how we can get the community behind it and get that grassroots support for it. Because I think if we can actually engage with communities, with churches, mosques, the voluntary sector, and local businesses, trade unions...It is the collective and cooperative endeavour that's got us through the pandemic, and the best in people as well, in the sense that we've realised what really does matter. Those values will actually be taken forward with this bank.

But in terms of economics, and common sense as well, we got to have a bank like this because the high street is going to struggle - that is going to struggle after the pandemic, but also, supporting the local business spaces as well as supporting new local enterprises like co-ops and social enterprises.

We just have got to have this because we can't go back to what we had before. I keep saying that. We've got to try to build a new infrastructure. We're really excited about this and hopefully it won't be too long. If we could potentially link up with Mondragon, because if you look at the success of it, and now it's a real part of society within that region, I think that's a really strong collaboration. And I think it also validates these ideas because myself and Martyn spend a lot of a lot of our quite long now political careers basically being told that these ideas aren't mainstream, they're a bit outside the box, they are scary and the rest of it... They're not. In the communities, which are more prosperous than ours, and more wealthy and healthier, like Mondragon and even parts of Europe which have more economic equality, these things are very much in the mainstream. So, looking forward to this getting started today, and hopefully, 18 months or so we should have the first branch on the high street of Preston, which is quite exciting. Thanks.

**Julian:** Thanks, Matthew. And that certainly would be a terrifically exciting moment. I agree with that. Liz, you have your hand up?

**Liz:** Yeah, some practical questions to James. You were saying that we need 20 million and you've secured 16 million of that. So question around the additional 4 million. And are you looking to try and raise that within the three current partners? Or are you looking further afield as well? And the second question being around you saying about trying to attract the right kind of people to run the bank. What's your sense of the right kind of people? What qualities, values are you looking for?

**James:** In terms the first question the answer is definitely yes. If you look at who's supporting the bank, just notice at the bottom end of the Northwest region it extends to what I call the current Scottish border. So we want to go to Cumbria and further north. So yes, definitely. It's got to include everyone. In terms of the right sort of people, I think there are two things. There are certain technical skills that are needed to run a bank and they are quite rare. And each of the key people has to be individually approved by the Bank of England before they let them take that job. But there are some of them around. I think the harder part is finding people who've got those right technical skills, and have got the right motivation for doing this. Because there's no point in creating mini RBAs...you know, a pretty rubbish bank. You might as well stick with what you are. I think we're got a time window. There used to be a lot of people in the UK that did this sort of banking and they are not all retired. They've got, you know, maybe one last job and we can attract those people, then I think we can solve that. But there is a window. I think, if in another 10 years from now, we haven't got these banks up and running, it'll be even harder.

**Liz:** I think for me that's one of the critical elements, isn't it? Because that's a huge risk or an advantage if you get the right person to totally agree. So, I suppose, it's what strategies have you got for looking to attract that right person? Because that's critical.

**James:** And I think we've got a unique selling point, what we're telling the bankers is this is their last chance to get into heaven. For most of them, there aren't that many options. And they see that and they are getting to the age where these things are coming up higher up the list of priorities. I think there's a lot of people in banks that are quite disappointed in what they've become that used to enjoy and be

valued. And they're not at the moment. So I think if we can convince them this is a credible bank that's going to make real useful contributions in that area, we'll find them.

**Tony:** I'll add to that. Everything that James said, I agree with. I'd also say that as we see more of the regional Metro banks around the country emerging and progressing, it'll become easier to attract, particularly people to the board, I think. I think initially, that can be a little bit of a struggle, because, you know, in terms of existing bankers, because they leave it or not, are quite risk averse, quite often. But as we progress further, it becomes a bit easier for them to see what it is that they're signing up to. Because I don't want you to wait for bankers, but if you are a director of a regulated bank, there are very, very tough sanctions now, if anything goes wrong - prison sentences and so on. So it's not something that's undertaken lightly.

However, having said that, I think that we are seeing strong candidates and my naval mutual has had some very strong candidates applying for their chief executive post. I think there are bankers with great skills, who, as James said, have been disappointed with how the industry has turned out. Many of them have made a bit of money. So they're not really in it for the money so much anymore. People are increasingly looking for that interesting proposition about purpose. However, you must have on the board, people who really do understand mutuals and cooperatives, or even social enterprises, perhaps as well, because the bank has mostly undergone a conversion to wanting to do good, but they still just won't understand the sector. And it takes a bit of time to get familiar with it. So if you have a good mix of people who really understand community wealth building, yeah, I guess, and then you can mix in with the technical expertise, then, you potentially got a really strong board.

As far as staffing the bank. One of our directors was the former Regional Director Nationwide building society in the southwest. And he knows a lot of people who work at branch level up to branch director, even nationwide, some of them would come over to a new regional mutual, but certainly within the mainstream banks, we would have no problem of recruiting the best people to this because people are sick of working for large banks and being constantly underpaid in the branches, overpaid in the head office, constantly feeling under threat of redundancy, feeling that they haven't been allowed to serve their customers properly. Now, I think we're going to get some really great people to start these banks.

**Julian:** Thank you. That sounds so encouraging. I know Liz has to go. Bye Liz. Thanks for coming.

**Liz:** Thanks very much. Happy Christmas to everyone!

**Julian:** Thank you. Matthew...

**Matthew:** Can I just respond to the question about other authorities invested in it. I saw Chris Davis's hand first, so you don't mind if Chris goes first. And I'll come back.

**Chris:** Thank you, Matthew, it may be something you'll want to comment on as well, Matthew. It just occurs to me that although the COVID thing has caused a delay in the process that may be it's created a bit of a climb - things have got to change. That might be positive for the banking conversation. I'm talking to people in social services at this point, who were literally saying: we cannot go on as we are - things have got to change. I'm just wondering where there could be some positives that come out of

that kind of supercharged situation that has happened from COVID. In that people are waking up to some stuff.

**James:** I think you're absolutely right. I think that the whole regional focus and having seen how local and regional governments have performed versus central governments, how the banks have performed has made this more likely to happen rather than less. Still going to be difficult, but I think it's been slightly positive overall.

**Julian:** Thank you. Matthew...

**Matthew:** Yeah, Julian, just in terms of Liz's question. Liz always asks some really good questions, actually. They're very technical and very intuitive. And it's the three authorities - Liverpool, Wirral and ourselves - we're starting with this. So we're going to be putting in probably about 300,000 initially just to finish off the due diligence, but also employ someone to take the process forward. But in addition to that, there's lots of interest from other councils at the moment. So Chorley, South Ribble, Lancaster, quite a number in Lancashire especially, are showing interest as an investor. There's also the Metro Mayor Steve Rotherham in the Liverpool City region - he showed interest as well, as James said, Cumbria has been a bit of an issue so far, quite a small county, approached Cumbria County Council so far... the word, the proposition.

So the idea is to get a Big 10s approach - to get as many investors as possible and potentially, organisations like UCLan and Preston College. Potentially they could find a way within their investment strategies to invest in the bank, that'd be really positive. Positive thing is - a lot of these other regional banks, which are a lot further down the line in terms of applying for a banking licence...they are not actually at the 18 million. We're very close to it. So there's lots of support for it. But yes, we did want to make sure that it's not just the three main councils, but as many councils and other organisations as well that are looking to invest within it. There's also the Association of Public service excellence - they'd like to consider investing as well, which is a not for profit charity, which does lots of work around improving public services and other things. So, lots and lots of interests.

The frustration for me is that the pandemic has given us one or two other issues and put us back for about another year. But it's essential that we build back better that dreadful phrase that we keep hearing, that we actually do have this bank on the high streets, really, because the big banks are going to continue withdrawing for the high streets, you've seen, I think 20 odd branches go in Preston and surrounding areas in the last few years. And that is a way that the current banking system operates. So it's going to get even worse. So we can have this alternative and make it popular, that it could only be good news for Preston and the whole region. Cheers.

**Julian:** Thank you, Matthew. I think Mick is having a few questions in a chat, maybe you'd like to bring it out into the open, Mick?

**Mick:** The question is, where else might we get money that has maybe a democratic feel to it? So, not just councils investing, but can we persuade people to put money into the bank, and also representational organisations, like unions. In my union, for instance, Unison, I'm aware that quite a lot

of our branches got quite a lot of money, it sort of sits there most of the time. And some of it is used for social benefits, obviously, a lot of it is seen as a security blanket for the union, but I wonder if we could persuade union branches to either just bank with a new bank or seek investment opportunities.

**James:** That would be great. I think that the more people that invest in this thing, then the more people who have got a stake in keeping it on the straight and narrow, and making sure that it stays true to its principles. And because it's a cooperative, I think that's vitally important. You want to have a wide active membership that represents all shades of opinion in all parts of the region. And I think corporate governance is the key to making this a successful and useful cooperative bank.

**Mick:** For me, you are so knowledgeable about the banks and how to set them up. If individuals want to create a current account, is that a good thing or a bad thing for that sort of a bank? Or is it more trouble than it's worth? Or is it a way of getting money?

**James:** The 20 million that you need is you're capital, it's not the deposits. But you need people to be having current accounts and to be using them all the time, because that's the money the bank uses to lend to social enterprises and businesses. So you need both. But definitely the current account is by far the most useful thing that this bank will do for everybody.

**Julian:** Is there a place for crowdfunding at all?

**James:** Not in the early stages. In the very early stages, this is quite a risky venture. So you don't want pensioners to put in the last few bob into this in the early stage. That comes later on. And there's also quite tight rules as to what type of investment and how you can ask the public for money. And at the early stages, it's not appropriate. Later on, it's fine. But I think early on, you want to get this thing up and running, and further down the road, so it's less risky, that you can hand on your heart, say to people: this is going to happen, put your money in.

**Julian:** Thank you.

**Tony:** Mick, do you have any advice on a good way of having that conversation with Unison and maybe other unions about both of those parts, potentially using the banks when they're up and running on a regional basis as a customer, as a member, but also potentially if they do have any funds that they'd prefer to invest as a risky equity investment. I don't know whether unions have portfolios of investments on the stock market or anything that they might want to choose to invest in something more aligned with their principles.

**Mick:** I think there's a couple of things. I think APSE, who Matthew mentioned, are aligned with Unison. They speak at our organising events and everything. So I think some policy thinking through of it. It's gonna take 18 months to get the bank set up anyway, so we could start those discussions now. I think the Regional offers a class of Unison in the Northwest. They've already shown an interest in the Preston model. And I've come a long way to embrace things like sniffing around the edges of a co-op in the care sector in a way that would have been seen as anathema, even a couple of years ago. So there's been some shift there. I think there's also a general secretary election in progress, well it's



finished, they are just counting the votes. And depending on who comes into that... some of the candidates were more or less well disposed towards cooperative ideals. That one is a sort of watch this space, but also the whole union is going through a review of branch finances. And to some extent there's one wing of the union that want to pull more money back to the centre, there's another movement to actually empower the branches much more by having much more of the members' money devolved locally. I think if the latter comes about we are in a better position around, we might look at some of these issues about mobilising money to do things like regional banks. I think there's some trickiness around the use of union monies. But I think that's why you need the sort of more general policy discussion. And I think the other thing is maybe public sector pensions as well. Invest left, right and centre, inspect the best stuff that the union members would be troubled by. And so maybe some more dialogue around all of that. And I think Matthew had some of those conversations or ideas around the pensions, I think, I don't know whether anybody wants to come in.

**Matthew:** Yeah, just briefly on that if I am allowed to do, Julian. You didn't ask me to come in. But just to respond. Yeah, obviously, there's a movement to divest from fossil fuels in the public sector pensions, and we're pushing our pension fund, it's a big pension fund across Lancashire for that, potentially, as part of the community wealth building strategy. Next year, there'll be a conversation with the funder about how we can invest more in the clean energy sector and other things. Lancashire Pension Fund is already investing directly in the Preston economy, which is quite rare, to be honest. So you'll put the old Park Hotel, which used to be a hotel run by British Rail. It became a County Council building. The pension fund is investing, regenerating that. It's also built some student accommodation as well. So you get a bit of a virtuous cycle of activity and it could potentially get to a situation where it's going to invest in the community bank as well.

To be honest, I think we're close to the 18 million that we need to capitalise and then once that is capitalised, it can then lend a lot more. It's really the time scale and getting a start on this because there's been a lot of slippage, and I'm really keen to get going. But I think pension funds in general, there is a big conversation about how they could invest a little less in the stock market and a little more in local economies in whatever shape, way or form that's going to be. The coop pension fund, for example, is investing 50 million pounds in social housing. The legal and general pension fund, which are obviously private sector pension funds, they're looking to do a similar thing. And there's actually proposals that have been put to Preston City Council very early about potentially how it could invest in social housing as well. So there does seem to be a bit of a culture shift in all pension funds about how we can, especially with the climate justice agenda, but how they can actually invest in things that are more sustainable. And obviously, the main thing is it gets a return it needs. So the pensioners get their income, but there's more of an open mind now about how that can be invested in alternative strategies, but also how it can be invested locally, regionally, as well. So that's my answer. Thank you.

**Julian:** Okay. And we have to move on in a minute to go back to Ibon and Marta. But I just like to ask Sue Smith, I don't know if you're still there, Sue? If you'd like to make a comment, because I know that you've been involved a little bit in the bank. And of course, there's the work with the Centre for SME development and UCLan, and its relationship with the Preston model. Are you there, Sue?

Okay. So, there we have it. So it's now 10:40. Thank you very much to everybody for contributing to that. Thank you, Tony, for coming to this and thank you, James, for your contribution. That's been very interesting. And I'll be writing to Oscar to thank him again for what I thought was a great talk. We need now to go back to Ibon and Marta who are going to wrap up the meeting for us today.

**Marta:** Hi. Good morning everybody. We will try today to make a less extensive presentation. Oscar has already been talking about Gaztenpresa in quite a summarised way and did a great job on what is that Gaztenpresa. We also would like to take some highlights that we have obtained from Gaztenpresa and translate them to Preston model, the things that we think that you share, similarities in vision or points of view about how to support entrepreneurship, the services that they are offering and how they are doing and some learnings that they have obtained in different years. And that maybe can help you to define this initiative here in Preston. I will share my presentation with you.

Some of the learnings that I think are quite interesting from Gaztenpresa, and I think that you should also think about the small structure than they have. They are able to work with volunteers that support this mentoring process - this consultancy process for entrepreneurs. And also, this has helped them to have a very simple structure, so that public institutions find it as an interesting initiative and give them their support and their funding. Also, for them being a cooperative has been a key point to develop this initiative. Gaztenpresa in its origin was created by cooperative workers, I think it is important to keep it in mind. And thanks to the relationship also with Caritas. Caritas in the confederation of charitable and social action for the Catholic Church. So it has a very close social value approach when it was created. And this relationship was important to create this initiative. They were four directors of the branches who decided together with the director of the social action of Caritas charitable organisation to develop this initiative and to start this contest of ideas to support young, unemployed persons to develop their own entrepreneurship project. It is also important to have in mind that Gaztenpresa is an initiative that has been able to adapt to the changes in the ecosystem of entrepreneurship in the Basque Country, they were able to adapt to the changes in policies, in grants in societies for entrepreneurs, and to give an answer to entrepreneurs to support them.

And because the volunteers are also cooperative workers, they have a higher willingness to collaborate and to work as a team and it has helped Gaztenpresa to recruit volunteers to take part in the project. Plus they are people with a high level of knowledge, with a professional profile, with the knowledge about business management, and they can offer this consultancy and this support to entrepreneurs in a very professional way. And they do it without receiving any kind of remuneration, in an altruistic way. So being able to create this network of volunteers, I think that it's a great success for the bank. As Oscar has said, it was also important for them to have some kind of critical mass to support entrepreneurship projects, because if you want to attract entrepreneurs, you have to be visible in the market, you have to be a benchmark, you have to be recognised. And, once they get these critical mass it was also easier to develop the Gaztenpresa initiative.

Also, we have to bear in mind that entrepreneurship, as also Oscar has said, is a counter cyclical activity. So when there is a crisis they have a higher number of applications from firms asking for support and development of new initiatives. So we should expect also here in Preston that after a crisis, probably when we have a higher unemployment rate, people will need to look for a new job or it is more

probable that they will launch a new activity to improve their employment capacities to develop a new job.

I think another lesson learned by Gaztenpresa is the importance of being an accepting entity saying that it's important to not link to any political party or any union. And they are also considered as without any link with any organisation or public power. So, this is important and also, as Oscar has said, they try to avoid these overlaps with other entrepreneurial initiatives. And in that sense, I would like to say that they also collaborate for example with Saiolan, which was another initiative that we were presenting maybe a month ago. So, sometimes some of the entrepreneurs if they have a very industrial innovative idea they ask someone in Gaztenpresa, who has the knowledge to support this highly technical project or this innovative project within an industrial centre.

For Gaztenpresa the pre-selection and selection process of the idea is also very important, because if the idea is good, and it has a good feasibility plan, it's better that the company or the business that is being developed has higher chances to remain in the market.

And another understanding they have received during the 25 years of existence is the importance of training and education entrepreneurs. They have realised that the more money that is invested in training and passing knowledge to entrepreneurs the higher is the success rate. So, the training for entrepreneurs is important to guarantee the success of the new companies.

Maybe I'm repeating some ideas, but I think that they are quite important. Oscar also said that, when we are trying to support entrepreneurs, and we are interested in developing a new initiative, it's important to not set the limits on who we can support. So at the beginning, for example, Gaztenpresa was focused on young people because they tried to solve the problem of young unemployment. That was the problem they were facing at that moment. But they also realised that the average age of entrepreneurship has increased, and more often entrepreneurs are older and they have a higher commitment in their entrepreneurship project, because it's like their life project. So they are really committed. And they have a higher success rate than the projects by younger people.

Gaztenpresa has a very clear social approach. 72% of entrepreneurs that they are supporting are people who don't have any degree. So they try to support those kinds of entrepreneurs, who are less trained or have less educational skills. And a high percentage of those, who are unemployed and are looking to become self-employed. And also 15% of the projects that Gaztenpresa is helping with are run by immigrants. Immigrants are also taken into account, they are supporting all kinds of entrepreneurs, regardless of their age, gender or origin. I think that it is also important.

The mentoring programme process that Oscar was talking about, is very important for them. They try to give support to entrepreneurs in all the five stages from the creation - from the moment that a person has an idea of business - until the moment that the company is created.

Mentoring process is very similar to psychology. It's important to have a good match between the mentor and the entrepreneur, so that they can receive the best support that they need. A mentor has to develop empathy and active listening. So it's important to select the right person to avoid problems in the future and facilitate this connection. They are using a methodology of Business International, that is

a network of non-profit organisations that has the aim of supporting entrepreneurship among young people. So they have this methodology and they applied it in the development of this mentoring programme. And of course, for this mentoring process to be delivered by volunteers that in some cases are the workers from the bank, but some of them are also external they have to have this professional experience and management skills to help entrepreneurs to develop their project. And maybe I give the word to Ibon too.

**Ibon:** Thank you very much Marta. I will be short, because we are running out of time. So let's now talk about the future. So, the first point is that despite the pandemic the goal of Gaztenpresa in 2020 was to offer support to around 400 entrepreneurs. They are taking the crisis as an opportunity, not as a threat and are even using the opportunity of unemployment to bring many people to entrepreneurship and to social entrepreneurship, promote relations between entrepreneurs inside the Gaztenpresa community and the creation of a new forum to somehow promote inter cooperation.

Of course, the digital transformation of Gaztenpresa itself in some of their activities is in the initial stages. Also the business plan, preparation process and mentoring process. They are aware that they need to go digital, formalise a working protocol for mentors, strengthen their network of mentors and facilitate the specialisation among them.

And then also, if we go to the definition of new products, entrepreneurs offer solid entrepreneurial experience and try to target different target groups in different ways and offer them different products. And maybe in the future, they are also considering the possibility of offering services for supporting transfer processes of companies already operating. So as we have repeated several times, using the opportunity for conversion, somehow.

And the connection between Gaztenpresa and Preston... Well, as we have repeated a couple of times today. There is the social value approach. In both cases have an important commitment with the improvement of employment opportunities and wellbeing of the communities. We were talking about the example of how Gaztenpresa started a few decades ago and the role the charity Caritas had in the process. In both cases, consideration of education and training of management skills is a key success element for entrepreneurship projects. So that is behind the whole Mondragon idea. In Preston, there are specific organisations that have been developed to support the approach. So keeping these also in mind the idea of having an inclusive approach and a need to avoid overlaps with other existing initiatives in the ecosystem, and to achieve collaboration and cooperation with other stakeholders. It is essential that they want to obtain some kind of benefits from their participation. So the finding at the end who does what in this process. And finally, we had a few questions for all of you, but I'm afraid we ran out of time today. And while we can leave those questions in the presentation and maybe open it for virtual comments or so... Julian, what do you think?

**Julian:** Yes, thank you, Ibon. Yes, we ran out of time. I think those questions are important. Maybe we'll find a way of emailing questions to people and getting some feedback on them. Before our next meeting. We can think about that: you, me and Marta. So it is 11 now here in the UK. Thank you so much for coming, everybody. Thank you, Marta and Ibon. Thank you, Tony. Thank you, everyone. And have a great Christmas. And see you in the new year.

**Ibon:** Yes, see you all.

**Marta:** Thank you.

**Matthew:** Merry Christmas.

**Ibon:** Merry Christmas.