FINANCIAL CO-OPERATIVES AND RURAL DEVELOPMENT IN GREECE

Thesis submitted for the degree of

Doctor of Philosophy

at the University of Leicester

by

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Leicester, 2004

ABSTRACT

The present research work has set to examine the performance of Greek co-operative banks and their importance for the development of the local areas they serve. The decade of the ‘90s can be regarded as the one in which Greek co-operative banks has actually emerged and made their first successful steps. Three credit co-operatives at the beginning of the decade were transformed into co-operative banks in 1992 when the legal framework provided such an opportunity. At the dawn of the new millennium there were 15 co-operative banks, all located at provincial towns. Within this period they have managed to build their apex institutions, a national association and their central bank.

In order to form the framework of analysis, the research approach focused on the dual capacity of co-operative banks i.e. as a local grass-root initiative and as a local financial intermediary. It questioned, from a theoretical and from a policy implementation perspective, the characteristics that a local initiative should enjoy in order to contribute to local and regional development. On the other hand, it tried to explore the potential of a local bank in a rapidly changing European banking market. The history and experiences of financial co-operatives under different settings has been used as a reference point for comparisons and necessary evaluations.

This work examines the guidelines for the evaluation of the performance of the Greek co-operative banks. However, as this thesis is the first systematic approach of the co-operative banking in Greece, it had to provide evidence for the reasons that delayed their appearance until 1993 and for the reasons that made their entrance in the market possible. These required a review of the evolution of the Greek banking system and of the historical developmental conditions in order to be addressed.

Field work comprised two surveys conducted by the researcher. The first was addressed to the fifteen co-operative banks. With the second survey, the researcher approached a stratified sample of 308 members, whom he contacted for personal interviews on the basis of a structured questionnaire. Information derived from these

surveys along with secondary data that were collected from various sources, were used for the evaluation of the performance of the Greek co-operative banking system.

The analysis showed that Greek co-operative banks are still found in a period of transition. This rather concerns internal growth strategies and policies to strengthen their position at local markets and less the possibility of new entrances in the local scene. Moreover, there appears to be a wide gap in the performance of various initiatives that stress for the necessity of strengthening further their organizational structure. On the other hand, the analysis provided evidence for a performance that can alter essentially the quantitative and qualitative characteristics in the local context and influence positively the development process in the periphery. In order to retain their ability to influence the financial markets and the development process, the Greek co-operative banks would have to create strong links with local people. Building a co-operative corporate identity is regarded as the most promising direction for them to follow in order to signal their difference in a highly competitive banking market and within a most demanding rural development context.

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INTRODUCTION

The notion that agriculture is no longer the backbone of rural development has grown in currency over the last decades (OECD, 1996, p. 13).[1] Even though in many countries sectoral policies, centralized sectoral administration and subsidies to maintain existing activities remain very important, there seems to be a consensus that rural policy is evolving. For many, rural is increasingly a description of where people live, not how they make their living. Moreover, researchers and policy makers seem to agree that over simplistic approaches that treated rural areas as homogeneous, with uniform problems and similar opportunities, can no longer produce the desirable objectives. Current approaches strive to take into account that it is in the actual diversity of rural areas where the development pattern should be based (OECD, 2001, p. 251).[2] It is clear that to accomplish their overall goals for economic improvement and broader societal well-being, countries must have prosperous and vital rural areas (Cork Declaration, 1996).

In order to raise the potential of these areas to participate efficiently to the overall development process, territorial approaches that would help to a) create favourable local economic environments; b) overcome local structural problems; and c) link endogenous and exogenous resources, are considered of increasing importance (OECD, 2001, ibid, p. 138). Further, in order to better meet diverse needs and conditions found in rural areas these approaches involve efforts that support "bottom-up" development initiatives which focus on community "empowerment" (ibid, p. 253).

In recent times, much attention is paid to the significant role that co-operatives can play in the aforementioned framework. The E.U. at the highest level declared that co-operative enterprises "have a very important role to play in helping Europe achieve its economic, social and political aims" (Prodi, 2002).[3] While co-operatives have long proved their significant contribution to economic growth throughout the world (ILO, 2001)[4] there seems to be a revitalized interest of authorities over the possible impacts of these initiatives for satisfying wider developmental objectives. Thus, it is argued that co-operative structures are well adapted to assisting small and medium sized enterprises to form groupings and sustainable networks through which they can develop common services and gain the critical mass for accessing public markets and achieving

[1] OECD (1996) *Better Policies for Rural Development*, OECD Publications, Paris.
[2] OECD (2001) *OECD Territorial Outlook – Territorial Economy*, OECD Publications, Paris
[3] Addressing speech of Mr Romano Prodi at the European Co-operative Convention "Co-operative Added Value", Brussels, 13 February 2002
[4] ILO (2001) *Promotion of Cooperatives*. Report V (1), International Labour Office, Geneva

economies of scale. Through the formation of co-operatives, whilst retaining independence and control over their own operation, small enterprises gain negotiating power in increasingly competitive and concentrating markets (EU, 2001, p. 4).[5]

However, there still seems to be a gap between the role that the co-operative sector can play at local level and the recognition of the leading forces that this sector employs in order to promote its objectives. While it is understood that co-operatives should be, above all, successful business enterprises, there is still some lack of understanding of the vital functions that these initiatives should develop in order to serve the needs of their members (OECD, 2003, p. 13).[6]

As a result of this lack of knowledge and understanding, support policies tend to have a narrow focus and overlook the broader socio-economic features that this initiative promotes in order to serve the needs of the individuals mobilized in the process of its formation and in its ability to extend its benefits to local societies. In this remark, however, one may identify an evaluation approach met in top-down models. Such approaches may be linked to the problems that many researchers identify on the implementation of rural development policies (Ray, 2000, p. 456).[7] Clearly, co-operative and rural development thinking have much more in common than they are thought to have.

Much of this discussion is of considerable importance in the Greek context. First, it should be mentioned that 51 out of 52 prefectures of the country are characterized as predominantly (46) or significantly (5) rural. In terms of numbers, this is translated to mean that 95.6 per cent of the land is considered as rural areas where 39.1 per cent of the population resides (OECD, 1994).[8,9] Thus, policies and initiatives that have an impact on the development of rural areas are of major interest.

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[5] Commission of the EU (2001) *Co-operatives in Enterprise Europe,* Consultation paper, Brussels

[6] OECD (2003) *The Non-Profit Sector in a Changing Economy.* OECD Publications, Paris

[7] Ray, C. (2000) Endogenous Socio-economic Development in the European Union – Issues of Evaluation. *Journal of Rural Studies*, 16, pp. 447-458

[8] OECD (1994) *Creating Rural Indicators for Shaping Territorial Policy*. OECD Publications, Paris

[9] The Organization for Economic Co-operation and Development (OECD) proposed that an area is "rural" when its population density is below 150 inhabitants per sq. km. Based on this definition a three-part typology of regions was developed: "Predominantly rural", "Significantly rural", and "Predominantly urbanized". Regions are predominantly rural when more than 50% of their population lives in rural communities as previously defined, "significantly rural" when 15% to 50% of their population lives in rural communities and "predominantly urbanized" when less than 15% of the population is characterized as rural. The European Union has recently reduced the population density criteria that characterise "rurality" from 150 to 100 inhabitants per sq. km. If these thresholds are applied 34 Greek regions are characterised as predominantly rural and 16 as significantly rural. [EC (1997) *Rural Developments, Situation and Outlook*, CAP 2000 Working Documents, DG VI, Luxemburg]

Second, the Greek agricultural and consumer co-operative movement has experienced extreme difficulties in the last two decades of the 20th century. The reasons behind this poor performance are to be found mainly in the intense state intervention that did not allow for the co-operative model to develop its capacity (Papageorgiou, 2004, p.23).[10]

However, during the 90s a new form of co-operative activity made its appearance in the Greek rural areas with remarkable dynamism. While at the beginning of the decade there were only 2 credit co-operatives operating in Greece, at the end of the decade there were 15 co-operative banks, all located at provincial towns. Within that period they managed to build their apex institutions, a national association and a central bank.

The present research work has set to examine the performance of Greek co-operative banks and their importance for the development of the local areas they serve. For that reason, it focuses on the dual capacity of co-operative banks, that is, as a grass-root initiative and as a local financial intermediary. Thus, the main theoretical approaches focus on the attributes – of both capacities - that should co-operative banks develop in order to contribute to local development. Extensive preparatory work has been conducted in order to approach important aspects of the research concerning the reasons for making their appearance possible in the Greek banking system. In addition, in order to acquire the necessary information for an efficient evaluation of the performance of the Greek co-operative banks, the researcher conducted two different surveys. The first was addressed to the fifteen co-operative banks and the second to a randomly selected sample of co-operative bank members.

The structure of the thesis is as follows. Chapter 1 addresses the evolution of rural development thinking from a theoretical and from a policy implementation perspective. Chapter 2 searches into the financial intermediation literature for identifying the characteristics that a local institution should have in order to become an efficient provider of financial services at the local level. Chapter 3 explores the history and experiences of financial co-operatives in order to evaluate the theoretical considerations of the previous two chapters under a credit co-operative logic. Chapters 4 and 5 situate the Greek co-operative banks in the banking system of the country and present their organizational structure as well. In chapter 6 the methodology of the field-work approach is explained. The results of the two surveys that the researcher conducted are presented in chapter 7. Finally, the research work concludes its main findings in chapter 8.

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[10] Papageorgiou, C. (2004) *Sustainable Co-operative Economics. Theory and Practice.* Athens: Stamoulis

CHAPTER 1

RURAL DEVELOPMENT

> "…It is a bold author who entitles his book 'Rural Development'. What, after all, is 'rural development'? Is it a field of study and research? Is it a form of state intervention to promote well being of rural people, or is it something which is happening anyway no matter what the academics or the bureaucrats do?"[11]

o INTRODUCTION

It is widely recognised that finding a general context of the term rural still represents an unresolved puzzle. A recent document released by the European Commission state that

"the success of terms like 'rurality' and 'rural areas' lies in their apparent clarity. They are immediately understood by everyone, in that they evoke a physical, social and cultural concept which is the counterpart of "urban". But in reality building an "objective" or unequivocal definition of rurality appears to be an impossible task." (European Commission, 1997, p.6)[12]

Thus, bearing in mind the difficulty to arrive at an objective definition for "rural", when "development" is added difficulties are accumulating. As Bruton (1990)[13] stressed:

"…the main question, what does development mean, is important. The failure to have an objective that is widely understood, and accepted and has relevance for policy is an important reason for the many difficulties that nations encounter in designing consistent and effective policies."

Hence, "development" as a goal towards which countries strive and as a process which involves causal relationships -that academics and practitioners attempt to form into

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[11] Best (1983, p. 27) quoted by Buller and Wright (1990, pp.2-3), Buller, H. and S. Wright (1990) 'Concepts and Policies of Rural Development' in Buller, H. and S. Wright (eds) *Rural Development: Problems and Practices*, pp. 1-24, UK: Ashgate

[12] European Commission (1997) *Rural Developments*, Directorate General for Agriculture (DG VI), CAP 2000, Working Document

[13] As Ingham (1995, p.33 and 63) states, Henry Bruton made this point in his review (*Economic Development and Cultural Change*, 1990, pp. 869-873) of H.W. Arndt's book *Economic Development: The History of an Idea*, Chicago:University of Chicago Press. (Ingham, B. (1995) *Economics and Development*, London:McGraw-Hill)

consistent and effective policies- is a notion that deprives itself of a straightforward answer. Moreover, as Sen argues,

"Euclid is supposed to have told Ptolemy: "There is no 'royal road' to geometry". It is not clear that there is any royal road to evaluation of economic or social policies either. A variety of considerations that call for attention are involved, and evaluations have to be done with sensitivity to these concerns. Much of the debate on the alternative approaches to evaluation relates to the priorities in deciding on what should be at the core of our normative concern." (Sen, 2000, p. 85)[14]

Therefore Sen attentively stresses that even if the target of the developmental approach is defined, the priorities and the alternatives that should be employed remain critical.
What the above mentioned statements emphasise is that searching for an 'objective and unequivocal' definition of the relevant concepts might be an essentially impossible task. "Development" and consequently the development of rural areas, need the contribution of the human mind, and thus, it should be understood that, they are also determined by geographical, social, historical and cultural factors. And because of that, as Meier (2000, p. 2)[15] argue, "twists and turns" in the evolution of development thinking should not be regarded as rare or odd, inasmuch as the ultimate objective is for appropriate ideas to be absorbed and implemented in the development process.

o FROM "AGRICULTURAL" TO "RURAL": A SHIFT FROM A SECTORAL TO A SPATIAL APPROACH

The dictionary meaning of the word "rural" is undoubtedly linked with agriculture. Historically in fact rurality was essentially defined by the prevalence of agriculture. As a result, the rate of employment in agriculture was commonly used to grade the level of rurality (Sotte, 2002, p. 9).[16] Therefore, the role of agriculture was central regarding the sectoral contribution to the overall development. Johnston and Mellor (1961) listed the contributions which agriculture makes to economic development under five headings

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[14] Sen, A. (2000) *Development as Freedom*, New York: Anchor Books

[15] Meier, G. (2000) Ideas for Development, in Meier, G. and J. Stiglitz (eds) *Frontiers of Development Economics: The Future in Perspective*, pp. 1-12, New York: Oxford University Press

[16] Sotte, F. (2002) Development of Rural Areas, in Arzeni, A., Esposti, R. and F. Sotte (eds) *European Policy Experiences with Rural Development,* pp. 9-16, Kiel: Wissenschaftsverlag Vauk Kiel.
In the same chapter, Sotte refers to some dictionary definitions: Collins-Cobuild: "far away from large towns or cities"; Oxford Advanced Learner's Dictionary: of, in or suggesting the countryside or agriculture"; Concise Oxford Dictionary: "suggesting the country (opp. Urban), pastoral, agriculture"; Petit Larousse: "qui concerne les paysans, la campagne"; Nuovo Zingarelli ed Enciclopedia Zanichelli: « Della campagna, che riguarda la campagna. Chi abita, lavora la campagna ».

(Ingham, 1995, ib.id, p. 277; Ghatak, 1995, p. 271-273):[17] a) The release of labour for industrial employment; b) An increase in the supply of food for domestic consumption and raw material for industrialisation; c) Earnings of foreign exchange for agricultural exports; d) An increase in the supply of domestic savings; and e) An enlarged domestic market for the output of manufacturing

Following the dual economy model of Lewis (1954)[18] it is argued that initially the primary job of the agricultural sector is to supply resources for industrialization –i.e. to release labour, accumulate and transfer capital and earn foreign exchange. In the later stages of growth, in order to enable industrialization to spread further, agriculture should be capable of providing abundant food to the growing urban sector and at the same time to form an enlarged domestic market for urban manufactures. In the early stages of growth, a high concentration in the ownership of lands tends to be beneficial because it provides a large surplus for investments. In addition, semi-attached labour that serves these large estates, could easily move away from the primary sector and migrate to urban areas where employment opportunities in the secondary sector increase. But in the later stages of growth, a more widely distributed ownership of land becomes essential for the diffusion of innovations and spread of growth within agriculture. (Ingham, 1995, ibid, p. 36-37; Adelman, 2000, p. 119-120)[19]

Thus, growth is associated with industrialization and agriculture with stagnation (North, 1959, p. 77).[20] Moreover, while the balanced growth between agriculture and industry received inadequate attention in the Less Developed Countries (Ingham, 1995, ibid, p. 277) an "urban bias" characterized the development process. In an "industry first" strategy, resources are usually directed for the growth of 'modern' industrial sectors and, whatever the gains in real income that accrue to the economy, are usually distributed among the operators of the modern sector. The rural sector is driven into further impoverishment and deprivation of resources (Ghatak, 1995, ibid, p. 28-29).

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[17] Ghatak, S. (1995) *Introduction to Development Economics*, 3rd Ed., London: Routledge

[18] Lewis, W. A (1954) Economic Development with Unlimited Supplies of Labour, *Manchester School of Economic and Social Studies* 22, pp. 139-191, reprinted in Agarwala A. N. and S.P. Singh (Eds) (1958) The Economics of Underdevelopment, pp. 400-449, London: Oxford University Press

[19] Adelman, I. (2000) Fallacies in Development Theory, in Meier, G. and J. Stiglitz (eds) *Frontiers of Development Economics: The Future in Perspective*, pp. 103-134, New York: Oxford University Press

[20] North, C. D (1959) Agriculture in Regional Economic Growth, *Journal of Farm Economics*, Vol. 51, pp. 943-951, reprinted in Eicher, C. and L. Witt (1964) *Agriculture in Economic Development* pp. 69-78, New York: McGraw-Hill

The urban dominance was also clear in the cumulative causation theories (Myrdal, 1957;[21] Kaldor, 1957;[22] Hirschman, 1958)[23] and the growth pole theories (Perroux, 1955;[24] Boudeville, 1966[25]) that characterised the regional economic planning until the late 70s. One definition of a growth pole in geographical space, in many respects typical of that period, involved: "…a set of expanding industries located in an urban area and inducing further development of economic activity throughout its zone of influence" (Boudeville, 1966, ibid, p. 11).

It appears that in the post war period, the spatial dimension of rural was often viewed as a residual dimension and was treated, more or less, as synonymous to agriculture (Lowe et al, 1995, p. 89).[26] In addition, the process of agricultural development and hence rural development is seen as dependent upon, and exogenously determined by, the urban sector. Thus, the benefits of development were often channelled towards the urban sector (Slee, 1994, p. 184).[27] Moreover, it became apparent that the state-sponsored modernisation of rural services and of agricultural practices and technologies, could not stabilise rural economies. On the contrary, these measures seemed to intensify the flow of labour out of agriculture and often out of the rural areas (Lowe et al, 1995, ibid, p.90). In order to impede that outflow, many governments initiated a set of policies aiming at the attraction of new types of employment to rural areas such as: location subsidies to private industry; public infrastructure investments; public direct investment in industry in selected locations. The fundamental premise underlying most such initiatives –apart from their income redistribution effect- was the belief that national governments could formulate the spatial structure of the economy and in turn significantly influence the economic future of lagging areas (Polese, 1999, p. 302-

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[21] Myrdal G. (1957) Economic Theory and under-developed regions. London: Gerald Duckworth and Co., reprinted in: Hatjimichalis, C. (ed) (1992) *Regional Development and Policy*. pp. 74-82, Athens

[22] Kaldor, N. (1957) A model for economic growth, *Economic Journal* 67, 591-624

[23] Hirschman, A.O. (1958) Inter-regional and international transmission of economic growth. in *The Strategy of economic Development*, pp.183-201. Yale University Press, New Heaven

[24] Perroux, F. (1955) Note sur la notion de 'pole de croissance'. Economie Appliquee 307-320. Translated as: Note on the concept of growth poles, and reprinted in: Hatjimichalis, C. (ed) (1992) *Regional Development and Policy*. (in Greek) pp. 66-73, Athens: Exantas

[25] Boudeville, J.R (1966) *Problems of Economic Planning*, Edinburgh: Edinburgh University Press

[26] Lowe, P.J., Murdoch, J. and N. Ward (1995) Networks in Rural Development: Beyond Exogenous and Endogenous Models, in J.D. van der Ploeg and G. van Dijk (eds.) *Beyond Modernisation: The Impact of Endogenous Rural Development*, pp. 87-105, Assen, Van Gorcum

[27] Slee, B. (1994) Theoretical Aspects of the Study of Endogenous Development, in J.D.van der Ploeg and A. Long (eds) *Born from within: Practice and perspectives of endogenous rural development*, pp. 184-194, Assen: Van Corrcum

303).[28] However, the recession of 1970s and the subsequent public sector crisis, posed serious difficulties on most central governments to sustain the level of external funding of areas that experienced a decline in their economic basis (Neil and Tykkylainen (1998, p. 11).[29]

These difficulties encouraged the exploration of alternative approaches to economic development. In early 80s, the first approaches emerged as a reaction to a great extent to the inability of the polarised development and the diffusion of development "from above" to reduce regional disparities (Garofoli, 1989, p. 89).[30] The economic recession of the 1970s "forced capitalists to disinvest heavily in selected economic sectors and in areas dominated by those sectors" (Frey, 1987, p.241).[31] In these economies, manufacturing could no longer be the engine of structural change (Vazquez-Barquero, 1989, p. 19).[32] In addition there was a period of transition and conflicting development aims regarding the interventionist role of governments. The shift was away from Keynesian macroeconomics where relocation of investment and employment from established and profitable areas to depressed and underdeveloped regions was regarded as an acceptable and legitimate interventionist stance on the part of governments (Buller and Wright, 1990, p.9).[33] It was argued that because of the major changes in the international economies, rather than in spite of them, that local communities can pursue development policies that complement national economic objectives (Blakely, 1989, p. 50).[34] Within that framework, Stohr and Taylor (1981)[35] -building on the United Nations launching of the "basic needs" approach (Wright, 1990, p. 50)[36] – proposed an alternative strategy for more "bottom-up" development, which was defined as: "…basic

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[28] Polese, M. (1999) From Regional Development to Local Development: On the life, Death and Rebirth (?) of Regional Science as a policy Relevant Science, *Canadian Journal or Regional Science*, Vol. XXII (3), pp. 299-314

[29] Neil, C. and M. Tykkylainen (1998) An Introduction to Research into Socio-economic Restructuring in Resource Communities, in Neil, C. and M. Tykkylainen (eds.) *Local Economic Development: A Geographical Comparison or rural Community Restructuring*, pp. 3-26, Tokio: The UN Universiy Press

[30] Garofoli, J. (1989) Local Development: Patterns and Policy Implications, in Konsolas, N. (ed) Local Development, pp. 87-98, Proceedings of the Regional Science Studies in Southern Europe Workshop on Local Development, Rhodes, Greece, 7-9 April 1989, Athens: Regional Development Institute and Hellenic Agency for Local Development

[31] Frey, H.W. (1987) Migration and Depopulation of the Metropolis: Regional Restructuring or Rural Renaissance? *American Sociological Review*, 52, pp. 240-257

[32] Vazquez-Barquero, A. (1989) Conceptualising Regional Dynamics in Recently Industrialised Countries, in Konsolas, N. (ed) Local Development, pp. 15-30, Proceedings of the Regional Science Studies in Southern Europe Workshop on Local Development, Rhodes, Greece, 7-9 April 1989, Athens: Regional Development Institute and Hellenic Agency for Local Development

[33] Buller, H. and S. Wright (eds.) (1990) *Rural Development: Problems and Practices*, UK: Ashgate

[34] Blakely, E. (1989) *Planning Local Economic Development*, Newbury Park: Sage Publications

[35] Stohr, W.B. and D.R.F. Taylor (eds.) (1981) *Development from Above or Below?* Chichester: J. Wiley

[36] Wright, S. (1990) Development Theory and Community Development Practice, in Buller, H. and S. Wright (eds.) *Rural Development: Problems and Practices*, pp. 41-63, UK: Ashgate

needs oriented, labour intensive, small scale, regional resource-based, often rural-centred and argued for the use of 'appropriate' rather than 'highest technology'…"(Stohr and Taylor 1981, ibid, p.1-2).

What is proposed there is a shift away from the 'homogenised' perception of the development process towards a more territorial-oriented and socio-economically differentiated approach that could build upon the experiences and the needs of the developmental subject. For Blakely (1989, ibid, p.58) the central feature in locally oriented or based economic development is in the emphasis on "endogenous development" policies, using the potential of local human, institutional and physical resources. Garofoli (1989, ibid, p. 89) also argued that the final result of the "development from below" paradigm was that the "territory" as a spatial concept represents a clustering of social relations. It is the meeting place of market relationships and social regulation forms, which determine different forms of production organization and different innovative capacities. It is the place where endogenous and exogenous forces and characteristics meet (Wilson, 1995, p. 647).[37] These remarks could be most helpful in presenting the current views on the concept of "rurality" and, hence, the process for the development of rural areas.

o FROM "ENDOGENOUS" TO "SUSTAINABLE DEVELOPMENT" OF RURAL AREAS

The shift from a sectoral to a territorial approach in the development thinking, facilitated research to focus on procedures appropriate for small scale interventions and a variety of different areas. Thus, between the late seventies and the early eighties, interest shifted at international level towards issues such as: the territorial and "agropolitan" development (Friedmann and Douglas, 1975;[38] Friedmann and Weaver, 1979[39]); local production systems (Bagnasco, 1977[40] and later Becattini, 1987[41]); and the mobilization of "indigenous potential" (CCE, 1981). These studies resulted among

[37] Wilson, P. (1995) Embracing locality in local economic development, *Urban Studies*, Vol. 32, Issue 4/5, pp. 645-650

[38] Friedmann, J. and M. Douglas (1975) *Agropolitan Development: Towards a New Strategy for Regional Development in Asia*, in United Nations Centre for Regional Development, pp. 333-387

[39] Friedmann, J. and C. Weaver (1979) *Territory and Function: The Evolution of Regional Planning*, London: Edward Arnold

[40] Bagnasco, A. (1977) *Tre Italie, La Problematica Territoriale dello Sviluppo Economico Italiano*, Bologna, Il Mulino

[41] Becattini, G. (1987) *Mercato e forze locali: il Distretto Industriale*, Bologna, Il Mulino

other in introducing terms such as "diffused industrialization" (Bagnasco, 1977, ibid) and areas of intermediate development (Garofoli, 1988).[42] These, in turn, gave birth to more rural oriented terms such as decentralized rural industrialization model (Vasquez-Barquero, 1989, ibid) and agro-industrial districts (Beccatini, 1987, ibid).

From these research works, it became clear that development may be favoured by external factors but it is not the necessary outcome of external factors (Garofoli, 1989, ibid, p. 89). Endogenous development is important and this is to be understood as local development, produced mainly by local impulses and grounded largely on local resources (Picchi, 1994, p. 195).[43] In other words, it is the ability to innovate at a local level (Garofoli, 1989, ibid, p. 90). Moreover, in contrast to the exogenous model, the benefits of endogenous development tend to be retained in the local economy (Slee, 1994, ibid, p. 184).

Despite the fact that, at least at the beginning, the term "local" proved to be a "chaotic" notion that had a different meaning for geographers, economists, sociologists and politicians (Hatjimichalis, 1992, p. 22)[44] local development as a systemic approach proved that economic development is by nature multidisciplinary and multifaceted (Polese, 1999, ibid, p.310-311).

As a development strategy, however, local development is not considered as a concept with clearly defined theoretical tools (Slee, 1994, ibid, p. 191). Moreover, it is argued that it failed to develop a coherent and original corpus of policy tools (Polese, 1999, ibid, p. 310). Its operational capacity was limited in an attempt to see if the lessons learned from their experience can be transferred to enable a similar pattern of self-sustaining growth elsewhere (Lowe et al, 1995, ibid, p. 92).

Nevertheless, as a tool of analysis, local development provided some very useful insights for rural development. It was seen as a perspective of rural development, strongly underpinned by value judgements about desirable forms of development (Slee, 1994, ibid, p. 191). It gave emphasis on human and cultural resources in the perspective of an area to "untap" its developmental potential (Coffey and Polese, 1984, p. 3[45];

[42] Garofoli, G. (1988) Industrial Districts: Structure and Transformation, paper presented at the workshop on Depressed Regions in the Mediterranean European Countries and Endogenous Development, Scilla. Reggio Calabria

[43] Picchi, A. (1994) The relations between central and local powers as context for endogenous development, in van der Ploeg and A. Long (eds.) *Born from within: Practice and Perspectives of Endogenous Rural Development*, pp. 195-203, Assen: Van Gorgum

[44] Hatjimichalis, C. (ed) (1992) *Regional Development and Policy*. Athens: Exantas (in Greek)

[45] Coffey, W.J. and M. Polese (1984) The Concept of Local Development: A Stages Model of Endogenous Regional Growth. *Papers of the Regional Science Association*, 55, pp. 1-12

Naqvi et al, 1995, p. 285[46]). Moreover, while shifting away from a perspective of a place as the passive location of economic activities, it emphasized the unique factors of the spatial milieu in which activity occurs, recognizing at the same time the embeddedness in the larger structures (Wilson, 1995, ibid, p. 3). In addition, the emphasis shifted from a traditional bureaucratic support structure to the creation of "development politico-institutional animators" and a dense system of interdependencies between economic sectors and units (Picchi, 1994, ibid, p. 195; Slee, 1994, p. 193-194). It considered the "third sector" – i.e. organized civil society, neither public nor private – as the leading actor (Evangelinides-Arachovitou, 1989, p. 64[47]). Finally, it proved that diversity, which is the rule in economic and social relations, should not always be interpreted as an obstacle for development.

Thus, on one hand the concept of locality has emerged as an arena for action regarding rural problems while simultaneously it began to challenge the general impression of linking rural areas with decline (Saraceno, 1994, p. 468).[48] New diversified rural areas emerge that experience more intense growth than urban ones (Esposti et all, 2000, p. 2).[49] As a consequence, the object of interest moved beyond the boundaries of a single economic sector in an attempt to consider all economic activities within the rural territories and the relations they have with each other and the local inhabitants (Saraceno, 1994, ibid, p. 471-472). In other words, a consensus has emerged that it is constructive to view rural development as a broad notion, encompassing all issues related to the individual and collective vitality of rural people and places. It encompasses such concerns as education, environment, public services and facilities, capacity for leadership and governance, cultural heritage as well as sectoral and general economic issues (OECD, 1990, p.23).[50]

In that more complex interpretation of rural development, it is clear that economic processes are deeply embedded in society as a whole and cannot be studied without taking into account a series of 'non-economic' parameters such as human resources

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[46] Naqvi, K., Sharpe, B and A. Hecht (1995) Local Attitudes and Perceptions Regarding Development, *Canadian Journal of Regional Science*, Vol. XVIII:3, pp. 283-305

[47] Evangelinides-Arachovitou, M. (1989) Some Theoretical Aspects concerning Local Development Policies in Greece, in Konsolas, N. (ed) Local Development, pp. 15-30, Proceedings of the Regional Science Studies in Southern Europe Workshop on Local Development, Rhodes, Greece, 7-9 April 1989, Athens: Regional Development Institute and Hellenic Agency for Local Development

[48] Saraceno, E. (1994) Alternative Readings of Spatial Differentiation: The Rural Versus the Local Economy Approach in Italy, *European Review of Agricultural Economics*, Vol. 21, pp. 451-474

[49] Esposti, R. Sotte, F and M. Taffi (2000) Rural Development and Competition Between Territories, in Mattas, K., Karagiannis, I. and K. Galanopoulos (eds) *Problems and Prospects of Balkan Agriculture in a Restructuring Environment*, pp. 2-15, Proceedings of the 70th EAAE Seminar, June 9-11, 2000, Thessaloniki: Ziti Publ.

[50] OECD (1990) *Rural Development Policy*, Paris, OECD

quality, social relations and networks, and institutional and organisational characteristics. According to Marsden and Murdock (1998)[51] this multidimensional approach and the required participation of the local population is a major feature of the current concept of rural development processes. The active participation of the local society –i.e. economic, social and political actors- within the definition and implementation of development initiatives is one of the main policy implications of that development approach (Vazquez-Barquero, 2000, p. 15).[52]

This is an implication the importance of which is stressed by all recent approaches to rural development:

- The network approach – in the sense of "a mesh of networks" (Lowe et al, 1995, ibid, p. 103) or as "vertical" and "horizontal" networks (Murdoch, 2000, p. 408, 412)[53];
- the "institutional thickness" approach (Amin and Thrift, 1994a, p. 14-16);[54]
- the "synergy" or "social capital" approach (Woolcock and Narayan, 2000)[55] that provides a more general though more abstract view of the prior two approaches.

These approaches should be considered as efforts:

- "To link together (within one frame of reference) development issues that are internal to rural areas with problems and opportunities that are external" (Murdoch, 2000, ibid, p. 417)
- "To hold down the global, with the construction of the right institutional "mix" in order to achieve and sustain development" (Amin and Thrift, 1994b, p. 260)[56]
- "To define the norms and networks that enable people to act collectively" (Woolcock and Narayan, 2000, ibid, p. 226)

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[51] Marsden, T. and J. Murdoch (1998) The Shifting Nature of Rural Governance and Community Participation. *Journal of Rural Studies*, Vol. 14(1), pp.1-4. Special Issue: *Rural Governance and Community Participation*

[52] Vazquez-Barquero, A. (2000) *Local Development in the Times of Globalisation*, paper presented in the 40th European Congress of the Regional Science Association, 29/8-1/9 2000, Barcelona

[53] Murdoch, J. (2000) Networks – A New Paradigm for Rural Development? *Journal of Rural Studies*, 16, pp. 407-419

[54] Amin, A. and N. Thrift (1994a) Living in the Global, in Amin, A. and N. Thrift (eds.) *Globalisation, Institutions and Regional Development in Europe*, pp. 1-22, New York: Oxford University Press

[55] Woolcock, M. and D. Narayan (2000) Social Capital: Implications for Development Theory, research and policy, *The World Bank Research Observer*, 15 (2), 225-249

[56] Amin, A. and N. Thrift (1994b) Holding Down the Global, in Amin, A. and N. Thrift (eds.) *Globalisation, Institutions and Regional Development in Europe*, pp. 257-260, New York: Oxford University Press

- "Toward a rural development that should be considered as a complex mesh of networks in which resources are mobilized, identities fixed and power relations consolidated" (Lowe et al, 1995, ibid, p. 103)

These theoretical considerations gave new insights to two different but interdependent aspects of the developmental process.

The first is in direct relevance with the dimension of the sustainability of the development process. Hoggart and Buller (1987) argued that "outside" aid could help toward a sustainable development procedure. But if on the withdrawal of such aid, people are incapable of sustaining the improvements that have happened then what occurred was not development but a short-term improvement in living conditions (Buller and Wright, 1990, ibid, p. 3). Therefore, development should be regarded as a cumulative procedure and it must bring durable gains in people's abilities to control and sustain the improved conditions. Thus, what the abovementioned theoretical implications offer are the analytical tools in order to identify how economic and social functions and relations articulate at a territorial level. That, in turn, facilitates policy actions to adapt in the most sufficient manner in order to produce durable and enlarged gains directly absorbed at the desirable level of intervention.

The second aspect concerns the very notion of "social capital". An increasing amount of international literature is devoted to define what "social capital" is and to describe any possible application of that notion. It has been described as an "umbrella concept" (Hirsch and Levin, 1999)[57] or a notion that means "many things to many people" (Narayan and Pritchett, 1997, p. 119).[58] For Feldman and Assaf (1999, p. i)[59] social capital is the glue that holds societies together and without which there can be no economic growth or human well being. Coleman (1988)[60] popularised the term as he sought to conceptualise the aspects of social structure that facilitate economic transactions. Putnam (1995, p. 67)[61] defined social capital as features of social organisation such as networks, norms and social trust that facilitate coordination and

[57] Hirch P and D. Levin (1999) Umbrella advocates versus validity police: A lifecycle model, *Organisational Science*, Vol 10, pp. 199-212

[58] Narayan, D. and L. Pritchett (1997) "*Cents and Sociability: Household income and Social Capital in rural Tanzania*" Washington, World Bank Research Working Paper No 1796

[59] Feldman R. and S. Assaf (1999), *Social Capital: Conceptual Frameworks and Empirical Evidence. An Annotated Bibliography*, Social Capital Initiative Work Paper No. 5, World Bank: http://www.worldbank.org/poverty/scapital/index.htm

[60] Coleman, J. S. (1988) Social Capital in the Creation of Human Capital, *American Journal of Sociology*, 94, pp. S95-S120

[61] Putnam, R. D. (1995) Bowling Alone: America's Declining Social Capital, *Journal of Democracy*, vol. 6, pp. 65-78

cooperation for mutual benefit. Finally, for Fukuyama (1995, p. 10)[62] it is the ability of people to work together for common purposes in groups and organisations.

Empirical evidence stresses that the concept of social capital proves to be a powerful factor explaining actors' relative success in the accumulation of other kinds of resources at several levels of analysis (Adler and Won, 2000, pp.3-4):[63]

- In labour markets, social capital has been shown to be important in helping workers find jobs and in creating a richer pool of recruits for firms
- Within and between subunits, social capital facilitates product innovation, the creation of intellectual capital and cross-functional team effectiveness
- Within and between firms, social capital reduces organisational dissolution rates, facilitates entrepreneurship and the formation of start-up companies, and strengthens regional production networks and interfirm learning.

Moreover, social capital can contribute to enhance rural peoples' welfare through two mechanisms (Ruben and Van Strien, 2001, p. 7):[64]

(i) directly through improved access to necessary commodities (inputs) and services (credit), and,

(ii) indirectly through better information and reduced uncertainty on the behaviour of other agents and institutions[65]

By defining the way in which economic actors interact and organise themselves to generate growth and development, the importance of the local socio-economic context in attaining a sustainable development process can be shown.

On the other hand, while internal and external factors interact for an efficient approach, the exogenous dimensions of the developmental procedure are considered of equal importance. The "local" context should not be considered to act in isolation. It is embedded in larger structures and thus a continuous interaction between local and extra-local occurs. This interdependence, however, is also subject to the application of wider

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[62] Fukuyama, F. (1995) *Trust: The Social Virtues and the Creation of Prosperity*, New York: Free Press

[63] Adler, P. and Seok-Woo K Won (2000) *Social Capital: Prospects for a New Concept*, University of Southern California Working Paper Series

[64] Ruben, R. and D. van Strien (2001) *Social Capital and Household Income in Nicaragua. The economic role of rural organization and farmers' networks*. Paper Presented at the 74th EAAE Seminar 2001, Wye College, UK.

[65] Social capital can also involve some negative effects. Woolcock (1998) refers to the downside of social capital as a force that can hinder economic development. Social groups can place heavy personal obligations on members that prevent them from participating in broader social networks. Moreover, strong civic groups can secure a disproportionate share of a country's natural resources, which can hinder macro-economic growth.

–regional, national or supranational- policies, which are centrally designed and address problems of a wider territorial or sectoral nature. Therefore, what is also needed in order to achieve sustainable processes is a harmonic co-existence of both central and local initiatives.

Thus, as Marsden (1998, p. 116)[66] argues, there should be a "third way" of rural development that should be formulated by an appropriate integration of:

- exogenous, top-down processes comprising procedures, financial support and the transfer of know-how and capital from the centre;
- endogenous, bottom up processes, rooted in a specific history and territory, and fuelled by an internal drive to exploit local resources.

In order to achieve the desired results, the top-down and bottom-up approaches have to be combined. In the following section it will be shown how this integrated approach has been implemented in the case of the "Leader" Initiative of the European Commision.

o TOWARD A EUROPEAN INTEGRATED RURAL POLICY: FROM SECTORAL POLICIES TO THE "LEADER" INITIATIVE

It has been often argued that a common policy for Western Europe's agricultural sector was the result of a common desire amongst the nucleus of west European Countries to establish a political and economic union (Fearne, 1996, p. 11).[67] Preliminary consultations for the preparation of the Treaty for the establishment of the European Economic Community (EEC) soon made clear that the establishment of a common market in Europe which did not include agriculture was inconceivable (Fennell, 1997, p. 37).[68] However, while intervention in the agricultural sector and the relevant importance of that sector in the national economy varied among the European countries it was also clear that the common policy would be more a matter of accommodating[69] national interests than of requiring radical adjustments (Fearne, 1996, ibid, p. 14-15).

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[66] Marsden T. (1998) New Rural Territories: Regulating the Differentiated Rural Spaces. *Journal of Rural Studies*, Vol. 14(3), pp.107-117

[67] Fearne, A. (1997) The History and Development of the CAP, 1945-1990, in Ritson, H. and D. Harvey (eds.) *The Common Agricultural Policy*, 2nd ed., pp. 11-56, UK: CAB International

[68] Fennell, R. (1997) *The Common Agricultural Policy: Continuity and Change,* Athens: Themelio *(in Greek)*

[69] Of course, this argument is sound even under the current situation regarding CAP's consultation and implementation (Papageorgiou and Spathis, 2000, p. 59)

The Treaty of Rome, which established the EEC in 1958, specifies a set of objectives for the Common Agricultural Policy (CAP), under Article 39 (now Article 33). There is was stated among others that the policy seeks: a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimum utilization of the factors of production in particular labour; b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture; c) to stabilize markets; d) to assure the availability of supplies; e) to ensure that supplies reach consumers at reasonable prices.

It was also stressed under the same article (39.2) that for the implementation of the common policy, the structural and natural disparities between the various agricultural regions would be taken into account. Article 40 of the treaty also stipulated that a fund (or funds) should be created to finance the common policy.

While the Treaty of Rome set the objectives of the CAP, it was the Stresa Conference (1958) that offered a more coherent view of the means by which the agricultural problems were to be tackled (Papageorgiou and Spathis, 1999, p. 62).[70] Thus, in 1958 it was decided that funding for the CAP would be through a European budget responsible for all revenues and expenditure generated by the Policy.[71] The financial solidarity was to be expressed by a special account of the Community Budget, the European Agricultural Guidance and Guarantee Fund. It was envisaged that the CAP would have two arms of approximately equal weight: a market arm and a structural arm. The Guidance section was to finance structural reform and the Guarantee section the market policies. However, as it is often argued the Guarantee section has dominated, taking the major part of the Community budget (Fennell, ibid, 1997, p. 82-83;Ritson and Harvey, 1996, p. 4).[72]

It was not until 1968 that the European Community began to enforce its structural policy, when the "Agriculture 80: Memorandum on the Reform of Agriculture" (COM(68)100), popularly known as the Mansholt Plan, was introduced as an answer to the increasing cost of the market policy and the growing surpluses of agricultural products. The plan was seeking to keep farmer incomes comparable with those in the

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[70] Papageorgiou, C.L. and P. Spathis (2000) *Agricultural Policy*, Athens: Stochastis

[71] The European Agricultural Policy was to be organized upon three fundamental guidelines: a) single market – a single agricultural market, a common marketing system and common pricing; b) community preference – the competitiveness of Community producers should not be threatened by third countries and, c) financial solidarity,

[72] Ritson, H. and D. Harvey (eds.) (1996) *The Common Agricultural Policy*, 2nd ed., pp. 11-56, UK: CAB International

rest of the economy by reducing the number of farmers and encouraging the remaining farmers –who, hopefully, would be the youngest and more dynamic- to take advantage of economies of scale and technological innovation (Papageorgiou and Spathis, 1999, ibid, p. 136). Its final, essentially modified form, was introduced in 1972 and was characterized by sectorally based initiatives. As it is argued, it failed to meet the objectives of the initial plan (Fennell, 1997, ibid, p. 278-292).

Moreover, with the accession of the three Mediterranean Countries (Greece, 1981 and Spain and Portugal, 1985) it was clear that the Common Agricultural Policy lacked the proper instruments that could be effective in reducing the differences that existed between the various regions and the less favoured rural areas (Damianos et al, 1998, p. 117).[73] The extent and effectiveness of the 1972 directives had no effect, as they were not aimed at dealing with the problems of small and disadvantaged farms (Damianos et al, 1998, ibid, p. 124).

The introduction of the "Integrated Mediterranean Programs" in 1985, initiated a more region specific approach. That approach was carried even further in 1988 when the Commission discussion document "The Future of Rural Society"[74] was introduced and the structural funds reform was agreed.

Amongst other insights the commission's document distinguished three types of rural areas: regions under pressure of modern development; rural regions in decline, facing problems of over-dependence on agriculture and other natural resource-based industries; and regions farthest from the mainstream, in which serious difficulties are encountered in maintaining a minimum level of population, business and social activity, and where the environment is fragile. Since increased exposure to world market conditions could aggravate rather than alleviate these problems, the document proposed more emphasis on social development and the creation of alternative employment. Thus, a shift towards a "rural" instead of "agricultural" approach occurred (Bazzani et all, 2002, p. 99).[75]

The same year, a major shift in policy toward a region specific approach took place when the Community decided to double spending on structural action. In addition the structural funds were reformed to serve specific priority objectives of which Objective 1

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[73] Damianos, D., Dimara, E, Hassapoyannes, K. and D. Skuras (1998) *Greek Agriculture in a Changing International Environment*, UK: Ashgate

[74] Commission of the European Communities (1988) The Future of The Rural Society, COM (88) 501

[75] Bazzani, G.D., Di Pasquale, S. and G. Zanni (2002) Evaluation of the quality of life as a support to the management of interventions for rural development, in Arzeni, A., Esposti, R. and F. Sotte (eds) *European Policy Experiences with Rural Development*, pp. 99-129, Kiel: Wissenschaftsverlag Vauk Kiel

(development of lagging regions) and Objective 5b (promoting the development of rural areas) are related with two of the problems that "the Future of Rural Society" identified (Mildmore, 1998, p. 411).[76] Moreover, the principle of subsidiarity, which was adopted in the reform, seeks to bring power and decision-taking closer to the grassroots level (Armstrong, 1996, p. 196).[77]

In 1991 the European Commission's DGVI launched the "Leader" programme "to serve as a model for rural development" (CEC, 1991, p. 33). The European Commission building in prior experiences[78] attempted to put in effect the underlying intentions of "The Future of Rural Society" through a participatory, bottom-up approach, (Ray, 1996, p. 8).[79] The original programme has been continued and extended by Leader 2 and Leader+ Initiatives. This evolution crystallized the "new" philosophy of action of the European Union with respect to rural development which "must be local and community driven" (Cork Declaration, 1996, point 5).

The LEADER experience sought to activate European integrated rural development strategies based on the following characteristics (Delgado and Ramos, 2001, ibid):[80]

a) The *local approach*, aimed to identify small territorial units, with uniform characteristics, strong internal social cohesion and a common history and tradition, which would enable them to exploit local resources through their territorial identity
b) The implementation of *bottom-up strategies*, which would promote the participation of the population in decision-taking processes and the decentralisation of planning and management policy

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[76] Mildmore, P. (1998) Rural Policy Reform and Local Development Programmes: Appropriate Evaluation Procedures, *Journal of Agricultural Economics*, Vol. 49, No. 3, pp. 409-426

[77] Armstrong, H. M. (1996) European Union Regional Policy: Sleepwalking to a Crisis, International Regional Sicience Review, Vol. 19 (3), pp. 193-209

[78] Errington (2002, p. 25-26) presents a project which was part of a larger European study that "may have paved the way for the original Leader Initiative". Central to the project was the concept of "Integrated Rural Development" which was based on three principles, characterized as the three I's: a) A "package of policies" designed to harmonise different interests and to achieve economic, social and environmental objectives – Interdependence; b) An acknowledgement of local circumstances, reflecting an area's distinctive character, as well as its priorities, problems and opportunities – individuality; and c) An emphasis on active inclusion of local communities, drawing upon self-help rather than reliance on external action - Involvement [Errington, A. (2002) Developing Tools for Rural Development: A Multidisciplinary Research Agenda, in Arzeni, A., Esposti, R. and F. Sotte (eds) *European Policy Experiences with Rural Development,* pp. 19-41, Kiel: Wissenschaftsverlag Vauk Kiel]

[79] Ray, C. (1996) *The dialectic of Local Development: The Case of the EU LEADER 1 Rural Development Programme*. Centre for rural Economy Working Paper 23, Newcastle Upon Tyne: Department of Agricultural Economics and Food Marketing, University of Newcastle

[80] Ma del Mar Delgado and E. Ramos (2001) The role of European development programmes in enhancing democracy: the case of southern Spain, Paper Presented in the 73rd EAAE Seminar "*Policy Experiences with Rural Development in a Diversified Europe*", 28-30 June, Ancona, Italy

c) The creation of *horizontal partnership* through the formation of Local Action Groups (LAGs),[81]by public and private agents, aimed at identifying a common strategy and implementing it in the territory concerned
d) The *integrated approach* transcending traditional sectoral approaches, this new model envisaged an approach able to reflect spatial characteristics and niche-competitiveness in rural areas, and
e) The *implementation* of both official and unofficial *networks* in the territory that would foster the connection and exchange activities and experiences at different levels

The case of the Leader Initiative underline the gradual convergence of sectorally based agricultural policies which seek to transfer resources with territorially based integrated local policies which aim to increase rural people's well being (Errington, 2002, p. 24).[82] However, in spite of that observation, it should be stated that the European Union is often criticized for retarding a wider application of such policies (Sotte, 2002, ibid, p. 15; Errington, 2002, ibid, p. 23; Midmore, 1997, ibid, p. 410; Marsden, 1998, ibid, p. 115-116).

From the evolution of theoretical approaches regarding development of rural areas it was clear that what is needed is a harmonic co-existence of top-down and bottom-up initiatives. The debate, however, strives to enhance the academic, politician and citizen understanding of the territorial and functional meaning of rurality, and hence, how these initiatives should evolve and what is important for a sustainable development process in a diversified rural reality.

The "Leader experiment" offers valuable insights regarding the ability of an integrated intervention to approach efficiently the local context. It seems that interventions that:

- ✓ seek to mobilize endogenous resources,
- ✓ support active participation and collective action,
- ✓ emphasise on empowerment in order to
- ✓ enhance capabilities of local people,

[81] LAGs are groups of partners from the public and private sectors that define a common strategy and of a series of innovative measures for development of a local rural territory (with less than 100,000 inhabitants). The creation of more than 1,000 LAGs has enabled progress to be made towards the attainment of these objectives

[82] Errington, A. (2002) Developing Tools for Rural Development: A Multidisciplinary Research Agenda, in Arzeni, A., Esposti, R. and F. Sotte (eds) *European Policy Experiences with Rural Development,* pp. 19-41, Kiel: Wissenschaftsverlag Vauk Kiel

foster the “involvement” of local actors, “unlock” local potential and act toward the implementation of a sustainable development process.

But if these are the prerequisites for development to be sustained at the local level, then it seems that the co-operative institution could “fit efficiently” in such a multifaceted process: The definition of a co-operative states that it is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (ICA, 1995).[83]

Theoretically, as a grass-root initiative, it is build upon the existent stock of the local social capital. Moreover, its operative capacity could strengthen the available social capital. A voluntary association needs participatory procedures and the mobilisation of human resources to be formed. On the other hand, that form of collective ownership of an organisation, by definition, is acknowledged only if it aims to meet needs and aspirations that are mutually defined and attended. Yet, a democratic organisational control of the institution is subject to a sustainable “involvement” of socio-economic dimensions of local actors. Therefore, initiatives that aim at the formation of cooperative institutions, seem to draw benefits from a development approach as the one that was described above. On the other hand, it could be argued that, the co-operative institution, might add gains to that development endeavour.

That, could be argued regarding the institutional dimension of a co-operative. A financial co-operative, however, retains an important operational dimension, that of the local financial intermediary. Finance, as a subject of interest, was not introduced yet in the evolution of the present study. Hence, the following chapter will focus on how finance and financial intermediation was introduced in the development thinking.

[83] See Appendix I for a detailed reference of the Definition, Values and Principles of Co-operatives as they were adopted at the 1995 statement of the International Co-operative Alliance (ICA)

CHAPTER 2
FINANCE AND DEVELOPMENT

2.1 Introduction

Widely accepted macroeconomic theory argues that the financial system functions smoothly, or at least smoothly enough even without giving particular attention to financial considerations.[84] Economists have made it common practice to focus their attention on the "real" sector and to ignore the "financial" sector, when studying issues regarding economic growth. In such views as Gertler comments, "The main real sector – financial sector interaction stems from activity in the market for the medium of exchange and not from the performance of markets for borrowing and lending" (Gertler, 1988, p.559).[85] Bernanke (1995, 1983)[86] documents the failure of this practice when he argues that during the Great Depression the financial sector had real effects on economic growth in the United States and around the world. Due to the inefficiencies of bank credit intermediation, economic variables like real GDP were adversely affected. Levine (1997)[87] also maintains that researchers should not divert attention away from the financial sector when exploring factors that influence economic growth. Levine points out specific services performed by a financial system that form a critical real link between saving and investment (Levine, 1997, ibid, pp.690-703). King and Levine (1993a)[88] also acknowledge the important role financial institutions play in evaluating prospective entrepreneurs and funding the most promising ones. Therefore, an economy's financial system should be thought of as a "real" sector.

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[84] See for instance Levine's comments (1997) where among others it is said: "…Robert Lucas (1988, p.6) asserts that economists 'badly over stress' the role of financial factors in economic growth, while development economists frequently express their scepticism about the role of the financial system by ignoring it. For example, a collection of essays by the 'pioneers of development economics', does not mention finance" (Levine R. (1997) Financial Development and Economic Growth: Views and Agenda, *Journal of Economic Literature*, Vol. XXV, June, pp. 688-726)

[85] Gertler, M (1988) Financial Structure and Aggregate Economic Activity: An overview, *Journal of Money, Credit and Banking*, Vol 20, No 3, August 1988, Part 2, pp. 559-588

[86] Bernanke, B, (1983) Non-monetary effects of the financial crises in the propagation of the Great Depression, *American Economic Review*, 73, pp. 257-276 - Bernanke, Ben (1995) The Macroeconomics of the Great Depression: A comparative approach. *Journal of Money, Credit and Banking*, Vol. 27, pp.1-28

[87] Levine R. (1997) Financial Development and Economic Growth: Views and Agenda, *Journal of Economic Literature*, Vol. XXV, June, pp. 688-726

[88] King, R. G. and R. Levine (1993a) Finance, Entrepreneurship and growth: Theory and Evidence, *Journal of Monetary Economics*, Vol. 32, pp. 513-542

2.2 The Finance Growth Nexus

A number of studies in the past, mentioning among others, Gurley and Shaw (1955),[89] Patrick (1966),[90] Goldsmith (1969),[91] McKinnon (1973),[92] and Shaw (1973),[93] investigated the relationship between financial development and economic growth and show that this relationship has remained an important issue of debate. Numerous studies have dealt with different aspects of this relationship at both theoretical and empirical levels. Several studies have attempted to find out whether financial deepening leads to higher rates of growth and to analyze the strength of this relationship. Other studies have focused on identifying the channels of transmission from financial intermediation to growth. What emerges from their work is briefly that *"…finance contributes to growth to the extend that it increases the volume of development or improves its allocation*" (De la Fuente and Marin, 1996, p.272).[94]

The original contributions to this literature agree in suggesting that there is a strong positive correlation between the extent of financial development and economic growth. They emphasize, however, different channels of transmission. While the main focus in Goldsmith (1969) is on the relationship between financial development and the efficiency of investment, McKinnon (1973) and Shaw (1973), influenced to a large extent by the success stories of South East Asia, emphasize the role played by financial liberalization in increasing savings and, hence, investment.

Research on the relationship between financial development and growth has received a new source of inspiration from the rapidly expanding "endogenous growth" literature (see for example, Bernanke and Gertler, 1989; Williamson, 1986).[95,96]

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[89] Gurley, J and E. Shaw (1955) Financial Aspects of Economic Development, *American Economic Review* 45, pp. 515-538

[90] Partick, H. T (1966) Financial Development and Economic Growth in Underdeveloped Countries, *Economic Development and Cultural Change*, 14(6), pp. 174-189

[91] Goldsmith, R.W. (1969) *Financial Structure and Development*, New Haven, CT:Yale University Press

[92] McKinnon, R.I. (1973) *Money and Capital in Economic Development*, Washington D.C.: Brookings Institute

[93] Shaw, E.S. (1973) *Financial Deepening in Economic Development*, New York: Oxford University Press

[94] De la Fuente, A. and J. M. Marin (1996) Innovation, Bank monitoring and endogenous financial development, *Journal of Monetary Economics* 38, pp.269-301

[95] Bernanke, B. and M. Gertler (1989) Agency Costs, Net Worth and Business Fluctuations, *American Economic Review*, 79(1), pp. 14-37

[96] Williamson, S.D. (1986) "Costly Monitoring, Financial Intermediation and equilibrium Credit Rationing, *Journal of Monetary Economics* 18(2), pp. 159-179

By focusing on cases where the marginal product of capital always remains positive, this literature provides a framework of analysis in which financial markets affect long run, and not just transitional, growth. Models in this spirit by Bencivenga and Smith (1991),[97] and Greenwood and Jovanovic (1990)[98] emphasize how the creation and growth of financial institutions lead to a positive relationship between financial intermediation and economic growth. Most of these studies tend to emphasize the role of financial intermediation in improving the efficiency of investment, rather than its volume (Bencivenga and Smith, 1991,ibid; De Gregorio and Guidotti, 1995;[99] Levine, 1997, ibid). That is, financial intermediaries play a central role in allocating capital to its best possible use.

While empirical studies often find a positive relationship between indicators of financial development and growth, much controversy remains about how these results should be interpreted. There are two main sources of controversy.

First, there is debate over the issue of how to measure empirically the extent of financial intermediation (King and Levine, 1993a, ibid; Wachtel and Rousseau, 1995;[100] De Gregorio and Guidotti, 1995, ibid; Levine, 1997, ibid; Beck et all, 2000[101]). Typically, financial intermediation has been interpreted largely by the level of the real interest rate and by various monetary aggregates, all of which pose significant problems of interpretation.

The *second* area of controversy concerns the channel of transmission from financial development to growth. While some studies find evidence to support the McKinnon-Shaw hypothesis (Greenwood and Jovanovic, 1990, ibid; Levine and Renelt, 1992;[102] Levine, 1997, ibid), others conclude that there is no clear relationship between measures of financial development and savings or investment rates.

In what follows, the above-mentioned approaches are further elaborated.

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97 Bencivenga, V.R. and B.D. Smith (1991) Financial Intermediation and Endogenous Growth" *Review of Economic Studies*, 58(2) pp.195-209

98 Greenwood, J and B. Jovanovic (1990) Financial Development, Growth and the Distribution of Income, *Journal of Political Economy,* Vol. 98 (5) pp. 1076-1107

99 De Gregorio J. and P. Guidotti (1995) Financial Development and Economic Growth, *World Development*, Vol. 23, No 3, pp. 433-448

100 Wachtel, P. and P.L. Rousseau (1995) Financial Intermediation and Economic Growth: A historical Comparison of the United States, United kingdom and Canada" In Michael D. Bordo and R. Sylla (eds) *Anglo-American Financial systems: Institutions and Markets in the 20th Century*, pp.329-381, Burr ridge, III: Business One Irwin

101 Beck, T., Levine, R. and N. Loayza (2000) Finance and the Sources of Growth, Journal of Financial Economics, Vol. 58 (1-2) pp. 261-300

102 Levine, R. and D. Renelt (1992) A sensitivity Analysis of Cross-County Growth, *American Economic Review,* Vol. 82, pp. 942-963

2.2.1 Linkages Between Financing and Growth

Financial development has a dual effect on economic growth. On one hand, the development of the domestic financial markets may enhance the efficiency of capital accumulation. On the other hand, financial intermediation can contribute to raising the savings rate and, thus, the investment rate.

The former effect is first emphasized by Goldsmith (1969), who also finds some positive correlation between financial development and the level of real per capita GNP. He attributes this correlation to the positive effect that financial development has in encouraging more efficient use of the capital stock. In addition, he argues that the process of growth has feedback effects on financial markets by creating incentives for further financial development.

McKinnon (1973) and Shaw (1973) extend the earlier argument by noting that financial deepening implies not only higher productivity of capital but also a higher savings rate and, therefore, a higher volume of investment. Unlike Goldsmith, where growth and financial intermediation are both thought of as endogenous, McKinnon (1973) and Shaw (1973) focus on the effects of public policy regarding financial markets on savings and investment. In particular, they argue that policies that lead to financial repression - for example, controls that result in negative real interest rates i.e. interest rate ceilings, high reserve requirements - reduce the incentives to save. Lower savings, in turn, result in lower investment and growth. Therefore, the main policy implication of the MacKinnon - Shaw school is that government restrictions on the banking system obstruct the process of financial development and, consequently, reduce economic growth (Demetriades and Hussein, 1996, p. 388)[103]. Thus they conclude that higher interest rates resulting from financial liberalization induce households to increase savings.

Recent theoretical work has incorporated the role of financial factors in models of endogenous growth in an attempt to analyse the interactions between financial markets and long-run economic growth.

Greenwood and Jovanovic (1990) present a model in which both financial intermediation and growth are endogenous. In that framework, the role of financial institutions is to collect and analyse information and to channel funds to the investment

[103] Demetriades, P. and K. Hussein (1996) Does Financial Development Cause Economic Growth? Evidence from 16 Countries, *Journal of Development Economics*, Vol. 51, pp.387-411

activities that yield the highest return. Because the activity performed by financial intermediaries involves costs, Greenwood and Jovanovic (1990) show that there is a positive two-way causal relationship between economic growth and financial development. On the one hand, the process of growth stimulates higher participation in financial markets thereby facilitating the creation and expansion of financial institutions. On the other hand financial institutions, by collecting and analysing information from many potential investors, allow investment projects to be undertaken more efficiently and, hence, stimulate investment and growth.

Bencivenga and Smith (1991, ibid) present a model in which individuals face uncertainty about their future liquidity needs. They can choose to invest in a liquid asset - which is safe but has low productivity -and/ or an illiquid asset-which is riskier but has high productivity. In this framework, the presence of financial intermediation increases economic growth by channelling savings into the activity with high productivity, while allowing individuals to reduce the risk associated with their liquidity needs. Although individuals face uncertain liquidity needs, banks, by the law of large numbers, face a predictable demand for liquidity and can, therefore, allocate investment funds more efficiently. In the absence of financial intermediaries, individuals may be forced to liquidate their investment (i.e. their savings held in illiquid assets) when liquidity needs arise. Thus, the presence of banks also provides the benefit of eliminating unnecessary liquidations. Interestingly, Bencivenga and Smith (1991) show in their model that growth increases even when aggregate savings are reduced as a result of financial development, the reason being the dominant effect that financial development has on the efficiency of investment.

Along similar lines, Levine and Renelt (1992, ibid) analyses the effects of alternative financial structures on economic growth. In this model, financial institutions raise the fraction of total savings devoted to investment and avoid premature liquidations of capital. Banks, stock markets, mutual funds, and investment banks enhance growth by promoting the efficient allocation of investment through various channels.

It can be concluded that these models (Greenwood and Jovanovic, 1990; Bencivenga and Smith, 1991; Levine and Renelt, 1992) and more recent work (King and Levine, 1993a) suggest that financial intermediation has a positive effect on growth and that government intervention in the financial system has a negative effect on the growth rate (Demetriades and Hussein, 1996, ibid, p. 388).

2.2.2 Some Empirical Evidence

Recent empirical work has studied the relationship between financial development and economic growth. More notably, King and Levine (1993a, ibid; 1993b)[104] are going through a detailed empirical investigation on the relationship between financial depths and economic growth using several indicators of both notions. Similar are the results of the study of Wachtel and Rousseau (1995). Both attempts use in their analysis a large cross-section of countries (King and Levine 1993a, 1993b) and long time series for several countries (Wachtel and Rousseau 1995). It was that fact which led to criticism from other researchers that questioned the extend to which these countries were affected equally by financial development (De Gregorio and Guidotti, 1995, p. 434).

De Gregorio and Guidotti (1995, p. 436-444) showed with their work that the impact of financial development on growth, was broadly positive but changed when regions, time periods and level of income changed. Similar evidence gave the attempt of Demetriades and Hussein (1996) where they concluded on the one hand that the relationship between financial development and economic growth is bi-directional and on the other hand that the results are very much country specific (ibid. p.406).

Moving forward their analysis, De Gregorio and Guidotti examined whether financial development affects positively economic growth via increases of the volume of investment, efficiency of investments or both. Their contribution to that was very important, as for the first time evidence was provided on the direction of the relationship between financial development and investment. Some of their main results were as follows (De Gregorio and Guidotti , 1995, ibid. p. 434):

- ✓ They found a positive effect by means of the indicator they use to measure financial development and long-run growth of real per capita GDP, particularly strong in middle and low-income countries.
- ✓ Their findings suggested that the effect of financial intermediation on growth "….is due mainly to impact on the *efficiency* of investment rather than its *volume*….and the relative importance of improved efficiency of investment is higher in low- and middle income countries than in high income countries" (emphasis by the researchers).
- ✓ They concluded their research by stressing the importance of the quality of intermediation as a critical factor along with the magnitude of the level of financial intermediation.

Later on, Levine (1997, op.cit.) used a functional approach to explain the role of financial systems in economic growth. This approach focused on the ties between

[104] King, R.G and R. Levine (1993b) Finance and Growth: Schumpeter Might Be Right," *The Quarterly Journal of Economics*, Vol. 108, pp. 718-737

economic growth and the quality of the services provided by financial systems, and therefore, introduced findings of De Gregorio and Guidotti in the relevant literature. These functions include suppression of the trading risk, improved allocation of capital, monitoring of managers, savings mobilization and easing the trading of goods, services and financial contracts. That functional approach, according to Levine, highlights the value added of the financial system: "...the financial sector is a 'real' sector: it researches firms and managers, exerts control and facilitates risk management, exchange and resource mobilization" (Levine, 1997, ibid, p. 689). Schematically, Levine (1997, p 691) developed the link between finance and growth as follows:

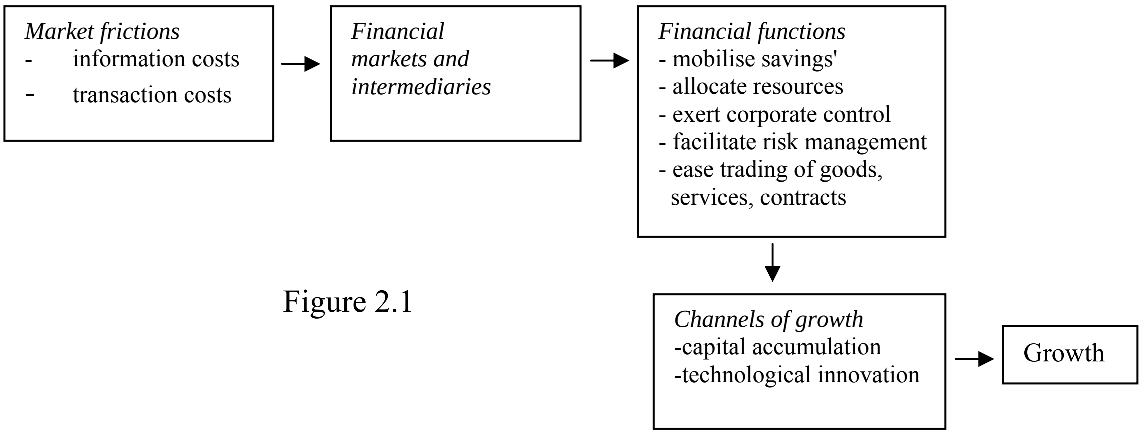

Figure 2.1

As outlined above, the financial sector influence economic growth through channeling funds made available from savers to those who have the most productive investment projects. The following section outlines the important role that the financial systems play as they reduce financial frictions to link saving and investment.

2.3 <u>Functions of A Financial System</u>

Theory has long suggested the importance of financial instruments, markets, and institutions in mitigating the effects of information and transaction costs.[105] In the absence of financial markets individual savers attempt to make profitable investments, they incur substantial information and transaction costs. Financial markets and institutions emerge to lower these costs (Bhattacharya and Thakor, 1993, pp. 10-11).[106]

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[105] See Gertler (1988, ibid) pp. 569-574 for a review of the relevant literature
[106] Bhattacharya, S. and A. Thakor (1993) Contemporary Banking Theory, *Journal of Financial Intermediation*, 3, pp.2-50

Asymmetric information[107] problems can cause adverse selection and moral hazard. The problem of adverse selection is ex-ante and reflects the inability of a lender to distinguish good credit risks from bad credit risks. Moral hazard is a term used to describe situations in which the incentive exists for a borrower to increase or decrease a project's risk level after it has been funded. These ex-ante and ex-post informational asymmetries are the primary reasons for the existence of financial intermediaries.[108]

When applying standard supply and demand analysis, it becomes apparent how a financial intermediary is able to bridge the information and transaction costs arising from daily economic activity.[109] Without a financial intermediary, individuals wishing to invest their savings would find it costly to locate creditworthy borrowers. With information and transaction costs, the amount lenders must charge borrowers to cover the screening costs, is an amount additional to the cost of covering expected defaults. Such costs reduce total borrowing and lending in an economy. If an intermediary is introduced into an economy it can reduce these costs of borrowing and lending because it is able to produce information cheaper and more efficiently than N monitors monitoring one borrower (Diamond, 1984).
Therefore, the information and transaction costs individual lenders would otherwise incur in searching for credit worthy borrowers are reduced when financial markets and intermediaries take over these responsibilities. These financial intermediaries are considered to have an information advantage because they are better at filtering imperfect signals over a cross-section of borrowers (Bhattacharya and Thakor, 1993, ibid, p.3). Through the process of information acquisition, financial intermediaries are then able to develop skills that help interpret the desirability of various investment projects. The nature of this information gathered is also reusable, therefore allowing an economy to experience large efficiency gains. By spreading these information costs over a larger volume of lending activity, per unit costs fall for information acquisition (Allen and Santomero, 1998, p.1463).[110] As a result, more efficient credit allocation will take place. Moreover financial intermediaries enhance liquidity, provide asset

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[107] Asymmetric Information occurs when lenders have troubles determining whether a borrower is a good risk (i.e. good investment projects with low default risk) or a bad risk (i.e. bad investment project with high default risk). Because of this lack of information, lenders will desire to pay for a security that reflects the average quality of firms issuing this security – a price that is lower than the market value for high-quality firms and too high for the low-quality ones - a classic case of the 'lemons problem' proposed by Akerlof (1970). Hence, only low quality firms will be willing to sell their securities.

[108] For an overview see Levine (1997) op.cit.

[109] See *Appendix II – Box 2.1* for a simple illustration of standard supply and demand analysis

[110] Allen F and A.M. Santomero (1998) The theory of financial intermediation, *Journal of Banking and Finance*, 21, 1461-1485

diversification services, and offer a risk-return combination in their pool of financial assets that savers find most attractive. And further, financial intermediaries protect investors from losses they would suffer in trading illiquid claims while affording them an opportunity to "spread their eggs among many baskets."[111]

Financial markets and intermediaries also remedy information and transaction costs ex-post of the lending decision because they exert corporate control better than individual lenders (Levine 1997, p.697). Corporate control refers to financial arrangements negotiated between the financial intermediary and borrower such that the borrower is compelled to manage the investment project in a fashion that the financial intermediary will find most desirable (Levine 1997, p. 696). Stiglitz and Weiss (1981)[112] argue that financial intermediaries can institute a variety of screening devices to identify "good borrowers" and also oversee the actions of borrowers after inception of the loan contract. Interest rates may act as one such screening device. Another screening device might be the behaviour of the borrower. The job of the intermediary is then to formulate the terms of a loan contract in a manner designed to both induce the borrower to take actions, which are in the interest of the lender, as well as to attract low-risk borrowers. The amount of the loan and the amount of collateral may also affect the behaviour of borrowers (Stiglitz and Weiss, 1981).

An intermediary can, via the interest rate it charges, affect the risk of its loan portfolio. By charging a higher interest rate an intermediary can either sort potential borrowers, termed the adverse selection effect, or affect the actions of borrowers ex-post, termed the incentive effect. Diamond (1984)[113] suggests that when an intermediary acts as a "delegated monitor" it can formulate the terms of the loan contract in a manner to minimize these adverse selection and incentive effects. Therefore, this "delegated monitor" economises also on aggregate monitoring costs (i.e. reduce ex-post information costs) even further (Levine 1997, p.697).

The services that financial markets and intermediaries provide should not be discounted even though the level of saving and investment may not change substantially when

[111] For more on that see Appendix 2 - Box 1: Note on Liquidity and risk management

[112] Stiglitz J. and A. Weiss (1981) Credit rationing in Markets with Imperfect Information*, American Economic Review*, Vol. 71, pp. 393-410

[113] Diamond D. W. (1984) Financial Intermediation and Delegated Monitoring, *Review of Economic Studies*, Vol. 51, pp. 393-414

financial systems function more efficiently.[114] Other researchers such as Greenwood and Jovanovic (1990, op.cit.) argue that more efficient financial systems can still make improvements in capital allocation. Finally, Bencivenga and Smith (1991, op.cit.) showed in their model that growth increases even when aggregate savings are reduced as a result of financial development. The reason for that was accredited to the dominant effect that financial development has on the efficiency of investment, a conclusion in which the analysis of De Gregorio and Guidotti (1995, p.436) also led (De Gregorio and Guidotti, 1995, op.cit. pp.434 & 436).

2.4 Financial System Architecture

As we have seen earlier, financial intermediaries have emerged to help firms, consumer households and governments to finance their expenditure and to save or invest their liquid funds in a market that is characterised by asymmetric information. Two main types of financial intermediation can be distinguished if it comes to the transformation of funds within the economy:[115]

a) Bank or indirect finance is the intermediation between surplus and deficit spending households. The financial intermediary is permanently in a position between the ultimate borrower and the ultimate lender. The intermediary issues (contingent) claims on himself and sells these to the borrower. At the same time, it holds (contingent) claims on lenders in return for (access to) funds.
b) In market or direct finance, the financial intermediary takes no position at all between borrower and lender, or only for a very brief period. The claims issued

[114] Researchers have questioned the degree to which savings rates respond to the enhanced liquidity and the increased rates of return that more efficient financial markets and intermediaries provide. Higher returns ambiguously affect saving rates due to the well-known income and substitution effects. This may explain why the increased flow of new saving and investment revealed in Figure 2.2 are not always found empirically. Levhari and Srinivasan (1969) provide evidence that the level of saving may rise or fall with greater liquidity and higher interest rates. Japelli and Pagano (1994) provide a model that indicates saving rates may fall with the introduction of a financial intermediary. Ogaki, Ostry, and Reinhart (1996) studied the behavior of saving to interest rate changes in the poorer economies of the world. They found that interest rates only have modest effects on saving rates. Thus, changes in liquidity and interest rates have ambiguous effects on the level of saving (Levine, 1997, op.cit, p.694).
[Lehvari, David and T.N. Srinivasan (1969) Optimal Savings Under Uncertainty, *Review of Economic Studies*, Vol. 36 (1), pp. 153-163, Japelli, Tullio and Marco Pagano (1994) Saving, Growth and Liquidity Constraints, *Quarterly Journal of Economics*, Vol. 109 (1), pp. 83-109, Ogaki, M. Ostry, J. and C. Reinhart (1996) Saving Behaviour in Low-and-Middle-Income Developing Countries: A Comparison, *IMF Staff Papers*, March]

[115] Beck, T. and R. Levine (2002) Industry Growth and Capital Allocation: Does having a market- or bank-based system matter?, *Journal of Financial Economics*, 64, pp. 147-180

by the deficit spending unit are bought by the ultimate borrowers. The financial intermediary brings together supply and demand for these claims and passes through or underwrites the securities.

With bank finance, the intermediary acts as a delegated monitor. This is an efficient solution to free riding problems that arise in financial markets where the incentive structure to monitor the issuer of debt or equity is weak (Diamond, 1984)[116]. Fixed costs in monitoring are crucial to achieve economies of scale in gathering and processing information. It is much more efficient for one information specialist to screen and monitor a large number of firms than for a large number of individual lenders. The intermediary collects funds from the depositors/investors, promises them a fixed return and diversifies these funds along various projects. Thereby it reduces risk (as project returns are imperfectly correlated) and offers diversification to those from which it lends.

Hellwig (1991)[117] argues that, from a pure theoretical perspective, it appears that bank finance is a superior means of financing. This results from the information acquisition and procession potential of banks vis-à-vis financial markets. Banks are supposed to have better access to information about a firms' behaviour. Furthermore, they have the incentives and the ability to operate in order to maximize the present value of their stake in the firm. The financial intermediary may provide a mechanism of commitment in a long-term relationship, which is of importance if complete contracts cannot be written and enforced.

But, Hellwig (1991, p. 60) stresses also the need for a more systematic analysis of the relationship between financing patterns and commitment mechanisms. Such an analysis is provided by Boot and Thakor (1997).[118] In their theoretical analysis of financial system architecture, they predict that an optimal financial system will configure itself skewed toward bank financing if borrowers have relatively poor credit reputations and toward capital market financing if borrowers have relatively good credit reputations but can improve real decisions based on the information conveyed by market prices. Thus,

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[116] Diamond, D.W. (1984) Financial intermediation and delegated monitoring. *Review of Economic Studies* 51, 393-414.

[117] Hellwig, M. (1991) Banking, financial intermediation, and corporate finance. in: Giovannini, A., Mayer, C. (Eds.), *European Financial Integration*. Cambridge University Press, Cambridge.

[118] Boot, A.W.A. and A.V. Thakor (1997) Financial system architecture. *Review of Financial Studies* 10, 693-733.

implicitly, they appear to regard market finance superior to bank finance, as informational asymmetries in the former case are weaker than in the latter.[119]

The following sections will focus on the banking system because:

1) With reference to the trends that affect the financial system at a European Union level:

- Although, financial disintermediation has increased in the route to implement Stage III of European Economic and Monetary Union (Belaisch et all, 2001, p.4) [120] there is (Schmidt et all, 1999, pp. 36, 62-63):[121]
    - neither a general trend toward disintermediation
    - nor toward a transformation of bank-based to capital market-based financial systems
    - nor toward a loss of importance of banks
- Researchers have recently stated "although it is difficult to characterize the euro-area banking sector using one or two phrases, it is clear that the euro-area's financial system continues to be bank dominated" (Belaisch et all, 2001, ibid, p. 6)

2) Regarding enterprises use of and access to external finance sources (EU, 2001, p.3):[122]

- Loan finance – bank loans and bank overdrafts - is the most important source of external finance for most European enterprises[123], over 99% of which have less than 250 employees

[119] However, as Beck and Levine (2002, ibid, p.147) comment, financial economists have debated the relative merits of bank-based and market-based financial systems for over a century. In their literature review (ibid, pp.148-149) they provide a plethora of information for the advantages and the disadvantages supportive of or against the two different architectures. It is interesting however, that in their results, they argue that distinguishing countries by overall financial development and legal system efficiency is more useful than distinguishing countries by whether they are relatively bank-based or market based (ibid. p.175). Therefore, it is argued that research concentration should be focusing *on the quality of the financial services* that the intermediaries are offering, and consequently their efficient behaviour as intermediaries, in any direction of the financial system's architecture, in order to stress their importance in development.

[120] Belaisch, A., Kodres, L. Levy J and A. Ubide (2001) Euro-Area Banking at the Crossroads, IMF working paper series, WP/01/28, March 2001, IMF

[121] Schmidt, R.H., Hackethal, A. and M. Tyrell (1999) Disintermediation and the Role of Banks in Europe: An International Comparison, *Journal of Financial Intermediation*, 8, pp. 36-67

[122] Commission of the European Union (2001) "Enterprises access to finance» Commission Staff Working Paper, SEC(2001) 1667

[123] That appears to be the case for US small firms too. As Meyer (1998, p. 1110) argues "*commercial banks are the single important source of external credit to small firms. Small businesses rely on banks not just for a reliable supply of credit, but for transactions and deposit services as well.*" (Meyer, L. 1998: The present and the future roles of banks in small business finance, *Journal of Banking and Finance*, 22 pp.1109-1116.)

- At least for the next decade the supply of enterprise finance will continue to be dominated by bank lending

3) Finally, with reference to Greece:

- The financial system is still underdeveloped (Eichengreen and Gibson, 2001, p. 4)[124]
- It is bank dominated (BoG, 2002, p. 225)[125]
- The banking system, although it has developed significantly during the last years, it has a long way ahead toward modernisation. In addition, commercial banks strive to expand their operations toward consumer and enterprise credit (BoG, 2002, ibid, p. 225; BoG, 2001, p.199)[126]

Furthermore, and beyond the direct relevance of the above-mentioned arguments for the evolution of the present study, there are some supplementary reasons that might be of general interest for focusing to the banking sector of the financial system.
Most developing economies have bank-based and financial markets play a relatively minor role. Various explanations have been given for this pattern. For example, when accounting rules and more generally regulatory enforcement institutions are weak, banks are better placed to protect creditor rights. Small investors are deterred from investing in the stock market for fear of being exploited by stock price manipulators and insider traders (Studart, 1995, pp. 55-56).[127] They feel that their savings are better protected in deposit or saving accounts at banks, which are generally subject to some form of supervision by the state (Berglof and Bolton, 2002, p. 92).[128]

On the corporate side as Stiglitz (1991)[129] suggested, LDCs must expect that firms within their economies will have to rely heavily on bank lending, rather than securities markets, as sources of funds. He views that as advantageous because he sees banks as providers of short term loans based on careful screening of borrowers and also as having

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[124] Eichengreen B., and H., Gibson (2001) Greek Banking at the Dawn of the New Millennium, Centre for Economic Policy Research Discussion Paper Series, CEPR

[125] Bank of Greece (2002) *Annual Report for the Year 2001*

[126] Bank of Greece (2001) *Annual Report for the Year 2000*

[127] Studart, R. (1995) Saving, Financial Markets and Economic Development: Theory and lessons from Brazil, in Arestis P. and V. Chick (eds) *Finance, Development and Structural Change. Post-Keynesian Perspectives*, pp. 46-70, London: Edgard Elgar

[128] Berglof, E. and P. Bolton (2002) The Great Divide and Beyond: Financial Architecture in Transition, *Journal of Economic Perspectives*, Vol 16, No. 1, pp.77-100

[129] Stiglitz, J. E. (1991) *Government, Financial Markets, and Economic Development*, National Bureau of Economic Research Working Papers No. 3669, NBER, Cambidge

the power to monitor firms' repayment obligations.[130] Because banks are, generally, well acquainted with their borrowers' business, they can avoid some of the informational asymmetry problems of capital markets, and hence, banks are assigned with both better selection and better enforcement powers that would be available through the capital markets.

Also, most firms are too small or too risky at early stages of development to be able to issue shares or bonds on an organized stock market.[131] On the contrary, that possibility is most likely to be present in advanced economies where a sufficient number of large and stable firms exist and can get cheaper funds by issuing securities and thus sustaining an efficient stock market (Pagano, 1993, p.619).[132] Finally, stock markets require well trained professionals, market makers, traders, fund managers and financial regulators, none of which is expected to be present in less developed economies.

2.5 <u>Banks and Regional Development</u>

2.5.1 Some more theory – Unbalanced regional growth

The study of unbalanced regional growth has been an integral part of regional economics for several decades with notable contributions by Perroux (1955),[133] Kaldor (1957),[134] Myrdal (1957),[135] Hirschman (1958)[136] and Williamson (1965).[137] Two basic effects in an explanation of unbalanced growth are "polarization" and "trickling-down" effects (Hirschman, 1958, ibid) or "backwash" and "spread" effects (Myrdal, 1957, ibid). The polarization-backwash effect indicates that one region experiences

[130] That argument should be examined in conjunction with the role of Government interventions, either direct as credit providers or indirect as regulators, in the less developed economies. See for instance Stiglitz, J.E. (1993) The Role of State in Financial Markets, Proceedings of the World Bank Annual Conference on Development Economics 1993, World Bank, 1994, for a wider discussion of government interventions, and Cole, D. and B. Slade (1994) How Bank Lending Practices Influence Resource Allocation and Monetary Policy in Indonesia, Harvard Institute for International Development Discussion Paper No. 444, Harvard University, for a more specific example.

[131] Of course, the same argument can be applied even in the cases of sub-national business markets of the developed economies as well.

[132] Pagano, M. (1993) Financial Markets and Growth: An overview, *European Economic Review*, 37, pp.613-622

[133] Perroux, F. (1955) Note sur la notion de 'pole de croissance'. Economie Appplique, 307-320. Translated as : Note on the concept of growth poles, and reprinted in: Hatjimichalis, C. (ed) *Regional Development and Policy*. (in Greek) pp. 66-73, Athens: Exantas

[134] Kaldor, N. (1957) A model for economic growth, *Economic Journal* 67, 591-624

[135] Myrdal G. (1957) Economic Theory and under-developed regions. London: Gerald Duckworth and Co., reprinted in: Hatjimichalis, C. (ed) *Regional Development and Policy*. (in Greek) pp. 74-82, Athens

[136] Hirschman, A.O. (1958) Inter-regional and international transmission of economic growth. in The Strategy of economic Development, pp.183-201. Yale University Press, New Heaven

[137] Williamson, J.G (1965) Regional Inequality and the process of national development: A description of the patterns, *Economic Development and Cultural Change* 13, pp.3-45

cumulative growth at the expense of other regions and the trickling-down – spread effect indicates that growth in one region promotes growth in others. Although Perroux (1955, ibid) and Hirschman (1958, ibid) argue that polarization-backwash effect is eventually overwhelmed by the trickling-down – spread effect, indicating that growth in one region will promote growth in other regions, Myrdal (1957, ibid) and Kaldor, (1957, ibid; 1970)[138] question this proposition.

The polarization-backwash effect follows from agglomeration economies or increasing returns to scale in one region generating higher returns to the factors of production. Higher factor returns attract labour and capital from less productive regions, which further enhances productivity in the receiving region and inhibits productivity in the region of origin. More productive regions cumulatively expand and less productive regions cumulatively decline. The key questions posed by this analysis is whether financial activity plays a passive or active role in unbalanced regional growth regarding the polarization-backwash and trickling-down – spread effects.

Regional analysis has usually lacked references to financial and monetary variables (Moore & Hill, 1982, p. 499).[139,140] Leaving aside the widely held belief that money helps little to explain regional income differences, there are three main factors, which could explain the lack of references (Dow & Rodriquez-Fuentes, 1997, p.903-4):[141]

a) First of all, because regional economists have usually assumed the orthodox assumption that money and monetary policy are neutral in the determination of real income, at least in the long - run. The point here has usually been that if money really does not matter at national level, as orthodox monetary theory suggests, it should not matter at the regional level either.
b) Another reason to explain why regional economists have not showed much interest for financial variables is to be found in the fact that regions do not dispose separate monetary tools. If one region does not really have the chance to run its own monetary policy, where is the point in studying these matters?

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[138] Kaldor, N. (1970) The case for regional policies, *Scottish Journal of Political Economy* 17, 337-347, reprinted in: Hatjimichalis, C. (ed) *Regional Development and Policy*. pp. 141-148, Athens: Exantas

[139] Moore C.L. and J.M Hill (1982) Interregional Funds and the Supply of Loanable Funds, *Journal of Regional Science*, vol. 22, No.4, pp.499-512

[140] That argument, according to Dow (1987, p. 903) is relevant only for the European experience, because in the US literature it has been a topic for longer reflecting the regional concerns of a federal state [Dow, S. (1987) The Treatment of Money in Regional Economics, *Journal of Regional Science*, Vol 27, No. 1, pp.13-24]

[141] Dow and Rodriguez-Fuentes (1997) Regional Science: A survey, *Regional Studies*, Vol. 31 (9) pp.903-920

c) Thirdly, even if regions had their own monetary tools, their extreme openness and perfect capital mobility would leave them no possible control over their monetary conditions.

These reasons have presumably restrained regional scientists from introducing money and monetary variables in their analysis and when they have decided to include them, they have done it by considering them as exogenous, that is, determined at the national level - such as the money supply or the interest rates - and reflecting regional real economic differences. Consequently, money and monetary flows have been considered as the result of regional economic differences than as independent factors which might have played a role in the widening of regional divergence.

Some might agree that regional problems cannot be solved by means of financial management, inasmuch as the roots of regional income differences are to be found in other structural factors. It must be kept in mind, however, that economists have usually underestimated the power of financial factors as explanatory variables of the widening income-gap among poor and wealthy regions, because neither money nor banks are neutral to economic development. This is a line of argument it shall be followed in the following sections, where arguments for and against the neutrality of the banking system from the perspective of regional development will be discussed.

What is suggested here is the proposition that banks do matter in regional growth since they are responsible for credit provision, especially in the regions, which have reached certain level of financial development. Amos and Wingender (1993)[142] indicate that financial institutions can be either demand-driven or supply-leading. The former are characterized by financial activities that passively respond to development stimulated by other factors, and the latter are characterized by development that is directly stimulated through the financial sector. If financial activity plays an active role in economic development and is regionally differentiated, then it can also contribute to unbalanced regional growth or locally orientated development initiatives. The potential importance of regionally differentiated financial activity to regional growth, lies at the heart of the regional aspects of banking intermediation analysis, of which the main aspects are presented in the following section.

2.5.2 Banks as financial intermediaries: the neutral view

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[142] Amos, O. and J. Wingender (1993) A model of the interaction between regional financial markets and regional growth, *Regional Science and Urban Economics* 23, pp.85-110

Mainstream monetary theory considers that economic growth has nothing to do with money since real income depends on real factors. Money is usually seen as a separate variable whose only role is to set the general level of prices. Under this assumption, money is a veil, something that facilitates exchanges and makes things work more quickly than they would do without it. However, it is commonly accepted that real economy could also work without it, but less quickly and less efficiently. According to this theory, the economic system seems to be dichotomised among a real and a monetary side. Mankiw (1997, p.274)[143] calls it "classical dichotomy" and refers to it as a unique idea for interpreting economic theories. On the other hand, as it was stressed earlier, is Bernanke (1983, 1995)[144] that documents the failure of the dichotomy when it assumes that the real one is the only that really matters to economic analysis.

Within this framework, neither banks nor bank credit seem to play any active or positive role in economic growth. And, of course, how could that be otherwise, if money is supposed to be a means of payment, which simply makes exchanges easier? Banks are also considered to be neutral, given that they only allocate available savings among alternative projects (i.e. investments) whilst the level of income determines savings. At the regional level there is only one chance for the banking system to matter and that is when it fails to allocate national credit among different regions efficiently and properly. And this, of course, can only happen when there exists some kind of market failure, usually called in the financial intermediation theories as imperfect or asymmetric information, or some other barriers which may prevent interregional financial flows, also called transaction costs. [145]

Roberts and Fishkind (1979)[146] tried to identify the factors, which could lead to credit rationing in some regional markets. They concluded that there were three key factors to consider in this respect (Dow, 1987, pp.15-16):[147]

a) First, there is the availability of information to regional agents. Roberts and Fishkind considered that, as knowledge and information about financial conditions outside

[143] Mankiw, G. (1997) *Macroeconomics* (in Greek), Athens: Gutenberg

[144] Bernanke, B, (1983) Non-monetary effects of the financial crises in the propagation of the Great Depression, *American Economic Review*, 73, pp. 257-276 - Bernanke, Ben (1995) The Macroeconomics of the Great Depression: A comparative approach. *Journal of Money, Credit and Banking*, Vol. 27, pp.1-28

[145] Hence, as long as regional credit markets work properly there will always exist equilibrating interregional financial flows, which, as a consequence, would mean that money is of no significance at regional level. Thus, it is assumed that regions never experience financial problems since they face a potentially perfectly elastic supply of credit (Fishkind, 1977). [Fishkind, H. (1977) The Regional Impact of Monetary Policy: An Economic Simulation Study of Indiana 1958-1973, *Journal of Regional Science*, Vol. 17 (1) pp. 77-88]

[146] Roberts, R. B. and H. H. Fishkind (1979) The Role of Monetary Forces in Regional Economic Activity, *Journal of Regional Science*, Vol. 19 (1), pp. 15-29

[147] Dow, S. (1987) The Treatment of Money in Regional Economics, *Journal of Regional Science*, Vol. 27 (1), pp. 13-24)

the region are only available at some cost, this cost could lead to some regional segmentation in credit markets (high costs could remove the possibility of profitable arbitrage between regional and national financial markets). So, they suggested that isolated regions are the most likely to suffer from segmentation in their credit markets, because the more isolated the region the higher are the costs of obtaining information.

b) The second factor to consider, is the existence of non-homogeneous regional financial assets. Non-homogeneity of financial assets leads to inappropriate or at least difficult comparisons. But, on the other hand, the very same heterogeneity of regional financial assets in the sense of liquidity, risk management, maturity etc. might also be another factor explaining segmentation in regional markets.

c) The third factor concerns the regional differences in liquidity preference and risk aversion that could lead to differentiation as far as interest sensitivity of both supply and demand for assets is concerned.

Moore and Hill (1982)[148] added a new factor, which may ration some regional markets. That was the distinction between small and large borrowers and lenders within regional markets (ibid, p. 507-508). Moore and Hill considered regional supply of funds to be determined by a multiplier process and therefore limited to the regional deposit base. As the demand for funds was taken to operate more or less independently from the regional supply, it was concluded that any excess of regional demand could be met by banks if they lend more than they borrow (that is if they offer credit at a level higher than the level of savings) or if they get the excess funds they need to meet that demand from outside markets (arbitrage). However, they noted that this arbitrage between local and national markets would be less than perfect because some local borrowers and lenders do not have access to national markets mainly due to lack of information (ibid, 507).

The New Keynesian credit rationing literature, tried to develop further the above mentioned argument (see for example Greenwald et al, 1993,[149] Faini et al, 1993[150] and Samolyk, 1994[151]).

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[148] Moore C.L. and J.M Hill (1982) Interregional Funds and the Supply of Loanable Funds, *Journal of Regional Science*, vol. 22, No.4, pp.499-512

[149] Greewald, B.C., Levinson, A. and J. Stiglitz (1993) Capital Market Imperfections and Regional Economic Development, in Gioavannini A. (ed) *Finance and Development: Issues and Experiences*, Cambridge: Cambridge University Press

[150] Faini, R., Galli, G. and C. Giannini (1993) Finance and Development: The Case of Southern Italy, in Gioavannini A. (ed) *Finance and Development: Issues and Experiences*, Cambridge

[151] Samolyc, K. (1994) Banking conditions and Regional Economic Performance: Evidence of a Regional Credit Channel, *Journal of Monetary Economics*, Vol. 34, pp. 259-278

New Keynesian literature argued that because of regional segmentation in credit markets, local banks play a crucial role for regional development since they have superior information on local investment opportunities than outsiders and, thus, can monitor them at a lower cost. These factors make local investors more dependent from local banks because of the unwillingness of national institutions to lend regionally.

According to the new Keynesian literature of credit scoring, banks do matter because asymmetries in credit markets, give local banks a better position compared to outsiders. What is not clear, though, is whether banks would also matter when such asymmetries were removed. That leads to a critical question: Is there a need for a market failure to let banks play a role in regional development?

According to the arguments presented so far, the answer is definitely leading to yes. And that's coming as a logical consequence of the theories that do not acknowledge money importance on development. However, other schools of economic thought that stress a critical value of money and banks in the development procedure, offer argument that could lead to a negative answer to the same question.

2.5.3 Banks as the suppliers of credit: the non-neutral view

Postkeynesian Monetary Theory considers money to be an integral component to economic process (Dow, 1993)[152] and that leads to the assumption that there could not be drawn a clear distinction between real and monetary sides of the economy.

As Davidson (1978, p.226)[153] argues:

"…*money does not enter the system like manna from heaven, nor is dropped from a helicopter, nor does it come from the application of additional resources to the production of the money commodity*."

To postkeynesians (Wray, 1990;[154] Arestis, 1992[155]) money is credit-driven and demand-determined and enters the system through two different ways: through an income generating process or through a portfolio change process (Studart, 1995, p. 278 quoting Davidson, 1978, ibid, p.226-227)[156].

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[152] Dow, S. (1993) *Money and the Economic Process*, UK: Edward Elgar

[153] Davidson (1978) *Money and the Real World,* London: MacMillan

[154] Wray, L.R. (1990) *Money and Credit in Capitalist Economies. The Endogenous Money Approach*. UK: Edward Elgar

[155] Arestis, P. (1992) *The Post-Keynesian Approach to Economics. An Alternative Analysis of Economic Theory and Planning*, UK: Edward Elgar

[156] Studart, R. (1995) The efficiency of Financial Systems, liberalization, and economic development, Journal of Post Keynesian Economics, Winter 1995-96, vol. 18, No.2, pp.269-292

In the portfolio change process, money comes through fiscal and open market operations initiated by monetary authorities (Arestis, 1992, ibid, p. 180) and therefore should be considered to be exogenously controlled (Wray, 1990, ibid, chapter 3). On the other hand, in the income generating process, money appears at the very beginning of the production process because production takes time and purchase of inputs has to be financed prior to the sale of the output (Arestis, 1992, ibid, p. 180). In this latter, money and particularly credit, bridges the financial gap, which arises in the production process. Money is, therefore, integral to the economic process and by no means neutral.

The above explain why money and banks are so important to postkeynesians, since they play a critical role in economic growth. Credit-money is what makes investment possible and not what fixes the general level of prices. In addition, banks are responsible to provide credit prior to production, or in other words, banks create credit and not simply distribute saving among borrowers. Hence, banks are not intermediaries that allocate a predetermined amount of savings among alternative uses, but they seem to be active agents that force resources to finance investments in place, thereby fostering development of the economy (Minsky, 1993, p.82).[157] In the view of the postkeynesians, therefore, banks play the same role at regional level as they do at national level; the provision of credit in order to make regional investment possible.

Although someone could argue that there can be found some parallelisms between the New and the Post Keynesian theories, a closer look makes clear where the differences between the two stands. The most important difference between the two schools lays in the fact that post keynesian analysis is not restricted to the supply side but takes into account the demand side of regional credit markets too (Dow and Rodriquez-Fuentes, 1997, ibid, p. 914). As it was stated earlier, New Keynsesian literature is mainly concerned with the issue of how imperfect information segments regional markets by making difficult the supply of funds by non-local financial institutions (Roberts and Fishkind, 1979). Credit rationing arises then as a result of the unwillingness of non-local financial institutions to lend within the region. This reluctance emerges from their lack of information to assess properly local project credit and profitability.

However, Post Keynsian economists also point out that credit rationing could also be explained by demand factors to the extend that the amount of regional credit is the result of the interaction between supply and demand and because both functions are

[157] Minsky, H.P. (1993) On the Non-Neutrality of Money, *Federal Reserve Bank of New York Quarterly Review*, Vol. 18, No. 1, pp. 77-88

independent as they are affected by changes in liquidity preference. Therefore, a full understanding of the process of regional credit creation implies both supply and demand analysis of the market (Dow and Rodriquez-Fuentes, 1997, ibid, p. 914). Hence, regional credit rationing is not seen as a unicausal situation explained by a regional discriminatory behaviour on behalf of the banking institutions, which, in turn, leads to an uneven regional distribution of credit, but as a multicausal situation in which other regional agents can get involved. This is what Dow (1992, pp. 621, 630)[158] called defensive financial behaviour and needs the following analysis of the factors affecting both regional supply of and demand for credit to be understood.[159]

As regards the supply side, Post Keynesian theory considers that regional credit supply is affected both by regional liquidity preference and the stage of bank development. The stage of bank development determines the ability of banks to extend credit regardless of their deposit base, regional or national. In other words, the stage of bank development determines the degree of endogeneity of money supply. The lower the level of bank development, the more sound the monetary multiplier model. This would imply that regions with banking systems in lower stages of development would be more constrained by low saving or deposit ratios than others, which have already reached higher levels of banking development. However, once the banking system reaches higher stages, the foregoing no longer applies. The former analysis also implies that depending on the own stage of banking development the constraints on credit expansion are able to change in accordance with the relevant monetary theory.

On the other hand, Post Keynesian theory allows liquidity preference to affect regional supply and demand for credit. From the financial institution's point of view, liquidity preference will affect its willingness to lend within the region when regional risk is higher or its assessment is difficult to be made. This argument, as it was mentioned before, stands also for the neokeynesian credit rationing.

But as it was suggested above, liquidity preference not only affects lender's behaviour but it also affects saver's behaviour. For example, higher liquidity preferences will turn savers' portfolios into safer and more liquid positions. If those more liquid and safe financial assets are not able to be supplied within the region, an increase in the liquidity

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158 Dow, S. (1992) The Regional Financial Sector: A Scottish Case Study, *Regional Studies*, Vol. 26 (7), pp. 619-631

159 For a detailed analysis of what follows see Rodriguez-Fuentes, C. (1996) Credit Availability and Regional Development. *Paper Presented at the 36th European Congress of the European Regional Science Association*, 26-30 August, Zurich, Switzerland, and the discussion that followed Session J of that Congress: The Contribution of banking and financial services to regional growth.

preference by regional agents in peripheral regions could lead to an outflow of financial resources to central regions which may reduce local availability of funds. Whether or not this outflow affects regional credit availability depends on (i) the ability of bank sector to expand credit regardless of its regional deposit-base and (ii) on the effect that such regional outflows could have on banks' own regional liquidity preferences.

With regard to the demand side, the effect that liquidity preference could have on regional demand for funds has to be taken into account. For example, a worsening in the expectations of the regional economy could lower the regional demand for funds to the extend that investors are less willing to run into debt. On the contrary, higher regional expectations could drive up regional demand for credit to the extend that the banking system (a) shares the optimism and (b) is able to extend credit beyond its deposit-base which depends on its stage of development (Chick, 1988;[160] Chick & Dow, 1988[161]). It could also lead to increased regional supply of credit. It is the interdependence of supply of and demand for credit that does not permit a thorough identification of the existence of regional credit-gaps.

Post keynesian theory does not claim a tendency for a long-run decline in regional credit shares for peripheral regions. It rather claims an unstable pattern in regional credit creation in these regions in comparison to the more developed ones. The functions of the banking system foster this instability, while credit expansion during economic upturns fuels expansion but also recession when credit is destroyed (Dow, 1987, ibid, pp. 22-23, Samolyk, 1994, ibid, p.260-261).[162] Since money is credit driven, and credit makes deposits rather than the opposite, the issue is no longer restricted to whether banks lend more than they borrow regionally as it is very often suggested. The case is no longer how a fixed amount of money is divided among regions but how credit is created or not regionally

2.6 European Banking in the post maastricht era.

European integration was a major challenge both as a political and an economic process. Researchers and supranational officials were studying the potential alterations in all aspects of economic life of the member states. However, the financial services sector

[160] Chick, V. (1988) The Evolution of the Banking System and The Theory of Monetary Policy, Paper Presented at the *Symposium on Monetary Theory and Monetary Policy: New Tracks for the 1990s,* Berlin

[161] Chick, V. and S. Dow (1988) A post-Keynesian Perspective on the Relation Between Banking and Regional Development, in Arestis, P. (ed.) *Post Keynesian Monetary Economics. New Approaches to Financial Modelling,* pp. 219-250, UK: Edward Elgar

[162] Dow, S. (1987) The Treatment of Money in Regional Economics, *Journal of Regional Science*, Vol. 27, No. 1, pp.13-24

was expected to be one in which the impact of the Single European Market would be particularly marked (Begg, 1992, p. 333).[163, 164]

The Price Waterhouse study[165] for the European Commission on the "costs of non Europe" in financial services concluded that important welfare gains could be attained by the increase in competition, which would accompany financial integration (Vives, 1991, p.9).[166] The financial sector was amongst the most dynamic markets in the EC economy during the 80s and it was facing a major challenge. More generally, the financial sector's structure and behaviour were challenged not only by the single market measures but also by the effects of forces for change, which would alter its methods of doing business, the internal organization of financial entities and the character of the market for such services (Begg, 1992, ibid, p. 344).

According to Vives (1991), among the main effects of integration would be:

- The banking market would remain *segmented*, with different degrees of competition, and that the *benefits* of integration would be *unevenly distributed* (ibid, p. 22).
- Integration will not have a large impact on large corporate banking as this is regarded as an international business with strong competition. Retail banking for wealthy consumers and corporate banking for medium-sized firms will see a substantial increase in competition. On the other hand, *low income depositors* will probably *suffer* since the increase in competition will trend to diminish the extend of subsidy to the operation of their accounts (ibid, p.22-23)
- A trend toward mergers, acquisitions and cross participation agreement will tend to soften competition (ibid, p.24).[167]

Begg (ibid, p.346) on the other hand stressed the opportunity for modernization of the financial systems in the backward regions of the EC. But, at the same time he argued that regions in which the wider impact of the single European market might result in

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[163] Begg, I. (1992) The spatial impact of completion of the EC Internal Market for Financial Services, *Regional Studies*, Vol. 26 (4), pp. 333-347

[164] The Internal Market in the field of banking was achieved by means of three freedoms (Benink, 2000, p. 320): capital movement, establishment and provision of services. The freedom of capital movement regarded the removal of all obstacles to capital movement among residents of the European Union member states. Freedom of establishment allowed the opening of a bank office in another member state. Freedom of provision of services entitled banks to offer banking services in another member state without having a physical presence in that state. [Benink, H. (2000) Europe's Single Banking Market, *Journal of Financial Services Research*, Vol. 17 (1), pp. 319-322]

[165] Price Waterhouse (1988) *The 'Cost of Non-Europe' in financial services*. Commission of the European Communities, Luxembourg

[166] Vives, X. (1991) Banking competition and European Integration, in Giovannini, A. and C. Meyer (eds) *European Financial Integration*, pp. 9-30, Cambridge University Press

[167] That third intent will be discussed in detail in the next section regarding its impacts on regional financial services

slower growth would find financial entities more inclined to close branches. This could have cumulative adverse consequences from both the direct loss of financial sector activity and the dangers of lesser services to local small businesses (ibid., p.346). On the other hand, however, the European Commission (1990) research report,[168] suggested that peripheral regions would benefit from improved cost and availability of credit as a result of the single European Market.

According to the EC report an integrated European financial system would be characterized by (Dow, 1996, p. 295): [169]

- Increased competition in which small local banks will initially be disadvantaged
- An eventual resumption of balance between large national and multinational banks and regenerated local banks

The eventual consequence being:

- Increased efficiency resulting in lower interest rates in peripheral regions
- Reduced credit rationing, but lesser availability for high-risk borrowers in remoter regions.

It is argued that the EC prediction of a competitive reassertion of small local banks refers to national instead of sub-national small banks (Rodriquez-Fuentes, 1999, p. 5).[170] The future of the regional -sub-national- bank is more uncertain. There is no doubt that they already face a strong competition threat from national banks (Belaisch et al, 2001, ibid, p. 42). However, they enjoy a competitive position with small and medium sized enterprises in their locality, mainly because of their better monitoring capacity of that type of enterprises. Lending to small enterprises involves "soft"

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[168] Commission of the European Communities (1990) "One Market, One Money: An Evolution of the Potential Benefits and Costs of forming an Economic and Monetary Union, *European Economy*, 44 (October)

[169] "With full monetary union local banks will loose monopoly power assuming that borrowers will have direct access to foreign banks, either locally established or not, after the opening of the domestic financial markets. Besides this credit availability effect, the borrowers in peripheral countries will also benefit from the level of interest rates, which very likely will stay below those prevailing in the region before monetary unification. These two effects –availability and lower price- will represent a clear benefit for the borrowers of lagging regions. However, local banks may be disrupted because foreign banks will rapidly seize the best segment of the markets leaving the local banks with the less performing borrowers. Besides, the new and open financial market will develop in a context of tighter financial discipline and stricter rules for credit granting which may crowd out the (marginal) borrowers of the lagging regions. The net benefit is ambiguous…Naturally, the situation will disappear once the local banks have recovered and adapted to the new conditions" [CEC, 1990, ibid, p. 225 quoted by Dow (1996, p. 294-295), Dow, S. (1996) "European Monetary Integration, Endogenous Credit Creation and Regional Economic Development", in Vence-Deza, X and J.S. Metcalfe (eds) Wealth from Diversity: Innovation, Structural Change and Finance for regional Development in Europe, pp. 293-305, Kluwer Academic Publishers.]

[170] Rodriguez-Fuentes, C. (1999) *Financial Deregulation, Banking Competition and Regional Development : The Spanish Experience*. Paper Presented at the European Regional Science Association (ERSA) 39th Congress, Dublin, 23-27 August 1999

information, i.e. information that is not easily quantified (ibid, p. 46). That type of information is more costly for large banks to attain and, thus, increased transaction cost results to a lesser availability for high-risk borrowers in local areas. Moreover, it is argued that small enterprises, due to inadequate management skills, experience significant difficulties in approaching large national or international banks (Dow, 1997, p. 175)[171] an argument that might result in better positioning of local banks in their territory.

2.7 Mergers and Acquisitions in the European Banking Sector

Structural changes in the post Maastricht era, as presented earlier, have altered competitive relationships among market participants. There has been substantial merger and acquisition (M&A) activity in response to the removal of regulatory restrictions, the introduction of the single currency, advances in informational processing and communications technologies, financial engineering and other improvements in applied finance (ECB, 2000)[172]. The European Central Bank studied these activities (M&As) over a period of five years (1995 to 2000 first half). Some interesting findings of that report are the following:

- Over the observation period, there is little evidence of a trend towards cross-border M&As within the European Economic Area, European Union or euro area. It seems that in many countries banking groups have first sought to consolidate their position within national borders before making a strategic move to respond to the creation of the single market and the introduction of the single currency (ECB, 2000, ibid, p.5)
- With regard to the rationale for M&As this is differentiated according to the size of the institutions involved. Thus for domestic bank M&As:
    - Economies of Scale are the main rationale for “small” bank M&As. The small institutions aim to achieve critical mass to explore synergies arising from size and diversification. These M&As are clearly related to cost reductions that are realized by cutting branch networks, staff and overheads in central head-office functions, such as information technology departments, macroeconomic

[171] Dow, S. (1997) Financial Structure and the Economic Performance of Peripheral Economies: The Case of Europe, in Hill, S. and B. Morgan (eds.) *Inward Investment, Business Finance and Regional Development*, pp. 170-185, UK: MacMillan Business

[172] European Central Bank (2000) *Mergers and Acquisitions Involving the EU Banking Industry – Facts and Implications*, ECB, Frankfurt am Main, Germany

departments and legal departments. Obviously M&As are also used to avoid takeovers (ECB, 2000, ibid, p. 21;)[173]

- o Large bank M&As often reflect a re-positioning of the institutions involved. The pursuit of size increases reflects the perceived need to become big enough for the domestic market. Economies of scale also play a role. Banks aim at increased market power and a larger capital base, and thus there is a larger focus on increasing revenue than for the small institutions. The same cost reductions are followed as in small M&As (ECB, 2001, ibid, p.20-21).

It is obvious that there is not sufficient evidence yet with reference to the success of that M&As. But in order to assess the full consequences of these changes in the competitive environment, it is necessary to determine the effects of these dynamic changes on the behaviour of other market participants.

The European Central Bank's report stated that obviously M&As are changing the structure of the European banking sector. In addition, it is pointed out that they are not a driving force for change themselves. M&As are responses to the driving forces for change and to change in market structures (ECB, 2001, ibid, p. 8).

Berger et all (2001, p. 116)[174] developing on the rich historical evidence of relevant U.S. initiatives -i.e. M&As - argue that there are more than structural changes in the banking sector. As an indirect structural alteration, however, they report a large number of market entries of new banks, some of which appear to be in response to the M&A activity. But, they stress also an implication that stems from a considerable amount of research which suggests that the consolidation of the industry, particularly through M&As that create large institutions, may substantially reduce small business lending by the M&As participants. On the other hand, they give details on some possible "external effects" of M&As on the behaviour of other market participants, such as: the possibility of other lenders in the same local markets to expand their small business lending and make up for some of the reduced supply by the M&A participants; that M&As may affect the probability of new market entry; that recent entrants tend to lend much more to small businesses than do mature banks. Their case-exhaustive literature review presented the following evidence (Berger et all, 2001, pp: 117-119):

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[173] This is an argument that Belaisch et al also state (2001, ibid, p. 41) with reference to national banks which are regarded "big" for domestic market but they are actually "small" for the International standards. These banks' consolidation, motivated by a desire to build up "national champions" in retail banking, combined with technological change may affect the viability of small banks (ibid, p. 42)

[174] Berger, A. Goldberg, A. and L. White (2001) The Effects on Dynamic Changes in Bank Competition on the Supply of Small Business Credit, *European Finance Review* 5 pp. 115-139

The larger, more organizationally complex banks created by M&As may encounter organizational diseconomies from serving relationship-based small business borrowers along with the large transactions-based customers that they typically serve. The reduction in services to small customers may also result in part from the increased investment opportunities to serve large customers afforded by larger bank size, which "crowds out" small business loans in the use of increasingly costly funds. A reduction in services provided to small businesses might also result in part from short-term disruptions caused by the M&A process, which gives other banks opportunities to "steal" customers who perceive a reduction in service quality or availability.

Supporting these arguments, a number of studies found that larger banks devote lesser proportions of their assets to small business lending than do smaller institutions (e.g., Berger, Kashyap & Scalise 1995). Some evidence also suggests that it is specifically relationship-dependent small borrowers that tend to receive less credit from large banks.[175] One study found that large banks tend to charge about 1% less on small businesses loans and require collateral about 25% less often than do small banks (Berger & Udell 1996). These data suggest that large banks tend to issue small loans to higher-quality transactions-based credits, which tend to have lower rates and collateral requirements than riskier relationship-based loans. Similarly, one study found that the small business loans that are made by large banks tend to be to larger, older, more financially secure businesses, which are most likely to receive transactions-based credit (Haynes, Ou & Berney 1999). Finally, another study found that large banks tend to base their small business loan approval decisions more on financial ratios, whereas a prior

[175] Ahrendsen et al (1999, p. 216) argue, quoting Peek and Rosengren (1996) that historical lending relationships are not of interest to large banks, and even more to large acquiring banks. (Ahrendsen, B., Dixon, B and T.L La Derrek (1999) Journal of Agricultural and Applied Economics, 31(2), pp. 215-227

relationship with the borrowing firm matters more to decisions by small banks, again consistent with large banks' focusing on transactions-based credits and small banks' focusing on relationship-based credits (Cole, Goldberg & White 1999).

A number of studies directly examined the effects of bank M&As on small business lending (e.g., Peek & Rosengren 1998; Strahan & Weston 1998; Berger, Saunders, Scalise & Udell 1998; Avery & Samolyk 2000). The most common findings are that M&As in which one or more of the banking organizations is large tend to reduce small business lending, whereas M&As between small organizations tend to increase it. Since M&As involving large organizations dominate M&As in terms of assets, these studies suggest an aggregate net reduction in small business lending by the banks participating in M&As.

One study measured the external effects of M&As on the small business lending of other banks in the market. It found expanded small business lending of other banks in the same local market that tended to offset much, if not all of the reductions in small business lending by the M&A participants (Berger, Saunders, Scalise & Udell 1998).

Another set of studies identified a second possible external effect of M&As: that they may affect the probability of market entry. If M&As create larger banks that reduce their supply of relationship-based credit to some small businesses, then new small banks may enter the market to supply these customers.[176] One way that this might occur is that loan officers who leave the consolidated institution take some of their relationship-based loan portfolios with them and start a de novo bank. Two studies found evidence of this external effect, providing evidence that M&As increase the probability of entry into local markets (Berger, Bonime, Goldberg and White 2000; Keeton 2000), although one study found that M&As decrease the probability of entry (Seelig and Critchfield 1999).

A few studies have found other evidence about the lending behavior of recent market entrants that may also reflect external effects of M&As. These studies found that recent entrants tend to lend more to small businesses as a percentage of assets than do mature small banks, other things held equal, and that this difference tends to persist for as long as 20 years after entry (DeYoung 1998; Goldberg and White 1998; DeYoung, Goldberg and White 1999). This finding could in part reflect external effects of M&As, given that entrants tend to be in markets with high M&A activity.

[176] Farinha and Santos (2002, p. 150) provide an additional argument regarding the sustainability of new market entrants' operations. According to their findings, firms which initiate a second bank-lending relationship are more likely to do it toward a new bank than an old bank. [Farinha, L. and J. Santos (2002) Switching from Single to Multiple Bank lending relationships: Determinants and Implications, *Journal of Financial Intermediation*, pp. 124-151]

2.8 Some Concluding Remarks

In an attempt to summarise the main arguments of a rather heterogeneous chapter the following could be presented.

There is a well-documented link in the international literature between financial development and growth. Nevertheless the direction of that causality is still ambiguous. However, what appears to be the common link of these approaches is that, the quality of the financial services that the intermediaries are offering and hence their behaviour as intermediaries is related to the overall development of the area they are serving.

Banks emerge as financial intermediaries due to information asymmetries. Their function as intermediaries reduce transaction costs, create liquidity, facilitate risk management and exert corporate control. Furthermore, they provide intermediation services which expedite the transfer of financial resources from savers (who hold bank deposits) to investors (who take out bank loans), i.e. mobilise savings and allocate resources.

The Euro-area financial system -and the Greek financial system even more- is considered to be bank dominated. That, in conjunction with the almost exclusive dependency of the European small and medium size enterprises upon bank lending, underlines the substantial role of banks in the development context.

From a regional point of view, local banks although they are facing a high competitive environment in the era of a single currency, theoretically, they possess the means to participate effectively in a regionally converging development pattern.

There appear to be both a need and an open space within market segments for the active participation of local banks in order to facilitate macro and micro dimensions of the development process.

In the next chapter the effort would focus on associating these arguments with the most recognizable category of local banks, i.e. the financial co-operatives.

Chapter 3

FINANCIAL CO-OPERATIVES

o **ORIGINS OF CREDIT CO-OPERATIVES**

Credit co-operatives have their origin in two major 19th century co-operative movements initiated by the German Hermann Schulze-Delitzsch (1809-1883) and Friedrich Wilhelm Raiffeisen (1818-1888). Schultze-Delitzsch and Raiffeisen conceived of and created cooperative societies that were specifically designed to counter the difficulties encountered by urban artisans, "handworkers" and small shopkeepers in the former case and farmers in the latter. (Aschhoff and Henningsen, 1996, p. 19).[177]

Although for Aschhoff and Henningsen (1996, ibid, p.21-22) Raiffeisen acted in rural areas initially without being aware of the activities of Schultze-Delitzsch, for some researchers he is regarded as an imitator of Schultze-Delitzsch, who advocated several organisational departures that differentiated rural from urban credit co-operatives' characteristics. (Guinnane, 2001a, p. 369; 2001b, p.20).[178,179] Nevertheless, the fact is that both approaches, responded to specific economic conditions, succeeded in maintaining a common nucleus of simple and clear co-operative characteristics and managed to adjust the organisations' co-operative practices in order to match effectively, the spatially, socially and economically diverse needs and interests (Papageorgiou, 2003, p. 84).[180] These organisations served as a model for the subsequent establishment of similar organisations all over the world. It should be pointed out, however, that from the very beginning, these first initiatives highlighted an important aspect of co-operatives: that they can benefit from a unique endogenous, almost spontaneous, social capacity capable to adapt to changing economic and cultural environments. On the one hand, such a feature facilitated the wide proliferation of credit co-operatives worldwide. On the other, such an innovative character, served for a long time those people who employed this type of organisational structure in order to

177 Aschhoff, G. and E. Henningsen (1996) *The German Co-operative System. Its History, Structure and Strength.* Second fully revised and enlarged edition. DG Bank Deutsche Genossenschaftsbank publications Vol. 15, Frankfurt am Main.

178 Guinnane, T. W. (2001a) Co-operatives as Information Machines: German Rural Credit Co-operatives, 1883-1914, *The Journal of Economic History*, Vol. 61, No 2, pp. 366-389.

179 Guinnane, T. W. (2001b) Delegated Monitors, Large and Small: The Development of Germany's Banking System, 1800-1914, *Yale Economic Growth Center Discussion Paper No.835*, September. Social Science Research Network Electronic Paper Collection:http://papers.ssrn.com/abstract=284150

180 Papageorgiou, C.L. (2003) *Co-operative Economics.* University Lectures, Agricultural University of Athens.

balance, and eventually meet, their common financial needs and improve their individual and/or social capabilities.

The following section will build on the evolution of some of the most successful credit co-operative paradigms –i.e. the German credit co-operatives and the French-Canadian *caisses populaires* of the Desjardins movement- in order to describe the socio-economic conditions within which credit co-operatives flourished. Their historical and organizational background will, subsequently, facilitate the development of those arguments that associate contemporary socio-economic conditions with a form of organisation, which, in the context of the prevailing financial system of the developed part of the world, seems at least out-fashioned.

It should be pointed here that the term "financial co-operatives" is used to describe "credit co-operatives", "credit unions" and "co-operative banks" despite the fact that there are some aspects of these institutions that indicate differences.[181,182] Whichever the differences might be, there seems to be a consensus among practitioners, researchers and policy makers to use all these terms interchangeably when they refer to co-operative institutions that provide financial services to their members.[183]

While the purpose of this study is to build on common features –in theoretical approaches, historical evolution, and existing paradigms– in order to reach a coherent framework of analysis and not to provide an exhaustive framework that might uncover

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[181] See, for instance, Appendix III – Table III.1 for a simple framework, which differentiates co-operative banks from credit unions. Inasmuch as the term "credit union" is not that popular in the Greek context perhaps it might be useful to mention the ICA's definition of a credit union which describes it as "legally co-operative financial institution chartered and supervised, for the most part, under national co-operative law and created to meet the basic financial service needs of primarily low and middle income citizens who generally cannot obtain these services through the existing banking system…Membership eligibility is usually defined in terms of some common affiliation, such as employment or residence. All members are owners of the enterprise and have equal privileges, opportunities and responsibilities…All members are equal owners of the enterprise and each has one vote…" [ICA (1995) *Savings and Credit Co-operatives – "Credit Unions"*, Technical Report Background Information Note 9, The International Co-operative Alliance and The United Nations, A Partnership for Sustainable Development]. It is obvious that under a "non-familiar" term one may easily identify the essential characteristics of a credit co-operative.

[182] See also Peter Davis (1997) The History, Structure and Functions of Credit Unions, in *What is a Credit Union?* Unit 2, pp.2.3-2.10, Module 720, 10th Ed, Management Centre, University of Leicester, who provides a thorough and coherent presentation of the history of the different strands in financial co-operative movements.

[183] See, among others, the "History of the Credit Union Movement" of the Association of British Credit Unions League where they use the term "credit union" to describe Raiffeisen's and Schultze-Delitzsch's initiatives, whilst referring to them also as financial co-operatives, credit co-operatives, loan associations etc. This terminology is also present in researchers that focus on the historical evolution of the movement (Guinnane 2001a; 2001b; op.cit.). See, also, the World Bank's "Microfinance Handbook" where the term "financial co-operative" is encompassing all relevant co-operative initiatives as parts of a formal, semiformal or informal sector of the economy [Joanna Ledgerwood (1998) *Sustainable Banking with the Poor. Microfinance Handbook. An Institutional and financial Perspective.* The World Bank, Washington D.C., pp. 101-103]

differences, it is deemed appropriate to adopt an approach that does not question the appropriateness of the terms used. Despite adopting the title "financial co-operatives" effort is made to use in each case the term that is most likely to appertain to the historical and social context of the relevant activity. What remains constant regardless of the term that will be used, is that the operational philosophy of these initiatives, as a special type of financial intermediaries, is in accordance with the principles and values that characterise a co-operative institution.[184] Nevertheless, when it is deemed necessary, the presentation of the different paradigms focuses on critical differences among these institutions.

o **HISTORICAL AND ORGANISATIONAL EVOLUTION OF CREDIT CO-OPERATIVES**

The German Credit Co-operatives

As it was mentioned earlier, the two major German co-operative movements emerged in the mid-19th century. At that time Germany was confronted with the economic distress that the liberalisation of economic life at the beginning of the 19th century had brought to broad sections of the population both in rural areas and in towns.

The agricultural reforms at the beginning of the 19th century that abolished the feudal system, replaced serfdom or landlordism by the ownership rights of free farmers. Farmers, however, along with the freedom of self-reliance and as the redemption value remained on the farmer's property as a debt on which interest had to be paid, had to face up the challenges that this reform involved (Aschhoff and Henningsen, 1996, ibid, p. 19). Thus, land reform and emancipation had created a free, but undercapitalised and overburdened with mortgage debt, peasantry. As the German banking institutions were not prepared to offer reasonable loan terms, small farmers and the landless depended for credit on shopkeepers, agricultural dealers and other informal lenders (Guinanne, 2001a, ibid, p.368).

At the same time, as industrialisation took off, small businesses and crafts came under economic pressure from firms that operated on a large scale.[185] Major economic activity shifted from small production units to big manufacture that required less and unskilled

[184] See Appendix I for a detailed reference of the Definition, Values and Principles of Co-operatives as they were adopted at the 1995 statement of the International Co-operative Alliance (ICA)

[185] It should be kept in mind that, as Guinanne (2001b, ibid, p. 4-5) argues, Germany industrialized (much) later than Britain. While Britain's industrial revolution was well underway by 1800, in Germany it was not until the 1830's that the industrial output began to grow notably. Thus, the socioeconomic conditions that prevailed in German in the middle of the century, might be seen as the analogous of the Britain's industrial revolution.

labour. In order to keep up with the changing environment, small businesses dominated by craftsmanship had to introduce machines into the production process. This created a demand for capital, which could not be backed by sufficient collateral to make these small businessmen creditworthy (Gorton and Schmid, 1999, p.124-125).[186] The only source of credit available, for supplies or even for emergencies, was the local moneylender who, through a market-sharing cartel, held an exclusive market position at local level (Bonus and Schmidt, 1990, p.187).[187]

The economic weakness of these classes, both in urban centers and in rural areas, severely affected their ability to procure raw materials and, above all, to obtain loans. It is obvious that, if the unskilled hand workers -that were facing unprecedented unemployment and exceptionally difficult working conditions- enter the picture drafted above, what would be presented is a society in an acute need for some sort of a "defensive" financial mechanism. As Emmons and Mueller (1997, p. 7)[188] put it, there were, clearly, strong economic incentives to form mutual credit associations if they could overcome organizational and operational hurdles.

Schultze-Delitzsch and Raiffeisen became acquainted with the abovementioned problems, the former as a judge and a member of the Prussian legislature and the latter as a mayor of several rural communities. [189] The emergency winter of 1846-47 gave them the opportunity to express their sense of social responsibility towards their fellow citizens in order to protect them from economic distress. At first, both tried to obtain the necessary funds through charity from the wealthier members of the society. Raiffeisen's "charitable societies" and Schultze-Delitzsch's corresponding acts for social assistance, were concentrating on the provision of first-necessity goods to the poor threatened by famine. They soon, however, discovered that through humanitarian appeals they could

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[186] Gorton, G. and F. Schmid (1999) Corporate Governance, Ownership Dispersion and Efficiency: Empirical Evidence from Austrian Co-operative Banking. *Journal of Corporate Finance*, 5, pp. 119-140

[187] Bonus, H. & G. Schmidt (1990) The Co-operative Banking Group in the Federal Republic of Germany: Aspects of Institutional Change. *Journal of Theoretical and Institutional Economics*, 146, pp. 180-277

[188] Emmons W.R. and W. Mueller (1997) Conflict of Interest Between Borrowers and Lenders in Credit Co-operatives: The Case of German Co-operative Banks. *The Federal Reserve Bank of St. Louis Research Division Working Papers*, Working Paper 97-009A

[189] Schultze Delitzsch was a lawyer and since 1841 a judge in his hometown Delitzsch in Saxony (Papageorgiou, 2003, ibid, p. 80) while Raiffeisen was a mayor in the Westerwald, located in the present day Federal State of Rhineland-Palatinate (Aschhoff and Henningsen, 1996, ibid, p. 21). For a more detailed presentation of the history and the first period of the German credit co-operatives see Aschhoff and Henningsen (1996, ibid) pp. 22-26 and Papageorgiou (2003, ibid) pp. 80-84. These are the main sources that were used for the purposes of that section unless other references are cited.

neither permanently improve the depressing and insecure situation of their fellow citizens nor establish permanently viable organizations for them.[190]

Thus, Schultze-Delitzsch, realized that it were the needy themselves who should associate in order to strengthen their joined and individual positions. Hence, in 1849 he founded his first two supply co-operatives that were buying quality raw materials on behalf of the members. Members, however, were not in a position to pay in cash for what they bought, despite the fact that the prices charged by the co-operatives were below the market prices. For that reason, he used external funds to form a "mutual loan society" that would lent members the amount of money needed to purchase materials. Wherever members were not in the position to pledge any collaterals, the principle of joint and several liability was laid down for the assurance of the external creditors. That is, all members of the loan society were jointly and personally liable for the amount that the external creditor provided.

Based on free mutual self-help, self-responsibility and solidarity, these associations succeeded in organizing the procurement of otherwise unavailable loans. The productive use of these convenient operating loans soon allowed members to contribute to the capital of their loan societies. Schultze-Delitzsch's people's banks by means of accumulated savings of members, gradually replaced external funds and built independent co-operative societies.[191] The idea of a credit co-operative not depending on external capital, was one of the main topics of concern in Schultze-Delitzsch's correspondence with Raiffeisen where he insisted that credit co-operatives should be based on absolute self-help. He argued and finally convinced Raiffeisen that it was not the wealthier classes of the society but these very people who would have to establish and guarantee the existence of their association in order to cope with their financial deprivation. [192,193]

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190 Regardless of how old that remark might seem to be, one might be surprised to find how often this is disregarded, as the recent history of economic and financial aid toward developing countries prove.

191 As it will be argued later, savings mobilisation was not only a need to confront external funds' scarcity but, along with the principle of joint liability, it provided additional monitoring incentives for the most appropriate use of loans on behalf of the members.

192 This is a very interesting detail that Aschhoff and Henningsen provide in a footnote of their relevant chapter (1996, ibid, p.22, fn.16). It is indicative of the different ideological backgrounds of the two German leaders. For Raiffeisen, a conservative and committed Christian, love of one's neighbour was an imperative duty (ibid, p.23) and thus, charity should be a priority for wealthy people. On the other hand, Schultze-Delitzsch declared that appealing to external help should be regarded as a sign of incompetence for an association of people that should preach confidence in a united and co-operatively expressed strength (Papageorgiou, 2003, ibid, p. 81). It should be reminded, on the other hand, that by the time Raiffeisen founded his first rural credit co-operative in 1862 there were more than 300 urban credit co-operatives with nearly 49,000 members (Guinnane, 2001a, ibid, p. 368). As a consequence, Schultze-Delitzsch might have been insisting out of practical knowledge that his ten years former experience with his associations added to his ideological beliefs.

Raifeissen not only adopted the idea for rural credit co-operatives but he introduced as a prerequisite that operative surpluses should be accumulated in order to build up indivisible reserve funds. Although Schultze-Delitzsch also favored the accumulation of reserves he introduced share capital in order to build them up. He argued that urban co-operatives should have high entrance fees, large enough shares and should pay, in turn, nontrivial dividends to members (Guinnane, 1997, p. 254).[194]

Raiffeisen on the other hand, opposed levying entrance fees and the introduction of share capital, as they would prevent poorer farmers from joining. Even when the 1889 co-operative law required all co-operatives to form share capital, most rural co-operatives complied by instituting shares of only nominal value and very small membership fees (Guinnane, 2001a, ibid, p. 369).

These different approaches suggest that the co-operative leaders were trying to adjust the operational principles of their credit institutions to the characteristics of the area and members they served. The operation of urban credit co-operatives covered a wide area and they had a large membership. In contrast, rural credit co-operatives had a small membership and operated in a narrow and well-defined area (Papageorgiou, 2003, ibid, p. 84). That, in turn, along with the entrepreneurial needs of the different membership, had an effect on the lending policy they advocated. Urban credit co-operatives granted short-term loans that could be renewed several times if needed. Rural credit co-operatives, on the other hand, tended to grant long-term loans, often from two to five years (Guinnane, 1997, ibid, p. 254). Since rural co-operatives were limited to a small geographical area, actual and potential members had considerable knowledge of each other's character, habits and ability. Hence, the principle of unlimited liability of members was much easier to be assumed. On the contrary, as soon as limited liability of members became legal under the 1889 law, urban credit co-operatives switched to it due to the inability of a large membership to monitor each other in a wide operating area (Vittas, 1996, p. 25).[195] However, there were some rural associations, especially where there were significant income differences among active or potential members, which

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[193] The same argument seems to be behind the distinction between the "providers of financial services" and the "promoters of financial services" that Stuart Rutherford discusses in Chapter 5 of his essay about the developing countries *"The Poor and their Money. An essay about financial services for the poor"* Institute for Development Policy and Management. University of Manchester, January 1999. Among others, he advises sponsors that strive to establish financial services for the poor (and owned by the poor) to contact the nearest credit union in the area in order to take advantage of their experience in user-owned financial institutions.

[194] Guinnane, T.W. (1997) Regional Organisations in the German Co-operative Banking System in the late 19th Century. *Research in Economics*, 51, pp. 251-274

[195] Vittas, D. (1996) Thrift Institutions in Europe and the United States. Paper presented at the World Bank Seminar, *"Financial History: Lessons of the Past for Reformers of the Future*". World Bank.

also introduced limited liability as the only way to attract wealthy members (Guinnane, 1997, ibid p.254).[196] In these cases, unlimited liability would have deterred the active participation of the wealthier part of local society for an additional reason: The democratic norms[197] governing these institutions which were limiting their control.

The principle "one member-one vote" that was, and still is, at the core of the co-operative institution's philosophy, discouraged interested parties from participation based on drawing power from -and eventually applying control to- a mutual credit organization. Hence, for wealthier people the decision to join a credit co-op, would be more likely to be based on their appreciation and positive evaluation of the credit institution's services and performance. On the other hand, limited liability has restrained the possibility of an opportunistic behaviour of the co-op to the detriment of the wealthier members and, hence, has countered the latter's mistrust on the endeavour.[198]

Despite the fact that limited liability was held responsible for solvency problems that some urban co-operatives faced (Vittas, 1996, ibid, p. 25) it is regarded as an operative advantage that facilitated the creation of regional enterprises. Both Raiffeisen and Schultze-Delitzsch recognized the need for regional banks at a relatively early stage. But, while the unlimited liability of members was of crucial importance in the founding phase of the co-operative movement as it enhanced the creditworthiness of young co-operatives, that legal prerequisite rendered the creation of apex institutions impossible. In such a system, the members of a local co-operative, which in turn would be one of the members of a corporate co-operative, would have to assume unlimited liability for a multi-tier system and would have been subject to cumulative liability commitments

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[196] These rural cooperatives were members of the Haas organisation. Wilhelm Haas was an associate of Raiffeisen until 1877 when he decided to follow a less doctrinaire approach on the subject of shares and reserves distribution (Vittas, 1996, ibid, p.23). In addition, Limited liability was also introduced for the same reason from Luizi Luzzati, when he was trying to transplant the urban credit co-operative model of Schultze-Delitzsch in Italy and form the Italian *Banche Popolari* [A'Hearn, Br. (2000) Could Southern Italians Co-operate? Banche Popolari in the Mezzogiorno. *The Journal of Economic History*, Vol. 60, No.1, pp. 67-93].

[197] Co-operatives had three managerial bodies (Guinnane, 2001a, ibid, p.369; 2001b, p.20). The general assembly of members, the management committee and the supervising committee. The general assembly of membership met annually to elect the two other boards on a one man-one vote basis and to make decisions on basic policies such as interest rates. The management committee represented the co-operative judicially and made important decisions such as granting loans, accepting new members etc. The board of supervision met less frequently to oversee the management committee. The managing directors and the supervisory board had to work on a voluntary basis. The co-operative's day-to-day business activities and its bookkeeping were undertaken by a treasurer. In most rural co-operatives the part-time treasurer was the paid officer, while in urban co-operatives there were often full-time employees. See, also, Aschhoff and Henningsen (1996, ibid, p. 145-148) for more information on the principle of democratic procedure.

[198] This argument might be regarded as a more formal answer to the critics to whom reference is made by Vittas (1996, ibid, p. 22), who accused credit co-operatives of being patronage devices through which local elites controlled poor people's access to credit and, with it, their customers, labourers, and so on.

(Aschhoff and Henningsen, 1996, ibid, p.27 and 61). However, the liquidity problems that some rural credit co-operatives were facing, due to their small size and their long-term lending policy, led Raiffeisen to establish the Agricultural Co-operative Bank of Rhineland in 1872, as a second-tier co-operative with unlimited liability whose members where local co-operatives (Papageorgiou, 2003, ibid, p. 83). This first regional bank, along with the other two in Hessen and in the Palatinate that he established later, formed in 1876 the "Agricultural Central Loan Society" that acted as the central bank for all rural credit co-operatives (Aschhoff and Henningsen, 1996, ibid, p.23). According to Guinnane (1997, ibid, p. 255) and Vittas (1996, ibid, p.23) Raiffeisen, responding to the severe criticism by Schultze-Delitzsch on the inappropriateness of the unlimited liability principle for the central, reconstituted it as a joint-stock corporation whose shareholders could only be rural credit co-operatives. The 1889 law that allowed centrals to be formed as limited liability co-operatives and to admit as members unlimited liability co-operatives, ended that dispute.

Another feature of the 1889 law was the introduction of mandatory, semi-annual auditing for all co-operatives in Germany. This, however, was not a novel element. Raiffeisen insisted on compulsory auditing since 1864 and in 1880s the co-operative associations had made triennial audits obligatory (Aschhoff and Henningsen, 1996, ibid, p.27). The effect of that legal requirement was two-fold. It underscored the distinctive nature of these enterprises, since with their initiative and determination became the first group of German enterprises subject to regular, mandatory auditing (Guinnane, 1997, ibid, p.256). On the other, it strengthened and broadened the operational capacity of the associations that both urban and rural credit co-operatives had already formed.[199]

Pro-cooperative legislation, unambiguously, facilitated the further development of credit co-operatives in Germany. The enabling intervention of the German state, and its profound belief in co-operatives as a socioeconomic movement that could make a decisive contribution to the development of the less-favoured segments of rural and urban societies, was confirmed, at least for the researchers of the German co-operatives,

[199] Schultze-Delitzsch founded in 1859 the "central correspondence office of the German mutual loan and credit societies" which was the predecessor of the national association that was established in 1864. Raiffeisen also created an association operating at a national level in 1877. These associations were acting as promoters of the credit co-operatives interests'. Haas, however, added a new element in that associational structure. He introduced the creation of associations on a regional level before a nationwide central association was founded. He argued that in this way regional peculiarities could be better taken into account (Aschhoff and Henningsen, 1996, ibid, pp. 22, 23, 24 and 25).

with the establishment of the "Preußenkasse" in 1895.[200] Although the bank's initial capital was provided by the German state, the following arguments indicate that it was a critical pro-cooperative initiative. First, it was founded to contribute to the development of both urban and rural credit co-operatives, and thus acted as a reference point for the unification of their operational needs at the central level. Second, it was established at a time when the co-operative movement had already proved that it was strongly rooted into the local societies and, above all, that it had developed its crucial organizational and operational characteristics. Thus, the bottom-up procedure that should be regarded as the only possible orientation that a co-operative movement can follow was not hindered. Finally, it soon motivated regional banks to exercise their, granted from the outset, right to acquire shares, and eventually become their own property. Thus, co-operators realized at a very early stage that it was their responsibility to adjust the bank's functions to their needs.

The establishment of that central bank came at a time when credit co-operatives continued expanding at fast rates. During the first decade of the 20th century, credit cooperatives in Germany were, collectively, a major financial force. Their number rose from 740 urban and 100 rural credit co-operatives by 1870 (Vittas, 1996, ibid, p. 23-24) to 2,100 urban with more than 1,500,000 members and nearly 15,500 rural credit co-ops with a total membership of 2,55 million in 1913 (Guinnane, 2001b, ibid, p. 19).

The institutional innovations of Raiffeisen and Schultze-Delitzsch, generated considerable interest in other countries and spread quickly to several neighbouring countries. In Austria the first Schultze-Delitzsch co-operative was organized in 1858 and in 1866 the first rural credit society was founded (Gorton and Schmid, 1999, ibid, p.199). In Italy, Luigi Luzzati established the first urban co-operative in Milan in 1865. With considerable delay, eighteen years later, in 1883, Leone Wollenborg founded the first rural credit co-operative in Loreggia (A' Hearn, 2000, ibid, p.70). In the Netherlands, the first credit co-operative that was founded in 1896, followed the ideas of Raiffeisen (Rabobank, 2002).[201] And, as it will be shown in the next section, it was only a matter of time until these ideas were to find fertile ground to grow in North America.

[200] "Preußenkasse" or Preußische Zentral-Genossenschafts-Kasse (Central Co-operative Bank of Prussia) as its full name was is the forerunner of today's DG BANK Deutsche Genossenschaftsbank, i.e. the today's central bank of the entire German co-operative system.
[201] Rabobank (2003) Rabobank Group - Annual Report for the Year 2002

The Caisses Populaires of the Desjardins movement in Quebec[202]

The Canadian credit union movement began in 1900 with the establishment of the first *caisse populaire* in the province of Quebec (Hansen, 1981, p.121).[203] That first *caisse populaire* of *Lévis*, was the outcome of the efforts of a French language stenographer at the House of Commons, Alphonse Desjardins, who decided to find out how practices of usurious lenders were avoided elsewhere in the world.[204] He studied people's banks, rural *caisses* and similar thrift and credit co-operatives in Europe and through correspondence with those institutions he decided to apply their principles (Roy, 1976, p. 68).[205] Thus, on December 6, 1900, the statutes of the *caisse populaire* were defined and signed by one hundred and thirty-one members.[206] In doing so, Alphonse Desjardins, transplanted in North America a form of co-operative institution in which savings precede, provide for and support credit, with the savings of the common people becoming the source of loans to the people (Jobin, 1981, p. 115).[207] In that statement, as in the case of Germany, one may identify the importance of two different but intertwined features that the leaders of the French-Canadian credit co-operatives endowed to their institutions from the very beginning, i.e. the credit availability function and the savings mobilisation potential. The significance of these attributes, which by no means restricted their potential only to the elimination of usurers, could be revealed under the socio-economic context of the beginning of the century that prevailed at the French-Canadian communities of Quebec.

During the first decades of the 20th century, Quebec was in the middle of major transformations. Rural population, comprising more than two thirds of the Quebec

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[202] The main features of a credit co-operative were described in the previous section. This section will focus on how were "*caisses populaires*" born and in which developmental problems tried to give answers. Thus, it will be a small section that will provide an "abstract" of their history.

[203] Chris Hansen, a former Chairman of the Canadian Co-operative Credit Society, in his speech at the 5th International Conference on Cooperative Thrift and Credit, held in 1981 at New Delhi, refer to *caisse populaire* as the French language equivalent of a credit union. This is pointed out here, to confirm that, the use of different terminology does not imply, in the most part, differences in functions. [Hansen, Chris (1981) History and structure of the Canadian Credit Union Movement, Proceedings of the 5th Intern. Conference on Co-operative Thrift and Credit, pp. 121-123, New Delhi, 16-20 February, ICA].

[204] Alphonse Desjardin became aware of the injustice that the local population was facing in satisfying its financial needs when a member of parliament described a case where the interest charged was up to 3,000%! ("Desjardins: From a caisse to a conglomerate – The Historical Context", www.desjardins.com).

[205] Roy, P. E (1976) Co-operatives: Development, Principles and Management. 3rd ed. The Interstate Printers & Publishers, Inc., Illinois USA

[206] The History of the Desjardins Movement, ibid, "Desjardins: From a caisse to a conglomerate – 1900-1920:Start-up", www.desjardin.com

[207] Jobin, Gilles (1981) "The caisses populaires of Quebec" Proceedings of the 5th International Conference on Co-operative Thrift and Credit, pp. 115-121, New Delhi, 16-20 February, ICA

residents, was in a difficult situation as the past decades had been marked by a series of poor harvests. The high cost of farm supplies in conjunction with low incomes forced many farmers to become heavily indebted (History of the Desjardins movement, ibid). The high birth rate was deteriorating the situation in rural areas that could no longer accommodate the surplus labor, initiating in that way the urbanization process.[208] Rural exodus was detrimental to the working classes of the urban centers, who were facing low wages and unstable demand for labour. Concurrently the agricultural sector faced major challenge, i.e. to adapt to the new market conditions. In other words, agriculture needed to raise its productivity in order to meet the increasing demand by the expanding urban population. However, these adjustments depended on access to sources of finance not readily available to farmers (Levasseur & Rousseau, 2001, p. 554).[209] The industrialisation of Quebec's economy, on the other hand, created a difficult situation in the fields of production and commerce for independent workers, local entrepreneurs and small traders. Among the most serious repercussions were (ibid, pp. 554-554): a) the devaluation of craft skills, accompanied by a swelling in the numbers of the working class; b) the competition which small family enterprises had difficulty in meeting; c) the taking over of a growing segment of the distribution sector by big chain stores, at the expense of small retailers. Since banks were orientating their services to industries and wealthy families, small craftsmen, retailers and working people had little access to savings and loans as a mean to overcome their difficulties (Desjardins movement, ibid).

Although the analogy with the previously described socioeconomic situation in Germany might seem self-evident, there was another aspect in Quebec's developmental process that characterized the wide proliferation of the *caisses populaires*. The industrialization of Quebec's economy was based on capital of foreign origin, a fact that inevitably led to the concentration of capital and the accumulation of earnings in non-French-Canadian hands. Moreover, the majority of large enterprises and big chain stores that dismantled the local small retail market and craftsmanship was also of transnational scope (Levasseur and Rousseau, 2001, ibid, pp. 553, 554 and 555).[210]

[208] According to Levasseur and Rousseau (2001, p. 554) that urbanisation process was slowed down only by the Great Depression of the 1930s. During these 30 years the proportion of rural to urban population in Quebec was almost reversed, as by 1930 three out of five residents lived in urban areas.

[209] Levasseur, R and Y. Rousseau (2001) Social Movements and Development in Quebec. The experience of the Desjardins Movement. *Annals of Public and Co-operative Economics*, 72:4, pp.548-579

[210] Quoting other researchers of Quebec's industrialization process, they mention that from 1900 to 1929 foreign investments grew from $1200 m. to $7600 m. and that the share of British capital in foreign investments fell from 85 to 30 per cent during that period while the share of American capital increased from 14 to 61 per cent. In both period ends, however, it is worth noting that these shares sum up to 99 per cent at the beginning of the century and 91 per cent at the end of the referenced period.

Thus, among the original objectives of the founder of the first *caisse populaire,* one finds those that determine a defensive co-operative mechanism, such as: a) to generalize savings and provide for such unplanned events as unemployment and illness; b) to use those savings to constitute a system of popular credit, accessible to the workers, to farmers and to any honest, hard working person; c) to eradicate the ravages of usury; and d) to promote the consolidation of family and rural businesses (History of the Desjardin movement, ibid).

At the same time, the saving and credit co-operatives were entrusted with two important missions: 1) to create a sum of capital under French-Canadian control; and 2) to decentralise credit in order to contribute to local development (Levasseur and Rousseau, 2001, ibid, p. 557). This was obvious from the very beginnings of the movement, inasmuch as the statutory objectives of the first *caisse populaire* of Lévis mentioned that the co-operative should aim a) to improve the material conditions of the working class and contribute to the progress of French-Canada; and b) to initiate community leaders to economic organization and business. This, is easily identified in the very phraseology of Alphonse Desjardins: *"We are not millionaires, let us at least become a people with a million"* and *"to create for ourselves, French-Canadians, a national heritage, a sum of capital under our control, always at our disposal, which could be used to increase our legitimate influence, to promote our progress and, if necessary, to protect us against unjust attacks".*[211]

Thus, the Desjardins movement was aiming at providing credit to small businessmen and farmers in order to help them take their place in the market economy.[212] By 1920, 187 caisses with 30,000 members were established, thus reflecting their success among French-Canadians. That year the first regional union was created. In 1932, the provincial federation was formed and by the end of World War II, in the territory of Quebec there was a *caisse* in each parish (History of the Desjardins movement).[213] By fixing the operational base of the *caisse* on the territory of the parish, the promoters of

[211] Quoted by Levasseur and Rousseau (2001, ibid, p. 558) and Tetreault, Yves (1977) Problems of Thrift and Credit Co-operatives faced with Competition, Proceedings of the 4th International Conference on Co-operative Thrift and Credit, pp. 33-35, Rio de Janeiro, 17-21 April, ICA

[212] It should be noted that Alphonse Disjardins had little inclination for consumer credit: "Never, I insist, never should a *'Caisse populaire'* lend money for a non-productive expense", as Tetreault (1977, ibid, p.33) quote, understood in the sense that non-productive meant extravagant, useless, frivolous. It was not until the beginning of 1960s that the *caisses* became seriously involved in the consumer credit market (The History of the Desjardins Movement, ibid, "Desjardins: From a caisse to a conglomerate 1944-1961: Consolidation and diversification. www.desjardin.com). According to Levasseur and Rousseau (2001, ibid, p. 566) that move towards consumer credit was an adaptation to the rules of the market as well as an effort to accommodate the financial needs of new groups that began to emerge among the membership.

[213] The History of the Desjardins Movement, "Desjardins: From a caisse to a conglomerate – 1920-1944: Organising the network", www.desjardin.com

the movement wished to ensure the decentralization of savings and credit (Levasseur and Rousseau, 2001, ibid, p.558). Moreover, they succeeded in basing their endeavour on the moral value of persons and not on the value of their capital. Finally, they managed to identify and accommodate the needs of small-scale production. In that way, they filled the gap that the conventional banking, which was devoted to the development of the large scale Anglo-Saxon capital, had created (ibid, p. 557).

On the other hand, by bringing together the largest possible number of persons, the movement managed to create a sum of "collective" capital, an indivisible collective wealth. A major part of the assets of the *caisses* was constantly at the disposal of local civic and religious institutions a decision that contributed to the financial autonomy of the French-Canadian institutions and strengthened the parochial structures (ibid, p. 559). Hence, those that were excluded from the mainstream developmental process managed to redefine their future, their potential and their capabilities.

Although the close connection of the *caisses* with the local government might be regarded as a field of potential conflicts in the autonomous operation of the co-operative institutions, there were some key developments in that relationship that, in fact, strengthened their organizational structure. Here, it should be mentioned that almost from the very beginning the *caisses* were placed under provincial jurisdiction. The Co-operative Associations Act (1906) confirmed the associative character of the *caisses* and distinguished them from other enterprises following the federal law governing banking activities. It emphasized, also, that the *caisse* was democratically controlled by the general assembly of its members, where the power of each member was expressed by a single vote. Finally, the co-operatives were prohibited from selling their enterprises to other than co-operative groups (History of the Desjardins movement, ibid).

But, the most striking example of the pro-cooperative state intervention concerns the pressure exercised from the government, in 1920s, to set up an inspection system, which fostered the formation of regional and provincial federations (Levasseur and Rousseau, 2001, ibid, pp. 559-560). This, in turn, facilitated the co-ordination of the relevant co-operative aspects at a more suitable spatial framework and a cost-effective manner. Moreover, the representatives of the Desjardins movement at regional and provincial organizations, later negotiated an agreement whereby the State, while agreeing to pay the costs, entrusted the responsibility of obligatory inspections to the movement itself (ibid, p.561). Thus, a legal requirement was met whilst the message that the members themselves should guard and secure the sound operation of their institutions was successfully posed. Governmental awareness and support for the movement remained increased even in more recent regulations despite the fact that (or maybe because of the fact that) commercial banks exercised pressure for retaining their relatively stronger bargaining position in certain banking functions.[214]

Furhtermore, the original decision of Alphonse Desjardin not to set a different organizational structure between rural and urban *caisses*, proved to be a most successful one.[215] During the first years of the movement it was the acute need for credit availability for the transformation of the agricultural sector that initiated the savings mobilization process. As the urbanization process accelerated it were the urban *caisses* that became the leading force in the accumulation of the "collective'' wealth and the provision of financial services to the urban producers (Levasseur and Rousseau, 2001, ibid, pp. 556 and 564). And as the *caisses'* rural settings retained their number and spatial configuration, the diffusion of services to all members provided for the redistribution of opportunities to rural people. Thus, more balanced development was effected, counteracting the polarization of growth in urban areas. The diversification of membership and the complexity of economic conditions in the urban context, where the competition for financial services was intense, compelled the financial co-operatives to redefine their financial practices and modernize their organization.[216] In other words, in their attempt to satisfy the expressed needs of the membership, the co-operative movement was forced to innovate both in the design of financial services and products as well as in the professionalisation of management. [217] What remained essential in that transformation was that the *caisses* retained a close relationship with the local market, a characteristic that democratic procedures and the elected representatives strived to accomplish. The three-tier organizational structure of the movement added gains in that process: while permitting the relevant autonomy of the local *caisses* it also provided for

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[214] Hansen (1981, ibid, p. 121-122) mention the passage of new banking regulation in 1980s, that gave credit union organizations direct access to the cheque clearing system in Canada, correcting in that way an inequitable situation in which the chartered banks owned the system and had to be used as agents for credit union payment instruments.

[215] Ferguson and McKillop (1997, p. 19) mention that Alphonse Desjardins determination that the dichotomy between rural and urban societies should not prevail, was one of his two most important departures from the European practise, the other one being the rejection of the principle of unlimited liability [Ferguson, Charles and Donald McKillop, (1997) *The strategic Development of Credit Unions.* John Willey & Sons, Chichester, England]. However, the latter is not to be regarded as an innovation of Desjardins co-operatives as both German and Italian popular banks had already switched to limited liability well before the initiation of the Desjardins movement (see section 3.2.1)

[216] For more details, see "The History of the Desjardins Movement, "Desjardins: From a caisse to a conglomerate – 1944-71: Adapting to the modern times" www.desjardin.com. *See also footnote 36*

[217] The History of the Desjardins Movement, "Desjardins: From a caisse to a conglomerate – 1944-71: Consolidation and diversification" and "1971-1990:Growth and Innovations", www.desjardin.com

central efforts that led to the coordinated adjustment of the co-operative profile and the formation of a well-recognisable, distinctive corporate character of a movement that is closely bound up with the social and economic development of the French-Canadian community (Jobin, 1981, ibid, pp. 117 and 120-21).

It can be said that the credit co-operative movement in Canada has not only succeeded in participating effectively in the financial system but also it has influenced positively the designing of the Canadian banking system and the incorporation in that of countervailing elements for the benefit of the entire Canadian population. Not surprisingly, therefore, the movement holds more than fifty percent of Quebec's financial assets under its control while the Desjardin Movement has more than 5 million members. At the same time one in three Canadians is currently a member of a credit union or *caisse populaire* (WOCCU, 2002).[218]

o **FINANCIAL CO-OPERATIVES IN FIGURES**

The historical development of the two credit cooperative movements thus far focused on their impact on the development process of their countries. Moreover it revealed the crucial role of the founders[219] of these institutions whose ideas influenced the creation of today's most dynamically growing co-operative sector in terms of turnover worldwide (ILO, 2001, p. 33).[220]

The following tables provide detailed data on the current status of the financial co-operative global movement. The data come from two different sources, i.e. statistical reports of the World Council of Credit Unions (WOCCU) and the European Association of Cooperative Banks (EACB) relative statistics. Where WOCCU presents in its statistics data from the International Raiffeisen Union, this concerns aggregate data impossible to double-check. Further, despite the fact that in its statistical report for the year 2001 some figures for the European Co-operative Banks were included, it was deemed appropriate to present the EACB data instead.

[218] World Council of Credit Unions (2002) Statistical report, www.woccu.org

[219] Alphonse Desjardins co-operative efforts in Quebec, among others, paved also the way for the establishment of the US credit union movement. As Ferguson and McKillop note (1997, ibid, p.19) the passing of a crucial landmark Credit Union Law in Massachusetts in 1909 owed its existence to the work of Desjardins. One year earlier, in 1908, Desjardins himself had founded the first caisse in the United States [US Treasury Department (1997) *Credit Unions*, p.15, U.S. Government Printing Office]

[220] ILO (2001) *Promotion of Cooperatives*. Report V (1), International Labour Office, Geneva

Finally, it should be mentioned that no sufficient information is available for credit co-operatives in countries with significant co-operative history, such as Japan and India,[221] while for some other countries, the WOCCU provided numbers only for its affiliated organizations. This, on the one hand, poses enormous difficulties for those attempting to get an up-to-date picture of the credit co-operative movement and, on the other, proves that the sector remains, unfortunately, poor and fragmented in documentation. However, for the purposes of the present study, while admitting that it was not possible to provide data on a comparable basis for all the credit co-operative initiatives, it seemed sufficient to refer to aggregate data in what concerns the WOCCU statistics, and to detailed figures when the referenced source was the EACB. Nevertheless, detailed figures are presented in Appendix II – Table II.2 as regards the WOCCU affiliated credit unions.

Table 3.1 Worldwide Credit Union Statistics (year end 2001)

Region	CUs	Members	Penetration	Savings (US$)	Loans (US$)	Reserves (US$)	Assets (US$)
Africa	3,359	1,995,753	22.4%	494,443,632	445,477,529	28,898,264	520,079,533
Asia	13,918	9,103,772	2.31%	24,421,894,770	14,086,310,283	566,661,705	26,157,374,601
Caribbean	359	1,375,757	49.63%	1,308,423,339	1,130,103,648	140,145,863	1,637,624,360
Europe	5,898	5,215,431	3.05%	6,780,969,627	4,586,507,946	763,262,385	7,761,857,395
Latin America	2,022	4,823,994	2.86%	2,706,833,872	2,316,233,284	243,192,129	3,657,710,141
North America	11,950	92,038,624	55.08%	526,125,429,960	398,491,937,235	60,326,820,083	601,123,619,459
United states	*10,355*	*81,589,260*	*57.91%*	*449,013,076,760*	*330,894,122,753*	*55,909,787,489*	*514,690,786,450*
Canadian CUs	*694*	*4,888,921*	*30.37*	*36,795,201,909*	*31,659,235,069*	*1,763,010,111*	*40,468,504,679*
Canada-Desjardin	*901*	*5,560,443*	*108.12%**	*40,317,151,291*	*35,938,579,413*	*2,654,022,483*	*45,964,328,330*
South Pacific	296	3,281,999	28.04%	8,929,283,927	8,470,351,399	937,574,360	10,624,359,644
Australia	*181*	*3,082,504*	*32.45%*	*8,737,760,746*	*8,304,612,215*	*914,843,353*	*10,420,802,035*
Total	37,802	117,835,330	11.30%	570,767,279,127	429,526,921,324	63,006,554,789	651,482,625,133

***Source**: WOCCU, Statistical report, 2002 – see Appendix III-Table III.2 for detailed figures*

**According to WOCCU , the high figure is explained by the existence of multiple memberships by adults or by youth accounts*

Hence, according to the statistical report of the WOCCU, at the end of the year 2001, there were some 37,800 credit unions, with more than 117,8 million members, present in more than 90 countries of which 27 African, 13 Asian, 18 Caribbean, 18 Central & South American, North American and 11 European.[222] In USD, total savings amounted to 570 billion, loans to 429 billion, reserves to 63 billion and assets to 651 billion.

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[221] A recent research (Vezina, M and D. Cote, 2000, p.26) found that the Japanese co-op banks account for the 91.7% of the total assets of all Asian banking co-operatives, while 78.8% of the continent's membership are Indian [Vezina, M and D. Cote (2000) International Profile of Co-operative Banks: An Impressive Portrait. *Review of International Co-operation*, Vol. 92-93, No 4/1999-1/2000, pp. 22- 27].

[222] For details on the number of credit unions in each reported country, see Appendix II –Table II.2

While these numbers are not indicative of the dynamic growth of the movement, a simple comparison with the relevant data of the end of 1993 might provide evidence of its recent growth. Thus, although the number of credit unions has been reduced by almost one third in the period 1993-2001, new credit union movements have been set up in 17 countries and nearly 25 million new members have joined existing and new credit unions.[223] During the same period, members added some 190 billion USD in deposits and received almost 200 billion more in loans. Finally, credit unions almost quadrupled their reserves and added another 225 billion in assets.[224]

The remarkable growth of the credit union movement, especially in developing countries and in transition economies[225] where the majority of new credit unions are found, provides sound evidence that financial co-operatives are in a position to play a key role in covering the financial needs of local populations. In fact, the German and French-Canadian context at the time when the co-operative initiatives were undertaken, might be compared, in analogy, to the current development conditions the developing countries are facing. It is, therefore, tempting to admit that financial co-operatives are "appropriate technology" for relatively backward economies, a notion that is implicit or explicit in much of the literature on financial co-operatives. Furthermore, as Besley et al. (1993, p. 805)[226] argue, these initiatives should become less important in the process of economic development as individuals' market opportunities expand. Thus, one should expect financial co-operatives to fade away or disappear altogether as economic development proceeds.

However, it is rather difficult to disregard what the data of the previous table suggest: more than 90% of total credit union assets and almost 80% of total membership come from the most developed economies of the USA and Canada. Moreover, Australian credit unions hold a dominant position in South Pacific with 98% of the region's assets and 93% of its membership. And, if the Carribean credit unions are excluded, credit unions in these 3 countries present the highest penetration rate among their population.

[223] At the end of 1993 the relevant figures were 55,186 credit unions, 93,216,000 members in 76 countries [ICA (1995) *Savings and Credit Co-operatives – "Credit Unions"*, Technical Report Background Information Note 9, The ICA and The UN, A Partnership for Sustainable Development]

[224] Absolute figures for the end of 1993 were: 383 billion in deposits, 248 billion in loans, 17 billion as reserves and 425 billion total assets (ICA, 1995, ibid).

[225] In Latvia for instance the first savings and credit union started in 1995 and had 1,400 members and US$ 245,000 by early 1997. In Romania, a network of savings and credit union associations is reported that managed to provide its members with loans at a 15 per cent annual interest charge while the going rate was 130 per cent per annum (ILO, 2001, ibid, pp. 33-34)

[226] Besley, Timothy, Coate, Stephen and Glenn Loury (1993) The Economics of Rotating Savings and Credit Associations, *American Economic Review*, 83, No 4, pp. 792-810

These observations lead to the suggestion that the co-operative form of organization, not only did not disappear with economic development in industrialized countries but, proving its flexibility, is considered to be among the fastest growing groups of financial institutions in some advanced nations today. That remark can be backed up, if the following figures are taken into account.[227]

According to the European Association of Co-operative Banks, in the EU at the end of 2001, there were 3,923 co-operative banks with some 50,000 banking outlets providing financial services to almost one in four citizens of the EU-15.[228] These co-operative banks constitute nearly 46% of EU credit institutions. [229] According to the ILO (2001, ibid, p. 33) the banking sector in Europe remains the co-operative sector with the larger number of members. Moreover, in the period 1993-2001, almost ten million EU citizens have joined the European co-operative banking movement, an increase of 35% of the relevant figure of 1993 (28,7 million members, ILO, 2001, ibid, p.33). In terms of assets, it was estimated that the European Co-operative Banks hold nearly 47% of the total assets of the global financial co-operative movement (Vezina and Cote, 2000, ibid, p. 25; Belland, 1999, p.66).[230] In Europe, as well, the continent's co-operative assets seem to concentrate in some of the most developed countries. The institutions in France, Germany, Italy and Holland account for almost 90% of the total EU-15 assets. It is worth noting that the Greek Co-operative banks' assets stand for less than 1% of the corresponding figure for the German institutions. This shows that the BVR assets equal the total assets of the entire Greek banking system (*See Chapter 4 – Table 4.4*).

A last observation, points to the fact that not all credit co-operative movements are in the same developmental stage. One might argue that the financial strength, the penetration ratio and the market share might be sufficient indicators for the level of development of the co-operatives. If this were the case, then one might jump to misleading conclusions in some cases, as the following simple paradigms will illustrate.

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[227] see Appendix III – Table III.3 for detailed figures

[228] A striking difference between co-operative banks and credit unions is that the former are allowed to contact business with non-members while the latter address only to members. However, there are exceptions to that rule in both categories of financial co-operative institutions. In Greece, for example, membership is a precondition for transactions (*see chapter 5 for details*) while on the other hand, a recent development in credit union law in the United States authorised credit unions to collect deposits from non-members up to a maximum of 20% of total shares (*see Appendix III – Table III.1)*

[229] The remaining 54% consists of: public law enterprises 10%, incorporated enterprises limited by shares 32%, branches of non-EU enterprises 5% and other institutions 7% (Eurostat, 2002, p.2). [Eurostat (2002) *Statistics in focus – Industry, trade and services*. Theme 4 - 26/2002]

[230] Beland, Claude (1999) Co-operative Banks in a Financial World in Mutation: Challenges and Outlooks. *International Co-operative Banking Association Journal*, No.11, pp. 64-70

Penetration rate of Credit Unions in Trinidad and Tobacco is similar to that in the US and Ecuador's is slightly higher than Canada's. Further, virtually all citizens of Dominica-Caribbean are members of the country's credit unions (Appendix III – Table III.1). These facts could probably lead to a conclusion that in these countries a large part of the population has found in the co-operative organization form a tool for satisfying its financial needs. However, it can't be argued that the financial environment they face and, as a consequence, the operating profile of these institutions is at similar, sophisticated, levels. Thus, the penetration ratio alone does not seem to be an effective measure of the developmental status of a credit co-operative movement.[231]

Also, if the European co-operative banks are sorted out according to their market share then the UK Cooperative Bank will hold a rather low rank, as it has the third lowest market share, surpassing only the Greek and the Danish credit co-operative institutions. However, while it is true that the "demutualisation" of building societies is high on the agenda in the United Kingdom it cannot be argued that this ranking reflects the success of the Co-operative Bank plc. or its developmental status.

Ferguson and McKillop (1997, ibid, pp. 24-40), offer a workable framework within which one might find valuable insights for the examination of credit union growth and potential. According to their approach, an evolutionary path exists that describes how essential features of credit union industries differentiate as they move from "nascent" through "transitional" to a "mature" stage of development Thus, they present an ideal type framework, which provides a model of illustrating the dynamics of change that occur in credit union industries. Credit should be granted, as well, in their remark that categorizing credit union industry development into a three stage typology, does not mean that a simple claim can be made about the homogeneity of any given credit union industry. Hence, as they argue "caution needs to be exercised in the application of a broad 'industry' typology since, in reality, credit union industries are in fact heterogeneous" (McKillop et al., 1997, ibid, p. 39).[232] The

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[231] However, one might consider a counterargument, i.e. that the developmental status does not necessarily reflect higher penetration rates, or, especially in co-operative terms, advanced effectiveness. This point of view will be further elaborated in the next section.

[232] Frankel et al (1999), whose fieldwork examined credit union practice relevant to microfinance pointed, also, to the need to recognize that there is no such thing as an average model, or most common credit union. "*There are large credit unions and smaller ones, urban and rural ones, growing ones and those that are barely viable, ones receiving external technical assistance and those that are not*" (ibid, p.80). The absence of such a model cautions against the perils of generalization. [Frankel, L., Almeyda, G., Ashe, J. Dettweiller, J. K. (1999) *Bridging the Gap: Co-operative Development Organisations and*

following table provides details of the key features involved in the different industry types within their development typology. [233]

Table 3.2 A Three-Stage Development Typology for Credit Union Industries

Attributes of Nascent Credit Union Industries	Attributes of Transition Credit Union Industries	Attributes of a Mature Credit Union Industry
- Small Asset Size - Regulated - Tight Common Bond - Emphasis on Voluntarism - Serve weak/poor Sections of Society - Single Savings and Loans Product - Require Sponsorship from Wider Credit Union Movement to take Root - High Commitment to Traditional Self-Help Ideals	- Large Asset Size - Shifts in Regulatory Framework - Adjustments to Common Bond - Shifts Towards Greater Product Diversification - Emphasis on Growth and Efficiency - Weakening of Reliance on Voluntarism - Recognition of Need for Greater Effectiveness and Professionalism of Trade Organisations - Development of Central Services	- Large Asset Size - Deregulation - Loose Common Bond - Competitive Environment - Electronic Technology Environment - Well Organised, Progressive Trade Organisations - Professionalisation of Management - Well Developed Central Services - Diversification of Products and Services - Products and Services Based on Market Rate Structures - Emphasis upon Economic Viability and Long Term Sustainability of Individual Credit Unions - Rigorous Financial Management of Operations - Deposit Insurance Mechanism Established

Adopted by Ferguson and McKillop (1997) *The Strategic Development of Credit Unions*, pp. 25,32 and 37

In Table 3.2, one can distinguish some of the features that were mentioned in previous sections, where the organisational evolution of credit co-operatives was described, such as the development of apex institutions, increasing membership and asset size and diversification of products and services to accommodate members' needs. However, subsequent stages of growth are, at the same time, connected with a shift toward a more "business-oriented" credit unions' operation. Ferguson and McKillop argue that growth in credit unions' assets size and key features of the economic environment within which any credit union industry operates, are considered to be major forces of change, especially where this environment is deregulated and subjected to competitive forces and market rate structures (1997, ibid, p. 24). They use the example of the United States

Private and Voluntary Organisations in Microfinance. U.S. Agency for International Development, Bureau for Humanitarian Response, Co-operative Development Office, June 7, 1999]

[233] A shorter but coherent presentation of the rational that led to that three-stage development typology of credit union industries may be found also in McKillop, D., Ferguson, C. and G. O'Rourke (1997) A Typology for Credit Unions, *The International Co-operative Review*, ICA, Vol. 90, No.1, pp. 39-37,

(ibid, pp. 46-62) in order to describe how these forces foster their development to a mature industry.

Their research, while offering innumerable details on the evolution other industries might wish to follow – a "demonstration effect" in their terminology – also provides a valuable conclusion that justifies the presence of financial co-operatives in well-developed economies. That is, financial co-operatives can provide valuable services to those that adopt such an organizational form, even in highly concentrated markets and under extremely competitive terms.

Emmons and Schmid extend that conclusion when they argue that an increase in the concentration of the commercial-banking sector of a US county leads to an increase in the participation rate at credit unions in this county the following years (2000, p.24; 1999a, pp. 42 and 62).[234,235] They provide empirical evidence supporting their argument, and leading them to the conclusion that credit unions and banks compete directly in local banking markets (2000,ibid, p.23).[236] Thus, local people react to increased market concentration with their participation in credit unions.[237] But that observation might also provide sufficient evidence that local people decide to mobilize toward the formation of a credit union in a highly concentrated local market. In fact, this is the situation that the previous chapter referred to as possible "external effects" of M&As in banking markets and more specifically the probability of new market entries (*See Chapter 2, section 2.7*).

[234] Emmons, William R. and Frank R. Schmid (2000) Banks VS. Credit Unions: Dynamic Competition in Local Markets. *Federal Reserve Bank of St. Louis Working Paper Series*, Working Paper 2000-006A, February. http://www.stls.frb.org/research/wp/2000-006html

[235] Emmons, William R. and Frank R. Schmid (1999a) Credit Unions and the Common Bond. *Federal Reserve Bank of St. Louis Review*, September/October, pp. 41-64

[236] In the same paper (2000, ibid) Emmons and Schmid argue that even before their work there was some indirect evidence that US credit unions mattered to banks, as banks frequently complained about competition from credit unions. As they state (ibid, p. 6) "*Banks have collectively spent large sums of money lobbying Congress to inhibit credit-union expansion. Thus, there is at least a reasonable presumption that banks view credit unions as competitors –actual or potential- in at least some of their market segments, such as the market for household deposits*".

[237] One might also try to identify in local people's participation in credit unions their reaction to a perceived decline in social welfare. Consider the following: Higher concentration rates in some local markets may be associated with higher prices for financial services and consequently with higher banks' profits. Thus, higher market concentration is associated with lower social welfare, understood in the sense that banks reap more profits than they should have under more competitive market conditions. So, higher concentration is regarded as an undesirable outcome by local people who turn to the formation of a mutual in an attempt to enhance competition and improve their welfare. Interesting albeit poorly documented hypothesis, at least with regard to the high prices-high profits connection. However, the rationale behind the argument in the main text and in the footnote maintains its importance as far as the contribution of a credit co-operative in a social welfare improvement is concerned (See also Emmons and Schmid, 2000, ibid; 1999a, ibid).

In the British context, researchers studying the reasons that led to the growing numbers of financial co-operatives in developed countries, focused on regional and social dimensions of contemporary financial exclusion aspects. As they argue, during the 90s, banks initiated a "restructuring for profit" process (Fuller, 1998, p. 146, quoting Leyshon and Thrift, 1993).[238,239] The concern about the future of bank branches in areas offering limited prospects of profitable operations, led to an escalating withdrawal of financial services from certain groups and localities (McArthur et al., 1993, p. 404).[240] In view of the UK financial system which was considered to be overwhelmingly localized –in terms of employment in banking -in the South East region, where the financial control and power was also concentrated (Martin and Minns, 1995, pp. 127-128)[241] such an evolution was expected to further deprive rural areas from access to mainstream financial services (McArthur et al, ibid, p. 404).

Moreover, recent research found that some 26% of the population was denied access to even the most basic of mainstream financial service products. The likelihood of exclusion reflected the geography of financial services described above, as it was higher in the West Midlands, North, Scotland and Wales and lower in the East Midlands, East Anglia and the South West. The excluded population groups are women, youth, aged, the unemployed and those in semi-skilled or manual jobs (Fuller, 1998, ibid, p. 147, quoting Pratt et al., 1996).[242] The latter, i.e. those in the socio-economic classes D and E, are among the ones toward which the banks have been applying a "de-marketing" strategy, i.e. customers with whom banks prefer not to deal (Turner, 1996, pp. 31-32).[243] The strategy that the banks followed included: a) minimum loan sizes; b) tiered interest rated giving very low interest on savings/deposit accounts with low balances; c) account maintenance charges on low balance deposit accounts; and d) use of credit scoring systems leading to outright refusal to grant loans or to open some types of accounts (Turner, 1996, ibid, p. 33).

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[238] Fuller, D. (1998) Credit Union Development: Financial Inclusion and Exclusion. *Geoforum*, Vol 29, No. 2, pp. 145-157

[239] Leyshon, A. and N. Thrift (1993) The Restructuring of the UK Financial Services Industry in the 1990s: A Reversal of Fortune? *Journal of Rural Studies*, Vol. 9 (3) pp. 223-241

[240] McArthur, A., McGregor, A., and R. Stewart (1993) Credit Unions and Low-Income Communities. *Urban Studies*, Vol. 30, No.2, pp. 399-416.

[241] Martin, R. and R. Minns (1995) Undermining the Financial Basis of Regions: The Spatial Structure and Implications of the UK Pension Fund System. *Regional Studies*, Vol. 29.2, pp. 125-144

[242] Pratt, D.J., Leyshon, A. and N. Thrift (1996) Financial Exclusion in the 1990s: The Changing Geography of UK retail financial services. *Working Paper on Producer Services No. 34*, University of Birmingham and University of Bristol.

[243] Turner, J.W. (1996) Credit Unions and Banks: Turning Problems into Opportunities in Personal Banking. *International Journal of Bank Marketing*, 14/1, pp.30-40

Obviously, there are certain sections of the population that face increased difficulties to gain access to the financial system, while some peripheral communities are confronted with a more-restricted set of options. Such a context, is indicative of the role that credit unions can play in "plugging the gap between local need and the mainstream services" (McArthur et al., 1993, ibid, p. 404); Moreover, it is stressed that "the issue of financial exclusion is one that credit unions are well placed to tackle" (Fuller, 1998, ibid, p. 148) and that "they are certainly a means by which savings can be pooled and then distributed in line with local needs, and may even help to stem the process of financial dynamics which would otherwise recycle funds from poorer to richer areas" (Leyshon and Thrift, 1995, p. 335, quoted in Fuller, 1998, ibid, p. 148).[244]

The rationale that stands behind the work of British researchers was described in detail in the previous chapter.[245] Thus, in focusing on the issue of financial exclusion, these researchers described the necessary conditions that confirm the possibility of new market entrants.

The close links between financial co-operatives and the local economy and their contribution to local development, explain another interesting finding of research. Even when credit unions are being set up in poor areas, they are not used exclusively by the poor. They serve a range of people within their local areas, and not solely the most disadvantaged residents (Turner, 1996, ibid, p. 39; McArhtur et al., 1993, ibid, p. 413; Berthoud & Hinton, 1989, pp. 57-63).[246] The presence of financial co-operatives with an "active" role that offsets unbalanced financial activity and, consequently, their potential for counterbalancing uneven development forces, indicate the instrumental role that these financial intermediaries may play in the modern regional development context.

What remains, however, to be addressed is whether the co-operative form of a financial intermediary possesses those characteristics that make it a possible new and, above all, efficient player in local banking markets. That is discussed in the following section.

o **ESSENTIAL FEATURES – EFFECTIVE ANSWERS OF A CO-OPERATIVE INSTITUTION AS A FINANCIAL INTERMEDIARY**

[244] Leyshon, A., and N. Thrift (1995) Geographies of financial exclusion-financial abandonment in Britain and the United States. *Transactions of the Institute of British Geographers*, Vol. 20 (3), pp. 312-341

[245] *see Section 2.6 and 2.7, w*here the implications of the banking internal market on low-income and/or relationship-dependent customers and the realization of cost-reduction strategies were discussed.

[246] Berthoud, R. and T. Hinton (1989) *Credit Unions in the United Kingdom*. Policy Studies Institute, UK.

Previous discussion has focused on the historically observed fact that financial co-operatives emerge in a spatially or/and socially segmented banking market. Mainstream banking institutions either do not have the spatial configuration to serve local markets or withdraw from local markets as a result of a reengineering process that their cost-rationalization strategies compel.

But, even when they are present at local level, they are most likely to focus on market segments that offer them advanced opportunities for profits under a "less-risky" lending policy. Cost-considerations again prevent them from "investing" in relationship-based transactions, necessary to address informationally opaque borrowers. Relationship lending might be considered as contrary to their standardized credit policies, which are based on easily observed, verifiable and transmittable data i.e. pure transactions lending. Thus, because of physical or "informational" distance, mainstream banks are not efficient in generating borrower specific information, which, in addition, due to its "soft" characteristics, may be difficult to transmit through the communicating channels of large institutions (Berger et al., 2001, pp. 1128-1129).[247] Therefore, commercial financial institutions appear to be unwilling or even incapable to address local customers and accommodate their financial needs, mainly because these customers a) do not have a formal credit history, b) can not provide sufficient collateral, and c) are engaged in small amount loans that are not profitable. Their informational opaqueness and the high transaction costs in their banking relations characterize them as high-risk customers with limited profitability potential. The operational philosophy of the stock banking system and the mechanisms it uses to secure its profitability are not adequate to solve problems of information asymmetry –or at least do so at a non-prohibitive cost - of the specific market segment. These characteristics prevent commercial banks from penetrating specific local markets. However, that last remark does not hold true for all local credit providers…

Local moneylenders were one of the few choices that credit-rationed customers faced for satisfying their credit needs. And it seems reasonable to assume that, due to the market setting described above, in several cases the present situation is not different. As Stiglitz (1990, p.352)[248] notes, local moneylenders have one important advantage over the formal lending institutions: they have more detailed knowledge of their borrowers. They, therefore, can separate out high-risk borrowers and charge them with higher

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[247] Berger, Allen, Klapper, Leora and Gregory Udell (2001) The Ability of Banks to Lend to Informationally Opaque Small Businesses. *Journal of Banking and Finance*, Vol. 25, 12, pp. 2127-2167

[248] Stiglitz, J. (1990) Peer Monitoring & Credit Markets. *World Bank Economic Review*, 4 (3), pp. 351-366

interest rates. Moreover, for Stiglitz (1990, ibid, p. 358) unless new institutions substitute for the mechanisms used by the moneylenders to overcome the problems of screening, incentives and enforcement, the moneylenders' power is unlikely to be broken by the entry of institutional credit. Stiglitz's comment, inevitably leads to the question whether financial co-operatives are efficient substitutes that can cope with these informational problems. It is argued that a co-operative institution does employ such mechanisms, namely the common bond, joint liability and deposit mobilisation, efficiently enough to act between commercial banks' and moneylenders' activities.

An important feature of credit co-operatives is that members live in a small area, interact regularly and have many ties, both economic (such as employer/employee) and extra-economic (such as kinship or membership in the same social groups) (Ghatak and Guinnane, 1999, p. 213). [249] The corresponding "credit union" terminology would be that credit union members are united by a "common bond of occupation or association, or (belong) to groups within a well-defined neighborhood, community or rural district" (Emmons and Schmid, 1999a, p. 41).[250] Through these strict membership criteria, they can have exclusive access to reliable information on potential and active borrowers. Their advanced capacity in building such a knowledge capital, promotes members' knowledge of the creditworthiness of other members, which in turn limits lending risks borne by members (Srinivasan and King, 1998, p. 35).[251] Moreover, apart from a screening device of potential borrowers, their close non-economic daily activities have the potential of an effective monitoring mechanism for those who have already received loans, reducing in that way the institution's costs of monitoring loans (Guinnane, 2001a, ibid, p. 370). Finally, the local character of the co-operative and the close social links between members that arise from the common bond term facilitates the application of the principle of joint liability.

For most researchers joint liability is supposed to substitute for the absence of a collateral that typically exclude borrowers from the official market configuration (Thorbecke, 1993, pp. 600 and 602).[252] In fact, this principle has been the corner stone

[249] Ghatak, M. and T.W. Guinnane (1999) The Economics of Lending with Joint Liability: Theory and Practice. *Journal of Development Economics*, Vol. 60, pp. 195-228

[250] Emmons, William R. and Frank A. Schmid (1999a) Credit Unions and the Common Bond. *Federal Reserve Bank of ST. Lewis Review*, September/October, pp. 41-64

[251] Srinivasan, Aruna and B. Frank King (1998) Credit Union Issues. *Federal Reserve Bank of Atlanta Economic Review*, 3rd Quarter pp. 32-41

[252] Thorbecke, Erik (1993) Impact of State and Civil Institutions on the Operation of Rural Market and Non-Market Configurations. *World Development*, Vol. 21, No. 4, pp. 591-605

of their development. Matin (1997, p. 262)[253] described it as "a contract in which the provision of a private good (e.g.: an individual's access to credit) is made conditional on the provision of the public good (group repayment). This is seen as an effective and least costly incentive, making the borrowers use their knowledge about each other in screening the "right" people (thereby smoothing the hidden information problem) engaging in peer monitoring (thereby reducing the hidden action problem) and exerting peer pressure (thereby alleviating the imperfect enforcement constraint)."

Ghatak and Guinnane (1999, ibid., p. 214) point to another critical aspect of joint liability in financial co-operatives. In the co-operative there are two different layers where the joint-liability principle applies. For loans with co-signers, the first layer consists essentially of one borrower and his cosigner, with the latter bearing all financial responsibility for the borrower's loan. The second layer consists of the co-operative membership as a whole, who are liable for the co-operative's debts in total. Thus, membership is individually and jointly responsible in two levels for maintaining high repayments rates and preserving the co-operatives long-term growth and health. [254]

Therefore, while the common bond might be regarded as the necessary condition for drawing the framework of members' participation in the mutual initiative, the principle of joint liability should be considered as the condition that satisfies their active participation. Further, as it was earlier argued, financial co-operatives have long introduced incentives for members to safeguard the sound operation of their institution, related to the sources of fund that would be used for their on-lending operations.

The importance of deposit mobilization was critically discussed earlier with reference to its contribution in strengthening the financial basis of financial co-operatives and accumulation of a collectively used capital with multiple benefits for the local population. The savings mobilization dimension of financial co-operatives, however, is considered to be also crucial for ensuring that loan repayments are taken seriously and effectively administered. When loanable funds are predominantly local savings, the security of members' deposits depends on loan repayments. This provides strong incentives for members-depositors to exercise peer pressure on how their savings are

[253] Matin, I. (1997) The Renegotiation of Joint Liability: Notes from Madhupur. In Wood, G. and I.A. Sharif (eds) *Who Needs Credit: Poverty and Finance in Bangladesh*. London: Zel Books, Quoted by Van Bastelaer (2000, p. 10) [Van Bastelaer, Thierry (2000) Imperfect Information, Social Capital and the Poor's Access to Credit, *World Bank's Social Capital Initiative Working Paper Series* and/or *Center for Institutional Reform and the Informal Sector, Working Paper Series*, University of Maryland]

[254] These researchers argue that this is an important dimension of the joint liability principle in financial co-operatives that differentiates them from the Grameen-type microfinance models In the Grameen Bank, groups bear no financial responsibility for the loans of other groups. (ibid. p. 214-215).

used while on the other hand constrain opportunistic behaviour on behalf of the members-borrowers. (Ghatak and Guinnane, 1999, ibid., pp. 214-215).[255] Thus, proper representation of depositors' interests in the co-operative's decision-making and administrative process, becomes essential to the viability of the institution (Barham et al., 1996, p. 798).[256]

While financial co-operative attracting net depositors seams rather unlikely there are arguments for the contrary. First, financial exclusion is not related only to the credit needs of certain segments of the local population but to the saving options they face as well. Thus, a financial co-operative might be regarded as a liable alternative for low-income depositors as well. Second, the same might also apply in cases where other alternative saving institutions are located in areas far from the depositors' residence. Hence, co-operatives, with their spatial setting, economise on the transaction costs that the depositors face and provide a safe place for local savings.

Guinnane (2001a, ibid, pp. 371-372) offers a further interesting point, when he argues that someone whose own income depends on his neighbours' good fortune (such as a shopkeeper or local artisan) might join because having the co-operative prosper would increase demand for his own enterprise. In addition, he relates his argument with the decision of many local non-members to place their savings in the co-operative, a fact that, in his opinion discouraged further collusive arrangements among borrowers. This is supported by the German case where deposits from non-members were first accepted in 1871 but loans to non-members were first allowed in 1973 (Emmons & Mueller, 1997, ibid, p. 6). While a member net-depositor may face in the long-run the possibility to apply for a loan and, thus, disregard possible collusive arrangements of borrowers, a non-member net-depositor is less likely to behave accordingly. If the co-operative fails to provide sufficient evidence to all depositors of a prudent lending policy, it is possible to face withdrawal of deposits that may endanger its financial stability.

In sum, it is argued that the combination of these three characteristics of credit co-operatives, i.e. the common bond, joint liability and deposit mobilization, strengthens members' confidence in their own institution and allows for the mobilization of considerable amounts of capital from apparently capital scarce communities. On the

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[255] This is another difference between co-operative and non-cooperative microfinance initiatives stated by these researchers. Another difference relates to the duration of the group, which in the financial co-operative model is a result of the long participation of members in the co-operative. In the Grameen approach, groups exist only for the duration of extended loans, although in practice groups that are constituted for new loans often share the same membership (van Bastelaar, 2000, ibid, p. 9).

[256] Barham, B.L., Boucher, S. and M. Carter (1996) Credit Constraints, Credit Unions and Small-Scale Producers in Guatemala. *World Development*, Vol. 24, No. 5, pp. 793-806

other hand it results into a cost of lending that, on average, is significantly lower than if the lender had to address information asymmetries indirectly, as in the case of commercial banks. Such a combination, allow the financial co-operative to disburse larger amounts and to reach informational opaque borrowers. What is argued here is related to the fact that the financial co-operative's ability to address information asymmetries in a cost effective way and to decrease transaction costs, permits the positive evaluation of a wide range of potential lending projects, that commercial banks would not consider profitable. Thus, financial co-operatives not only reach customers that commercial banks would ration, but they are also in a position to enlarge the set of lending projects that can be assessed positively when commercial banks would consider high-risk. In effect, this is made possible by the *de facto* transfer of information gathering from the financial intermediary to the members-owners of the institution.

The preceding discussion has shown that well organized financial co-operatives can reduce the informational asymmetries and scale economic problems of small loan review and management and also satisfy the investment needs of low-wealth borrowers. But, a word of caution is needed, as there are many potential sources of failure.

Barham et al. (1996, ibid, p. 798) stress the importance of some of these sources when they refer to: a) credit co-operative's inability to diversify loan portfolio, in case local productive activities are relatively homogeneous or sector dependent. In this case, negative shocks, e.g. a decline in output prices, can lead to widespread loan default, deposit-runs and the loss of financial viability unless external insurance of some form is available, and b) the potential for corruption to arise in the volunteer management committees.

Further, when membership and assets grow beyond small numbers -the sources of change, to recall Ferguson and McKillop- the importance of local knowledge and enforcement is decreasing. The common bond looses its tight influence in maintaining a moral obligation of members to the co-operative. Moreover, while during the initial period of their establishment, financial co-operatives could be operated by using relatively simple administrative practices that members themselves could handle on a voluntary basis, with growth, the need to employ sophisticated professional management in order to deal with the more complex financial situations, becomes inevitable (Huppi and Feder, 1989, p. 14).[257] Poyo et al. (1993, p. 15)[258] offer a quite

[257] Huppi, M. and G. Feder (1989) The Role of Groups and Credit Co-operatives in Rural Lending. Agriculture and Rural Development Department Working Paper Series 284, The World Bank

simple example of the complexity in transactions that growth may cause when they argue that deposit mobilization may generate important constraints with regard to liquidity management because of the uncertainty introduced by the unknown demand for cash of passbook depositors.[259] On the other hand, conflicts between the interests of member-depositors and member-borrowers augment in a large-member financial co-operative. Accommodating each group's interests influences heavily the operational character of the financial intermediary, which in turn leads to policy-problems that might be more adequate to be dealt by an experienced management.[260]

But at the same time, the separation of ownership and control intensifies an agency problem which may lead either to a misappropriation of co-operative funds on behalf of the management for its own use, or to a corporate philosophy substantially different from members' needs and will (Emmons and Schmid, 1999b, pp. 14-15).[261] In the case of US credit unions, for instance, statistical evidence suggests that as credit unions add membership groups and members, benefits are transferred from members to management. Management is able to channel residual earnings away from members – in the form of higher net interest margins – toward itself –in higher salaries and operating expenses (Leggett and Strand, 2002, p. 45).[262] And as the number of members increases, the one person – one vote principal may add difficulties in adequate internal

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[258] Poyo Jeffrey, Claudio Gonzalez-Vega and Nelson Aguilera-Alfred (1993) The Depositor as a Principal in Public Development Banks and Credit Unions: Illustrations from the Dominican Republic. Paper presented at the Conference *Finance 2000 – Financial Markets and Institutions in Developing Countries*: *Reassessing Perspectives*, 27-28 May, Washington D.C.

[259] However, Poyo et al. (1993,ibid, p.24) while they discuss the difficulties that deposit mobilisation may add to the co-operative, they acknowledge that the introduction of depositors as new principals in financial co-operatives has proven to be an important development that served to constrain the opportunistic behavior of the management, a problem that is highlighted in the paragraph that follows.

[260] Smith et al. (1981), Navratil (1981) and Smith (1984) provide a literature review and discuss further theoretical considerations on this conflict of interest among members. Patin and McNiel (1991a, 1991b) and Smith (1986) that conducted empirical researches on the domination of one group over another, provide inconclusive evidence, however, in favour of a general pattern among US credit Unions. For more on the borrower-saver conflict and an application on the UK credit unions see Ferguson and McKillop (1997, ibid, pp. 131-148). [Smith, D., Cargill, T. & R. Meyer (1981) Credit Unions: An Economic Theory of a Credit Union. *The Journal of Finance*, Vol. XXXVI, No.2, May, pp. 519-528. Navratil, F. (1981) An Aggregate Model of the Credit Union Industry. *The Journal of Finance*, Vol. XXXVI, No.2, May, pp. 539-549. Smith, D. (1984) A Theoretic Framework for the Analysis of Credit Union Decision Making. *The Journal of Finance*, Vol. XXXIX, No.4, , pp. 1155-1168. Patin, R.P. & McNeil, D.W. (1991a) Benefit Imbalances Among Credit Union Members. *Applied Economics*, 23, pp. 769-780. Patin, R.P. & McNeil, D.W. (1991b) Member Group Orientation of Credit Unions and Total Member Benefits. Review of Social Economy, December, pp. 37-61. Smith, D. (1986) A Test for Variant Objective Functions in Credit Unions. Applied Economics, 18, pp. 959-970]

[261] Emmons, W.R. and F.A. Schmid (1999b) Wages and Risk-Taking in Occupational Credit Unions: Theory and Evidence. *Federal Reserve Bank of St. Louis Economic Review*, March/April, pp. 13-32

[262] Leggett, K.J. and R.W. Strand (2002) Membership Growth, Multiple Membership Groups and Agency Control at Credit Unions. *Review of Financial Economics*, Vol. 11, pp. 37-46

control as it promotes free riding by members (Ouattara et al., 1999, pp.3-4).[263] Members feel disempowered as the institution adds new members and that, in turn, many members no longer exercise their ownership rights and responsibilities in overseeing management. According to a recent survey, member participation rates in board elections decline as credit unions become larger (CUNA, 1999).[264]

Braverman and Guasch (1989, pp. 352-353)[265] whilst they identify most of the abovementioned sources of failure of credit co-operatives in developing countries, also emphasise the connection between large size and lack of proper monitoring activities. Moreover, lack of the sense of belonging and joint responsibility in most members, in conjunction with the perception that credit funds were more like grants or aid by the state or international donors, induced detachment, high delinquency rates, and improper use of funds.

Most of the researchers mentioned above, though in different degree, pointed at the significance of the pyramidal organizational structure of financial co-operatives and its contribution in confronting the above-mentioned difficulties that the local initiative might face in its evolutionary process. In essence, as it was stated earlier, the very same problems –in analogy of course – led the pioneers of the movement to the formation of their second tier and central institutions.

A list of the functions that different level organizations may develop, provide evidence of the contribution of the three-tier system in accommodating financial and institutional aspects of the financial co-operative movement. According to Rutherford, financial co-operatives, in order to overcome the factors that lead them to be short-lived, need to form a higher level body, in order to (1999, ibid, p.49):

a) provide a secure home for surplus savings
b) provide additional loanable funds when needed
c) provide supervision and regulation to see that rules are kept and that financial co-operatives are professionally run to high standards
d) provide advice and training, that will act complementary to supervision
e) offer protection of savings through insurance

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[263] Ouattara, K., Gonzalez-Vega, C. and D.H. Graham (1999) Village Banks, *Caisses Villageoises*, and Credit Unions: Lessons from Client-Owned Microfinance Organisations in West Africa. *Economics and Sociology Occasional Paper No. 2523,* Department of Agricultural, Environmental and Development Economics, The Ohio State University

[264] Credit Union National Association (1999) *Credit Union Services Profile*. Madison, Wisconsin, CUNA

[265] Braverman, A. and J.Luis Guasch (1989) "Institutional Analysis of Credit Co-operatives" in *The Economic Theory of Agrarian Institutions*, Bardhan Pranab (Ed.), pp. 340-355, New York: Oxford University Press.

f) act as a spokesperson and advocate for them.

The need of a central liquidity manager, that pools surplus savings from local co-operatives and acts as a lender of last-resort, or a central clearing office that facilitates transactions between financial co-operatives, was discussed in this chapter. In that capacity, one may identify the ability of a central financial co-operative to smooth seasonal fluctuations of deposits withdrawal and loan demands that local credit co-operatives might face, especially in rural areas. What one may add is that an apex institution, if it proves to be a sound financial intermediary, faces less difficulty than its "owners" local-financial co-operatives in participating effectively in the national and/or international banking market. This could result in advanced opportunities for local co-operatives to link with financial co-operatives in other countries, a feature that seems to be most needed in the current globalised context. In addition it could finance lending projects that may be identified and positively assessed at a lower level but cannot be accommodated by local co-operatives due to the volume of credit involved. Finally, researchers add that it could link the private capital market with local co-operatives (Gonzalez-Vega, 1998, p.14)[266] and co-ordinate lending projects of other sector's co-operatives (Guinnane, 2001b, ibid, p. 24).

A most important characteristic of the apex institution, which strengthens the institutional building of the financial co-operative movement, is its auditing functions. The value that the leaders of the movement have attributed to auditing procedures was such that, as it has been argued, they insisted in adding it as a central feature in the laws that govern their institutions in accordance with their strong commitment to establishing sound institutions that could be recognized as such not only from members but from all other participants of local economies as well. On the other hand, it can be argued that it was their profound knowledge of the social setting in which co-operatives have flourished and of the difficulties that such an initiative had to face in its development course that was behind their decision to assume auditing as a legal obligation of financial co-operatives. Their spatial setting and social configuration, forced co-operatives to rely, in the first place, on people with limited knowledge of how should financial accounts be treated. This, easily resulted in a variety of problems that ranged from simple errors to fraud (Guinnane, 2001c, pp.7 and 12-15). [267]

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[266] Gonzalez-Vega, Glaudio (1998) *Microfinance Apex Mechanisms: Review of the Evidence and Policy Recommendations*. Report prepared for the CGAP-OSU Research Project. Rural Finance Program. Department of Agricultural, Environmental and Development Economics. The Ohio State University

[267] Guinnane, T. W. (2001c) A "Friend and Advisor": Management, Auditors and Confidence in Germany's Credit Co-operatives, 1889-1914 *Yale Economic Growth Center Discussion Paper No. 824*,

In the light of the previously mentioned difficulties that emerge with growth, it is easily understood why embezzlement was a constant concern. And as co-operatives were getting larger and captured a higher customer segment, it is understandable that their competitors were ready to publicize any of these –real or manufactured- problems in order to set back co-operative development. This, might pose a threat to the entire movement, a consequence that should be avoided at all costs. Thus, co-operatives had better reasons than any other business to form auditing associations.

Guinnane (1997, op.cit., pp. 263-264) summarise the auditor's roles in the following:

a) "As auditors, they might play the usual role of providing information –to the co-operative's members, to the Central and to actual and potential depositors –about the co-operative's situation." But, it is not only depositors who need to know that their institution is sound. Borrowers, and especially high risk ones, are most likely to react positively to their repayment obligations if they know that it follows a strict financial policy than if they know that it faces difficulties that might result to a failure. In reality, why should anyone bother to repay if the common initiative is going to bankrupt sooner or later? For high-risk borrowers this would mean bearing an extra-cost in sustaining a credit link that will anyway going to break at the end of the day and this increases the probability of defaulting.

b) "As teachers, they might play an important role in instructing co-operative managers in their basic skills necessary to their office." Such seminars could be extended to the members of the supervisory committee, i.e. the front-line of an internal monitor scheme. The inclusion of both co-operative and practical financial issues and intra-cooperative and wider groups, is considered to be of major importance both for the co-operative's successful development and for the increased impact of such a local initiative.

c) "As "crisis managers" they could work closely with the local co-operative in confronting critical, potentially or actually, difficulties, such as a series of default, the discovery of embezzlement etc." The importance of a direct and effective approach to face such difficulties is obvious. However, further reasoning is needed to establish that co-operative auditing should be regarded as superior to external, non-cooperative, state or private auditing.

Guinnane (2001c, ibid, p. 30) stresses several advantages of co-operative auditing associations over alternatives. First, co-operative auditors deal with nothing but co-

May. Social Science Research Network Electronic Paper Collection: http://papers.ssrn.com/paper.taf?abstract=275185 operatives. However simple a small local co-operative, it is unlikely that most auditors coming from another background would see in their own line of work the full range of issues that such an initiative might confront. Thus, they build an "intangible database" of case specific conditions, which facilitates the detection of potential difficulties. Moreover, through experience, their capacity to apply the right "co-operative" solution to confront a special "co-operative" problem is definitely enhancing. This is linked with the assumption that a co-operative auditor will not limit his role only to the identification of the problem but he is expected to extend his intervention toward the treatment of the primary sources of the difficulties. This has a strong logical basis, if one considers that the association's auditors should have a stake in the future of the co-operative movement. The failure of a coop may have further repercussions on the movement as a whole, which includes the deterioration of the future employment position and opportunities of the auditor as well. Thus, while a private auditor has less to loose if the institutions have a poor and risky performance, a co-operative auditor is most likely to avoid treating the auditing procedure as a bureaucratic necessity.

Obviously, the same reasoning might apply in the case of state auditors as well. But the case of state interventions should be treated with caution. It is well known that co-operatives all over the world have long suffered from a state logic that considered these initiatives as entry points in their attempt to address wider parts of local society through social and economic policies. In many cases, including the Greek agricultural co-operatives, this approach led to the devaluation of the co-operative idea and almost destroyed their organizational and entrepreneurial capacity to alleviate the difficulties of these individuals that voluntarily formed these democratically managed institutions. Hence, a state audit mechanism might result in some cases in -and therefore should be considered as an attempt of - making these institutions *de facto* arms of the government. But even if this is not a well-grounded suspicion, there is a practical reason for arguing against relying only to state auditing, which at least in the case of co-operative banks in developed countries is inevitable as state auditing is a legal requirement. Members might see a state audit as a substitute for their own participation and awareness (Guinnane, 2001c, ibid, p. 17). Therefore, if financial co-ops do not want to intensify moral hazard problems that, as argued earlier, will definitely arise with growth, they should urge the formation of adequate and high standard internal auditing procedures.

Internal monitoring facilitates also the financial functions of the central. Whichever function the central might undertake, it depends heavily on the financial basis of the network it serves. Thus a fundamental point concerns the fact that the strongest organizations are those, which are made of sound units (Schijf, 1998, p. 5).[268]

In order to strengthen their financial capacity to overcome external shocks that the broader economic environment may cause, financial co-ops have long been active toward the establishment of a deposit/share insurance funds scheme. It is worth mentioning that in some cases this was pursued voluntarily and not in response to a legal obligation. In Germany, for example, urban co-operatives were the first banks that created a joint guarantee system as early as 1930 and the second analogous initiative in the banking system is to be credited to the rural banks.[269] Their successors further improved the scheme's value when they linked its actions to a commitment to monitoring and auditing procedure. Today, in addition to the deposits of members and other customers, the system also protects every member bank provided that the bank has exercised prudence and due care in its operations (ibid, p. 79). Coordinated actions that combine prevention and bailing out are to be found in the logic behind the development of Desjardins security fund, which was also in operation long before relevant laws introduced it as a prerequisite for all banks' deposits (Jobin, 1981, op.cit, p. 118).

The practical importance of the deposit insurance fund is not confined only to the credit union movement. Researchers of the US credit unions argued that the industry's deposit insurance mechanism was one of the most important features that helped them confront the difficulties that many small banks and thrift institutions were facing during the 80s and early 90s (Cooper & Likens, 1999, p. 52; US Treasury, 1997, op.cit).[270] They conclude that although thousands of small thrift institutions were bailed out by the taxpayer during that period, not one credit union was among them (Cooper & Likens, 1999, ibid, p. 55). It is obvious that the benefits of having strong financial co-ops with adequate organizational features, such as the insurance fund and monitoring procedures, spread to the society as a whole, because in the absence of the above mentioned features the taxpayers would have to face higher-risk and potential costs.

It should be stressed here that for some researchers the existence of share insurance for credit union members tends to reduce the incentive to monitor the behavior of their

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[268] Schijf, T.H.M. (1998) The (Im)possibilities of the Creation of a European Co-operative Capital Market. Paper Presented at the *ICBA Seminar on a Capital Co-operative Market: Utopia or Possible Reality?* Paris

[269] The objective of their joint guarantee system was to "*effect rapid and unspectacular action in the event of occasional problems arising in credit co-operatives…, to thus prevent disturbance among the shareholding members who are liable to pay up further capital when called and, as a result to further increase the security of the savings deposits, deposited funds and current account balances of customers*" (Aschhoff & Henningsen, 1996, op.cit. pp. 78).

[270] Cooper M., and J.D. Likens (1999) *Banks and Credit Unions: Keeping the Playing Field Level.* Consumer Action, Southern California Office, L.A., California, March, 1999. www.consumer-action.org

credit union (Boldin et al, 1998, p. 214, Ferguson and McKillop, 1997, op.cit, p.168).[271] However, this seems to remain an open question, because more recently other researchers found strong evidence that deposit insurance did not lead to increased risk-taking in the US credit union industry (Karels et al, 1999, p. 129).[272]

Nevertheless, one should not try to argue in favor of one feature of the co-op structure over another in an attempt to identify the route to a successful development. Karels et al. argue that while the mutual form of ownership suggests limited risk-taking behavior, financial co-operatives benefit from two additional mechanisms, i.e. supervision and monitoring, that constrain risk taking (ibid, p. 132). Thus, a combination of ownership form, common bond requirements, supervision and monitoring restrict risk-taking for financial co-operatives. It is in the density and quality of the different formal and informal characteristics of the mutual institutions were success lays.

Apex institutions emerge endogenously, capitalize on the "inside" information of their owners' institutions, have the right incentives to provide quality services and contribute to the formation of an organizational scheme, which allows co-operatives to benefit, on the one hand, from their small size and local basis and, on the other, to overcome the implicit in their mutual initiative financial and institutional weaknesses. In addition, it is important to argue that the pyramidal structure of the financial co-operatives and their decentralized network, constitute an effective mechanism to confront the difficulties that a regional decline may cause to a local financial intermediary and to create the minimum preconditions for the alleviation of regional disparities, or, at least, those that relate to the supply of credit and financial services. A dense local network has the ability to monitor the financial needs of its members. As local banks they enjoy the advantages that such financial intermediaries do. In that respect they resemble any other local bank. But they possess two additional advantages. First, they do not seek a potential customer segment in order to sell a specific set of predetermined products. On the contrary they are in the position to design special financial products in order to meet their members' needs. Second, they convey this information to their central institution that assumes the responsibility to develop and disseminate products and services that local co-ops, due to cost limitations, cannot offer by themselves. Moreover, centrals are in a better position to detect trends of the economic environment and, consequently, to

[271] Boldin, Robert J., Leggett, Keith and Robert Strand (1998) Credit Union Industry Structure: An examination of Potential risks. *Financial Services Review* 7, pp. 207-215

[272] Karels, Gordon V. and Christine A. McClatchey (1999) Deposit Insurance and Risk-taking Behavior in the Credit Union Industry. *Journal of Banking and Finance*, 23, pp. 105-134

provide the lower level with accurate market information and issue warnings about potential difficulties that certain market segments might present.

Financial co-ops due to the close economic linkages with their members are concerned with products and services that will make members better off and, if possible, be better suited to the specific needs of their members in comparison to any other generic product on the market. Their commitment to a service-oriented operative character has led to the introduction of innovative services and products to the benefit of their members. In Canada, the *caisses populaires* gained a reputation as innovators in the entire banking system, by introducing pioneering financial products such as daily interest savings accounts, variable rate and weekly payment mortgages and debit cards (Ferguson & McKillop, 1997, op.cit, p.65), products that most banks provided in the following years. In 1970, they took another innovative step when they, ahead of banks, developed an integrated system through which they computerized their services, an evolution that strengthened their cost-efficiency and eased members' transactions (Tetreault, 1977, op.cit, p. 34). German co-op banks were the first to introduce as early as 1950, the saving bonus scheme in order to promote savings among the Germans. In 1968, the people's banks were the first German banks that issued cheque cards with international validity, a full year ahead of the introduction of the Eurocheque. And in 1993, they were the first that offered their customers rapid and competitively-priced automated processing of foreign payments (Aschhoff & Henningsen, 1996, op.cit, pp. 57-58). This innovative character provides evidence that financial co-ops are in the position to become -if not became- a market force that increases competition. In fact, there is further evidence that co-operatives, as financial intermediaries, are in the position to expand their potential impact and alter qualitative aspects of competition in this market.

The most original feature of co-operatives is to provide for the material needs of their members as well as to respond to their fundamental aspiration for greater dignity in their lives. Dignity, however, should not be limiting its importance at the individual level but at the level of collective action as well. In other words, in an era when competition has blurred the lines between a pure commercial and a co-op enterprise, co-operative banks face a major challenge: to re-establish the -lost in a market logic approach- link between co-operative values, members active participation and commercial strategy and practice. This link was at the heart of the UK Co-op Bank's attempt to develop a strategic profile, in early 90's, in order to improve its positioning in the market (Davis, 1999, p.112).[273]

[273] Davis, P. (1999) *Managing the Co-operative Difference*. Co-operative Branch, ILO, Geneva

The Bank's Mission Statement of early 90s confirmed the group's strong will to promote the principles of co-operation and to provide its customers with high-quality financial services.[274] In doing so, the bank actually declared that the co-operative values should not be regarded as a substitute for product service excellence but as a means of defining itself and of providing value added for customers (Davis & Donaldson, 1998, p. 120).[275] In 1992, following a thorough consultation of its customers opinions on several aspects, the Co-op Bank codified its Ethical Policy.[276] With that succeeded in two fundamental, intertwined, features: to enable customers in defining the "constitutional" and "operational" rules that should govern its transactions; and, to distinguish its role in the banking market. Its practices integrate a "stakeholder" approach, which strictly applies.[277] It systematically measures the value given to its clients, its shareholder, its staff and their families, its suppliers, the local communities in which it operates, the environment and past and future generations (Davis, 1999, ibid, p.117).[278] Since mid-90s its profitability has continued to make outstanding progress. The Bank, not only managed to reverse its poor public image but it has made great impact on the culture and value aspirations within the market (Davis and Donaldson, 1998, ibid, p. 121). The Co-operative Bank's experience, offers a valuable lesson: Co-operative values can produce competitive advantage; it is at the hands of a capable co-operative management to untap its potential to offer value added services, gain its customers loyalty and at the same time harness commercial and social objectives.

Over the same period, other co-op banks were also questioning the importance of their co-operative background in a highly competitive financial market. It took 10 years of continuous decline in membership for Rabobank-Netherlands to re-consider the fact that it was its co-operative status that contributed to its success and needed to be revitalized. Thus, in late-90s Rabobank launched a strategy of maintaining closer links with its members, which, in 2000 alone, resulted in 210,000 new members joining the group and added 892 mil. Euros to its equity. This result confirmed its leadership's confidence that their co-operative background not only should not be regarded as a barrier for modern

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[274] See appendix II-Box I for the Co-op Bank's Mission Statement

[275] Davis, P. and J. Donaldson (1998) *Co-operative Management. A Philosophy for Business*. New Harmony Press, UK.

[276] See Appendix II-Box II for the Co-operative Bank's Ethical Policy

[277] See Davis (1999, ibid, pp. 111-123) and Davis and Donaldson (1998, ibid, pp. 118-121) for a thorough presentation of the Co-operative Bank's case study and lots of valuable comments.

[278] This systematic measuring is carried out by outside experts and is widely diffused to all its partners and the public at large. Moreover, the Bank is committed to the regular reappraisal of its customers' views and develops its ethical stance accordingly (Davis, 1999, ibid. p. 115). Further, it has devoted considerable efforts to ensuring that the bank's values are shared by its employees. For this, it provides them with training courses on its heritage, values and what distinguishes it from its competitors.

organizational forms but it constitutes an asset, a major competitive advantage that these initiatives enjoy in order to cope with the difficulties that the contemporary financial context poses (Tremblay, 2001, pp.18-19).[279]

Thus, sharing membership in a credit co-operative is not related only to the better knowledge of participants' behaviour. It is related to an entirely different approach in financial intermediation through which the demand side of the market configures essential features of the supply side. In the case of the Rabobank, members' reactivation is regarded, among others, as an efficient solution to co-operative capitalization difficulties. On the other hand, in the case of the UK co-operative bank, its strategy might not be that successful if it failed to stimulate its customers' involvement.

Based on these two cases interesting conclusions can be drawn. In early years, financial co-ops use their members' participation to establish sound and effective financial institutions. In advanced financial co-op institutions, the trend is to use the potential of a sound and sophisticated institution in order to regain members' participation and re-establish a partnership that will lead to increased communitarian/societal potential and welfare. It was trust, underlying the social relations on early co-operatives, which gave birth to their distinguished performance. It is trust again, albeit articulated at a higher institutional level, i.e. between members and an institution that respects their social, environmental and ethical values, that enhances the willingness and ability of individuals to define collective goods, through which a distinguished institutional character within financial markets might be developed.

In the last section of the chapter, an effort was made to describe how the features that Ferguson and McKillop identified as critical components of a developmental path, are connected with viable and effective solutions on specific institutional and financial problems that co-ops face in their financial intermediation initiatives. However, as Mc Killop et al. (1997)[280] mention, the historical and cultural variety found throughout the areas of the world means that no simple or linear development path can be prescribed for all credit co-operative endeavours; their development in reality varied under the influence of historically specific and contemporary economic and social conditions. Thus, the chapters to follow will attempt to situate the development of the Greek credit co-operative initiatives to the relevant historical socio-economic context of the country.

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[279] Tremblay, B. (2001) Co-operative Banks and the mobilisation of capital: To what end, with which partners and with what consequences for members. *ICBA Journal*, No. 13, pp. 5-23, ICBA

[280] McKillop, Ferguson, & O'Rourke (1997) A Typology for Credit Unions. *ICA Review*, Vol. 90, No 1, pp. 39-47

CHAPTER 4

THE GREEK BANKING SYSTEM

Previous analysis of the international trends and paradigms of cooperative banking institutions facilitated the positioning of the Greek financial cooperatives into the overall picture at least schematically. In a way of introduction, and before dealing with a detailed analysis of the cooperative banking movement in Greece, it is deemed useful to make reference to the Greek banking system as a whole in order to understand the environment within which cooperative banks operate.

5.1 HISTORICAL EVOLUTION OF THE GREEK BANKING SYSTEM

As it should be expected, the evolution of the Greek banking system and its development until today, is closely linked with the course of the Greek economy and, as a result, it followed its phases of growth and recession and it was strongly influenced by important historical events of the Greek modern history.

The most important events that have exercised decisive influence upon the evolution of the banking system of Greece are given below, grouped into four-time periods.[1]

5.1.1 First Period: From the foundation of the first banking institution in 1828 until 1927

The banking history in the New Greek state began in 1828, when Ioannis Kapodistrias, the first Governor of the then newly liberated Greek State, founded the "National Chrematistic Bank".[2] Essentially, the operation of that bank aimed at accumulating the necessary capital in order to meet the borrowing needs of the newly established Greek state. Unwillingness of citizens to entrust their economies to a bank that, on the one

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[1] Basic bibliographic sources:
Zolotas X., Monetary equilibrium and economic development, 1964
Zitridis A., The banking system of Greece, 1971, Zitridis, A. (ed), The first fifty years of the BoG, 1978
Dertilis G., The question of Banks, 1982
Agricultural Bank of Greece and the banking system, 1986
Institute of Economic and Industrial Research (IOVE), The Greek Financial System. Trends and prospects, 1995
Gortsos C., The Greek Banking System, 1998

[2] Resolution Z of 2.2.1828 in Aegina (General Newspaper of Greece 4.2.1828, p. 38-39). Chrematistic (money exchange) Bank constituted one of a number of efforts of the Governor of Greece to establish the foundations for the economic organisation of the state. It is characteristic that Kapodistrias invoked the patriotism of wealthy citizens prompting them to participate in the formation of the Bank (Valaoritis, I., History of the National Bank of Greece, Educational Foundation NBG, 1980, 2nd ed.)

hand did not develop banking activities proper and on the other was trying hard to cover the financial weaknesses of an unstable new state, led to its dissolution in 1834.

On 30 March 1841[3] the National Bank of Greece (NBG) was founded. This bank was to play a leading role in the process of growth of the Greek economy. The state offered 20% of the initial capital, the remaining being shared by Greek and foreign investors. Initially it functioned as central bank but at the same time it was financing real estate and agriculture. Gradually widened its banking activities and covered the entire Greek territory.

In 1864[4], the Ioniki Bank[5] expanded its operations to continental Greece, thus becoming the second banking institution to operate in the Greek territory. The Ioniki Bank, the Bank of Epirothessaly (founded in 1882 with its seat in Volos) and the Bank of Crete (founded in Chania of Crete in September 1899), all three had the privilege of issuing bank-notes, together with the NBG, exercising it in a limited local scale. Therefore they all acted as central banks, until 1919-20, when the Bank of Crete and the Bank of Epirothessaly were absorbed by the NBG. On the contrary, Ioniki became a purely commercial bank.

With the dawn of 20th century, the war events of the last decade of 19th century[6] and the slow rates of development of the banking system in a disorganised economy, gave their place to the euphoria created by the efforts to reorganise the monetary sector and public finances. Until the brake of the First World War the Greek economy experienced considerable growth and the Greek banking system expanded. In 1904 the Bank of the East was founded (to be absorbed by the NBG in 1932), in 1905 the Popular Bank was founded, to be followed by Commercial Bank in 1907 and the Bank of Piraeus in 1916. On the same footing and in its effort to put savings under its control, the state establishes two special credit institutions the Post-office Savings bank in 1914 and the Fund of Deposits and Loans 1918.

The NBG, in its long-lasting process of development, reached in 1927 the level of a polymorphic institution that possessed the functions of issuing bank notes, performing ordinary banking functions and also offering services of a credit institution serving several special goals. This large variety of activities was financed through various dissimilar sources such as the issue of bank notes and government bonds as well as from

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[3] Newspaper of the Government No 6 of 30.3.1841
[4] Annexation of Ionian Islands in Greece
[5] It had been founded in October 1839 in London

deposits. The concentration of all these activities made the NBG dominant in the economic life of the country. At the end of 1927, its deposits amounted to 45% of all bank deposits in the country and roughly the same proportion were its loans. This excessive growth of the NBG and its mixed character until the establishment of the Bank of Greece in 1928, were in fact both indications of weakness of the banking system of the country that did not conform efficiently to the needs of the economy.[7]

This first period that was briefly sketched above presents the following characteristics:[8]

- No legislative framework or government interventions are apparent - with the exception of the two special credit institutions that were founded at the end of the period under review.
- All existing banks serve all sectors of economic activity and offer all kinds of banking services. This lack of specialisation resulted in the low quality of services and the high cost of operation.
- The issue of bank notes is carried out in a fragmentary manner and it constitutes activity of more than one banks. Exception to this is the period 1920-28 when only the NBG enjoyed this privilege.
- There are very few powerful banks and a lot of small ones of local importance.

Thus, in 1927, out of a total of 45 banks, four banks - National, Commercial, Athens and East - control 80% of banking activity. The NBG alone was controlling more than 45% of all deposits and approximately the same percentage of loans.

5.1.2 Second Period: From the foundation of the Bank of Greece in 1928 until the end of the Second World War

The organisational gap regarding the banking system and the need to promote its modernisation led to rapid developments in the period 1927-1931. In this period one observes an effort to achieve monetary stability and there are indications that the state attempts to organise the banking sector and to establish a framework pertaining the banking activities.

In 1927 the National Real Estate Bank was founded by detaching the corresponding activity of real estate credit of the NBG. In 1928, the Bank of Greece (BoG) was

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6 1892 bankruptcy of Greek state and war of 1897

7 Zitridis, A. (editor), The first fifty years of the Bank of Greece, Bank of Greece, p. 57, Athens 1978.

8 Zitridis, A. The Banking system of Greece, Athens, 1973

founded as a central autonomous bank, endowed with the exclusive right to issue bank notes. The BoG had monetary stabilisation and the formation of monetary policy as its primary objective. In addition the BoG was acting as a credit supplier towards the commercial banks as well as directly to the private sector. In the same year the Hellenic Banks Association was formed for defending the interests of the private banks in their relations with the BoG and the government.[9] 1928 is also the year when the first branch of a foreign bank (American Express Bank) is established in Greece. In 1929, agricultural credit activities are taken off the NBG and form the principal function of the second largest banking institution, the Agricultural Bank of Greece.

In 1931, law 5076 about banks, is the first attempt to establish a specific legislative framework. This law imposes restrictions in the exercise of banking activity, specifies the minimum capital requirements and determines which enterprises are banks and which are their obligations.

However, in that period Greece was confronted not only with the consequences of the defeat of the Greek army in the war in Asia Minor and the wave of refugees that it caused but also with the aftermath of the 1929 economic crash, which while was not probably as severe as in the developed economies of Europe, it shook, nonetheless, the sensitive economy of the country. The crisis found the Greek banking system in a phase of reform and modernisation. Principal orientations were specialisation and concentration of banking units into more powerful groups.[10] Several small banks go bankrupt in this period and others are absorbed by the larger ones or merge with them. At the end of the Second World War, only 13 banks operate in the country. The four larger ones - National, Commercial, Athens and Ioniki - control 60% of all deposits. In addition, the National Bank has under its absolute control the Real Estate Bank and maintained important share in the Agricultural Bank of Greece.

5.1.3 Third Period: From the establishment of the Currency Committee in 1946 until 1981

The end of the Second World War and the civilian war that followed, found Greece confronted with a situation of complete disorganisation with its productive forces

[9] The Hellenic Banks Association promoted the establishment of rules and the adoption of agreements against unfair competition, ways of reducing operational cost and reducing interest-rates (Kostis, K. The Banks and the crisis 1929-32, Historical Archives of Commercial Bank, 1986, p.51.)

[10] Zitridis, A. The Banking system of Greece, Athens, 1973, p. 12

destroyed. Public economics and monetary affairs were in a chaotic situation.[11] Credit services had collapsed and the banking system could not operate on the basis of its own resources. The low level of disposable income and the psychological impact of inflation did not favour savings and their channelling to productive investments through banks. Within a period of fourteen months three attempts were made to achieve monetary stabilisation.[12] The pressing need to reactivate the productive mechanism of the country, led to assigning the role of reconstruction of credit operations to the BoG in 1946.[13]

The real problems to be faced at that stage were many. Among these were the destroyed productive network, the low national income, the devalued national currency and the high rate of inflation. These problems together with the prevailing perceptions of the time regarding the role of the state in economic development, led to increased intervention in the banking system that constituted the basic institution for managing and financing the programs of development of the country. Thus, in 1946,[14] the Currency Committee (CC) was established, having as its role to regulate money circulation. The BoG had to implement the decisions of the CC, and the latter progressively undertook to control credit expansion in the economy by establishing rules for the obligatory engagement of parts of the deposits for granting loans to desired orientations and by setting maximum margins of profit for the banks.[15] In essence, all banking activities were placed under the direct or indirect state control.

The aforementioned developments are the reason behind the high figures of financing deriving from the BoG. In fact, during the period 1946-1952, the percentage of financing directed towards all sectors of the economy and deriving from the BoG amounted to 70% of the total.[16]

The devaluation of the Greek currency in 1953[17] that constituted turning-point in the post-war history of Greek economy, together with the accompanying measures, led to the re-establishment of monetary equilibrium and to more rapid economic development

[11] Sakkas, D., The structural problem and the economic planning in post-war Greece, KEPE, Athens 1986, p. 33

[12] a) Law 18/11.11.44, 1 pound = 600 new drachmas and 1 new drachma = 50 billions of old drachmas, b) Law 362/4.6.45, 1 US$ = 500 drachmas and 1 pound = 2.000 drachmas, c) Law 879/25.1.46, loan 10 million Pounds Sterling from Great Brittain, 1 US$ = 5.000 drachmas and 1 pound = 20.000 drachmas

[13] Zitridis, (editor), op. cit. p. 262-265

[14] It is worth noting that although initially the duration of operation of the committee had been fixed for 18 months with probable extension of 2 years, the Committee was suppressed in 1982

[15] Zolotas, X., Monetary Equilibrium and Economic Development, p. 89, Athens 1964

[16] Zitridis, (editor), op. cit.

[17] Law 2415/9.4.1953. The drachma was devalued by 50% against the US $ and other foreign currencies

(Sakkas, 1986, ib.id, p. 34). The general economic euphoria that prevailed in that period, led to the first serious effort for stabilisation and developmental planning in the post-war period.[18]

The post-war development model implemented by Greece was based on:[19]

- The increase in productivity of the primary sector, aiming at achieving self-sufficiency in agricultural products and facilitating the reduction of the population engaged in agriculture
- The accumulation of domestic capital and the utilisation of the unskilled workforce deriving from the rural areas
- The integration of the country in the international markets.

In this time, the bigger banks are under the control or even the proprietorship of the state.[20] The Greek state wanted to have under its control the operation of credit institutions, because all capital that would finance the revitalisation of the Greek economy in the form of loans from foreign sources or in the form of state incentives or by utilising domestic resources[21] is channelled through the banking system.

Increased productivity in the rural sector and rural exodus and migration to countries of Western Europe, apart from other repercussions, influenced positively the rate of savings. Already in 1955[22] it was stated that the level of savings was increasing together with the increase in rural incomes and the volume of migrants' remittances from Western European countries. The BoG found that in the period 1956-1967 the number of holders of deposit accounts in Greek banks increased from 100.000 to more than 1.200.000.[23]

In the same period and particularly in the '60s, it was attempted to create specialised institutions to finance long-term investment plans.[24] First, the conditions are created for

[18] The high economic and political dependence of Greece from the UK and the USA did not allow, in combination with the general climate of imbalance that existed in the Greek society, the application of programs of reconstruction of the period 1946-1952. It is, however, a fact that the economic and social situation of the time did not allow grandiose plans but only the announcement of governmental investment projects. For more on the subject, see. Sakkas, D., op. cit. p. 42-45

[19] Giannitsis, T., "Greek Industry - Growth and Crisis". Athens, 1983, p.87, Gutenberg publications

[20] Sakkas, op. cit, p. 36

[21] Giannitsis, op. cit. p. 88

[22] Pepelasis, Ad. Rural policy and development. Articles and lectures, Athens 1976, Papazissi Publ. p. 215.

[23] Pepelasis, ib. id. p. 215

[24] In the field of founding specialised institutions, the Hellenic Bank of Industrial Development (ETBA) is established in 1964, by merging three existing institutions: the Tourist Credit Organisation (founded in 1946), the Organisation for Financing Economic Development (founded in 1954) and the Organisation for Industrial Development (founded in 1960). In the mean time the Commercial Bank founded the Investment Bank in 1962 and the NBG completed the picture by establishing the National Bank for Investments in Industrial Development.

the banking system, under the control of the state, to direct its accumulated deposits to desirable uses. Then, the strategic double role prepared for the banking system by the state development policy is achieved, namely a) to secure the effective channelling of savings from the periphery to the development centres and b) the strengthening of trust of small savers to strong banks in order to deposit their money with them. In this way a balance is achieved between the developmental objectives and the effective utilisation of migrants remittances and the compensatory social benefits in the periphery.

The previously described policy determined the developments in the banking system. Moreover, the lack of competition strengthened the tendencies of concentration that were observed in the pre-war period. [25] The prevailing conditions during the period of dictatorship (1967-74) did not favour the establishment of new banks but the number of branches expanded considerably together with the number of employees in the sector.

Just before the accession of Greece to the EEC, the banking system of the country consisted of 24 commercial banks - 10 Greek and 14 subsidiaries of foreign banks - and 8 special banking institutions. The state was exercising catalytic control in the 18 Greek credit institutions. Only three banks - Alpha, Labour and Athens - were clearly private but their share of the banking market was small. In addition, the administratively determined interest-rates, the binding rules in the deposits and in the cross-border transfer of capital, the obligatory engagements of parts of the deposits by the Bank of Greece and the obligation to place 10% of the portfolio of all banks in interest-bearing state bonds, hindered the creation of conditions of free competition[26].

Under the circumstances, it is not surprising that at the end of the '70s:

- From the total amount of savings going through the organised capital markets, only a very small percentage is oriented towards the stock market. More than 90% is deposited in banking institutions[27]
- State banks control 93% of all savings of the country[28]

[25] In 1953 the National Bank of Greece is merged with the Bank of Athens, the second largest bank of the time. In 1957, the Commercial Bank of Greece acquires the control of Ioniki Bank, and the latter merges with the Popular Bank at a later stage. Even today, these two really big credit institutions continue to dominate the banking system of country. On 29.3.1999, the Ioniki Bank, was acquired by Alpha Bank, which constitutes henceforth the second bigger bank in Greece and is expected to play important role in the developments and the interrelations of banking system of Greece.

[26] Halikias, D. Possibilities and problems of credit policy. The Greek experience, p.33-34, Athens 1976

[27] Kalamotousakis, G. Monetary and special credit restrictions in the Greek Banking System. Policy of interest-rates and deposits in Greece and in the EEC countries p. 134, in the "Committee for the Study of Banking System", Karatzas, K.. (editor), Athens 1981

- The National Bank and the Commercial Bank together account for 80% of deposits of all commercial banks[29]
- 70% of loans[30] to the private sector are addressed to industry - that is to say in the big urban centres and the growth poles - and roughly 20% to commerce[31] - that is to say also in the big urban centres.

It is obvious that the banking system continues serving faithfully on the one hand the service of public debt of Greek economy and on the other the policy for development of growth poles, which however, in the international economic context, has become questionable.

5.1.4 Fourth Period: From accession to the EEC in 1981 until today

In the '80s a process of liberalisation of the banking system begins. In 1982 the Currency Committee is abolished and its duties are conferred to the BoG.[32] State intervention is gradually reduced and a favourable climate for establishing new banks is created.

The period 1982-86 is the one in which the foundations are laid for the modernisation of the banking system and the rationalisation of the money market. The economic conditions of the time, however, delayed once more the modernisation of the banking system. The economic recession of the ’80s affected the domestic industrial sector and important enterprises faced difficulties in serving their debts, causing damages mainly to state controlled banks, which were burdened with precarious loans[33]. An additional characteristic of the time is the continuously widening budgetary deficits and the increasing needs of the state for borrowing. As a consequence, interest-rates were high and government spending used considerable amounts of capital,[34] which caused, a delay

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[28] Kostopoulos, J. The Competitiveness of Greek Banking System compared to that of the banking systems of countries members of EEC, p. 92, in the “Committee for the Study of Banking System”, Karatzas, K. (editor), Athens 1981

[29] Kalamotousakis, G. Monetary and special credit restrictions of the Greek Banking System. Policy of interest-rates and placements in Greece and in the EEC countries p. 135, in the “Committee for the Study of Banking System”, Karatzas, K. (editor), Athens 1981

[30] Gondikas, G., Special Credit Institutions, p. 109, in the “Committee for the Study of Banking System”, Karatzas, K. (editor), Athens 1981

[31] Gondikas, G., Special Credit Organisms, p. 109, in the “Committee for the Study of Banking System”, Karatzas, K. (editor), Athens 1981

[32] Law. 1266/82 Official Journal of the Hellenic Republic A΄ 2.7.1982

[33] KEPE, Monetary System, report for the development programme 1988-1992, p..20, Athens 1991

[34] Via the obligatory reserve engagements in the Bank of Greece

in the rate of liberalisation of the banking system and of the rate of increase of investments[35].

Until the middle of the '80s, interest rates continued being exogenously fixed and the policy of directing resources to specific branches of the economy (e.g. handicraft) by means of administrative interventions was also followed. This policy produced divergences from the rules of the market and finally resulted in considerable amounts remaining in the BoG enjoying interest-rates lower than the average cost of deposit collection[36]. Despite the gradual but intensive abolition of restrictions in the operation of financial institutions, in the period 1987-91, in view of the preparations for implementing the rules of the single European Market, at the end of the '80s three state banks (National, Commercial and Agricultural) together with two private ones (Alpha Bank and ErgoBank) accounted for 75% of the Greek banking market.

The 3rd stage of modernisation of the Greek banking system started with Law 2076/92, by which the 2nd banking directive of the EU (Directive EEC 89/646) was incorporated in the Greek banking system. Principal changes concern the freedom in the movement of capital, the abolition of restrictions for the establishment of foreign banks in Greece and the determination of interest-rates by the market laws. According to Law 2076/92, credit institutions operating in Greece are classified in the following categories:

1. Commercial Banks: Their legal framework is the law for the joint-stock companies and they operate in the market on the basis of the rules of free competition. This category contains also branches of banks that have their corporate seat in the EU or in third countries. On the basis of the proprietorship, they are distinguished into state banks, when the state owns at least 51% of share capital (this is the case for National Bank, Commercial Bank and the Agricultural Bank) and into private banks, when the majority of share capital is in the hands of private individuals (the most important of these are the Alpha Bank, the Piraeus Bank and Eurobank-Ergasias).[37]
2. Special Credit Institutions, which serve a specific purpose in the socio-economic life of country. Although their overall importance declined after the change of status of the Agricultural Bank, which became a commercial bank in 1991, and the absorption of the Real Estate Bank by the National Bank, they continue being an important segment of the credit system.

[35] KEPE, op. cit. p. 19

[36] Agapitos, G. Developments and structural problems of Greek Economy, 1950-1987, p.296-300, Athens 1992, Sbilias publications

3. Co-operative Banks. The case of co-operative banks will be analysed in detail in the next chapter. However, in this point it is deemed relevant to make reference to the way co-operative credit was faced in Greece by "competitors" in the banking field. The President of Alpha Bank, the larger private bank of Greece, Mr. J. Kostopoulos was quoted as saying the following in replying to a question about the future of co-operative banks in Greece[38]:

"…I will not refer to all that about co-operative banks… I do not understand such things. I am afraid that it is one of those things that are created simply because bureaucracy thus decided somewhere. Co-operative Banks we did not have in Greece and now we must have them simply because they exist in the rest of Europe. Well, what to do? We shall withstand it. It is a mistake. For me, there is no sense in that in our times…"

5.2 GREEK BANKS AND INTERNATIONAL TRENDS ON BANKING

Current years are a period of restructuring and reorientation for the credit system worldwide. Advances in information systems and telecommunications have made access to geographically remote areas feasible and cost-effective. European banks are faced with an additional challenge, the challenge of European unification and the adoption of the single currency in the context of EMU. The introduction of the euro is acting as a catalyst in further stimulating competition and speeding up structural changes, which have become necessary also because of the ongoing disintermediation process.[39] The entry of Greece into the euro area[40] marked the beginning of a new era for the Greek banking system, which now operates in a much more competitive environment. Adapting in a rapidly changing environment, within a little more than a decade, as it has been described in the last few pages, Greece has moved from one of the most restrictive financial environment in the western world to a largely deregulated market.

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37 For the basic figures of the commercial banks see analysis in subsequent pages

38 Institute of Economic and Industrial Research (IOVE), *Meeting on the subject: Banks and enterprises in view the Eurocurrency*, Athens June 1996

39 Belaisch, Ag., Kodres, L., Levy, J., and A. Ubide (2001) "Euro-Area Banking at the Crossroads", IMF Working Paper, WP/01/28, IMF, p.4

40 1.1.2001, Greece became the 12th member of the euro area

In their effort to strengthen their position in the Greek market and, at the same time, acquire a size that will afford them economies of scale and easier access to international money and capital markets, certain Greek banks have opted for M&As. Specifically, in the period 1998-2001 a total of 14 banks were acquired by existing ones, of which six were state-controlled and eight belonged to the private sector (seven Greek banks and one branch network of a foreign bank). It should be noted that in the rest of the euro area between 1998 and 2000 a total of 56 bank M&As took place, of which 19 were domestic[41].

The size of the Greek credit institutions, in spite of recent M&As, remains small by European standards. On the basis of total assets at end-1999, only two Greek banks rank among the 100 largest European banks.[42] It is to be noted that the first of these two Greek banks occupy the rather low 74th position.

In general, credit institutions operating in Greece have developed considerably in recent years, with their assets in 1999 accounting for about 126% of the national GDP (Table 4.1). Still, this percentage is one of the lowest in Europe and it is about half the corresponding percentages of countries such as Austria, France, Germany and Ireland. This suggests that there is room for further development of the Greek financial market.[43]

TABLE 4.1

TOTAL ASSETS OF CREDIT INSTITUTIONS IN 1999
(% of GDP)

COUNTRY	%
Austria	246.5
Belgium	333.1
Denmark	130.1
Finland	97.2
France	277.2
Germany	240.6
Greece	126.1
Ireland	251.5
Italy	135.2
Norway	97.7
Spain	162.9
Sweden	124.8

[41] Bank of Greece (2002) *Annual report for the year 2001*, pp.286-287. See also Appendix 4 – Table 4.1. Acquisitions and Mergers of Banks in Greece in the period 1998-2001
[42] *The Banker*, Top 500 Europeans, September 2000.
[43] Bank of Greece (2001) *Annual Report for the Year 2000*, p.251

Switzerland	543.3

Source: Bank of Greece, *Annual Report for the year 2000*

Greek banks' lending, as a percentage of their total assets (Table 4.2) is relatively low compared with other countries. Available data across commercial banks in various European countries in 1999 shows that Greece has one of the lowest ratios of banks' outstanding claims from credit relative to total assets (36.6%), with only France and Belgium featuring lower in the list. The corresponding ratios of other countries ranged between 37.6% (Sweden) to 60.7% (the Netherlands). The divergence is even more obvious when one compares with non-European countries: the corresponding figures for the United States, Japan and Canada, for instance, exceed 60%.

TABLE 4.2

COMMERCIAL BANK LOANS
(% of assets)

COUNTRY	Loans	
	1995	1999
Austria	50.9	49.5
Belgium	32.7	33.4
Canada	66.5	61.3
Finland	48.4	56.4
France	34.0	29.4
Germany	57.4	50.3
Greece	28.1	36.6
Italy	42.4	44.3
Japan	66.8	66.0
Netherlands	60.5	60.7
Portugal	33.3	47.7
Spain	41.1	47.3
Sweden	43.6	37.6
Switzerland	56.2	41.5
United Kingdom	52.1	54.3
United States	63.4	63.8

Source: Bank of Greece, *Annual Report for the year 2000*

Unlike lending, deposits with Greek banks, as a percentage of their total assets, are among the highest worldwide (Table 4.3). As shown by data from commercial banks' balance sheets for 1999 in the EU countries, deposits as a percentage of assets varied between 22.7% (France) to 55.2% (Finland). The corresponding percentage for Greek commercial banks was 67.7%, which becomes 77% when repos are included. [44],

TABLE 4.3

DEPOSITS WITH COMMERCIAL BANKS IN 1999
(% of assets)

COUNTRY	%
Austria	40.1
Belgium	37.4
Canada	59.4
Finland	55.2
France	22.7
Germany	42.8
Greece	67.7
Italy	29.6
Japan	77.9
Netherlands	46.6
Portugal	46.8
Spain	43.8
Sweden	40.0
Switzerland	44.2
United Kingdom	51.2
United States	66.2

Source: Bank of Greece, *Annual Report for the year 2000*

As for the major regional characteristics of the Greek banking system, such as the number of branches per bank and the ATMs network density, despite the impressive rise observed in the 1998-2001 period, they both remain comparatively low by European standards and in any case well below the euro area average[45,46].

[44] Repos recorded a very large increase in 1999 and 2000 owing to their favourable tax treatment. Bank of Greece (2001) *Annual Report for the year 2000*, pp 253-254

[45] Bank of Greece (2002) *Annual report for the year 2001*, p.288

It should be stated that, despite its last years' convergence and rapid evolution, the size of Greek banks is still comparatively small both by international and by European standards[47]. Researchers,[48] [49] agree that it is still tempting to characterise the banking system as an oligopoly with a competitive fringe that has been gaining share over time. In comparison with their EU competitors, Greek Banks tend to have significantly higher staff costs, which is particularly striking under the fact that they are under-branched. In addition Greek banks have lower loans per employee, lower nonblank deposits per employee and lower total assets per employee.

On the other hand, researchers also agree that the most important recent development has been the continuous privatisation of the state-owned banks. In the early 1990s the state commercial banks had around 85% of total commercial banking operations.[50] That share fell to 63% at end-1998 and to about 53% at end-2001[51]. Privatisation will increase competition among banking institutions, raise all subsequent distortions and finally allow convergence and catch-up dynamics of the banking sector to prevail[52].

In spite of increased pressure from international competition in the banking sector, Greek banks can, on certain conditions, maintain their profitability at satisfactory levels in the future. One major reason underlying this assessment is that demand for financial services will rise faster in Greece than in other European countries[53]. As already mentioned, banks' assets/GDP ratio is lower than in other European countries.

Furthermore, the fact that certain segments of the credit market, such as consumer and housing loans, are on an upward trend and are less mature than other markets confirms that the Greek financial sector has a potential for further expansion.

An interesting question, however, is raised from the fact that concentration in the Greek credit system, on the basis of the market shares of the 5 largest banks, is one of the

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[46] Staikouras, Ch., and G. Wood (2001) Competition and Banking Stability in the Euro Area: The Cases for Greece and Spain, Social Science Research Network Electronic Paper Collection: http://papers.srn.com/paper.taf?abstract_id=233911, pp.3-4

[47] Bank of Greece (2002) *Annual report for the year 2001*, pp.290

[48] Eichengreen B., and H., Gibson (2001) Greek Banking at the Dawn of the New Millennium, Centre for Economic Policy Research Discussion Paper Series, CEPR, pp. 4,8 and 10

[49] Staikouras, Ch., and G. Wood (2001) Competition and Banking Stability in the Euro Area: The Cases for Greece and Spain, Social Science Research Network Electronic Paper Collection: http://papers.srn.com/paper.taf?abstract_id=233911, p.7

[50] Staikouras, Ch., and G. Wood, ibid, p.7

[51] Bank of Greece (2002) *Annual report for the year 2001*, pp.289

[52] Eichengreen B., and H., Gibson (2001), ibid, p.6

[53] Bank of Greece (2001) *Annual report for the year 2000*, p. 255

highest in the EU[54] and only the Netherlands featured at a higher position. The BoG[55] stated that commercial banks had a domestic market share of almost 80% at end-2001 on the basis of total assets, while on the basis of lending and deposits their respective shares were 2.5-3 percentage points higher. Future research might focus on an oxymoron: The Greek Banking system needs to improve its structural characteristics in order to compete in the euro area. But, will Greek customers find their needs to be better served by a more concentrated banking system?

5.3 CURRENT SITUATION OF GREEK COMMERCIAL BANKS

The dynamic development that is characterising the Greek banking sector, mainly because of mergers and acquisitions of the last years, generates realignments in quantitative terms. At the same time though, this evolution poses analytical and methodological problems inasmuch as the comparison of sizes through time becomes complicated. Thus, the presentation of basic economic sizes of the Greek banking institutions is static and based on the last available, in the time of writing, balance sheet data (31.12.2000)[56].

In the following tables, the basic economic figures and financial indicators of Greek foreign commercial banks active in the country in 31/12/2000 are presented. The picture is supplemented with the presentation in the same tables of consolidated accounts of Co-operative Banks of the same period.

The preceding analysis does not aim to describe in detail the current status of the major Greek commercial financial institutions. A thorough attempt of that kind would be out of the main interests of the overall study. On the other hand, it would be useful to consider some major indicators of commercial banking in Greece, in a way that will

[54] European Central Bank (2001) " Bank concentration and retail interest rates" , Working Paper Series, July 2001.

[55] Bank of Greece (2002) *Annual report for the year 2001*, pp.289-290

[56] Although some of the reported institutions have already published balance sheet data for the years following 2000, the analysis – for reasons of coherence and comparison – will use available data for 2000-year end because all available data for the Cooperative Banks refer to that year.

facilitate comparison and explanatory analysis of the cooperative banking institutions that will follow.

TABLE 4.4

BASIC ECONOMIC FIGURES OF GREEK COMMERCIAL BANKS
(31/12/2000 – *in billion drachmas*)

Bank	**Assets**	**Loans**	**Deposits**	**Own Capital**	**Profits**	**Personnel**
National Bank	15,015,792	5,101,531	11,457,402	932,006	298,014	15,788
Commercial Bank	5,401,460	2,342,162	2,899,874	629,545	115,650	7,128
Alpha Bank	9,673,090	4,120,893	6,173,574	760,131	115,019	8,299
Agricultural Bank	5,668,091	3,394,446	3,673,335	680,586	83,948	5,615
EFG Eurobank	5,341,079	2,739,495	3.041,469	597,370	107,140	7,145
Piraeus Bank	3,710,324	1,530,703	2,038,667	373,180	63,693	3,524
General Bank	735,139	392,772	448,046	74,951	1,883	1,960
Bank of Attica	422,198	199,504	212,883	49,580	7,017	922
Piraeus Prime Bank	152,386	74,797	30,325	42,308	4,838	77
Telesis	306,366	113,783	140,297	82,866	3,566	119
Laiki Bank	380,269	201,437	235,188	30,729	2,770	458
Egnatia	616,634	429,244	405,307	78,421	12,308	1,281
Commercial Banks Total	*47,431,064*	*20,640,767*	*30,756,368*	*4,339,886*	*816,347*	*52.316*
Foreign Banks–total	7,669,144	2,957,078	5,641,778		41,061	4,144
All Commercia Banks–total	*55,100,208*	*23,597,845*	*36,398,146*	*4,339,886*	*857,408*	*56,460*
Cooperative banks–total	185,558	128,974	110,504	66,715	5,230	369
Grand Total	**55,285,766**	**23,726,819**	**36,508,650**	**4,406,601**	**862,638**	**56,829**

Source: Published Balance sheet data

Three of the five largest, on the basis of total assets, banking institutions are state-owned (National Bank, Commercial Bank and Agricultural Bank). The group is completed by Alpha Bank and Eurobank, both privately owned institutions that gained most of the market shares through M7As of last years. These are the major competitors of the Greek banking system, while it should be noted that most of the qualitative changes in the banking structure, through technological innovations and aggressive price and marketing policies, initiated from Alpha Bank and Eurobank,.

Research on the profitability of Greek banks is limited in spite of the great importance of the subject in such a highly competitive environment. The main researchers are Vasiliou (1996), [57] who analyzes a sample of eight banks over the period 1977-1986, and Hondroyiannis, Lolos and Papapetrou (1999), [58] who study nineteen banks in the period 1993-1995. Vasiliou finds that the more profitable banks have more capital, more liquidity, less leverage and fewer deposits. He concludes that profitability depends more on liability than on asset management. This result is to be expected in a period in which banks were tightly regulated, a fact that was limiting their ability to control the asset side of the balance sheet.[59] Hondroyiannis et al find some evidence that greater concentration and market share have translated into higher profits. Finally, the most recent attempt to explain determinants of Greek banks' profitability is that of Eichengreen and Gibson (2001), who use a panel of Greek Banks over the period 1993-1998. They conclude that smaller banks will reap scale economies and raise profits if they grow larger. The implication for larger banks is that some of them have already exhausted their scale economies and will have to downsize in order to reduce costs. [60]

As it was mentioned earlier, Greece has one of the lowest ratios of banks' outstanding claims from credit relative to total assets, which for 1999 was 36.6%. However, the banks' published balance sheets for 2000 show that this ratio has exceeded 40% (43.5%). This is due to the fact that a number of constraints on the expansion of bank lending no longer apply or are losing importance. These include the restrictions that until the early 90s applied to certain types of lending, as well as banks' heavy

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[57] Vasiliou, D., (1996), "A Financial Ratio Study of Greek Commercial Bank Profitability", *Rivista Internationale di Scienze Economiche e Commerciali*, vol.43, no.1, pp.147-161

[58] Hondroyiannis G., Lolos S, and E. Papapetrou (1999), "Assessing Competitive Conditions in the Greek Banking System", *Journal of International Financial Markets, Institutions and Money*, vol.9, pp.377-91

[59] Eichengreen B., and H., Gibson (2001), op.cit., p.12

investment in Greek government securities, high reserve ratios and the relatively high lending rates (mainly in the context of the anti-inflationary monetary policy pursued at that time). These rates have now for the most part converged with the lower level of their European counterparts. Also, since mid-2000 credit institutions' reserve requirements have been fully harmonised with those applied by the Eurosystem, in terms of both reserve base and reserve ratio (which is now 2%, compared with 12% previously applicable in Greece).[61] For the Co-operative Banks the relevant ratio goes up to 69.5%. Trends towards liberalisation of the Greek credit market, allows the estimation that the banks will pursue expansion of consumer credit in order to capture the market opportunities that will emerge. After all, commercial banks had during the last several years, lots of opportunities to expand towards productive credit…

TABLE 4.5
MARKET SHARES (31/12/2000, in percent)

Bank	Assets	Loans	Deposits
National Bank of Greece	27,2%	21,5%	31,4%
Commercial Bank of Greece	9,8%	9,9%	7,9%
Alpha Bank	17,5%	17,4%	16,9%
Agricultural Bank of Greece	10,3%	14,3%	10,1%
EFG Eurobank	9,7%	11,5%	8,3%
Piraeus Bank	6,7%	6,5%	5,6%
General Bank of Greece	1,3%	1,7%	1,2%
Bank of Attica	0,8%	0,8	0,6%
Piraeus Prime Bank	0,3%	0,3%	0,1%
Telesis	0,6%	0,8%	0,6%
Laiki Bank	0,7%	0,8%	0,6%
Egnatia	1,1%	1,8%	1,1%
Greek Commercial Banks	*85,8%*	*87,0%*	*84,2%*
Foreign Banks – total	13,9%	12,5%	15,5%
All Commercial Banks – total	*99.7%*	*99.5%*	*99.7%*
Cooperative banks – total	0,3%	0,5%	0,3%
Grand Total	**100,0%**	**100,0%**	**100,0%**

Source: Table 4.4, Author's calculations

A point of concern whose importance was made clear earlier presents itself again in the previous table. It is obvious that concentration ratios are remarkably high in the Greek banking system. The market shares of the five largest banks as regards assets, loans and deposits are 75 percent and 74.6 per cent respectively (the latter figure stands for both

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60 Eichengreen B., and H., Gibson (2001), op.cit. pp.16-18

61 Bank of Greece (2001) *Annual Report for the year 2000*, pp 252

deposits and loans market shares). The Bank of Greece, however, states that in the following year (2001) concentration ratios were even higher[62].

At the same time, the small importance of co-operative banks, as shown by their contribution to the formation of the overall banking figures, is revealed.

TABLE 4.6
BASIC ECONOMIC INDICATORS PER EMPLOYEE (31.12.2000, in bil. drachmas)

Bank	Assets/ employee	Loans/ employee	Deposits/ employee	Profit/ employee
National Bank of Greece	951	323	726	18.9
Commercial Bank of Greece	758	329	407	16.2
Alpha Bank	1,166	497	744	13.9
Agricultural Bank of Greece	1,009	605	654	15.0
EFG Eurobank	748	383	426	15.0
Piraeus Bank	1,053	434	579	18.1
General Bank of Greece	375	200	229	1.0
Bank of Attica	458	216	231	7.6
Piraeus Prime Bank	1,979	971	394	62.8
Telesis	2,575	956	1,179	30.0
Laiki Bank	830	440	514	6.0
Egnatia	481	335	316	9.6
Greek Commercial Banks	*907*	*395*	*588*	*15.6*
Foreign Banks – total	1851	714	1,361	9.9
All Commercial Banks - total	*976*	*418*	*645*	*15.2*
Cooperative banks – total	503	350	299	14.2
Grand Total	**973**	**418**	**642**	**15.2**

Source: Table 4.4, Author's calculations

From the data presented above, it is obvious that the Greek banking system reveals a rather mixed impression as far as its basic indicators per employee is concerned.

Indicators lower than the average of commercial banks characterize Co-operative Banks, as a whole. Nevertheless, indexes such as loans/employee and profits/employee are not in an appreciable distance from those of the commercial banks.

It is worth noticing though that individual comparison of some commercial banks – both state and private – with the Co-operative Banks tends to be in favour of the latter. Thus,

[62] Bank of Greece (2002) *Annual report for the year 2001*, pp.289-290

co-operative banks score higher from two of the five biggest Greek commercial banks, i.e. the National Bank and the Commercial Bank, at a very interesting indicator as the loans/employee indicator is. This might have its explanation in the fact that these two banks are state-owned banks with consequent problems of over-staffing.

As far as the index profits/employee is concerned, things are better for the cooperative banks compared with the scores of many commercial banks. A striking comparison is the one with the Alpha Bank, the largest privately owned bank and the second in rank of all. It should be really encouraging for Greek co-operators to learn that they enjoy on average equal profits per employee with a leading “player” of the market. It is noted, however, that as economic results of a group of local banks are compared with results of a network of commercial bank this comment could be exceptionally misleading,. It is obvious that only schematically can the picture of comparison be given.

The index Return on Equity (ROE), an important efficiency-performance index, which underlines the efficiency of own capital of a bank (Table 4.7) is shaped in a much lower level for co-operative banks than the mean of commercial banks. On the contrary, efficiency of total assets measured by the Return on Assets ratio (ROA) is higher than that of commercial banks. This is due to high, concerning the total, own funds of co-operative banks. According to data of 31.12.2000 the own capital of commercial banks represent the 9.1% of total assets and for the co-operative banks this is shaped in 35.6%.

The deposits/loans ratio for the co-operative banks indicate that these banks take full advantage of available capital and channel finance to local economies in ratios that exceed performance of commercial banks. The relevant ratio for commercial banks on average is less that 55% of that calculated for the co-operative banks. On average, commercial banks use only the 67% of their deposits for loans.

TABLE 4.7

ECONOMIC PERFORMANCE INDICATORS (31.12.2000)

Bank	ROE	ROA	Loans/deposits
National Bank of Greece	42.99	2,18	44.5%
Commercial Bank of Greece	27.96	2.64	80.8%
Alpha Bank	20.70	1.66	66,8%
Agricultural Bank of Greece	18.83	1.66	92.4%
EFG Eurobank	27.17	3.22	90.1%
Piraeus Bank	27.81	2.91	75.1%
General Bank of Greece	3.32	0.30	87.7%
Bank of Attica	20.63	2.26	93.7%
Piraeus Prime Bank	19.07	4.72	246.7%
Telesis	7.38	1.81	81.1%
Laiki Bank	13.91	0.94	85.6%

Egnatia	20.41	2.79	105.9%
Total	*25.93*	*2.03*	*67.1%*
Foreign Banks – total			52.4%
Commercial Banks – total			*62,4%*
Cooperative banks – total	8.5	3.1	116.7%

Author's calculations from balance sheet data

Among individual types of lending, the largest increases have been recorded in loans to trade, housing and consumer loans, i.e. those types that were subject to restrictions until a few years ago. In the 1998-2000 period, credit to trade increased at an average annual rate of about 22% and accounted for 22.4% of total lending to the private sector at the end of 2000, compared to 20.8% at the end of 1997. This development partly reflected an increase in the retail sales volume, which was facilitated by the deregulation of consumer loans, the promotion of the use of credit cards (which more than doubled in the 1998-2000 period) and an increase in sales on credit. Over the same period, housing loans grew at an annual rate of 26% and consumer loans at an annual rate of 37%, representing 20.4% and 10% respectively of total lending to the private sector at end-2000, compared with 17.3% and 6.7% at end-1997. [63]

The preceding brief presentation may suffice to provide evidence of the market's evolution during the 90s and its current situation. The continuous trend toward the privatisation of the state-owned banks and further M&A activities have altered the banking scene. State commercial banks have seen their share of total banking operations falling from 85% to about 53% in less than a decade, to the benefit of a small number of dynamic private banks. Private banks that were involved in M&As, strived on the one hand to rationalise their lending portfolio -especially in cases where the purchased bank was a state-owned one- and on the other, to reorganise their network by closing-down weak and/or overlapping branches. However, concentration ratios are still remarkably high, which in turn is translated into higher profits. Moreover, authorities and researchers agree that the Greek banking system remains under-branched and demonstrates a weak ATMs network density.

Clearly, in the above, one may identify some key characteristics of a market –similar to the ones described in the last section of chapter two- that could result into new-entries in the banking market. If, in addition, one takes into account the fact that current lending strategies are focusing on types of loans, such as consumer and trade loans, where, historically, co-operative banks are considered to be major competitors, then the main

[63] Bank of Greece (2001) *Annual Report for the year 2000*, pp 252-253

arguments, in favour of a fertile ground in which co-operative initiatives might flourish, may be justified. However, defining the banking context that justifies the initiation of co-operative banking does not provide sufficient reasoning for its absence in the past. This will be discussed in the following chapter where the present situation of the Greek Co-operative Banks will be further elaborated.

CHAPTER 5

COOPERATIVE BANKING IN GREECE

In this chapter, interest is focused on the presentation of the evolution of co-operative credit in Greece, by making a brief historical reference, by introducing the legal framework and by presenting the situation of Greek co-operative banks today.

5.1 The Historical and Social Frame of Development of the Institution of Co-operative Credit in Greece

The first Greek treatise, which made European cooperatives known in Greece, as these were performing in 19th century, was published in 1869, by an outstanding personality of the times D. Mavrokordatos[64]. It was the work entitled “On People’s Credit Banks", that was published in the form of six letters, initially, in the newspaper "Clio" of Trieste (issues no. 406-417 of 1869) and then in book form in Leipzig. [65] In the end of sixth letter, the author refers to the necessity of establishing credit cooperatives in Greece and asks for help for propagating the new institution:

> *"…What is needed for realising all important and lasting works, apart from time, is, above all, missionaries for teaching and also for doing. I myself dare to ask for missionaries by means of this study, especially among the young … the work is sufficiently beautiful to awake noble feelings … those convinced (about the necessity of the new institution) should convince others …"* [66]

[64] More information about D. Mavrokordatos and his treatise cf.: The Voice of Cooperatives, 1946 pp.118-120, 147-151, 190-4, 321-2, 346-348, 363-5, 405-6, 425, 476-8 and, Klimis A., Cooperatives in Greece. Volume I, 1985, p. 151

[65] These letters describe the types of cooperatives (Cooperatives: A. About raw material, B. About buying edible and other useful for everyday life items, C. For curing the diseased, D. About granting small advances at mean interest or People’s Credit Banks, and, E. Industrial or productive cooperatives of workers) operating in Germany with particular emphasis in the analysis of credit banks.

[66] The Voice of Cooperatives, 1946 p. 478

The unexpected death of D. Mavrokordatos left without continuity his efforts for establishing credit cooperatives in Greece. The only cases that may be related with his proposals refer to the existence of Popular Banks in Patras, where, according to S.P. Loverdos in his book "Savings and Savings banks" published in 1904 (p. 90-91), the "Popular Savings bank Agios Konstantinos" and the Savings bank 'Dafnon' of the Messinia Society were operating. [67]

In the year 1900, the 'Association of Artisans and Workers of Lamia' was founded in Lamia. Initially, it operated in the form of mutual society and in 1906 it was transformed into a credit cooperative. Its successful operation continues until today.

In 1907 Sociological Society was formed. Its views were spread through their magazine "Review of Social and Legal Sciences" first published in 1908. The Society's activity is strongly connected with the personality of A. Papanastasiou, but all its founders and members were important persons with friendly feelings regarding rural and urban cooperatives. The very important works of the Society were in favour of farmers, of workers and of co-operatives. According to G. Ventiris in his work "Greece of the period 1910-1920":

> *"… sociologists tried to create social conscience to the workers, the petit-urban people, the farmers … Their influence was beyond any doubt …"*

In the memorandum of the Sociological Society to the Revolutionary government of 1909, the following were preached:[68]

> ***…6) On supporting the formation of agricultural and urban co-operatives by establishing their legal framework, by instituting prizes offered by the state (as is the case in Italy) and by establishing a Central Bank of Co-operatives … in the same way as the Central Cooperative Fund was organised in Prussia. Without these measures, it is difficult for cooperatives to develop in order to relieve villagers from the nails of usurers, to contribute to implement all recent agricultural developments to the benefit of farmers and will significantly contribute to the economic improvement of workers and artisans and will assist greatly towards moral and political education of the working classes "***[69]

Is this way, the favourable climate needed for the adoption of an appropriate legal framework on cooperatives was created. Law No. 602/1915 constituted the first legal

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[67] A. N. Klimis, Cooperatives in Greece. Volume II, 1985 p.214

[68] A. N. Klimis, Cooperatives in Greece. Volume II, 1985 p. 222-3

[69] It is clear that in the views of the Sociological Society one may identify its perceptions of an "enabling" state that should try to mitigate, through a strong co-operative movement, wider socio-economic difficulties of rural and urban citizens. However, the years that followed, almost until very recently,

instrument for the operation of cooperatives.[70] In the introductory report of Law 602/1915 "On cooperatives" the legislator determines with clarity the main objectives of cooperatives as follows:

> *"The job of squeezing both producers and consumers by the intermediary trade is completed by usury that exploits mainly the agricultural populations and that can be fought against only at a minimal degree by means of penal persecutions, if appropriate credit organisation is not established … Credit and savings cooperatives, with a central fund, will emancipate the rural but also the urban populations, from the pressing dependence on speculators."* [71]

For the development of credit cooperatives, in particular, for which the legislator was drafting the role of provider of the necessary capital and of fighter of endemic usury, it was stated that: [72]

> *"Credit will be provided to members, normally, without material security as a guarantee. Guarantee is the solidarity of partners who, of course, will not allow their fellows to delay repayment of their debts to the others' detriment."*[73]

It appears that progressively conditions were maturing for the creation of credit cooperatives. There were many those who were supporting the foundation of a central co-operative bank, by the state for the financing of the agricultural sector. It was in 1920 when the Socrates Iasemidis proposed the foundation of an Agricultural Co-operative Bank. Following a substantiated criticism for the attitude of the National Bank of Greece regarding cooperatives he referred to the many advantages of a cooperative bank compared to the National Bank.

It is worth mentioning certain basic points of reflection of Iasemidis with regard to the constitution and the objectives of Co-operative Bank: [74]

A Central Agricultural Co-operative Bank:

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proved that it is very difficult to transmit a spirit of social cohesion and economic independence of co-operatives through a top-down approach.

[70] That law is recognised as an exemplary one and it was based principally on the German law and the Austrial draft-law of 1911.

[71] A. N. Klimis, Cooperatives in Greece. Volume II, 1985 p. 279

[72] op.cit. p. 281-282

[73] Obviously, the legislator incorporates smoothly and with clarity the notion of "social collateral" as a new factor that could increase the capability of local population to fight against endemic usury and the exploitative behaviour of intermediate trade.

[74] "Co-operative chronicles" 1950 p. 129-132

- Should have a form similar to a limited liability cooperative
- Should maintain stable interest-rate
- Should assemble deposits and should strengthen the saving spirit
- Should establish co-operative schools for educating its own personnel as well as the personnel of cooperatives and their unions
- Should care for the disposal of products of members of cooperatives
- Initially it should only serve agricultural cooperatives and later urban cooperatives.

Iasemidis also proposes ways of securing the necessary capital and the allocation of surpluses as well as the participation of the various co-operative organisations.[75] In essence, these proposals constituted the basis, together with the efforts of Papanastasiou and Chassiotis and many others, for the foundation in 1929 of the Agricultural Bank of Greece when Prime Minister was E. Venizelos.

A historical review for the urban cooperatives in the end of 1924 is given by A. Svolos [76] in an article published in the first issue of the magazine "Syneteristis (Co-operator)" 1925 (p.3) [77]

> *"He who reviews the urban cooperative movement … will admit that this type of cooperatives … has not found its way yet. Of course an urban cooperative is more delicate by its nature. It requires additional economic prerequisites … To the individualistic character of the Greek of the urban centres is more difficult to transmit the superior virtues, that are not instinctive unfortunately. But this is not important for the future. There is no doubt that in the same way as agricultural cooperatives found their way, urban cooperatives will follow suit… "* [78]

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[75] Thus, Iasemidis visualised a central credit co-operative, which, in accordance with the Raiffeisen and Haas initiatives, should retain a close link with its co-operative and natural members, not only with reference to their credit and saving needs but to their wider economic and social conditions.

[76] Of great interest and importance is the doctoral thesis of A. Svolos "The right to co-operate and the right of associations", Athens 1915. In 1917 A. Svolos became Head of Dept of Work and Social Security in the Ministry of National Economy, that was competent for urban cooperatives. At the same time he was member in the advisory committee for cooperatives.

[77] A. N. Klimis (1988) Cooperatives in Greece, Volume III, PASEGES, Athens, p.601.

[78] From that comment one may draw some very interesting remarks that characterised the socio-economic conditions that prevailed in mid-1920s. In addition, it could be linked to the argument that it is more difficult to retain social links necessary to build trust in urban areas than in rural ones. However, the reader should keep in mind that, over the same period, Greece was struggling to “absorb” the huge wave of refugees from Asia Minor, which altered the quantitative and qualitative aspects of the urban social tissue.

Finally, T. Tzortzakis, in his book "Cooperatives in Greece" (1932, p. 341) informs us that, apart from the case of the credit cooperative of Lamia, no other examples are of importance. He considers as most probable development for credit activities to be undertaken by supply cooperatives of professionals in the cities and of farmers in the provinces rather than the establishment of new credit cooperatives.
This forecast was verified up to a certain extent. Until 1977 – the year of foundation of credit cooperative of Ioannina – no other urban credit cooperative was founded.

5.2 REASONS THAT DELAYED THE GROWTH OF CO-OPERATIVE CREDIT IN GREECE

It is a fact that co-operative credit was delayed too much in Greece, in relation not only with the development of cooperation in Europe, but also in relation with the corresponding developments of the Greek banking system. In several cases the development of the Greek banking system put barriers to the development of co-operative credit. It should be understood, as well, that cooperation in Greece had also to face the particularly intense historical events – political instability, wars, civil war, dictatorships, big migratory waves - that caused strong turbulences to the Greek society, causing disintegration in the organisational foundations of cooperation.

From its side, the state[79] although it exerted a positive influence on cooperative development in the period 1915-1930, it soon evolved into a retarding factor with its direct or indirect interventions in the management and the operation of cooperatives and tended to turn cooperatives into professional organs or organs for serving the efforts for party political control of social strata. Apart from factors that were common to all

[79] The problem of state interventions in the operation of cooperatives generally, is neither new nor exclusive "privilege" of Greece. It has been a subject discussed by co-operatives at world level. Apart from the indirect efforts to control cooperatives and to implement social policy through cooperatives during recent times (1980's), Greece had the "chance" to see the elected boards of directors of cooperatives "being replaced" two times within 30 years, in difficult for Greece periods of her history. The first was from the dictatorship of the 4th August 1936. The second time the measure was more sweeping: With the compulsory Law 31/1967, issued by the dictatorial regime of the time, the period of office of the boards of directors and of the supervisory councils of the Confederation (PASEGES), of the Central Unions, of cooperative associations, of the Unions of Agricultural Cooperatives and of the Cooperative Companies was ended. By the same law the general Directors, the Directors and the Legal and Technical Advisers of Agricultural Co-operative Organisations were dismissed! (C. Papageorgiou, 1996, Co-operative Economy, University Lectures, AUAthens p. 75 and p. 77). As C. Papageorgiou, observes with reference to the events of 1967, *"…The qualitative evolution and the coordinated action of cooperatives did not manage to have a smooth continuity. The seven-year dictatorship functioned as a brake for co-operatives, the institution that is susceptible to abnormal socio-economic situations and is suffocated under oppressive regimes…* ". Unfortunately, a 3rd direct intervention and a consequence "violent" termination of the period of office of Co-operative Organs was meant to happen under the democratic governance of the Greek social party in 1982.

enterprises of the country, the absence of co-operative credit can be attributed to a series of factors:[80]

1. The existence, since 1914, of Postal Savings bank, with its wide network which operates as a specialised institution for collecting savings of the lower income strata
2. The omission to introduce arrangements for cooperative credit in the critical three-year period 1927-29, when the Greek banking system was reconstructed.
3. The world economic crisis of the period 1929-1932 that injured heavily the banking credit in Greece and strengthened, for a considerable period of time, the forces of "state-ism" in the banking field.
4. The lack of trust in the domestic currency which, despite the repeated efforts for re-establishing monetary stability after the war, obviously, did not create the appropriate environment for a purely cooperative credit to emerge.
5. The creation of the Agricultural Bank, which operates under complete control of the government and provides credit to the rural areas. This constitutes a major hindrance to the development of independent credit cooperatives, for collecting rural savings and providing loans to the rural areas. It is reminded here, that the Agricultural Bank was using multi-purpose cooperatives as "intermediaries" in the provision of credit in the rural areas. This approach did not allow the mobilisation of rural population for the creation and exploitation of "common money reservoirs", given that it was almost prohibitive, in terms of cost, to deal only with loans. Any local efforts, even if there were such, could not compete with the "cheap government money" channelled to the periphery by the Agricultural Bank.
6. The "rural exodous" of the first post-war decades towards the urban centres and to abroad, serves the strategic choice of development of the country, but, it deprives the countryside from resources and forces that could shape the cores of local development initiatives.
7. The last two of the above points sketch the situation of the Greek countryside. On the one hand there are fewer farmers, more effective agricultural holdings but also more depended upon the Agricultural Bank. The objectives of self-sufficiency and of making use of the primary sector for achieving increased exports were achieved. At the same time, the proletarianism of a sizeable segment of the population, that moved into the urban centres, favoured the development of the infant industry that

[80] see. Tragakis G., 1996, Steriotis C. 1993, See also previous paragraph 4.1 for full reference as regards the constraints posed by the development of the Greek banking system itself.

operates in strictly controlled and protected environment and, as it is to be expected, absorbs the lion's share of credit. The strategy of development, influenced greatly by the Keynesian model that dominates the international scene, is completed with the presence of a state/ businessman in every productive and credit function of the economy.

8. The special arrangement for financing cottage industry, that was securing - with the guarantee of the state and the subsidisation of interest-rates - easy access to the banking system and availability of cheap capital. Thus, neither in the rural areas, nor in the urban ones the need became pressing for searching for alternative solutions.
9. The prohibition of financing of a number of economic activities, the administrative fixing of interest-rates for deposits and loans, the direct and indirect controls of loans and the foreign exchange restrictions, constitute further negative forms of intervention of government until the end of the 80's.
10. The lack, until 1993, of suitable institutional framework. Law 2076/92 is providing the possibility of establishing co-operative banks.

Finally, particularly today, the co-operative movement in its entirety - and naturally much more co-operative banks that are active in the delicate sector of credit, where the climate of trust is critical – is suffering on the one hand by the defamation principally of agricultural cooperatives due often to their linkages with political parties and on the other by the non-satisfactory economic position of many cooperatives, due to governmental policies for implementing social policy in agriculture through cooperatives or due to the utilisation by cooperatives of criteria other than those of private enterprises.

Before closing this review of the most important causes that delayed the development growth of co-operative credit in Greece, it is deemed appropriate to refer to some points that, in the opinion of other researchers have contributed to the slow development of cooperative credit. According to Steriotis (1993) 81 and Seliniotaki (2002) 82 important causes for the delay of development of co-operative credit were:

[81] Steriotis, K., (1993), Reasons of delay and prospects of growth of co-operative banks in Greece. Bulletin of the Hellenic Banks Association, Second half of 1993, p. 95-101.

[82] Seliniotaki Ioanna, (2002), "Co-operative Banks in Greece", Unpublished Dissertation, Panteion University, Athens, p. 31.

a) The fact that the development of the Greek agricultural economy relied on households basing their livelihood either on subsistence or on marketing small quantities of agricultural products.

With reference to the first point, although the researcher does not make reference to a specific period of time, it is observed that this situation (i.e. the non-commercialised agricultural production) did not hinder the self-organisation of producers, before and after World War II, into a large number of multi-purpose agricultural cooperatives.[83] This organisation served precisely what is presented as reason of delay. Hence, it can be concluded that the delay was not due to the weaknesses resulting from the socio-economic situation of the rural population. It should be expected therefore, that the mobilisation towards developing a certain form of cooperative, would favour also the development of co-operative credit. It is clear that the points referred earlier give a clearer picture of the general situation that was prevailing and the reasons that did not allow the turning of co-operative efforts to the direction of credit.

b) The dominance of usury, at local level, that had substituted bank credit. Small traders and big land-owners were undertaking rudimentary banking services, realising excessively high interest-rates.

It should be stressed that usury is often reported as main motivating factor for co-operative activities and not as a factor of delay.[84] It is essentially a factor endogenous of an under-developed or developing economy that adapts his operation in order to cover the deficiencies of the formal credit networks.

c) The delay of including credit cooperatives in the control and supervision of the BoG.

With reference to the subjection of the supervision of cooperative credit institutions to the competence of the BoG, it seems that this came to be a weakness only during the last decade. If, in the period under consideration, there were active co-operative credit units, the need would arise for making good such an omission. Still, even if there was such dynamism, experience has shown that only under conditions of intense competition and liberalisation of the financial environment, like the one faced by the economy today, would the regulatory operation of the central bank of a country be required. On the contrary, during previous stages of the Greek Economy, the

[83] Papageorgiou, C. (1996), *Cooperative Economy*, University Lectures, Agricultural University of Athens, p. 52 and p.75.
[84] see chapter 3 for more details

intervention of BoG, almost certainly, would create more problems than those that would want and/or could solve.

The description of the institutional framework concerning the operation of cooperative banks that is in force today in Greece will give several opportunities to evaluate the presence of Bank of Greece and its impact upon the future development of cooperative credit. Hence, what will be evaluated is the environment that Co-operative Banks will face and the prospects –positive or negative - that are shaped, at least with regard to the regulating frame of their operation. It must be kept in mind though that the Bank of Greece, as the one responsible by law to supervise all institutions of the Greek banking system, considers that the regulatory framework that will be presented in due details in the following sections, guarantees the operation of co-operative banks in accordance with their objectives and that the criteria of functioning in accordance with the rules of private economy are not violated.

5.3 INSTITUTIONAL FRAMEWORK FOR THE OPERATION OF CO-OPERATIVE BANKS

From 1915 and up to 1986 the law pertaining to co-operatives of all forms was law 602/1915. From 1986, there is a separate law for urban cooperatives (law 1667/1986). The credit cooperatives that were initially established were subject to this law as amended by law 2166/1993 (article 27), by law 2515/1997 (article 3) and by law 2744/1999 (article 16). Following an authorisation to operate as credit institutions, granted by the Bank of Greece, these co-operatives are subjected to the provisions of the banking law 2076/1992. According to article 12 paragraphs 5 and 6 of the Constitution of Greece, "*the agricultural and urban cooperatives of all kinds are self-managed in accordance with the terms of law and their statute and they are protected and supervised by the state, which is obliged to care for their development*".

The units that follow are devoted to the presentation of the main points of the institutional framework and of the rules of operation for the urban credit cooperatives and for co-operative banks.

5.3.1 Institutional Framework for Urban Credit cooperatives

According to article 1 paragraph 1 of law 1667/1986, Urban Cooperative is defined as "voluntary union of persons having economic objectives, that, without undertaking activities in the area of agricultural economy, aims to achieve, with the collaboration of its members, the economic, social and cultural development of its members and the improvement of their quality of life generally, by means of a jointly owned enterprise". Credit cooperatives are the urban cooperatives in the activities of which is included also the provision of economic facilities to their members (Article 1 paragraph 2, of law 1667/1986).

In order to form an urban credit co-operative it is necessary to compose the articles of association (statute) and to have it signed by at least fifteen persons.[85] Right to be members have all natural and legal persons provided that they are not members in another cooperative having the same corporate seat and the same objectives.[86] Each member is obliged to have at least one share. In addition he may acquire up to 600 voluntary shares if he is a natural person. The legislator has specified that legal persons may acquire unlimited number of voluntary shares. This provision may assist a credit cooperative to evolve into a cooperative bank. However it is doubtful if this provision has been exploited by the legal persons of local societies. It is pointed out finally that, with regard to shares, the law leaves the actual amount to be specified by the statute of the cooperative. In this way members are free to define the amount of the share in order to suit the socio-economic characteristics of the area of their activity. Of course, the amount of the share may be readjusted, whenever members judge that developments require its increase or allow its reduction.

By decision of Committee for Banking and Credit Subjects (CBCS) of the Bank of Greece, it was specified that credit cooperatives not having the license to operate as credit foundations are not allowed to accept deposits (decision 541/2/7.4.94). Twenty-one (21) Credit Cooperatives are currently operating in the capitals of prefectures and they aim to fulfil the conditions for their evolution into co-operative banks. Such a development may be questionable as will be explained later.

5.3.2 Conditions for granting License to operate as a Cooperative Bank

The Greek State recognizes the socio-economic importance of co-operative banks and the positive role that they can play in regional development: As a result, it encourages

[85] The statute should be registered at the co-operative registry of the Magistrates court of the corporate seat of the cooperative (article 1, par. 3 of law 1667/86).

[86] Superior organ of a cooperative is the General Meeting where all members participate with right to vote (one member - one vote). The General Meeting elects the Board of Directors and the Supervisory Council. Finally, the statute specifies the corporate responsibility of members.

their equitable participation and evolution within the existing financial system. Banking Law 2076/1992 (article 5 paragraph 1) allows, exceptionally, the foundation of credit institutions, apart form joint-stock companies, with the form of credit cooperative, as defined in law 1667/1986. The operational and supervisory status of credit institutions in the form of credit cooperatives, differs from that applying to the operation and supervision of credit institutions in the form of joint-stock company. Law 1226/1982 (article 1) authorises the Governor of the BoG to determine by his decisions – his acts - the framework of operation of the banking system. Accordingly these decisions have the power of law. In this way, it has been formed the institutional framework for the operation and the supervision of credit institutions having the form of credit cooperatives of law 1667/86 by the Act 2258/1994 as this is in effect until today with its amendments.[87] According to Act 2258/1994, for granting license to operate in the form of credit institution to an urban credit cooperative and its subjection to the provisions of law 2076/1992 the general conditions of the basic banking law and additionally the following terms:

5.3.2.1 Members

Members should reside in the geographic department that is determined on the basis of the own capital of the cooperative.[88] Exceptionally, legal persons of non-profit character having their corporate seat in another region, are allowed to participate as members in the cooperative, if their natural members live in the area where the cooperative operates.

5.3.2.2 Initial Capital

The minimum initial capital [89] is specified on the basis of the activity area of the cooperative. According to Acts 2258/93, 2413/97, 2420/97 and 2471/2001, for a credit cooperative to apply to the BoG for license to operate as a credit institution, it is necessary to dispose a minimum capital as follows:

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[87] The modifications effected in the seven years period Following Act 2258/1994 of the Governor of the BoG, are the following: CBCS 541/27.4.1994, CBCS 607/26.1.1998, CBCS 7/44/7.8.1998, CBCS 7/45/7.8.1998, CBCS 36/6/29.6.1999, CBCS 56/6/10.1.2000, CBCS 93/22.1.2001, Act 2397/7.1.1996, Act 2413/9.7.1997, Act 2420/13.9.1997, Act 2471/10.4.2001. It is observed that from 1998 until 2001 – in 4 years – the basic framework was modified 10 times. Of these, 4, as will be seen later, referred to the minimum capital to be available by the urban credit cooperative, in order to develop into a Cooperative Bank!

[88] In addition, the majority of members of the Board of Directors and the Supervisory Council, as well as at least one of the two persons responsible for the operation of the credit institution, must reside in the geographical department that is determined by the initial own capital.

- 6,000,000 Euros (2,044,500,000 drachmas) for cooperatives that register as members the residents of the prefecture where the cooperative has its corporate seat with the exception of the Prefectures of Attica and Thessalonica where initial capital should be 18,000,000 Euros or 6,133,500,000 drachmas.
- 10,000,000 Euros (3,407,500,000 drachmas) for cooperatives that register as members the residents of more than one adjacent prefectures –i.e. at a regional level- under the condition that they possess property assets in the prefectures in question.
- 18,000,000 Euros (6,133,500,000 drachmas) for cooperatives that register as members residents from all regions of the country under the condition that they possess property assets in these areas–i.e. a Co-operative Bank active at a National level.

With reference to the way of concentration of capital, in the stage of evolution of cooperative into credit institution, the sums should be deposited in interest-bearing deposit accounts of other credit institutions *given* that the credit cooperative is not allowed to accept deposits (law 2076/1992, article 4). Because of the nature of Co-operative Banks, they can not enter the Stock Exchange, a possibility open to banks operating under the law of joint-stock companies.

5.3.2.3 Documents required for granting license

Credit Cooperatives that fulfil the preceding conditions can submit application to the Bank of Greece, Division of Monetary and Credit Policy, for requesting license to operate under the status of Credit Institution. The application, where reference is made to the geographic area of operation of the Credit Cooperative must be accompanied by the following supporting documents:

- Copy of the articles of association (statute)
- Feasibility study, which includes complete and in detailed description of work and action plan for the three first years of operation. The study includes also the sources of capital, the organisational structure, description of the accounting system to be followed and of the system of internal auditing. Finally, it must provide an estimate of the capital adequacy ratio for the first three years of operation.
- The names of two persons in charge for managing the credit institution. One of them must be member of the Board of Directors and the other the person in charge

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[89] Law 2076/1992, article 5, paragraph 2, section b

of internal auditing. For these persons the following should be provided: a) copy of penal registry, b) certificate of not bankruptcy, c) curriculum vitae with information on the training and their professional experience in the financial sector, d) two letters of recommendation.[90]

5.3.3 Co-operative Banks and the Greek Deposit Guarantee Scheme

According to directive 94/19/EU of 30.5.1994, concerning the systems of guaranteeing deposits, Greek Co-operative Banks were exempted from the obligation to be subjected in the system of guaranteeing deposits up to 31.12.1999. At the same time, they were compelled to inform their depositors that they were not subjected to any system of deposit guaranteeing.

Law 2324/1994, as amended by law 2386/1996, incorporated the provisions of the above Directive to the Greek Banking Legislation and specified that Co-operative banks should be part of the Deposit Guarantee Fund within six months from the publication of relevant Presidential Decree. This fund is in operation since November 1995 and from December 2000 guarantees also the deposits of co-operative banks up to 20,000 Euros or 6,815,000 drachmas per account[91].

5.3.4 Supervision

According to article 18 of law 2076/1992, the Bank of Greece exercises prudential supervision[92] on credit institutions having their corporate seat in Greece and their branches abroad. All provisions specifying supervision of credit companies of the joint-stock company form apply also to co-operative credit institutions,[93] on the basis of equal treatment, taking into consideration existing differences (legal form, capital, aim). However, certain provisions for co-operative banks are stricter. Thus:

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[90] The list of members of the Board of Directors and of the Supervisory council must be supplied to the Bank of Greece, together with a copy of the penal registry and a certificate of non-bankruptcy for each one, before the beginning of operation of the credit institution. Act 541/7.4.1994 has regulated that the majority of the members of the Board of Directors and of the Supervisory Council as well as the one of the two persons that are in charge of the operation and management of the Credit Institution (that is to say a member of the Board of Directors and the person in charge of internal auditing), should reside in the geographical area specified on the basis of the initial capital of the cooperative.

[91] This sum that covers the TEK is common for all banking institutions

[92] The concept of supervision includes the control of solvency, liquidity, capital adequacy and accumulation of risk.

[93] Act 2258/1993, Chapter A, paragraph 7

- The minimum figure for the Capital Adequacy ratio is set at 10% against 8% for commercial banks [94]
- The figure for open currency position is not accepted to exceed the 5% of own capital. No such restriction exists for commercial banks. [95]

According to Presidential Decree 384/92 commercial banks are compelled to observe the sectoral accountancy model. No such obligation exists for Co-operative Banks. However, the documents that are submitted to the BoG have to refer[96] to accounts of the sectoral accountancy model! So, it is imposed indirectly.

Finally, Co-operative Banks, as any other credit institution, are subject to external audits under the provisions of Greek company law. The purpose of these audits, conducted by accredited auditors, is to verify the accuracy of financial statements and the effectiveness of internal accounting systems. The certificates issued by these external auditors, are incorporated in the annual reports of credit institutions.[97]

5.3.5 Taxation Arrangements

The existing income taxation system for co-operative credit institutions is similar with that of joint-stock companies. Additional rules are as follows:

- Interest on deposits in the interbank market is subject to 15% tax.
- Provisions for Special Tax on Banking Works do not apply. Instead stamp duties and VAT apply only for loans granted by credit co-operatives before they are awarded permission to operate as Co-operative banks.
- Provisions concerning capital accumulation tax, fixed assets sale tax and fixed assets tax apply to credit institutions regardless of their status (i.e. operating as a credit co-operative or as a Co-operative Bank).

5.3.6 Functions

Co-operative credit institutions operating in Greece, offer their services in accordance with the rules applying to commercial banks. At the same time, however, the following restrictive regulations apply:

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[94] Act 2258/93, Chapter A, Paragraph 7, Element b, Section b
[95] Act 2258/93, Chapter A, Paragraph 4, Element b
[96] Act 2258/93, Chapter A, Paragraph 7 [a]
[97] Act 2258/93, Chapter A, Paragraph 7v

- Co-operative banks deal only with their members, with other credit institutions and with the Greek State.[98] Transactions with other persons, natural or legal, are allowed only when in these a member of the co-operative bank takes part, after approval by the BoG.
- The extend of facilities of all kinds granted to the same member, is not allowed to exceed 15% of own capital of the co-operative bank.[99]
- The placements of credit institutions in shares of mutual funds and shares should not exceed 10% of own capital. [100].

Co-operative institutions are allowed to keep "liquidity" deposit facilities in the BoG and to participate in the interbank market of drachmas and foreign exchange. The total sum that they can draw from the interbank market cannot exceed 15% of their own capital. However, no limit exists for their deposits in the interbank market![101] In addition, interest on these interbank market deposits is subject to 15% tax!

Box 5.1 that follows summarises the most important differences between Co-operative Banks and Commercial banks in the Greek legal and banking framework.

Box 5.1

Differences between Co-operative and Commercial Banks in Greece

Regulation/ Legislation	Co-operative Banks	Commercial Banks
Initial Own Capital Requirements	<u>Local CB</u> Until 31.12.1997, 600 mil drs. 1.1.1998 - 30.6.98, 900 mil drs 1.7.98 - 9.4.2001, 1.200 mil drs Since 10.4.2001, 2,044.5 mil drs (6 mil Euros) <u>Regional CB</u> Until 31.12.1997, 2,000 mil drs 1.1.98 - 9.4.2001, 2,500 mil drs *Since 10.4.2001, 3,407.5 mil drs (10 mil.*	<u>Until 9.4.2001</u> 4,000 million drs <u>Since 10.4.2001</u> 6,133.5 million drs (18 million euros)

98 Act 2258/1993 Chapter A, para 2 with the modifications by article 16 paragraph 2 of law 2601/98

99 Act 2258/93, Chapter A, Paragraph 3, Element a

100 Act 2258/93, Chapter A, Paragraph 3, Element g, section a

101 Act 2258/93, Chapter A, Paragraph 4, Element a, and BoG (2001) Annual Report of the Governor for the year 2000.

	Euros) CBs operating at a National Level or at the Prefectures of Attica or Thessalonica Until 9.4.2001, 4,000 million drs Since 10.4.2001, 6,133.5 mil drs. (18 mil Euros)	

Box 5.1 *cont.*

Regulation/ Legislation	Co-operative Banks	Commercial Banks
Limitations on Transactions with customers	They can deal only with: Their members Other Banks The Greek State	None
Lending Limits	The aggregate amount of loans outstanding to any one member may not exceed 15% of co-op bank's own capital	The aggregate amount of loans outstanding to any customer may not exceed 40% of bank's own capital
Investment limits in mutual funds & stocks	The aggregate amount invested may not exceed 10% of co-op bank's own capital.	Reference limit stands to 25% of own capital
Limitations on investment transactions	Co-operative Banks are not allowed to act as securities underwriters	None
Interbank Market transactions	Funds channeled from the interbank market may not exceed 15% of co-op bank's own capital. (Until 19.10.2000 limits stood up to 10% for drachmas and 5% for foreign currency)	No limitations
Reserve requirements with the BoG	Reserve ratio stands at 2% of all deposits (Until 1.6.2000 the ratio was at 12%)	Reserve ratio stands at 2% of all deposits (Until 1.6.2000 ratio was at 12%)
Prudential Supervision	All commercial and Co-operative Banks are supervised by the General Inspectorate of Banks of the Bank of Greece Capital Adequacy Ratio 10% Open foreign currency position ratio may not exceed 5% of own capital	Capital Adequacy Ratio 8% No limitation as regards their open currency position
Tax treatment	40% until 31.12.2001 37.5% until 31.12.2002 35% from 1.1.2003 onwards Additional tax: 1.20% on net profits. Interest on Members' deposits is subject to 15 per cent tax Interest on deposits in the interbank market is subject to 15 per cent tax	40% until 31.12.2001 37.5% until 31.12.2002 35% from 1.1.2003 onwards Interest on customers' deposits is subject to 15 per cent tax No tax for interbank market transactions

	Capital accumulation procedures are subject to 1% income tax	

Under this legislative and regulatory framework the following co-operative banks are currently active in the country.

Table 5.1
Co-operative Banks in Greece [1]

Co-operative Bank	Foundation Year of the Credit Co-operative	Foundation Year of the Co-operative Bank
Lamia	*1900*	*1993*
Ioannina	*1978*	*1993*
Credit Co-operative «Hermes»	*1984*	*(*)*
Achaiki	*1993*	*1994*
Pancretan	*1993*	*1994*
Chania	*1993*	*1995*
Dodecanese	*1993*	*1995*
Evros	*1994*	*1996*
Karditsa	*1994*	*1998*
Trikala	*1995*	*1998*
Evia	*1996*	*1998*
Corinth	*1994*	*1998*
Pieria	*1995*	*1998*
Drama	*1994*	*1998*
Lesvos-Limnos	*1995*	*1999*
Kozani	*1995*	*2000*

[1] Reported Years are based on the interviews that the author conducted during his survey and confirmed with the Association of Co-operative Banks of Greece. Unfortunately the Association did not share relevant details for the 21 credit co-operatives that are presently active
[*] The Credit Co-operative of Corinth "Hermes" although it was among the pioneer of co-operative credit, did not manage to meet the standards that the BoG applied. It is currently under liquidation.

Information provided in the Table 5.1 above for the fifteen Co-operative Banks, reveal the fact that as the time passed it was more difficult for credit co-operatives to change their status and become co-operative banks. Hence, the following section will present the organization development efforts of the Greek Co-operative Banking.

5.4 ORGANISATIONAL STRUCTURE OF GREEK CO-OPERATIVE BANKS

It is quite true that differences in legislative provisions as the ones described above are neither new nor a unique situation that only the Greek co-operative banks are facing. Actually, in their historical root, all relevant endeavours have been experiencing similar situations and some of them still are.[102] In most cases, local primary co-operatives, soon understood that a way out of their problems could possibly be the formation of apex institutions. The reasons that made them unite their efforts at local level fostered the development of regional and national associations.

Credit co-operatives, as decentralised institutions, followed the bottom up approach in order to develop organisational, auditing and banking associations at an upper lever. This is perhaps another qualitative difference of their operative character. Commercial Banks, start from a central institution and spread territorially through a branch-network in order to maximise their output, i.e. profit. Co-operatives instead, acting as a network of local banks, voluntarily form central institutions, to improve their own maximisation objective, i.e. to improve services and products offered to members.

Greek credit co-operatives followed approximately the same root. Despite the fact that in the very first years of 90s only three credit co-operatives were acting in Greece, the need to meet and share common experiences seemed to be essential for them. Therefore, in December 1991, the first attempt to form a secondary-level association gave birth to the “Hellenic Federation of Greek Urban Co-operatives” (ELOPAS-after the Greek acronym). In a period when urban financial co-operatives were more or less unknown, even for the Greek authorities, the newly born association had a difficult task to accomplish. Tentatively, set as its fundamental operational targets:[103]

- The coordination of credit cooperatives’ operations
- The promotion of urban credit co-operation in general
- The development of partnerships with European Co-operative Banks

[102] See for example, Srinivasan, A. and F, King (1998) “Credit Unions Issues” *Economic Review*, 3rd Quarter, pp.32-41, Federal Reserve Bank of Atlanta, for current difficulties that the US credit unions experience today, *and* Guinnane W. Timothy (1997) “Regional organisations in the German cooperative banking system in the late 19th century” *Research in Economics*, 51, pp. 251-274, for a thorough review of problems that early credit cooperatives were facing.

Most surprisingly, a statutory target of the “ELOPAS” association was the strengthening of links with the European affiliated institutions instead of acting towards the representation of credit cooperatives in the Greek authorities. The following episode might shed light to the environment in which the newly founded association was about to develop and perhaps explain the rational of such a priority.

Since 1.1.1992, the “ELOPAS” became a full member of the European Association of Co-operative Banks. Actually, that means that this application was its first official act! And it seems that it was a very successful one because in 1992, the Bank of Greece received an official document of the European Commission with the following content (Tragakis, 1996, ibid, pp. 48-49):

“…according to negotiations that led to your country’s accession treaty to the European Communities, you have informed the Commission that unlike the other member countries, Greece has no credit cooperative institutions. Since then, in every relevant documentation, you have insisted in that statement…We have been informed from the European Association of Co-operative Banks that at the end of 1991 they had received an application from a Federation of Greek Urban Credit Co-operatives with the request of granting full membership…We would be obliged if you could share details of the aforementioned initiative…etc.”!

That was the beginning of a rapid development. Greek authorities were forced by the European Law to incorporate in the banking system law the second banking directive (89/646 EC) and, hence, to accept as a fact that credit co-operatives should be a new member of the banking scene.

That very successful initiative of the federation was followed by a conference that “ELOPAS” held in April 1993, where the further development of Greek Credit Co-operatives was discussed in details. That conference was meant to be one of the last important initiatives of the federation, which as it failed to concentrate under the same roof all emerging credit cooperative initiatives, dissolved at the beginning of 1995.

A second attempt to form an association was held in July 1995 when the Association of Co-operative Banks of Greece (ESTE- in Greek) was founded, upon the initiative of the Cooperative Banks of Lamia, Ioannina, Pancretan, Achaia and of the Credit Cooperative of Corinth “Hermes”.[104] This Association today is the official representative of Greek

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[103] Tragakis, G., (1996) *Co-operative Banks in Greece*, p.43, and p.47, Sakkoulas Publications Athens

[104] The operational axes of the “ESTE” are summarized and presented in Appendix V - Box 5.1

co-operative banks and credit co-operatives to Greek, European and International authorities. At the end of 2000, its membership consisted of 15 co-operative banks with 87.128 members and 21 credit co-operatives[105].

The formation of the Association was the first step towards a solid structure of Greek Co-operative Institutions. Accordingly, the next step, for the implementation of a pyramidal form of the co-operative organisational structure was the formation of a central co-operative banking institution. In a fertile ground for mutual consideration, that the ESTE provided, such an initiative did not prove to be difficult to flourish.

Co-operative bankers, envisaged the development of a central institution that could:[106]

- Act as a central "clearing bank" for all co-operative banks
- Strengthen internal auditing operations
- Invest on high-technology services and products
- Refinance local co-operatives' initiatives
- Design and provide a complete range of products and services that local units consider as cost inefficient to be produced at a local level
- Educate local executives on modern banking operating systems
- Assist credit cooperatives in their efforts to become co-operative banks
- Establish co-operative links with international co-operative banking

Thus, on April 20, 2001, the BoG granted operational permission to the central co-operative banking institution under the name "Panellinia Bank S.A."[107]. The BoG also accepted as the primary statutory principle of the newly founded institution to be the support and development of local credit co-operative institutions. However, it denied permission requested by ESTE, the characteristic "Co-operative" to be part of the central bank's name. The rational under that denial, according to BoG official, stood at the fact that the Panellinia Bank was founded under the legal form of a joint-stock company instead of that of a Credit co-operative Institution. The BoD of the Association, on the other hand, defended its selection of the joint-stock company as the legal form of the central co-operative institution on a two-fold basis:

1. The joint-stock legal form permits a direct incorporation to the Greek Banking System, as regards the inter-bank operational relations, and

[105] No data with regard to the 21 credit co-operatives are reported.
[106] Association of Co-operative Banks of Greece (2001) *"Co-operative Credit in Greece"*, p. 14

2. That legal form “protects” its shareholders at a high competitive and rapidly changing environment that characterise the current evolution of the banking system internationally.

One might interpret point two, as a self-protecting reflective of an institution that in less than a decade has accomplished so much that other relevant endeavours had in many more years. On the other hand, a co-operative form with limited liability of its members, might have proven to be an easier task to accomplish. In addition, it offers a variety of self-protecting characteristics. Yet, it is true that a joint-stock company is more flexible and adjusts rapidly to changing environments. Point one, however, might be easily misinterpreted. If the central co-operative bank is supposed to exercise a different banking approach, why should it be difficult to state from the very beginning that the newborn bank is a co-operative?

That development might seem, as a careless and with no profound reason abolition of the “co-operative value” effect. However, the independent observer should keep in mind that the last thing that an institution might need to confront at its very early stages of development is an “isolation” policy stemming from previous unfortunate co-operative experiences.

Another interesting remark concerns the central bank’s initial share capital and more specifically the percentage of every co-operative bank’s contribution to its formation. Shareholders and their contribution to the central bank’s own capital (10,300,000,000 drachmas or 30,228,000 Euros) are presented below:

Table 5.2 - Shareholders of Panellinia Bank

Co-operative Bank	% of Share Capital
Pancretan	49.00
Chania	15.90
Achaia	8.00
Dodecanese	8.00
Evia	2.50
Drama	2.50
Evros	2.00
Trikala	1.75
Karditsa	1.65
Kozani	1.20

[107] The Panellinia Bank, opened its first Branch in November 2001. At the time of writing no official data concerning its operation has been reported. Therefore the analysis that follows depends only on secondary data collected and interviews that the researcher conducted with his survey

Lesvos-Limnos	0.67
Lamia	0.20
Korinthos	0.20
Pierias	0.20
Credit co-ops	*6.23*
Total	**100.00**

Source*: Survey*

When co-operative institutions internationally decide to unite their efforts and form a mutually owned secondary institution, calculate their contribution to the proposed initial capital on the basis of various characteristics, such as members to total membership, assets as a percentage of total assets etc. But even a quick analysis of the above data raises the following issues:

- First, one co-operative bank, i.e. Pancretan, contributes for 49 percent of total share capital.
- Second, one co-operative bank, that of Ioannina, decided not to participate in that effort, and
- Third, Co-operative Bank of Chania, holds the second higher percentage of the share capital.

According to some co-operative banks' BoD members, the 49 percent of the initial capital is the percentage that Pancretan finally agreed to contribute with, as at the beginning requested to hold the 51% of the share capital. That led to the reaction of Ioannina that decided not to participate, protesting in that way against Pancretan's non-cooperative behaviour. In order to keep an "open door" for Ioannina's equal contribution in the central institution, Chania "bought" Ioannina's share on the condition to "sell" it back to Ioannina at nominal value, if the latter decided to join again. Without further data, it is not easy to conclude on such a multifaceted situation. However, incidents as the one presented above are indicative of a rather non co-operative performance on one hand – i.e. as regards Pancretan – and a counterbalanced reaction of the other two, on the other hand. It seems that even under a joint-stock legal form, co-operatives adjust promptly and "learn" again how to co-operate in order to achieve mutual benefit.

In conclusion, it seems that an important stage of co-operative banking development in Greece has come to an end. In a decade of growth, co-operative banks managed to form a national association and founded a central banking institution. Following the subsidiarity principal, local units have decided to retain essential characteristics on their autonomous organizations while in parallel, attempted to strengthen their viability under a pyramidal organizational structure that, theoretically, provides, common action and cost-efficiency.

CHAPTER 6

METHODOLOGY OF THE SURVEY

6.1 Rationale of the Survey

The preceding two chapters focused on the presentation of historical, socio-economic and legal evolution regarding the Greek banking system in general and co-operative credit in particular. That analysis offered:

- *A short historical background*, which provided information on the specific socio-economic issues that delayed the appearance of co-operative banking in Greece. Among others, as it has been said, the evolution of the banking system in close connection with the development policies of the Greek state, is considered to be a major cause of that delay. Deregulation and the gradual retreat of the state from the banking scene –although weak and cautious- paved the way for such initiatives to enter the market.

- *Evidence about the environment that co-operative banking is facing*. The abovementioned forces that formed the necessary conditions for co-operative banks to commence their operation in Greek rural areas, configure, also, the banking scene in which they will have to compete. The market arena is characterised by: high concentration rates and market shares; expanding banking strategies toward consumer and trade loans; and, a defensive behaviour on behalf of banks which –through M&As and cost rationalisation strategies- try to strengthen their position in a highly competitive single European market.

- *Rationale for analysing the current status of co-operative credit in Greece*. Most European co-operative banking initiatives have long established a well-acknowledged position in their domestic –and in some cases even international-banking market. Even in these countries, however, as it was discussed in chapter 3, contemporary market conditions pose enormous difficulties in their future operational capacity. This, inevitably, leads to questions regarding the future of co-operative banking in Greece. In order to describe the future trends and potential difficulties and opportunities of Greek co-operative banking, however, its current status and the operational features that it managed to build in its short history should be addressed.

- *Qualitative information on a variety of issues and secondary data available for the analysis*, which has shown, among others, that: a) the legal and institutional framework comprises both positive and inappropriate features that create contrasting forces in co-operative banking evolution; and b) that co-operative banking has not only increased its numbers but in less than a decade it managed to co-ordinate its actions toward the formation of apex institutions.

At the same time, however, it became clear that available secondary data concern only aggregate information on the banking dimension of these co-operative initiatives. As a result, a number of limitations came to surface which restrict a thorough analysis of cooperative banking operations and their impact upon members' socio-economic status and, consequently, upon local development. Thus, in view of the aim of this study, to search into the future prospects of co-operative banking in Greece, primary information had to be collected. The sections to follow, will focus on how this thesis developed in order to cover the gaps in available information regarding intrinsic and valuable features of co-operative banking in Greece.

6.2 Data Sources

At national level, there are two sources of information on co-operative banking: the Bank of Greece and the Association of Co-operative Banks of Greece. They were both approached at the beginning of the third quarter of 2001.

The Bank of Greece, in its role as the regulating authority of the banking system in general, is keeping detailed data on every banking institution of the country. However, the Bank of Greece is not providing disaggregated data about individual banking institutions. Although it is obvious that for auditing and regulating purposes, the Bank of Greece, is keeping detailed records on every Co-operative Bank, banking privacy principle, restricts the availability of that information. Hence, the Bank of Greece, provided consolidated data on major financial indices derived from published balance sheet data. The Bank of Greece advised the researcher to approach the local units or the Association in order to collect the primary data used for the Bank's calculations, i.e. published balance sheets. Given that consolidated data, is not sufficient for in depth analysis, the need to attain detailed data pointed to the direction of the second available source of data.

The Association of Co-operative Banks of Greece, when informed about the purposes of this study, unreservedly provided available data on co-operative banking. That included:

- Published balance sheets for the years 1997-1999 (three years)
- Data regarding performance of Co-operative Banks in issues of major concern such as membership, total savings, outstanding loans, etc, and
- Useful information and legal documentation regarding the regulating and organisational framework of co-operative banking in Greece.

Although the information provided under the third indent above, proved to be useful – along with relevant documentation collected from other sources, i.e. law books, Bank of Greece regulations etc. – for the preceding two chapters, quantitative data collected were insufficient for the purposes of this study.

A third potential source was the newly formed "Panellinia Bank" which operates as a central co-operative Bank. However, at the time of the initial approach – summer of 2001 – "Panellinia" had just received permission from the Bank of Greece to operate as a banking institution. That led to a de facto limited availability of relevant data.

Nevertheless, both the Association and "Panellinia" were visited and their managers were consulted on several occasions. Those contacts, although informal, provided a useful basis for dialogue and some critical comments that facilitated the salience of problem areas in various stages of the development of this study.

As it was mentioned in previous chapters, researchers, in their attempt to evaluate the performance of co-operative credit, were seeking access to secondary data, available from regional or national associations. Their efforts, in other countries, were facilitated by the long history of relevant efforts internationally in conjunction with the existence of numerous local credit co-operatives. This background, provided a solid and reliable basis for analysis and facilitated the use of a variety of analytical methods.

In the case of the Greek Co-operative Banks, is should be recalled that, with reference to 2000, which was the last year that data were available at the time the survey was conducted:

- Seven co-operative banks, i.e. almost 50% of the total of existing co-operative banks were in operation for 5 to 8 years. That group comprises the Co-operative Banks of Lamia, Ioannina, Achaia, Pancretan, Chania, Dodecanese and Evros.
- Another seven, had a shorter life, ranging from two to three years. That group consists of the Co-operative Banks of Karditsa, Trikala, Evia, Corinth, Pieria, Drama and Lesvos-Limnos.
- One Co-operative Bank, the Co-operative Bank of Kozani, was granted permission to operate as a banking institution in December 2000, and therefore, there were no available data for that venture.

6.3 Methodological Approach

Therefore, the short duration of co-operative banking history combined with the presence of a small number of co-operative banks, are two facts that limit the availability of sufficient time-series of financial data. Time series make possible the derivation of comparative information in their evolutionary processes (dynamic analysis) whilst an analysis based only on balance sheet data at a given point in time allows for comparisons to be made with commercial banking for the selected period (static analysis). Thus, the performance of the co-operative institutions as Banking institutions, with methods applied to commercial banking in general based on balance sheet data, ought to be regarded as a static and descriptive representation – rather than a dynamic and analytical comparison - of the relevant status of co-operative banks with reference to its competitors in the banking system.

However, even a static analysis at this stage of co-operative banking development, could be useful for the following reasons:

- First, it develops a framework of analysis from the very beginning of the institution's development
- Second, it provides information for comparisons among co-operative banking initiatives, regarding their performance
- Third, it sets a benchmark for comparisons in the future, and
- Finally, it facilitates the work of other researchers, who might be interested in comparing these findings with their own

Conventional research methods are not always capable of revealing the detailed picture of the research object. However, it is important to apply such methods of analysis, in the Greek case, for the following reasons:

- As long as the regulating authority – i.e. the Bank of Greece - applies the same rules in all banking institutions regardless of their legal form and their operational objectives, all co-operative banks have to apply "conventional banking terminology" and interpret their performance in similar terms. This, of course, does not imply that a co-operative bank must adopt conventional banking practices and policies as well. But, until the distinctive nature of co-operative banking is accepted, they have to compete on equal terms. After all, transparency in operations, reliability, trust and honesty in transactions and internal auditing – just to mention some banking terms – are supposed to be fundamental principles of a co-operative institution's operation from its very beginning.
- For reasons explained in previous sections, in Greece external evidence of a reasonably sound performance of a co-operative initiative is requested. That evidence should be provided locally –to be addressed to current and potential membership– as well as administratively – to be addressed to the official authorities of the state and the central bank. Thus, the need for the co-operative institutions to achieve sound performance indicators is not simply a "bank's prerequisite".

In addition to conventional static analysis, it was deemed useful to explore also the performance of the co-operative institution, beyond the branch operation. Research approaches differ between commercial and co-operative credit institutions. In the case of a commercial bank, the evaluation of its performance starts from the branch and ends at the financial results of the banking group or at the share value in a stock-exchange market. In the case of co-operative banks however, the analysis of the bank's performance, should be regarded as an imposed necessity in order to reveal the comparative advantages of the co-operative institution's performance.

The "birth" of a co-operative bank is, by definition, a participatory procedure, which is based, principally, upon local human resource mobilisation. Co-operators, voluntarily join their forces, in order to serve their needs. Their initiative requires savings mobilisation in order to accumulate funds. These funds are used to serve members' financial needs for loans. In addition, loan and deposit services are offered to members in a manner that should comply with their attitudes towards these services. That is, apart from having a quantitative evolution as regards money offered or being saved, a qualitative development might be occurring also, as regards loan and deposit terms on one hand and the bank-services approach on the other. That leads to the notion of a successful performance of a banking institution that needs to act in accordance with its member-customers' transaction modes, while simultaneously comply with the "code of ethic" that its member-owners have attached to its operational values. All the above ought to be fulfilled under the imperative condition posed by the fact that the co-operative credit institution was formed in order to achieve economic, social and cultural development of its members and the improvement of their quality of life in general. Testing the abovementioned assumptions in real terms, is definitely an interesting research endeavour.

Still, this is not the whole picture. As a grass-root organisation, a credit co-operative initiative has its origins at an apparent – and expressed eventually - need of its members to act jointly. For this venture to be successful, it has to build upon local culture, i.e. to be based on local potential. For that to happen, trust is of primary importance. But, in order to "trust" someone, a common dialogue and a common language about the essential features of co-operation should be established. If these three conditions –i.e. mobilisation of local human resources, exploitation of local potential for a common purpose and trust – are to be met for a successful co-operative venture, then perhaps, it would be worth examining the impact of that venture upon local development characteristics.

In order to deal with the issues raised above, the present research had to follow two principal analytical procedures:

First, to obtain all necessary quantitative data in order to perform a bank-oriented analysis of major financial indices for every co-operative bank.

Second, to acquire necessary qualitative information with regard to:

- Recent development in co-operative banking,
- Opinion of co-operative banks' leadership and management about these development and future trends, and
- Members' perception of the up to now performance of their co-operative bank.

In order to meet these requirements the study followed two different approaches, both implemented at a local unit level. First, it conducted a survey of the fifteen co-operative banks currently operating in the Greek territory. Second, it addressed a questionnaire to a stratified random sample of co-operative bank members. The following sections give details about these two approaches.

6.4 The Co-operative Banks' Survey

As it was discussed in the previous section, the availability of secondary data at a central level proved to be limited. Further, an approach based only on secondary data, although useful, might prove to be insufficient in an effort to reveal qualitative aspects of co-operative banking development in Greece. Therefore, direct contact with local co-operative banks was necessary even for the minimum requirement of a balance-sheet data analysis to be conducted. However, direct contacts prove to be doubly useful because apart from the specific information that may provide, they create opportunities for discussing issues that the researcher might skip. But on the other hand, limited availability of secondary data restricted the potential depth of that co-operation. If, for example, there were sufficient evidence at a central level that could be used to clarify major issues of concern – even simple information such as what services does the cooperative bank offer to its member – the research approach could had been focusing to an in depth analysis of the co-operative bank practices. Hence, it was clear from the beginning that the research should aim in gathering enough information from different sources within the local units.

The fact that no similar research had been conducted before presented certain difficulties. At various stages, research had to overcome hesitancy – and even suspiciousness in some cases – regarding the rationale and the objectives of the study. However, apart from delaying the completion of that part of the research, the overall co-operation with the co-operative banks ran smoothly and provided valuable information for the analysis.

The small number of co-operative banks currently operating in Greece was the principal basis that defined the total population to be searched. Therefore, it was decided that all fifteen local co-operative banks, should be included in that survey.

A questionnaire was designed (see Appendix X-Part 1), in order to collect information on several issues of concern to this research. The questionnaire consists of the following sections:

- Section A comprises questions that cover the stage from the initial establishment of the credit co-operative until it became a Co-operative Bank. That section aims at collecting information on the difficulties that co-operators faced in their attempt to found a co-operative bank.

- Section B is asking questions about the membership of co-operative banks, such as members' contribution to the co-operative's capital, their classification according to their field of activity and their participation in the non-banking operation of the co-operative bank.

- Section C refers to the services and products that the co-operative banks are offering to their members.

- Section D, which is the largest one, refers to the principal banking operations of the co-operative bank i.e. deposits and loans. In addition, an estimation of the relative importance of the co-operative bank to the local banking market is attempted.

- Finally, section E, refers to estimates of the respondents regarding the future of co-operative banking in Greece and the overall local development impact of the co-operative bank.

The diversity of the requested information that the survey was aiming to collect, necessitated the co-operation of various control groups of the co-operative bank. Therefore, the questionnaire was addressed principally to the Board of Directors (BoD), for questions relevant to policy design and implementation. Then, the management and/or the subdivisions of the bank branch, contributed with the data related to their responsibility. In addition, the management was also asked to provide the last available balance sheet.

The questionnaire was designed in a way that could facilitate research work:

- As a guide in a face-to-face interview. A structured questionnaire can provide a uniform basis for discussion and would save precious time of the interviewee.

- It guides respondents to provide the required information in a uniform manner. That means, that its structure allows its use as a self-administered questionnaire as well.

The questionnaire was pre-tested, in a pilot survey, both in the form of a face-to-face interview and as a mail questionnaire. First, two co-operative banks – the Co-operative Banks of Corinth and of Achaia – were used for the face-to-face interviews. That contact gave the opportunity to the researcher to learn the "route" that the questionnaire would follow inside the co-operative bank in order to be fully answered. Remarks and comments were incorporated in the final version of the questionnaire before it was sent again to pretest it as a mail questionnaire. For the mail questionnaire the co-operative banks of Dodecanese and of Karditsa were used. Both returned a sufficiently answered questionnaire. In the case of Karditsa, there were slight misinterpretations, which were however easily resolved during the second stage of the survey (i.e. the co-operative bank members' survey).

The survey was carried out from January 2002 to June 2002. In total, six co-operative banks were interviewed (i.e. Co-operative Banks of Achaia, Chania, Corinth, Evia, Karditsa, and Trikala). Another eight (the Co-operative Banks of Drama, Dodecanese, Ioannina, Kozani, Lamia, Lesvos-Limnos, Pancretan, and Pieria) participated in a mail survey mainly because it was not possible for them to make specific arrangements for an interview, or because this was their will. At those cases, a questionnaire was sent and returned to the researcher within a period of two months. Only two out of eight cases – that of Ioannina and Lamia - required a follow up mailing. Finally, one co-operative bank - that of Evros - refused to participate in the survey. Nevertheless, the BoD was kind enough to provide the requested balance sheet. Chapter 7 presents the analysis of the information provided via the co-operative banks' survey.

6.5 The Co-operative Members' Sample Survey

One part of the research was designed in order to provide information regarding the "official" point of view about the operation of the local co-operative bank. Naturally enough, the other part was designed to bring to surface the views of people who make use of co-operative banks services and products, i.e. the members of the co-operative banks. A member, however, is both a customer and owner of the co-operative bank. This double identity of the member should be allowed to be uncovered under a carefully designed approach. Co-operative theory argues that essential characteristics of the co-operative bank's operation are being formed under the pressure that the member-owners exercise through their participation to the co-operative institutions organs. On the other hand, co-operative theory and contemporary bank practices, both indicate that the customer's orientation is a major source of change for banking institutions. It is difficult to decide which point of view is of critical importance in the case of Greek co-operative banks, without a direct input from its members' perceptions.

In order to provide answers to issues like the above, a structured questionnaire[108] was designed and used in a stratified random sample of approximately 300 co-operative bank members drawn from the total population of 87,128 members active in the fourteen co-operative banks at the end of the year 2000. Personal interviews were conducted with these members.

Starting from the last point, the number of 300 questionnaires was considered to be sufficient for the purposes of the study, if cost and time constraints are taken into account. It should be noted that, when the researcher expressed his desire of investigating members' opinions as regards the operation of the co-operative bank, some co-operative managers did not share his original enthusiasm.

[108] See Appendix X – Part II

Bearing in mind that the above mentioned number of questionnaires should be attained, the next decision was the one with regard to which field method should be used. That decision ought to be related with the quality aspect of collected data.

According to Sudman there are three major sources of error in a survey (1976, pp. 16-17):[109]

1) Sampling variability, generally called sampling error, which depends on the sample size and design

2) Sample biases, which are a function of how well the study design is executed, and

3) Response effects, which are the differences between reported and "true" measures of behavior, characteristics, or attitudes

Sudman argues that considering all forms of error combined, with reference to alternative field methods available, the most expensive face-to-face procedures have the smallest total error. Only the sample error is largest for face-to-face interviews and smaller for self-administered, i.e. mail survey (ib.id, p.17). The latter of course is true, given that for a fixed amount of money the sample size for a mail survey can be largest. But, as Proctor (2000, p. 114)[110] argues, the adequacy of the postal survey is dependent on the quality of the postal list. But, as was mentioned before, that was a precondition that could not be met, as the lists were not in the hands of the researcher. Nevertheless, the principal problem of the postal survey lies on the fact that the response rate is low[111]. Furthermore, it is more likely to get replies from people that are highly educated, most interested, or those with extreme feelings or opinions on the survey's subject matter (Singleton[112] et al, 1998, p.265; Sudman, 1976, p.17). As long as the surveyed unit, i.e. the member of the co-operative bank, as a rural citizen, is considered not to be accustomed to that sort of survey procedures, the selection of postal survey

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109 Sudman Seymour (1976) "*Applied Sampling*" Academic Press, Inc., San Diego California, USA

110 Proctor, Tony (2000) "*Essential of Marketing Research*" 2nd Ed. Pearson Education Ltd., Essex, England

111 Although there are methods that increase the final return rate, such as "follow up" mailing, reducing the cost for the respondent and increasing the respondent's perceived importance of the survey, it is still doubtful if the response rate could be above 15-20%, a percent that the Hellenic Marketing Association reports for its mail surveys.

112 Singleton, R., Straits, Br., and Margaret Miller Straits (1993) "*Approaches to Social Research*" 2nd edition, Oxford "University Press, New York

might hinder the success of the endeavor. In addition, the very nature of the information required from the members, suggest that the use of a self-administered questionnaire would not be advisable.

As Sudman (1976, ib.id., p.15) argues, the nature of the research will determine the most efficient way of collecting the data, and that in turn determines what kind of sampling will be optimum. As it was mentioned earlier, a stratified probability sampling procedure, was employed for the purposes of this study.

The rationale for the selection of a probability sampling technique rests on the assumption that, giving at each element in the population a known nonzero probability of being selected into the sample – i.e. the basic principle that distinguishes probability sampling from other types of sampling – the research assures that various techniques of statistical inference may be validly applied in the projection of sample results to larger populations (Frankel[113], p.21; Deming[114], p.24). Hence, if the sampling technique is carefully designed and executed, then conclusion drawn from the sample analysis, can be projected to the population[115].

Furthermore the selection of stratified random sampling instead of simple random sampling was favored because:

- Stratification may produce a gain in precision in the estimates of characteristics of the whole population (Cochran, 1977 p. 90),[116,117]

- Large gains in precision are accomplished if the following conditions are satisfied (Cochran, ib.id. p. 101):

    - ✓ The population is composed of institutions varying widely in size, and

[113] Frankel, M. (1983) "Sampling Theory" in *Handbook of Survey Research*, Rossi, P. Wright, J. and A. Anderson (eds), Academic Press, New York

[114] Deming, Ed. (1960) "*Sample Design in Business Research*" John Wiley & Sons Inc. special edition of Wiley Classics Library Edition Published 1990, New York.

[115] According to Frankel (ib.id, p. 22) that statement does not mean that the use of other techniques - such as non probability sampling – will produce invalid conclusions. The fundamental problem associated with the use of non probability samples is the fact that validity of the inferences drawn from such samples is neither assured nor testable.

[116] Cochran, W. (1977) "*Sampling Techniques*" 3rd edition, John Willey & Sons, New York.

[117] According to Cochran (ib.id, pp 89-90) it may be possible to divide a heterogeneous population into subpopulations –i.e. strata - each of which is internally homogeneous. If each stratum is homogeneous, i.e. the measurements vary little from one unit to another, a precise estimate of any stratum mean can be obtained from a small sample in that stratum. These estimates can then be combined into a precise estimate for the whole population. Hence, gain efficiency.

- ✓ A good measure of size is available for setting up the strata

- In addition to increasing efficiency, stratified random sampling may be used to guarantee that variable categories with small proportions of cases in the population are adequately represented in the sample (Singleton et al., ib.id., p. 153).[118]

It is obvious, that these remarks are essential for the characteristics of the present survey.

In conclusion, in designing this part of the survey, an effort was made to select the field method that would reassure quality of collected data and a sampling technique that would allow adequate representation of all subpopulations in the sample without loosing in efficiency –and consequently precision – in drawing conclusions on characteristics of the total population.

The following sections describe in detail the sampling technique that was employed for the purposes of the study.

6.5.1 Stratification of co-operative banks

Although the sampling procedure to be described refers in a large part to co-operative banks as the primary selected units, it must be kept in mind that the target population consists of the total membership of the fourteen co-operative banks.

The above statement needs three additional explanations:

- ✓ First, although there are 15 co-operative banks currently operating in Greece, the Co-operative Bank of Kozani was excluded from sampling procedures, because at the time of sampling- i.e. early 2002 – there were no available data for that bank's membership. It is reminded that the Co-operative Bank of Kozani, was granted permission to operate as a banking institution on December 2000 and commenced operation during the first half of 2001.

[118] This is called disproportionate stratified random sampling. According to Singleton (ib.id, p. 153) disproportionate stratified random sampling still constitutes a probability sample because the probability of case selection is known. Furthermore, probability sampling theory applies, since the subsamples drawn from each stratum are simple random samples. But for generalisations to be possible, a weighting procedure that compensates for oversampling some strata has to be applied.

- ✓ Second, although in some cases membership data were available until 30.6.2001, it was decided not to add this information in the sampling framework, for reasons of equal treatment. In addition, it was deemed constructive to survey members that had at least one year of experience with the co-operative bank, i.e. to have the chance to participate at least once at the General Assembly of the co-operative on the one hand and have adequate transaction time with the banking institution on the other

- ✓ By the time of sampling, the Co-operative Bank of Evros, had not expressed its denial to participate in the first part of the survey. Therefore, there was no reason for the researcher not to include that bank's members to that procedure.

Thus, as it is shown in the following table, the total population to be examined consists of 87,128 members in 14 co-operative banks. The same table gives the year of the co-operative bank's foundation.

	Co-operative Bank	Foundation Year	Members
1	Lamia	1993	15,200
2	Ioannina	1993	4,512
3	Achaiki	1994	5,179
4	Pancretan	1994	27,934
5	Chania	1995	8,792
6	Dodecanese	1995	8,456
7	Evros	1996	2,310
8	Karditsa	1998	2,370
9	Trikala	1998	2,851
10	Evia	1998	2,295
11	Corinth	1998	1,455
12	Pieria	1998	1,549
13	Drama	1998	2,225
14	Lesvos-Limnos	1999	2,000
	Total		87,128

Source: *Survey*

It can be seen that in the year 1997 there was no new entry in the co-operative banking group. For this reason, that year is used for the first stratification of the 14 co-operative banks into two subtotals: the first stratum, consists of the first seven co-operative banks that at year-end 2000, had from 5 to 8 years of operation. Let that stratum be the "Old Co-op Banks". In an analogous manner, the other group consists of co-operative banks that were founded from 1998 onwards and consists of another seven banks that at year-end 2000 had from 2 to 3 years of operation. Let that stratum be the "New Co-op Banks".

If co-operative banks within strata, are sorted according to their number of members the following classification will emerge:

	Co-operative Bank	**Foundation Year**	**Members**
	1st stratum «Old Co-op Banks»		
1	Pancretan	1994	27,934
2	Lamia	1993	15,200
3	Chania	1995	8,792
4	Dodecanese	1995	8,456
	3rd quartile		*7,636.75*
5	Achaiki	1994	5,179
6	Ioannina	1993	4,512
7	Evros	1996	2,310
2nd stratum «New Co-op Banks»			
8	Trikala	1998	2,851
9	Karditsa	1998	2,370
10	Evia	1998	2,295
	1st quartile		*2,242.5*
11	Drama	1998	2,225
12	Lesvos-Limnos	1999	2,000
13	Pieria	1998	1,549
14	Corinth	1998	1,455
	Total		87,128

At the same table, the values of the 1st and the 3rd quartiles of membership size have been calculated.

These values divide original strata in two more strata. Let the upper stratum of every original strata be called "large co-op banks" while the lower stratum be "small co-op banks".

Thus, two objective characteristics of the co-operative banks – i.e. "age" measured by their years of operation and "size" measured by their membership size– are used in order to construct four distinct strata. These strata and the co-operative banks that comprise them are presented below

"Age"	**"Size"**		**Co-operative Bank**	**Foundation Year**	**Members**
OLD CO-OP BANKS	LARGE CO-OP BANKS	1	Pancretan	1994	27,934
		2	Lamia	1993	15,200
		3	Chania	1995	8,792
		4	Dodecanese	1995	8,456
	SMALL CO-OP BANKS	5	Achaiki	1994	5,179
		6	Ioannina	1993	4,512
		7	Evros	1996	2,310
NEW CO-OP BANKS	LARGE CO-OP BANKS	8	Trikala	1998	2,851
		9	Karditsa	1998	2,370
		10	Evia	1998	2,295
	SMALL CO-OP BANKS	11	Drama	1998	2,225
		12	Lesvos-Limnos	1999	2,000
		13	Pieria	1998	1,549
		14	Corinth	1998	1,455

Summarizing the above procedure, two well-defined characteristics of co-operative banks – "age" which is considered to be tightly connected with the operational experience of the co-operative bank, and "size" which within strata is indicative of the group's homogeneity - were used in constructing the following strata:

- Stratum I, is the upper stratum and consists of four banks, i.e. Co-operative Banks of Lamia, Chania, Dodecanese and Pancretan; that is the "Large and Old Co-op Banks" Stratum
- Stratum II, consists of the Co-operative Banks of Achaia, Ioannina and Evros; that is the "Small and Old Co-op Banks" Stratum
- Stratum III consists of the Co-operative Banks of Trikala, Karditsa and Evia; that is the "Large and New Co-op Bank" stratum
- Stratum IV, consists of the Co-operative Banks of Drama, Lesvos-Limnos, Pieria and Corinth, which finally is the "Small and New Banks" stratum.

These strata will be used in the two-stage stratified sampling that will be described in the following section

6.5.2 Sampling Members with a two-stage stratification sampling technique

The analytical procedure followed until now, generated four strata that, in comparison with the total population of the fourteen co-operative banks, are considered to be most homogenous internally as regards the experience and the number of the primary units – i.e. the co-operative banks – that comprise these units.

Thus, the next sampling step should be towards the direction of selecting these primary units (first stage) in which simple random sampling will be applied (second stage) for the total sample to be generated.

6.5.2.1 Selection of primary sampling units – 1st stage of multistage sampling

According to Cochran (1977, ibid., p. 292) when there is a relatively large number of strata – with regard to the total number of primary units – even if a single primary unit is chosen from each stratum satisfactory precision may be achieved.

In addition, Cochran in his illustration of methods applied in subsampling (multi-staging sampling) procedures with units of unequal sizes, argues that if primary units are chosen with probability proportional to their size within strata, then that method has the smallest error contribution in the estimation of characteristics caused by variation between units, and thus is regarded to achieve higher precision (ibid, pp. 293-297). In the present case, given that membership is to be sampled, it seemed appropriate to associate selection probabilities with that characteristic, i.e. the relevant membership size of co-operative banks. The following table illustrates the composition of the constructed strata.

	Co-operative Bank	**Number of Members**	**Proportional composition of stratum**
	Stratum I "Large & Old Co-op Banks"		
1	Pancretan	27,934	46%
2	Lamia	15,200	25%
3	Chania	8,792	15%
4	Dodecanese	8,456	14%
	Stratum Total	*60,382*	*100%*
	Stratum II "Small & Old Co-op Banks"		
1	Achaiki	5,179	43%
2	Ioannina	4,512	38%
3	Evros	2,310	19%
	Stratum Total	***12,001***	*100%*
	Stratum III "Large & New Co-op Banks"		
1	Trikala	2,851	38%
2	Karditsa	2,370	32%
3	Evia	2,295	31%
	Stratum Total	*7,516*	*100%*
	Stratum IV "Small & New Co-op Banks"		
1	Drama	2,225	31%
2	Lesvos-Limnos	2,000	28%
3	Pieria	1,549	21%
4	Corinth	1,455	20%
	Stratum Total	*7,229*	*100%*

In every stratum, all primary units – i.e. co-operative banks – bare a known -although unequal- probability of selection[119]. Thus, a random choice of one primary unit in every stratum can be easily made through a single drawing from each of 4 different boxes that contain 100 different cards named equally after the relevant percentages that every primary unit holds in the strata above.

The above procedure resulted in the selection of the following primary units:

- From stratum I, the Co-operative Bank of Chania
- From stratum II, the Co-operative Bank of Achaia,
- From stratum III, the Co-operative Bank of Karditsa, and
- From stratum IV, the Co-operative Bank of Corinth

6.5.2.2 Subsampling within the Selected Primary Units – 2nd stage of multistage sampling

At the end of the previous stage sampling resulted in the selection of four co-operative banks, two from the group of old banks and two from the group of new banks. For the sampling procedure to be completed, a simple random sampling within selected banks is enough to produce the total sample.

Until now, however, the procedure did not bring up a critical issue, i.e. how many members should be drawn from every co-operative bank, or, else, how should the 300 questionnaires be drawn from the four co-operative banks in order to facilitate the study's objectives.

A possible solution would be to divide that number according to the relevant weight of every stratum in total membership. But, that procedure as it is illustrated in the following table, if followed, would lead to a small number of questionnaires in the small banks and hence, statistical estimates derived from them would have limited reliability.

[119] According to Cochran (ibid, pp.293-297) the alternative would be to attach equal probabilities in every primary unit within every stratum i.e. in a stratum consisting of 4 primary units every primary unit bares a 0.25 selection probability. Although, that is an easier and valid procedure, as it would be illustrated later, it would not facilitate post sampling handling procedures. To be more specific, it will be shown that the inverse probability of selection will be used to weigh cases for making inference to the whole population.

Strata	Members	% of total	Questionnaires per stratum	%of total
Stratum I	60,382	69%	207	69%
Stratum II	12,001	14%	42	14%
Stratum III	7,516	9%	27	9%
Stratum IV	7,229	8%	24	8%
Total	87,128	100%	300	100%

Following these calculations a number of 207 members would be selected from the Co-operative Bank of Chania, 42 from Achaia, 27 from Karditsa and 24 from Corinth. Obviously, this approach would not produce findings of comparable reliability for the different strata. Yet, for the objectives of the study, a critical issue was concerning the relevant performance of older co-operative banks in comparison with the performance of new co-operative banks. That distinction, is expected to be essential in order to draw conclusions on the relevant evolution of co-operative banking in Greece.

According to Sudman (1976, ibid, p.111) and Frankel (1983, ibid, p. 33) when among a sample design objectives, comparison of subgroups is of critical importance, then the optimum sample is one where the sample sizes of the subgroups are equal, since this minimizes the standard error of the differences.[120] Therefore, it was decided to split the 300 questionnaires evenly between the two principal groups that the co-operative banks form, i.e. 150 questionnaires from old banks and another 150 from the new banks. That division, is in accordance with another prerequisite of an efficient analysis which as a general rule determines the sample size, according to Sudman (1976, ibid, p. 30), indicates that the sample should be large enough so there are 100 or more units in each category of the major breakdowns and a minimum of 20 to 50 in the minor breakdowns.

On the basis of the above, it was decided that 150 questionnaires should be collected from the Co-operative Banks of Chania and Achaia – i.e. from " the old banks group" - with another 150 from the Co-operative Banks of Karditsa and Corinth – i.e. the "new banks group". Then, each half is allocated to the two co-operative banks according to their relative size of membership. The following table illustrates the final distribution of required questionnaires per co-operative bank.

[120] That decision however, as these researchers argue, might result in a sample that would not be optimum for estimating the total population. That, on the other hand, according to Deming (1960, ibid, p. 377) and Singleton et al (1993, ibid, p.153) can be compensated via post sampling case weighting procedures.

Co-operative Bank	Members	% of subtotal	Questionnaires per Bank	%of subtotal
Chania	8,792	62.9%	94	62.9%
Achaia	5,179	37.1%	56	37.1%
Subtotal I	*13,971*	*100.0%*	*150*	*100.0%*
Karditsa	2,370	62.0%	93	62.0%
Corinth	1,455	38.0%	57	38.0%
Subtotal II	3,825	100.0%	150	100.0%

Therefore, if the member list of each bank were available to the researcher, the sampling procedure would have ended at that stage. A random sample of the number of questionnaires plus a 10% complementary sample would be drawn from each bank and the field work would commence. But, the fact that there was not sufficient ascertainment at that stage regarding the co-operative banks' willingness to cooperate, and more particular the exact number of member-names that they would decide to set at the researcher's disposal, necessitated an additional step.

Instead of asking for an exact number of questionnaires to be collected, and thus to ask for a distinct number of member names from each co-operative bank, the researcher decided to run some sort of "sensitivity analysis" in order to specify a range of questionnaires to be collected, which without distorting the sampling procedures, would help in determining the minimum requirements from each co-operative bank.

6.5.2.3 A sensitivity analysis of the final questionnaire distribution

If it were possible to pool together members of co-operative banks of Chania and Achaia, and draw repeated random samples of 150 members from that united list, according to statistics[121], the mean percentage of members of Chania to total members drawn would be distributed around the percentage of membership of Chania to total membership of both banks. In order to ease the elaboration of the argument the previous table is repeated here too.

[121] See for instance Chalikias, I. (2001) "Statistics", Rosily edition, Athens, pp. 146-149, or any other book in Statistics under the title "sampling distribution of proportion"

Co-operative Bank	Members	% of subtotal	Questionnaires per Bank	%of subtotal
Chania	8,792	62.9%	94	62.9%
Achaia	5,179	37.1%	56	37.1%
Subtotal I	*13,971*	*100.0%*	*150*	*100.0%*
Karditsa	2,370	62.0%	93	62.0%
Corinth	1,455	38.0%	57	38.0%
Subtotal II	3,825	100.0%	150	100.0%

That is, the mean percentage of members from Chania will be distributed around the 62,9% (let that be π=0.629) which is the percentage of Chania's membership to total membership of Chania and Achaia.

For a 1-α=0.95 level of confidence, there is a 95% possibility that the confidence interval of the proportion p of Chania's members in total sampling will be included in the following range:

(1) $$150\left(p - z_{1-a}\sqrt{\frac{p(1-p)}{n}}\right) < 150\pi < 150\left(p + z_{1-a}\sqrt{\frac{p(1-p)}{n}}\right)$$

where:

- $\pi = 0.629$, as the percentage of Chania's membership in total membeship
- p = 0.629, as that stands for the possibility of a randomly drawn member to be member of chania. Therefore (1-p = 0.371) stands for the possibility that the drawn member is not a member of Chania, which of course equals the possibility of the member to be a member of Achaia.
- $Z_{1-\alpha}$= 1.96
- n=150, the total members drawn, and
- $\sqrt{\frac{p(1-p)}{n}}$ is the standard error of the sampling distribution of proportion

By substituting in equation (1), calculations give the following range for the number of questionnaires to be drawn from the Co-operative Bank of Chania:

- Minimum required from Chania: 81 < 94 < 105: maximum required from Chania

And by subtraction from 150 – i.e. the total questionnaires that should be completed from Chania and Achaia:

- Minimum from Achaia: (150-105=) 45 < 56 < (150-81=) 69: maximum from Achaia

Following the same procedure in the case of the Co-operative Banks of Karditsa and Corinth, (where what differs from the previous calculation is π=0.62, p=0.62 and 1-p=0,38) result to the following ranges:

- Minimum from Karditsa: 81 < 94 < 105: maximum required from Karditsa
- Minimum from Corinth: (150-105=) 45 < 56 < (150-81=) 69: max from Corinth

The preceding sensitivity analysis suggests that the sampling procedure would not be distorted, if the number of completed questionnaires from the four co-operative banks were to be within the following ranges:

- From 81 to 105 from Chania and Karditsa, and
- From 45 to 69 from Achaia and Corinth

Figures within these boundaries should be regarded as equally efficient

6.5.3 Post survey weighting procedures

The confirmation of the number of questionnaires that should be needed for the analysis, permitted the random sampling on the basis of the member lists of the four co-operative banks. All four banks were asked to sort their membership lists by the date that the member joined the co-operative bank. Then, within the same dates they were sorted according to the number of shares that members hold. Given a random starting point, and a sampling interval[122,123] adequate to go through the list, the co-operative banks were asked to return names and addresses of the selected members.

[122] Sampling interval i = N/n, where N: total bank's membership, and n = desired sample size

[123] Sudman (1976, ibid, p.56-57) quoting Cochran (1963, "*Sampling Techniques*", 2nd Edition, New York: Wiley) states that in those cases for which simple random sample is appropriate, then systematic samples, although they are not really simple random samples, they behave as such and have the same precision in cases of interest involving human populations.

That procedure provided a short list that comprised of:[124]

- 150 members from Chania
- 90 names from Achaia
- 135 names from Karditsa, and
- 70 names from Corinth

The questionnaire was pre-tested before its application to that short list, while the researcher was visiting co-operative banks during the first phase of his survey, with members met in the co-operative bank. That pilot testing, was again deemed useful – as in phase one of the co-operative banks' questionnaire - in order to:

- Ensure that questions were posed and worded carefully
- Pretest the clarity and impartiality of questions
- Check that respondents have sufficient information about the topic on which to base their opinions
- Identify major problems with questions and dimensions of the topic that the researcher may have ignored

Comments and critical remarks, resulted from the pilot survey, were embodied in a new adapted questionnaire. The final questionnaire, in turn, was applied in personal interviews at members' places of convenience. These interviews were conducted by the researcher from April 2002 until the end of October 2002, and resulted in 308 completed questionnaires. The following table represents the total number of members interviewed during the field research.

Strata	**Total members in strata (1)**	**Co-operative Bank selected**	**Co-op Bank Members**	**Members interviewed (2)**	**Weights (1)/(2)**
Stratum I	60,382	Chania	8,792	103	586.23
Stratum II	12,001	Achaia	5,179	60	200.02
Stratum III	7,516	Karditsa	2,370	100	75.16
Stratum IV	7,229	Corinth	1,455	45	160.64
Total	87,128			308	

[124] In two cases the requested numbers exceeded the number of member names that co-op banks were willing to hand to the researcher

Before proceeding to the analysis of the information provided by the second phase of the research - phase one concerns the co-operative bank survey – a case-weighting procedure must be conducted in order to compensate for the oversampling of the last two strata –Strata III and IV respectively - in previous stages.

Deming (1960, p. 377) and Henry[125] (1990, p. 25 and p. 130) in their illustration of post-stratification choices argue that, if selection of primary units is based on their probability proportional to size, then weights allow unbiased representation of the population from an unequal probability sample. They calculate that weights according to the following:

(2) W = M/m [126]

Where:

- M is the population proportion (in the present case that stands for the stratum total membership)
- m is the sample proportion, (which is questionnaires per co-operative bank in the present case), and
- W: is the weight that cases should be multiplied with in order to compensate for oversampling and hence, produce the original representation of the population

Thus, as the last column of the table above shows, dividing column (1) that consists of the total membership per stratum, by column (2), which consists of total number of members interviewed per co-operative bank, results in the weights that should be applied to cases. If sample figures are multiplied with corresponding weights then, by definition, the whole population of 87,128 members will be reproduced. The use of weighted figures and the consequent analysis of findings are presented in Chapter 7.

6.5.4 Research Limitations

It might be thought that the number of 308 questionnaires is small and restricts detailed analysis. In fact, this is not a crucial limitation as regards the conclusions that could be derived from the analysis of the data collected. As it was stated in the previous section,

[125] Henry, G. (1990) *Practical Sampling,* Applied Social Research Methods Series, Vol. 21, Sage Publications

[126] Practically, that equation stands for the inverse probability of selection of the final members interviewed from the total stratum population. For more details on that see Deming (1960, ibid, p. 377), Singleton et al (1993, ibid, p.153) and Henry, G. (1990, p.25 and p. 130).

the design of that exploratory research, focused on selecting a field research method and a sampling procedure that would, guarantee the quality of collected information and the confidence of the conclusions derived from the analysis, under the existing limitations.

On the other hand, there are some limitations that, once spotted and stated, define the level of reliability of the analysis and the validity of the conclusions derived.

As it was mentioned earlier, this is the first attempt to survey Greek co-operative banks and their members' opinions as regards their operation. Therefore, results cannot be tested against previous findings and thus, conclusions should be stated carefully and not with a dogmatic manner. Also, to the best of the author's knowledge, bank-member surveys are rare in relevant international literature. Apart from some projects initiated either by international sponsoring organizations such as the World Council of Credit Unions (WOCCU) that were focusing on developing countries[127], or some credit union research works[128,129] in the UK, there is a scarcity in similar works. A sound exception, however, concerns an excellent effort of the British Co-operative Bank conducted in 1997.[130] That survey was the sequence of the one held in early 90s, which as Davis argued (1999, p. 114)[131], consider to be one of the largest and most detailed market surveys of customer attitudes and opinions ever undertaken by a British co-operative organization. Even that research, however, was the natural outcome of an inspired and concrete policy followed for years by the Co-operative Bank itself which was designed and implemented with the facilities provided by the bank resources and high quality co-operative management supervision.[132] Some of the very interesting findings of that

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127 See for example, World Council of Credit Unions Research Monograph Series:
- *Financial Market Niche: Member Behaviour Profile – Credit Unions in Guatemala*, March 1993
- *The role and impact of CUs: Helping to meet the Needs of Small Scale Producers*, November 1994
- *Malawi Union of Savings and Credit Co-operatives, Member Service Survey*, September 1995
- *1995 Trinidad National Member Survey*, June 1996
- *The role of CUs in Ecuadorian Financial Markets: A case study of 11 Credit Unions*, July 1997
- *The role of Credit Unions in Nicaraguan Financial Markets: Improving the Financial Access of Small Savers and Borrowers*, April 1998

128 Berthoud Richard and Teresa Hinton (1989) *"Credit Unions in the United Kingdom",* Policy Research Institute, Research Report 693, London

129 McArthur, A., McGregor, A. and R. Steward (1993) "Credit Unions and Low Income Communities" *Urban Studies*, Vol 30, No.2, pp.399-416

130 Co-operative Bank "The Partnership Report 1998", p.10, and

Terry Thomas (1998) " Inclusive Partnership: The Key Business Success in the 21st Century" *Journal of Co-operative Studies*, Vol.30:1 (No. 89) May 1997, pp.11-21

131 Davis, P. (1999) *"Managing the Co-operative Difference*" Co-operative Branch, International Labour Office, Geneva

132 For more information see chapter 3 and :

survey were used as inputs in the current approach, along with some useful dimensions of the abovementioned approaches on credit unions.

This last remark points to the discussion of the limitation posed by the absence of relevant surveys. The questionnaire had to be designed in a manner that could cover a variety of issues of concern. Thus, it was not possible to focus on detailed approaches and consequently to derive more analytic conclusions as regards the Greek Co-operative Banking performance. The British Co-operative Bank initiative can be used as an example for the limitation discussed here. As it was said, the detailed customer approach of the British Co-operative Bank urged as a natural outcome of a co-operative customer added-value orientation that the Bank exercised for years under its “mission statement”. The researcher’s approach is to seek for the existence of such a perspective in Greek credit co-operative management and at a subsequent second level, their members’ perception on such a perspective. Then, conclusion derived from the current approach, if any, could be used towards the implementation of such a policy, which of course would need further and more detailed research.

Finally, the characteristics that have been used for stratification and the consequent weighting procedures, restrict the potential generalizations only to issues that are not associated with other dimensions such as territorial differences. That restriction derives from the fact that in order to stratify co-operative banks, the parameters that were used were associated with the length of life and the size of the co-operative banks and not with some developmental characteristic of the territory within which the co-operative banks operate. Thus, inference to total cooperative banking membership, should not cautions and all reservations deriving from the methodology of research should be expressly stated.

- Davis, P. and S. Worthington (1993) “Co-operative Values: Change and Continuity in Capital Accumulation. The case of the British Co-operative Bank” *Journal of Business Ethics* Vol. 12, Nov., pp. 61-71
- Davis, P and J. Donaldson (1998) *“Co-operative Management. A Philosophy for Business”,* New Harmony Press, Cheltenham, UK, pp 118 – 124
- Davis, P. (1999) “*Managing the Co-operative Difference*” Co-operative Branch, International Labour Office, Geneva, pp.111-124

CHAPTER 7

THE DEVELOPMENT OF CO-OPERATIVE BANKING IN GREECE: PRESENTATION OF THE SURVEYS' RESULTS

In this chapter the information derived from the two surveys that the researcher conducted will be combined in order to describe the current situation of Co-operative Banking in Greece. To unfold its development, the analysis will focus on the following central questions:

- Which was the critical path that Greek Co-operative Banks followed in their development course and,
- In which ways were their members/local communities influenced by the co-operative banks' presence in the Greek rural areas.

As these research questions will be explored the analysis will shed light on interesting aspects of the banking and institutional character of these co-operatives and will provide useful insights on the problems and opportunities that Greek co-operative banks face in their development and in their future steps.

Inasmuch as data that will be used in this chapter originate from different sampling procedures it would be useful to refer briefly to the principal characteristics of the two surveys.

With reference to the Co-operative Banks' survey the analysis is based on data collected from three different sources:

1) Balance sheets for the years 1998, 1999 and 2000
2) Additional secondary data for the years 1998-2002 collected by the researcher during his visits to co-operative banks' and the Association of Co-operative Banks of Greece and,
3) Primary data either collected through personal interviews or provided by the co-operative banks that returned a completed form of the self-administered questionnaire.

The researcher contacted all fifteen co-operative banks that are currently operating in Greece. One of these, the Co-operative Bank of Evros, refused to take part in that survey. Therefore, all data that refer to that co-operative bank are based on balance sheets provided by the bank and on secondary data provided by the Association of Co-operative Banks. It should be also reminded that the Co-operative Bank of Kozani commenced its activities as a co-operative bank in the first months of 2001. Hence, no balance sheet data were available for that bank and, therefore, information referring to its activities were drawn only from the questionnaire that the researcher has designed for the co-operative banks' survey. For all other co-operative banks, information was drawn both from the published balance sheets as well as from their participation in the survey conducted by the researcher. Finally, some data per co-operative bank are presented for the years 2001-2002 (i.e. total assets, loans, deposits and members) for an -as close as possible- updated picture of the current situation of co-operative banks to be described.

The main findings of the part of field research concerning the members of co-operative banks will be also presented. The field-work was carried-out in the period April to October 2002, by means of personal interviews of a random sample of members of co-operative banks after a two-stage stratification of the population to be sampled. On the whole, 308 valid questionnaires were the outcome of the interviews that were conducted by the researcher himself. The questionnaire included closed, semi-closed and open questions. The individual replies to semi-closed and to open questions are presented in Appendix XXX. With reference to these questions, the findings derive either from this detailed set of answers or from the classification of the individual replies, where this classification was making the analysis and the conclusions easier.

From the total of 308 questionnaires, 165 concern members of 'older' co-operative banks (Chania and Achaia) and 143 members of 'younger' co-operative banks (Karditsa and Corinth). The basic distinction in the characteristics and the views between members of the 'older' and those of the 'younger' co-operative banks will be presented in the same Tables, where this is deemed necessary, together with the findings for the total.

In reading the findings, it is useful to note that both the descriptive analysis of the findings and the elaboration of causal relationships are based on the sample, after the application of the weights calculated in Chapter 6, in order to make reference to the true synthesis of the population.[1]

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[1] This is the reason for choosing to refer to the proportional relationship between the answers and not to absolute figures, although there are exceptions, in cases where it has been considered appropriate to provide the absolute figures together with proportions. It may be helpful to remember that 100 per cent for the 'older' co-operative banks means 72,383 members and 100 per cent for the 'younger' ones means 14,745 members (Total 87,128 members).

These weights have been calculated in such a way as to make comparable the unequal components of the population, i.e. the members of the ‘older’ and the ‘younger’ co-operative banks. Also, the sampling procedure has allowed for the differences that may exist between the small (new) and the larger (old) banks to emerge. Otherwise these would be disguised by the dominating sizes of the older banks.

The use of the weighted sample has not revealed new relations beyond those specified in the provisional analysis of the non-weighted sample. It only strengthened and clarified the relations that emerged in the provisional analysis. It should be made clear, however, that although the analysis refers to the 87,128 members of co-operative banks, i.e. the total number of members in the year 2000, it is subject to all limitations of sampling and additionally to the fact that this is the first systematic attempt to approach this field. In interpreting the findings, the effort was to discern the real trends, as they were revealed in the period of research. This approach was equivalent to allowing for uncertainty when making inference to the entire population studied.

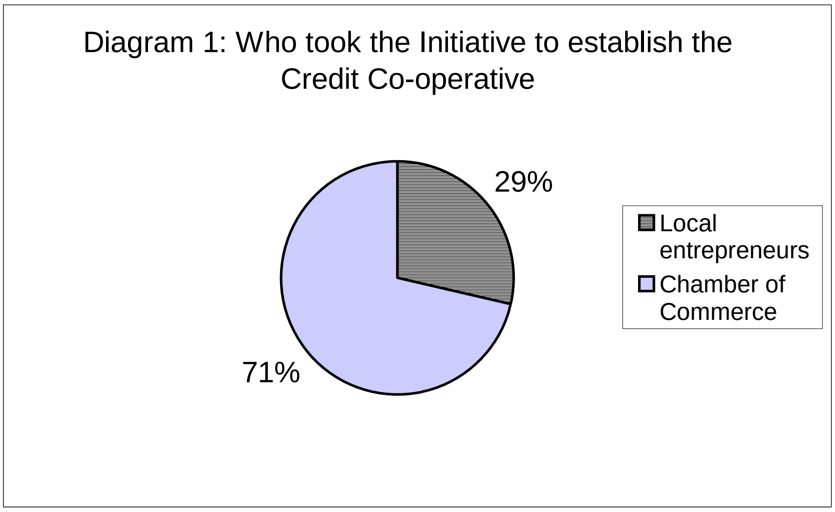
7.1 TURNING PROBLEMS INTO OPPORTUNITIES: STRATEGIC CHOICES FOR A NEW MARKET ENTRANCE

7.1.1 The target: Filling the gap in the financial services provision

Earlier discussion on the Greek banking system identified some key characteristics of a dynamically changing market. The continuous trend toward the privatisation of the state-owned banks and further M&A activities altered the Greek banking scene during the 90s. State commercial banks have seen their share of total banking operations falling dramatically to the benefit of a small number of dynamic private banks. Private banks that were involved in M&As, strived on the one hand to rationalise their lending portfolio and on the other to reorganise their network by closing-down weak or overlapping branches. Concentration ratios remained, however, remarkably high a fact that for the leaders of the market, who among others opted for customer and trade loans, resulted to higher profits. Yet, the Greek banking system remains under-branched and demonstrates a weak ATMs network density. Moreover, theoretical and empirical approaches have linked such banking market characteristics with small business loans crowding out and a reduction in services to relationship-dependent clientele and to peripheral areas of minor importance. They argued that new entrants are taking advantage of this perceived reduction in service quality or availability.

Thus, one can reasonably assume that if the Greek banking market developments have influenced a specific market segment or area, then, with the appropriate law provisions, a reaction in order to alleviate negative effects could emerge. The initiation of credit co-operative endeavours in several Greek prefectures in mid 90s can definitely be seen as such an attempt as it is the only way, according to Greek laws, for the establishment of banks of local character. Hence, focusing on the groups of local population that worked together and on the reasons which motivated them to launch these credit co-operatives, is expected to provide valuable information on interesting aspects of their evolution.

The survey has shown that all initiatives to establish credit cooperatives in Greece were taken by the local enterprising community, with the local chambers of commerce being the kernels of mobilisation in the great majority of the cases (Diagram 1).



Source: *Co-op Banks' Survey*, Table XX.1 Appendix XX

It is apparent that in any case the origination of co-operative banks presents strong links with local entrepreneurial society. Such a view is, also, verified by the composition of professional activities of the members of the co-operative banks. Table 7.1 shows that co-operative banks are particularly active in the fields of small and medium enterprises (SMEs)[2] and of self-employed professionals,[3] two groups that correspond to 74.1 per cent of the total number of members.

Table 7.1 Distribution of Members by field of Activity in old and new banks

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col %	Col %	Col %
Professional status	**Employer**	45.8	25.4	42.3
	Self-employed	28.8	46.6	31.8
	Civil servant	7.0	9.0	7.4
	Private sector employee	6.5	8.1	6.8
	Pensioner	4.6	10.3	5.6
	Farmer	2.4	.0	2.0
	Housewife	1.4	.0	1.1
	Co-operative	1.6	.5	1.4
	S.A.	.8	.0	.7
	Student	1.1	.0	.9
	Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

[2] Those referred as employers in the sample, employ 1-3 persons
[3] All professions serving the local population are included in the self-employed category, e.g. medical doctors, engineers, pharmacists, book-keepers, craftsmen, plumbers, etc.

It can be seen from the Table above that the 'older' co-operative banks demonstrate wider penetration in the area of SME, the overall dominating category. On the opposite, the 'younger' co-operative banks draw comparatively more members from the self-employed professionals of their area, i.e. the second most important category.[4,5]

It is also interesting to note that there is a gradual expansion of co-operative bank services toward the economically non-active sections of the local population, such as pensioners, housewives, students, etc. In this area, the 'older' banks seem to be more successful. As long as diversification of membership is considered to be a major force of change for any co-operative institution, this last remark will be further elaborated below when the analysis will focus on the role of new members in building co-operative funds and in accelerating product diversification procedures.

Farmers are a small proportion of the membership of co-operative banks and their presence is visible only in the 'older' of them. It appears that the concentration of the activities of the 'younger' banks at the main urban centre of the prefecture and the lack of a network of branches have influenced the participation of farmers. Thus, it is obvious that both the way -and the effectiveness- of approaching farmers by the co-operative banks needs further research.[6]

The age structure of members points, also, to the fact that all co-operative banks draw members from -and turn their services toward- the economically active population of their area of activity. More than three quarters (78.0 per cent) of membership of co-operative banks are in the age-groups that are characterised as the most active ones (26-55 years) (Table 7.2).

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[4] It is reminded that due to the sampling procedure that has been followed for the membership survey detailed data for individual banks can be provided.

[5] See chapter 6 for a detailed presentation of how each group was constructed and the individual banks that the two strata -"old" and "new"- refer to.

[6] However, farming, pluri-active farmers and multi-functionality continue being of considerable importance in the local society as is seen from the answers of members who have stated a secondary, complementary, occupation (Tale XXX. 3, Appendix, XXX). Of those who declared a second, complementary activity, 41.2 per cent relate this activity with agriculture. This proportion makes agriculture the dominant complementary activity. On the other hand, 39.5 per cent of farmers declare that they have an additional occupation, a proportion that makes farmers the most pluri-active professional group.

Table 7.2 Age of Members by Age of Banks

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
18 to 25	6.1	.5	5.1
26 to 35	26.4	22.8	25.8
36 to 45	20.9	31.9	22.8
46 to 55	31.1	21.2	29.4
56 to 65	9.7	22.0	11.8
> 65	5.8	1.5	5.1
Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

Finally, the findings referring to the educational level of members of the co-operative banks appear to be quite interesting (Table XXX.1-Appendix XXX). Overall, the proportion of members with higher education is almost equal to that of secondary education (40.3 per cent against 44.0 per cent).

The above brief discussion of basic characteristics of the membership allows for the following remarks to be made. It is the most active groups of local entrepreneurs with a well above the average educational level that opted for the development of Greek co-operative banks. Clearly, such a profile can barely be connected with a membership that did not have any other alternatives to address in order to cover its financial needs.

Therefore, in order to attract this dynamic part of local societies the operation of co-operative banks had to be linked with concrete objectives. Table 7.3 presents the operational objectives that, according to the respondents, had to be achieved by means of efficient functioning of the co-operative banks.

Table 7.3 Operational Objectives of Co-operative Banks

Co-operative Bank	Objectives (in order of importance)		
	1st	2nd	3rd
Lamia	Equal treatment of local population	Enhance Local Development	-
Ioannina	Enhance Local Development	-	-
Achaiki	Offer Quality services at low cost to meet local needs	Facilitate access to banking services	Retain local savings
Pancretan	Provide low cost loans to local SMEs	Offer high interest saving products to local people	-
Chania	Eliminate usury	Retain local savings	Facilitate access to banking services
Dodecanese	Offer quality services at low costs to SMEs and to low and middle income people	Enhance local development	Build a strong co-op based on transparent and sound management
Evros	Na	na	na
Karditsa	Enhance local development	-	-
Trikala	Improve Economic and Social well-being of members	Retain local savings	Offer quality services at low costs
Evia	Enhance local development	Improve Banking Competition at the local level	Provide a stable and safe funding source to local society
Corinth	Offer Better loan and saving terms	Equal treatment of local people	Retain local savings to enhance development
Pieria	Offer Quality services at low cost to meet local needs	Offer a different banking approach based on advanced knowledge of local environment	Build a strong co-op
Drama	Meet local needs	Retain local savings	Enhance local development
Lesvos-Limnos	Retain local savings	Facilitate access to banking services	Support local entrepreneurs
Kozani	Offer Quality services at low cost to meet local needs	-	-

Source: *Co-op Banks' Survey*

The answers given to the question "which are the objectives that specified the orientation of the co-operative bank's operation" are indicative of the environment where local banks emerged and operate and of the potential positive changes that they can incur to the rural areas. So, apart from the general reference to the effort of strengthening the development dynamism at local level – the objective "enhance local development" was one of the answers given by seven co-operative banks – and to the possibility of recycling local savings – the objective "retain local savings" was one of the answers given by six respondents – some more detailed answers offer a better description of the reasons behind the mobilisation of the local population. Elaboration of the answers to this specific question will facilitate understanding the problems existing at local level.

Nine answers are related with the conditions and terms of access of local entrepreneurs to banking services. The objectives in this case are the supply of goods and services at lower cost and designed in such a way as to correspond to local needs. Among these, reference is made to the dangers facing the entrepreneurs by the operation of usurers. In five of these nine replies, among the dimensions of the better designed and cheaper products and services, the dimension of quality is added. Although quality cannot be easily specified in services, the respondents consider it as a necessary component in the operation of co-operative banks. Thus, it seems reasonable to assume that co-operative banks, being the result of local initiatives, took action in the direction of fulfilling the gaps observed in the local market or for improving the functioning of the market.

Another dimension of 'quality' may be linked with six of the replies. In these cases, objectives of the co-operative banks are stated the equal treatment of the local entrepreneurs/members and the access to banking services by those sections of the local market that are not served by the conventional banking system. These objectives may probably be considered as being foreign to a trustworthy banking practice but it is well known that both are part and parcel of co-operative practice. Equal treatment, as an operational principle of a co-operative, indicates the importance attributed to member as a natural and not as an economic entity. The same argument is found behind the second objective, i.e. the possibility of access to banking services by those sections of the local economically active population that are not served by the conventional banking system.

Conventionally, the methods of evaluating creditworthiness connect it with the economic strength of the prospective customers. In those cases where the prospective borrower cannot prove his capacity to pay back the loan through e.g balance sheets or available collaterals, it is most probable that the requested loan will not be approved.

The very structure of the banking system does not possess facilities to collect and evaluate additional non-economic information about the prospective borrower. Still, if such approach were available, it would increase the cost of intermediation significantly and this would result in increasing the cost of services rendered. Thus, those who cannot bear increased cost for banking services would again be left out.

A co-operative bank, in such cases, enjoys a comparative advantage. On the one hand, it can collect and evaluate additional 'soft information' at a lower cost for its members and on the other the joint responsibility and daily contact of members reduce the monitoring cost. Because of these advantages, it can offer services at competitive prices and consequently to redefine the terms of competition for banking services at local level. Further, by making use of the advantages deriving from better knowledge of the micro-environment, the co-operative bank can apply a different – in terms of quality and quantity – banking practice at local level.

The objectives of improving the terms of banking competition at local level and of using a qualitatively different banking practice, on the basis of better knowledge of the operating environment, are specifically reported by only two co-operative banks. However, as the preceding discussion has shown, these objectives constitute the natural continuum of the previous objectives. So, the importance attributed to these objectives can be derived indirectly. The same may be said for the last objective, which has been stated by two co-operative banks, i.e. the establishment of a strong co-operative based on transparency and quality management. It is quite clear that the setting of such an objective constitutes a reply to the problems characterising the co-operative movement in Greece. However, it is evident that no one of the previously mentioned objectives can be attained if the joint enterprise is not based on transparent procedures, promoting co-operation and enjoying the trust of the local population.

In short, it can be said that the objectives set by the co-operative banks are directly related with the most pressing problems of members. Nonetheless, it appears that the intensity of the problems must be such that will enable members overcome the opposing forces that are present during the period of transition into a co-operative bank. And as it will be discussed in the following session, these problems were not insignificant.

7.1.2 *The Challenges: From a credit co-op to a co-op bank*

The local banks were faced with different problems in the period of transition from the status of the credit co-operative to the status of co-operative bank. Table 7.4 presents the most important problems as these were specified by the co-operative officials.

Table 7.4 Identified Problems During the Transition Period

Co-op Bank	Problems Identified (in order of importance)		
	1st	2nd	3rd
Lamia	Difficulties in adjusting to banking behaviour	-	-
Ioannina	Previous misfortune Agricultural Co-op experiences	Lack of confidence due to inadequate local capital basis	-
Achaiki	Lack of confidence due to inadequate local capital basis	Negative perception of co-operative endeavours	-
Pancretan	Negative perception of co-operative endeavours	Difficulties in recruiting high quality executives	-
Chania	Negative perception of co-operative endeavours	Competitive Environment	Difficulties in recruiting high quality executives
Dodecanese	Negative perception of co-operative endeavours	Initial Capital Requirement	-
Evros	na	na	na
Karditsa	Initial Capital Requirement	Negative perception of co-operative endeavours	-
Trikala	Negative perception of co-operative endeavours	Lack of confidence due to inadequate local capital basis	Initial Capital Requirement
Evia	Lack of confidence due to inadequate local capital basis	Competitive Environment	Negative perception of co-operative endeavours
Corinth	The failure of a previous initiative	Initial Capital Requirement	-
Pieria	Initial Capital Requirement	Negative perception of co-operative endeavours	-
Drama	Negative perception of co-operative endeavours	Initial Capital Requirement	Lack of confidence due to inadequate local capital basis
Lesvos-Limnos	Initial Capital Requirement	Lack of confidence due to inadequate local capital basis	-
Kozani	Initial Capital Requirement	-	-

Source: *Co-op Banks' Survey*

The problems reported in Table 7.4 are classified in the following categories:

1. Problems arising from previous unsuccessful co-operative endeavours
2. Problems due to lack of experience regarding co-operative credit
3. Problems deriving from the initial capital requirements
4. Problems arising from the competitive environment in which co-operative banks have to operate

It has already been said that, during the 1980's in particular, the word 'co-operative' was bearing extremely negative connotations for the Greek public opinion. In lots of cases in the rural areas, co-operatives were bearing in mind mismanagement, intense state intervention and economic losses. For many, co-operatives were considered simply as the vehicle for exercising state social policy and not as private enterprises aiming at the improvement of the economic and social conditions of their members on the basis of their joint ownership and action. It comes to no surprise that 11 out of the 14 Co-operative Banks state that this negative perception of co-operative endeavours was one of the most important problems to face during the first stages of their operation. For seven of these 11 co-operative banks this was the principal problem and for the remaining four it was the second most important.

To the uncertainty regarding the co-operative endeavours, it had to be added the limited experience from similar applications in the area of credit. Although co-operative credit had a long history in Europe, the lack of local experience was intensifying the hesitations of the local societies. Six co-operative banks connect their problems during the transition period with the lack of trust towards the new institution and especially with the probability to produce results given the limited availability of local capital. However, only two co-operative banks consider this problem as the most important. Nonetheless, the inadequate local capital basis is directly connected with the next set of problems, that of the initial capital requirements.

Eight out of the 14 co-operative banks consider the minimum initial capital requirement as too high, so that it constituted an obstacle in their endeavour to apply for permission to operate under the status of Co-operative Bank. It should be noted that 7 out of the 8 co-operative banks that stated this problem belong to the group of 'younger' co-operative banks. Their problem is directly linked with the repetitive, after 1998, increases in the initial capital requirements imposed by the Bank of Greece. For 4 out of the 7 ‘younger’ co-operative banks, this problem was reported as the principal one.

The real dimensions of the problem can be seen with reference to the rules applicable each time. Up to 1997, each member could possess one obligatory and up to five optional shares. For the minimum capital to be attained, co-operatives had to set the value of each share at high levels. But, by setting the share at high level, the possibility of attracting new members was reduced and those members willing to lead this endeavour to success had to undertake high risk. This constituted a real obstacle, when, especially, one adds the previously mentioned problems, i.e. the negative perception of co-operative endeavours and the lack of earlier successful applications of co-operative credit in Greece. In view of the serious difficulties in achieving the higher initial capital requirements that credit co-operatives would have to face from the beginning of 1998, the Bank of Greece allowed the possession of up to 100 optional shares by each member. This change allowed credit co-operatives to adjust shares to a lower level, reducing, thus, the obstacles of entry and the individual’s risk and allowing the entrance of new members.

The above three kind of problems seem to be the important ones in the effort of the credit co-operatives to operate under the status of co-operative banks. It might be of interest to refer here to the answers of members to the question “How did you firstly react about the Co-op Bank”. Table 7.5 shows that the part of the members that stated reservations about the sustainability of the co-operative initiative is smaller in the ‘old’ banks (34.1 per cent against 42.6 per cent in the new co-operative banks).

Table 7.5 How did Members React when they heard of the Co-op Bank

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Count	Col %	Count	Col %	Count	Col %
Interesting Venture	54,768	75.7	9,749	66.1	64,517	74.0
Good initiative	14,270	19.7	3,718	25.2	17,988	20.6
I had reservations	24,718	34.1	6,281	42.6	31,000	35.6
Total	**93,756**	**129.5**	**19,748**	**134.9**	**113,505**	**130.2**

Source: Members' Survey

a. Multiple responses

It is worth pointing out that respondents nearly always were telling to the researcher that the basic reason for their reservations was that this initiative was co-operative in nature. Some of the members referred also to doubts about the sustainability and the efficiency of small-scale initiatives in the banking sector. These views come in support of the statements of the co-operative banks with reference to the problems they had to face in the stage of transition from a credit co-operative to a co-operative bank.

The degree of severity of these problems was decisive regarding the length of the transition period. And it should be pointed out that data presented below,[7] apart from being autonomously valuable and directly connected to the relevant arguments, they prove that the distinction between “old” and “new” banks is not one that was artificially constructed for the purposes of this study but it reflects real differences in the development course of the two co-operative banking groups.

The Credit Cooperatives of Lamia and of Ioannina, the most experienced because they were in operation long before the time of their application to the Bank of Greece, faced no particular difficulties in their transition to co-operative banks. No particular delays are also observed in the cases of the credit co-operatives of Achaia, Iraklion (Pancretan), Chania, Dodakanese and Evros. Within a period shorter than two years from their initial establishment, they were granted permission by the Bank of Greece, to operate as co-operative banks. It can be concluded that the ‘older’ credit co-operatives,

[7] For detailed data see Table XX.1 – Appendix XX

i.e. those who were granted permission to operate as co-operative banks until 1996, appear not to have faced any difficult problem during their initial stage.

The second group of co-operative banks however, i.e. those that were granted permission from 1998 onwards, seem to have faced some problems. For these banks, the period between the establishment of a credit co-operative and the approval of its operation as a co-operative bank ranges from two to six years (e.g. two for the Co-operative Bank of Evia and six for the Co-operative Bank of Kozani). For this group of co-operative banks more time was needed both for satisfying the conditions (i.e. amount of equity capital) to apply to the Bank of Greece for permission to operate as a co-operative bank and for the procedure itself of checking the documents by the Bank of Greece. Overall and in average terms, the Bank of Greece was requiring a period shorter than 9 months for checking the documents of the 'older' banks, but the corresponding period for the 'younger' banks was usually longer than 18 months.

The preceding analysis shows that the intensity of the problems that credit co-operatives had to face, as it emerges from the frequency and the clarity of the responses to questions, was not insignificant. On the other hand the members have designated some quite clear objectives to their co-operative bank.

It is reasonable to expect that the difficulties faced by the co-operative banks and the objectives they set to achieve would characterise their evolution to date. The following section elaborates on this issue, i.e. the principal characteristics of the evolution of the Greek co-operative banks. Although it is a conventional and rather static presentation of the main figures of the Greek co-operative banks it seems to be necessary for the following additional reasons: First because it facilitates the presentation of the relative position of each co-operative bank and; second and most important, because it is regarded as the first step toward the qualitative appraisal of the strategic decisions that co-operative banks followed in their attempt to implement their operational objectives, which is a focal point of this research.

7.1.3 Co-operative Banking in Figures

7.1.3.1 Greek Co-operative Banks at a Glance

As it was mentioned earlier, the Greek co-operative banks are active in 15 prefectures of the national territory. According to the last available data of 31.12.2002, in total, they employ 556 persons in 71 branches in order to serve 112,736 members. Their membership holds some 229.6 billion drachmas in deposits and received from their banks 243.6 billion drachmas in loans. With total assets of 318,2 billion drachmas, one sixth of which is own (equity) capital, their gross profits were nearly 15.9 billion drachmas and their net pre-tax profits were 7.5 billion drachmas.

The following two tables present the evolution of the co-operative banks' main figures for the years 1998-2002 (table 7.6) and the share of each co-operative bank in total membership, assets, loans and deposits for the year 2000 and 2002 (Table 7.7). It is reminded that these figures refer to 14 co-operative banks, as the co-operative bank of Kozani commenced its activities in 2001.

Table 7.6 Main Figures of Co-operative Banking (1998 - 2002, year- end)

(financial data in million drachmas)

	1998	1999	2000	2001	2002	change 2000/1998	change 2002/1998	annual change
Members	62,455	74,993	87,128	99,725	112,736	39.51%	80.51%	20.13%
Assets	116,900.6	150,224.1	185,555.1	249,023.41	318,175.31	58.73%	172.18%	43.04%
Loans	85,543.4	101,438.3	130,042.9	179,292.43	243,561.29	52.02%	184.72%	46.18%
Deposits	76,057.0	86,066.9	110,594.8	165,318.27	229,607.57	45.41%	201.89%	50.47%
Co-op Capital	24,230.9	39,156.1	43,790.1	46,055.77	48,393.32	80.72%	99.72%	24.93%
Own Capital	35,318.7	57,418.7	65,752.8	68,466.90	71,840.32	86.17%	103.41%	25.85%
Profits (pre-tax)	3,932.5	5,914.4	5,230.1	5,891.57	7,520.35	33.00%	91.24%	22.81%
Personnel	247	328	369	473	556	49.39%	125.10%	31.28%

Source: *ESTE, published balance sheets, author's calculations*

Table 7.6 gives a brief outline of the basic figures of Greek co-operative Banks. In the five year period 1998-2002 total membership increased by 80.5 per cent and equity capital by 103.4 per cent.

It is important to note that the absolute figure of loans is steadily above that of deposits. Also, while the proportional increase of loans is larger than that of deposits over the three year period (1998-2000) the last two years (2001-2002) the relevant increase of deposits was higher that of loans. These changes are on the one hand indicative of the importance co-operative banks attribute to financing local enterprises and on the other indicate that with time they seem to strengthen the links among local population, a fact that results to more local money being channelled to cover local needs.

However, in order to avoid misunderstanding, it must be made clear that the changes observed in the above Table are due partly to the enlargement of the activities of the co-operative banks at local level and partly to the entrance of new co-operative banks. It is reminded that up to 1997 there were only 7 co-operative banks in Greece. In 1998, 5 new banks were granted permission and in 1999 another two were added.

The relative importance of each co-operative bank to the total is shown in Table 7.7. It is interesting to observe how co-operative banks' shares in total membership, assets, loans and deposits have evolved in the 2000-2002 reported period.

Table 7.7 Co-operative Banks' shares in main total figures (2000 & 2002, year end)

Co-op Bank	Members %		Assets %		Loans %		Deposits %		Branches No	
	2000	2002	2000	2002	2000	2002	2000	2002	2000	2002
Lamia	17.4	12.6	14.1	6.3	18.6	8.7	13.2	5.7	3	3
Ioannina	5.2	4.5	4.2	2.8	4.2	2.9	5.1	2.7	1	2
Achaiki	5.9	6.8	7.1	6.4	7.1	6.6	5.2	4.9	2	4
Pancretan	32.1	36.8	32.7	43.2	33.1	43.7	29.9	45.0	17	30
Chania	10.1	9.9	14.7	12.8	13.8	11.7	16.7	12.4	8	10
Dodecanese	9.7	10.8	10.9	10.6	10.1	11.3	13.1	11.4	6	10
Evros	2.6	2.2	3.5	2.5	2.7	2.2	4.6	2.7	2	3
Karditsa	2.7	2.5	2.6	2.2	2.0	1.4	2.8	1.9	1	1
Trikala	3.3	3.1	1.9	3.0	1.5	2.7	1.9	2.9	1	2
Evia	2.6	2.7	3.0	3.7	3.0	3.5	3.4	4.1	1	2
Corinth	1.7	1.4	0.8	1.0	0.8	0.9	0.5	0.7	1	1
Pieria	1.8	1.9	1.3	1.3	0.8	0.8	1.2	1.3	1	1
Drama	2.5	2.1	1.7	1.4	1.3	1.0	1.4	1.2	1	1
Lesvos-Limnos	2.3	2.6	1.4	3.1	0.9	2.5	1.0	3.2	1	1
Total	100.00		100.00		100.00		100.00		45	71

Source: *ESTE, author's calculations*

As should be expected, the older is the co-operative bank the higher is its share in co-operative credit. Impressive, however, even for the group of the older co-operative banks, is the case of the Pancretan Co-operative Bank which seems to keep the pace of its growth at high levels. It should be mentioned that the Pancretan Co-operative Bank, was the only credit co-operative which managed, within a period of less than one year, to collect the required initial capital, to prepare the necessary documentation for submitting an application to the Bank of Greece and to be granted permission to operate as a Co-operative Bank. It is, also, significant that with the tacit agreement of the Bank of Greece, the first branch of the Pancretan Co-operative Bank started its operation at the end of 1993, i.e. five months before the official notification of the necessary permission was delivered. The growth of the Pancretan Co-operative Bank continued in the subsequent period so that by May 1995 it had accumulated the necessary capital and extended its operations at regional level. And, obviously, it is difficult to disregard its dominant position among co-operative banks even from this very first aggregate data presentation. It may suffice to say that within two years (2000-2002) managed to almost double its branches (from 17 to 30). This advanced spatial penetration within its territory resulted to the impressively increased shares in the total main figures reported. However, in order to arrive at some conclusions regarding the performance and the evolution of each co-operative bank, the analysis will focus on how did these main figures evolve in the last few years in each co-operative bank.

7.1.3.2 From members to functions and profits: A detailed view in the main indicators of Co-operative Banking

As explained earlier, co-operative banks may serve only their members. Thus, Table 7.8 that presents the evolution of co-operative bank membership corresponds, more or less, with the evolution of the members having transactions with every co-operative bank.

Table 7.8 Evolution of Co-operative Bank Membership

	Members						% Change	
Coop. Bank	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**Annual**	**Total (*)**
Lamia	15,410	15,678	15,694	15,200	14,709	14,230	-1.53%	-7.66%
Ioannina	4,075	4,315	4,726	4,512	4,833	5,093	5.00%	24.98%
Achaiki	4,032	4,375	4,573	5,179	6,422	7,718	18.28%	91.42%

Pancretan	12,618	16,251	21,734	27,934	34,650	41,477	45.74%	228.71%
Chania	3,113	4,652	6,711	8,792	9,704	11,177	51.81%	259.04%
Dodecanese	4,234	5,424	7,135	8,456	11,000	12,223	37.74%	188.69%
Evros	1,553	2,013	2,188	2,310	2,296	2,497	12.16%	60.79%
Karditsa	1,347	1,750	2,022	2,370	2,482	2,809	21.71%	108,54%
Trikala	1,902	2,154	2,370	2,851	3,107	3,548	17.31%	86.54%
Evia	-	1,364	1,719	2,295	2,720	3,033	30.59%	122.36%
Corinth	-	1,498	1,475	1,455	1,575	1,615	1.95%	7.81%
Pieria	-	1,200	1,136	1,549	1,830	2,101	18.77%	75,.08%
Drama	-	1,803	2,105	2,225	2,287	2,315	7.10%	28.40%
Lesvos	-	-	1,405	2,000	2,110	2,900	35.47%	106.40%
Total	***48,284***	***62,477***	***74,993***	***87,128***	***99,725***	***112,736***	***26.70%***	***133.50%***

(*) Total change stands for the change encountered from the first year's available data to 2000.

Source: *ESTE, various years, Co-op Banks' survey, author's calculations*

In the period 1997-2002, total membership increased by 133.5 per cent; but proportional changes were different among co-operative banks. Higher rates of increase are demonstrated by the co-operative banks of Iraklion (Pancretan), Chania and the Dodecanese, where the rate of increase is above the national average. From the 'younger' banks, the co-operative bank of Evia demonstrates a rate close to the average and the co-operative bank of Lesvos an annual rate higher than the national average annual increase. In general, membership is continuously increasing and only the bank of Lamia shows a continuous reduction in the number of members for the observed period and the banks of Corinth and Ioannina a small reduction in membership in some years.

The co-operative bank of Corinth seems to have not overcome the impression left to the area by the unsuccessful case of the credit co-operative 'Hermes' that is already in the state of liquidation. In spite of this, in 2001 and 2002 demonstrated an increase in membership, sufficient to turn to a positive sign the reduction of the three preceding years. A similar positive change is observed for 2001 and 2002 in the case of the co-operative bank of Ioannina. With an overall increase of the order of 10 per cent in the period 1997-2000, the co-operative bank of Ioannina presented a loss in membership in the year 2000, but according to information received by the researcher, the changes in 2001 and 2002 more than compensated for the loss of the year 2000.

The overall reduction in membership of the co-operative bank of Lamia, does not seem to be coincidental. In 1998, this bank faced some problems regarding its loan portfolio and these had an impact in the local population. For avoiding major problems, the co-operative bank in co-operation with the Bank of Greece drew a plan containing strict controls and restructuring of its operations. The orientation of this plan towards stabilisation of the bank has influenced its overall image.

The case of the Co-operative Bank of Lamia is worth examining in order to draw useful conclusions regarding the development of co-operative banks. As has been said earlier, the Co-operative Bank of Lamia evolved from the "Credit Co-operative of Craftsmen and Labourers of Lamia", which operates in Lamia for more than a century. This Bank was the leader for the most important developments of co-operative credit in Greece and was setting the example for all other initiatives during their first steps. It suffices to say that in 1997 its performance indicators were better than those of commercial banks. Its profits per employee were about 30 m. drs. when the corresponding figure for the bigger commercial bank was 18 m. drs. and that of the best performing commercial bank was 24 m. drs.

It seems that the exceptionally good performance of the bank led to complacency and to lessening of internal controls and that members considered their bank mature enough so that their active participation in the control procedures were no longer necessary. As a result, problems of mismanagement emerged and proved how important it is to develop the mentality of members-proprietors together with the mentality of members-customers. But, what is most important for the case of the Co-operative Bank of Lamia is that although its problems were quite serious and for that the intervention of the Bank of Greece was needed, its members stood on its side in the plan to recover, in recognition, obviously, of its contribution to the local economy. Viewed from this side, the small reduction in membership, indicates that this co-operative endeavour seems to have healthy roots and good prospects for returning to normality.

It should be taken into account that increases in membership have a dual importance for Greek co-operative banks. Membership does not only add new customers but also widens the only source of equity capital of co-operative banks. Table 7.9 below shows the evolution of own capital in the period 1998-2000.

Table 7.9 Evolution Of Co-op Banks' Own Capital (in m. drachmas)

	Own Capital			% Change		
Coop. Bank	**1998**	**1999**	**2000**	**1999-1998**	**2000-1999**	**Total**
Lamia	8,275	9,538	9,366	15.3%	-1.8%	13.2%

Ioannina	1,399	1,770	1,840	26.5%	4.0%	31.5%
Achaiki	3,283	3,599	6,754	9.6%	87.7%	105.7%
Pancretan	10,451	23,947	25,029	129.1%	4.5%	139.5%
Chania	2,890	4,786	7,552	65.6%	57.8%	161.3%
Dodecanese	2,116	4,213	4,712	99.1%	11.8%	122.7%
Evros	1,191	1,496	1,442	25.6%	-3.6%	21.1%
Karditsa	1,128	1,287	1,512	14.1%	17.5%	34.0%
Trikala	1,105	1,262	1,380	14.2%	9.4%	24.9%
Evia	883	1,264	1,531	43.1%	21.1%	73.4%
Corinth	734	856	996	16.6%	16.4%	35.7%
Pieria	849	869	964	2.4%	10.9%	13.5%
Drama		1,326	1,409		6.3%	6.3%
Lesvos		1,204	1,264		5.0%	5.0%
Total	**34,304**	**57,417**	**67,751**	**67.4%**	**14.5%**	**91.7%**

Source: *ESTE, Published Balance Sheets, author's calculations*

Own capital almost doubled in the period 1998-2000 due mainly to the performance of 'old' co-operative banks and especially the Pancretan, the Chania the Achaiki and the Dodakanese.

However, what is important is that apart from these four cases and that of Lamia, all the remaining co-operative banks do not reach the necessary minimum imposed by the Bank of Greece in 2001 (that minimum was raised from 1,200 to 2,044 m. drs.). Particularly concerned are the new co-operative banks, the ones found at the stage of adapting their operation to banking services. That adds to the explanation of the reservations expressed by these banks with reference to the rate of increase of their membership (see Table XX.2 – Appendix XX). A low rate of increase in their membership will have negative repercussions.

Sufficiency of own capital is of particular importance for the proper functioning of co-operative banks, given that they cannot draw founds from the stock market in the way commercial banks can. Nonetheless, as will be shown later, co-operative banks do not face problems with their solvency ratio, because this ratio is at a much higher level than the minimum specified by the Bank of Greece. So, the only concern of co-operative banks is the new minimum own capital.

There are three ways open to co-operative banks to increase their own capital. First by increasing their membership, second by increasing the existing members' share capital and third by retaining and capitalising profits. These ways will be further examined below.

As has been stated above, the rate of increase in membership, particularly in the 'new' banks is positive but not really satisfactory. In order to find out the possibilities to increase membership it is useful to examine the degree of penetration of co-operative banks to the local population.

Table 7.10 shows the proportion of the local population taking part in the local co-operative bank. The degree of the co-operative bank penetration to the local population has been measured in two ways. The first is a ratio between the number of members in the local bank and the population of the prefecture where the co-operative bank has its corporate seat. Exception to this rule is the Pancretan Bank. In this case the denominator is the population of the region of Crete, because from 1995, this bank was granted permission to operate in the whole of the region of Crete. In addition, for this bank, penetration in the prefecture where originally operated is also measured.

Table 7.10 Co-op Bank penetration to local population (2000)

Coop. Bank	Members (1)	Population (2)	Target Population[(a)] (3)	(1) / (2) (b)	(1) / (3) (c)
Lamia	15,200	178,771	141,705	8.50%	10.73%
Ioannina	4,512	170,239	133,393	2.70%	3.38%
Achaiki	5,179	322,789	246,106	1.60%	2.10%
Pancretan	27,934	601,131 (292,489)*	457,553 (221,440)*	4.65% (9.55%)*	6.11% (12.61%)*
Chania	8,792	150,387	115,390	5.85%	7.62%
Dodecanese	8,456	190,071	141,090	4.45%	5.99%
Evros	2,310	149,354	116,066	1.55%	1.99%
Karditsa	2,370	129,541	102,032	1.83%	2.32%
Trikala	2,851	138,047	108,244	2.07%	2.63%
Evia	2,295	215,136	167,996	1.07%	1.37%
Corinth	1,455	156,624	123,717	0.93%	1.18%
Pieria	1,549	129,846	99,317	1.19%	1.56%
Drama	2,225	103,975	80,790	2.14%	2.75%
Lesvos	2,000	109,118	85,110	1.80%	2.35%

Total	**87,128**	**2,745,029**	**2,118,509**	**3.17%**	**4.11%**

(a) The target population is defined as all residents in the operational territory of the Co-op Bank of age greater than 18 years old

(b) Members per Population

(c) Members per Target population

(*) In the Case of the Pancretan Co-operative Bank two different penetration rates are calculated. As it was the only bank with license to operate at a regional level the penetration rate is calculated regarding the region's population. The numbers in parenthesis concern the prefecture population and the calculated rates for that population.

Source: *Co-op Banks' survey,*
National statistics service, population inventory 2001
author's calculations

The second way of measuring penetration is the ratio between membership and the target population of the prefecture, the target population being only adults (18 years and over). This population is considered as a more realistic basis of reference, because according to law only adults can become members of co-operatives, having full legal rights, which are acquired at the age of 18.

The last column of Table 7.10 can be taken to present the degree of acceptance of co-operative banks by the local population. If can be said that the older and more active banks have gained the trust of a larger section of the target population, it can equally be said that most co-operative banks have not exhausted their source of drawing members.

A second way for increasing equity capital is the purchase of additional shares by the existing members. In order to examine the possibility of increasing the own capital by the co-operative banks in this way, the index shares per member has been calculated for every co-operative bank for the year 2000. The findings are presented in Table 7.11.

It can be seen from this Table that in most co-operative banks the average member possesses less than 10 shares. The three co-operative banks that push the average upwards (i.e. Chania, Pancretan and Achaiki) are those which have made use, in the years 1999 and 2000, of the possibility offered to members to increase the number of their shares. This can be verified by the increase of equity capital in these years (Table 7.9).

Table 7.11 Shares per Member

Coop. Bank	Number of Shares 31/12/2000	Number of Members 31/12/2000	Number of Shares / Member

Lamia	128,229	15,200	8.4
Ioannina	27,019	4,512	6.0
Achaiki	90,501	5,179	17.5
Pancretan	632,173	27,934	22.6
Chania	243,966	8,792	27.7
Dodecanese	76,080	8,456	9.0
Evros	19,517	2,310	8.4
Karditsa	19,162	2,370	8.1
Trikala	17,823	2,851	6.3
Evia	22,829	2,295	9.9
Corinth	13,655	1,455	9.4
Pieria	8,062	1,549	5.2
Drama	18,688	2,225	8.4
Lesvos	19,049	2,000	9.5
Total	**1,336,753**	**87,128**	**15.3**

Source: *Co-op Banks' survey, author's calculations*

It should be said, however, that the process of persuading members to invest more in their local bank, it is neither easy nor can be followed by all co-operative banks, for the following reasons:

First, it is not always possible to have at local level sufficient number of persons that are willing and able to invest more savings in a venture that promises profits but at the same time requires patience in order to realise them.

Second, it is not certain that profits will be realised in the short run, unless there is a general upward movement of the activities of co-operative banks. A member needs to be persuaded about the positive trend of the co-operative bank in order to increase his risk capital. With co-operative credit being in its infancy no one can claim the presence of the above conditions, so as to apply the strategy of increasing members' contributions.

This applies mostly to the 'younger' co-operative banks, the ones mostly in need of additional capital. But, even if small co-operative banks were adopting such a strategy they would run the danger of relocating the centre of control of the co-operative bank. Instead of having as their objective the provision of services to their members, they might be obliged to serve the interest of investors aiming at their own profit. This is definitely an interesting argument that needs of course further evidence, which will be provided at the last part of this chapter.

In the meantime, however, it is deemed useful to focus on the participation of existing members in equity capital as it emerged from the members' survey, which is considered to come in support of the previous two arguments. The frequency distribution of members on the basis of the number of shares in their possession, is shown in Table 7.12.

In the 'younger' co-operative banks, 50.6 per cent of members have up to five shares when the corresponding percentage in the 'old' ones is 22.8 per cent only. Also, in the 'younger' banks, the great majority of members (92.6 per cent) possess up to 30 shares, when the corresponding percentage in the 'old' ones is only 51.5 per cent. Thus, the median for the members of 'young' banks is 5 shares and for the members of the 'old' ones 30 shares. The large percentages of members in the first and in the last class, in the case of 'old' banks, are indicative of wide deviations from the average.

Table 7.12 Distrubution of members according to their contibution to the co-operative capital

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
1-5 shares	22.8	50.6	27.5
6-10 shares	14.3	11.4	13.8
11-30 shares	14.4	30.6	17.1
31-60 shares	14.4	3.1	12.4
61-100 shares	5.2	1.0	4.5
101+ shares	29.0	3.3	24.7
Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

The difference in the attitude between the members of the 'old' and the 'young' co-operative banks is also apparent in their reaction regarding new placements to equity capital.

Members of the 'younger' co-operative banks appear more reserved regarding acquisition of more shares (79.5 per cent postpone the acquisition of more shares for the future when the corresponding percentage for members of 'old' banks is 61.5 per cent, Table. XXX. 66, Appendix XXX). Members of the 'old' banks seem to be more prepared to buy new shares (13.5 per cent, compared with 7.3 per cent of members of 'young' banks) and higher is, also, the percentage of those who would buy additional shares if they had the means (12.0 per cent against 4.1 per cent).

It is, therefore, clear that the amounts of money imputed by the members of 'old' banks for the equity capital are much higher than those of the members of 'young' ones. Thus, the 'old' banks have more members with larger average contribution of each to the formation of equity capital than the 'younger' ones. Further, detailed analysis shows that old and new members of 'old' banks trust their bank more and demonstrate expectations for high profits that could eventually turn to dividends. (Table XXX. 63, Appendix XXX).

This last paragraph inevitably leads to the need of discussing the main functions of the co-operative bank, i.e. deposits and loans. Inasmuch as part of local savings is used to build the co-operative bank's equity capital and strengthen its performance it would be useful to see how did savings in co-operative banks in the form of deposits developed. On the other hand, it is local savings (deposits) that is used to finance local needs and, thus, examining the pace of development of loans granted to members is of considerable importance, especially because loans is the major source of surplus created in co-operative banking.

The evolution of deposits of the members of co-operative banks for the period 1998-2002 appears in Table 7.13. The differences in initiating the co-operative endeavours allow for comments to be made regarding the differences in the amounts deposited in the various co-operative banks.

Table 7.13 Evolution Of Co-op Banks' Deposits
(in m. drachmas)

Coop Bank	Deposits					Change		
	1998	1999	2000	2001	2002	2000-1998	2002-2000	Total (*)
Lamia	27,458	22,170	14,598	13,967	13,194	-46.8%	-9.6%	-51.9%
Ioannina	2,997	4,212	5,624	6,689	6,120	87.7%	8.8%	104.2%

Achaiki	4,798	5,599	5,692	9,149	11,252	18.6%	97.7%	134.5%
Pancretan	17,706	19,708	33,067	59,512	103,230	86.8%	212.2%	483.0%
Chania	11,399	16,762	18,483	23,835	28,442	62.1%	53.9%	149.5%
Dodecanese	7,924	10,334	14,453	21,518	26,217	82.4%	81.4%	230.9%
Evros	2,122	1,997	5,094	5,459	6,181	140.1%	21.3%	191.3%
Karditsa	986	1,921	3,048	3,680	4,399	209.1%	44.3%	346.2%
Trikala	312	666	2,124	4,266	6,553	580.8%	208.5%	2,000.2%
Evia	79	766	3,767	7,272	9,337	4,688.4%	147.9%	11,718.4%
Corinth	71	437	539	688	1,687	659.2%	212.9%	2,275.7%
Pieria	110	315	1,376	2,259	2,873	1,150.9%	108.8%	2,511.4%
Drama		1,022	1,580	2,181	2,668	54.6%	68.9%	161.1%
Lesvos			1,059	4,842	7,456	-	604.0%	604.0%
Total	**75,962**	**85,909**	**110,504**	**165,318**	**229,608**	**45.5%**	**107.8%**	**202.3%**

(*) Total change stands for the change encountered from the first year's available data to 2002.

Source: *ESTE, author's calculations*

The high proportional increments in deposits presented by the 'younger' co-operative banks are attributed to the rule prohibiting credit co-operatives from accepting deposits. As a result, high increments are to be expected due to small initial amounts on which calculations are based.

Attention may be drawn also by the performance of the 'oldest' Greek co-operative bank, the co-operative bank of Lamia. The intensity of the problems of this bank is reflected in the exceptionally high reduction of its members' deposits. Although in the period under review it has lost about 50 per cent of its deposits, it still occupies the fourth position among co-operative banks regarding the total amount of deposits.

In the group of the 'old' co-operative banks, the co-operative bank of Achaia presents the lowest proportional increase in deposits within the five-year period (1998-2002). The rate of increase of the remaining banks appears quite satisfactory, ranging from 134.5 per cent in the case of Achaiki to 483.0 per cent in the case of Pancretan.

The 'older' co-operative banks present the highest absolute increases. In three of these (Pancretan, Chania and Dodecanese) deposits increased by 120,861 m. drs. and this amount represents 78.7 per cent of the overall increase in co-operative banks. It is interesting to note that in the period 1998-2000 when the dramatic fall in Lamia's deposits is observed (-12,860 m. drs.) the increase in deposits by all 'younger' co-operative banks (by 10,913 m. drs.) represents only 84.9 per cent of these losses.

In general, it seems that co-operative banks gain the confidence of the local population.. With time they present a higher capacity in attracting more deposits. As it is shown, in the period 2000-2002 the co-operative banks have managed to double (107.9 per cent) the total volume of their deposits.
It would be reasonable to expect that the smaller co-operative banks should present higher increases in deposits. This would be the case if they were not obliged to turn available savings to increasing own capital, in order to meet the requirements set by the Bank of Greece.

The evolution of loans granted by co-operative banks is presented in Table 7.14.

Table 7.14 Evolution Of Co-op Banks' Loans
(in m. drachmas)

Coop. Bank	Loans					% Change		
	1998	1999	2000	2001	2002	2000-1998	2002-2000	Total (*)
Lamia	26,933	26,847	24,033	21,365	21,256	-10.8%	-11.6%	-21.1%
Ioannina	3,936	5,054	5,412	5,449	6,982	37.5%	29.0%	77.4%
Achaiki	7,168	7,059	9,139	12,454	16,192	27.5%	77.2%	125.9%
Pancretan	22,165	27,302	42,674	72,321	106,484	92.5%	149.5%	380.4%
Chania	11,063	14,385	17,815	22,111	28,422	61.0%	59.5%	156.9%
Dodecanese	7,376	9,231	12,996	20,108	27,580	76.2%	112.2%	273.9%
Evros	2,117	2,797	3,450	4,007	5,282	63.0%	53.1%	149.5%
Karditsa	1,310	2,246	2,591	3,074	3,486	97.8%	34.5%	166.1%
Trikala	850	1,254	1,989	3,830	6,594	134.0%	231.5%	675.7%

Evia	39	1,247	3,813	6,556	8,481	9676.9%	122.4%	21646.8%
Corinth	163	716	1,076	1,152	2,242	560.1%	108.4%	1275.5%
Pieria	740	808	1,057	1,196	1,847	42.8%	74.7%	149.6%
Drama		1,100	1,709	2,181	2,511	55.4%	46.9%	128.3%
Lesvos			1,220	3,489	6,202		408.3%	408.3%
Total	**83,860**	**100,046**	**128,974**	**179,292**	**243,561**	**53.8%**	**88.8%**	**190.4%**

(*) Total change stands for the change encountered from the first year's available data to 2000.

Source: *ESTE, author's calculations*

The proportional increases of the amounts of loans demonstrate a more even evolution if compared with the corresponding figures of deposits. 'Younger' banks, in their majority, present higher proportional increases, due to the corresponding high rates of increase of the available capital (savings).

The small, in comparison with deposits, reduction in the amounts used for loans by the Co-operative Bank of Lamia, is indicative of the devotion of co-operative banks to financing local enterprises. Thus, to a reduction in deposits of 14,264 m. drs. corresponds a reduction in loans of only 5,677 m drs.

This comment is supported by the results of the Pancretan Co-operative Bank, the one with the best performance in this area. In the two-year period 1999-2000, the Pancretan Bank increased its loan amounts by 15,372 m. drs. when the corresponding increase in deposits was 13,359 m. drs. Similar is the relationship in the co-operative banks of Achaia, Chania, Drama and Lesvos.

A relationship between loans and deposits like the above is usually a characteristic of the 'older' co-operative banks – it characterises 4 'older' against 2 'younger' co-operative banks – but it seems that this indicator is underestimated in the smaller co-operative banks. It appears reasonable to assume that during the initial stages of operation, co-operative banks turn rather towards granting more short-term loans – shorter than one year – for two reasons.

Firstly, in order to increase the speed of recycling its available capital and secondly in order to serve a larger number of members. Their limited capital, during the early years of operation, do not advise granting of long-term loans. Because of this, the amounts presented in Table 7.15 do not include loans that have been returned within the same year. The figures of this Table refer only to amounts due at the end of the year.

The impact of this attitude is expected to be stronger in the smaller banks but it seems highly probable to hold true for all co-operative banks. From Tables XX. 7 and XX. 8 of Annex XX, where the average amount of deposit and the average amount of loan per member are calculated, it can be seen that co-operative banks deal with small depositors and small borrowers, covering entrepreneurial and personal needs of their members. The average loan per member for all co-operative banks is 1.48 m. drs., with the ‘older’ co-operative banks standing above this average. Exception to this rule is the co-operative bank of Ioannina with 1.2 m. drs. per member. The ‘younger’ co-operative banks offer loans of an average level below 1 m. drs. with the exception of the co-operative bank of Evia that stands above the overall average.

It should be made clear that the above averages for loans are the calculated ones on the basis of the total number of members and not of the number of borrowers. The averages for deposits are much closer to the real ones, because all members are under the obligation to hold a deposit account with their co-operative bank. What is of interest, however, is that as it appears from the Annex Tables and from Tables 7.13 and 7.14, the amounts of loans are higher than the deposits. This relationship is better depicted in Table 7.15.

Table 7.15 Loans to deposits ratio

Coop. Bank	1998	1999	2000	2001	2002
Lamia	98.1%	121.1%	164.6%	153,0%	161,1%
Ioanninon	131.3%	120.0%	96.2%	81,5%	114,1%
Achaiki	149.4%	126.1%	160.6%	136,1%	143,9%
Pancretan	125.2%	138.5%	129.1%	121,5%	103,2%
Chania	97.1%	85.8%	96.4%	92,8%	99,9%
Dodecanese	93.1%	89.3%	89.9%	93,4%	105,2%
Evros	99.8%	140.1%	67.7%	73,4%	85,4%
Karditsa	132.9%	116.9%	85.0%	83,5%	79,2%
Trikala	272.4%	188.3%	93.6%	89,8%	100,6%
Evia	49.4%	162.8%	101.2%	90,2%	90,8%
Corinth	229.6%	163.8%	199.6%	167,3%	132,9%
Pieria	672.7%	256.5%	76.8%	52,9%	64,3%

Drama		107.6%	108.2%	100,0%	94,1%
Lesvos			115.2%	72,1%	83,2%
Total	**110.4%**	**116.5%**	**116.7%**	**108.5%**	**106,1%**

The loans to deposits ratio shows the degree of utilisation of the financing capacity of each co-operative bank. It may be recalled from Chapter 4 that the performance of all co-operative banks regarding this ratio for the year 2000 stands far above the ratio of the commercial banks (116.7 per cent against 67.1 per cent, Table 4.7).

Of the co-operative banks, half of them have a ratio above 100 per cent. The high ratio of the Co-operative Bank of Lamia is, of course, due to the extensive reduction of its deposits.. However, if the year 1998 is taken to be a normal year, it is clear that this bank also presents a sufficiently high ratio.

The high figures observed during the initial two years of operation of the ‘younger’ co-operative banks is due to the low level of their deposits. In the case of the Co-operative Bank of Corinth, the ratio remains at high levels even in the year 2000. It is reminded that, in this year, the co-operative bank of Corinth demonstrates the worst performance among all 14 co-operative banks. Deposits were standing at 539 m. drs. and the increase during the three-year period was only 468 m. drs. (Table 7.13). However, in the following years the ration seems to be normalised and tends toward the average ratio.

In spite of this, even this poor overall performance of this bank’s deposits, stresses the tendency of the co-operative banks to utilise their comparative advantage in supporting the local entrepreneurship. It may be concluded, therefore, that generally, with reference to the channeling of local deposits to the local economy, co-operative banks tend to make use of their potential to a large extent. And most important, as it will be shown below, is the fact that this is not used as a mean to rip off profit from local society.

Co-operative bank profits are related with the third way – of those mentioned earlier – namely the increase of own capital by capitalisation of profits (turn profits to reserve fund). For searching into this possibility it is useful to look at the profitability of co-operative banks. Table 7.16 shows the evolution of pre-tax profits of co-operative banks for the period 1998-2000.

Table 7.16 Pre-tax Profits of Co-operative Banks (in m. Drachmas)

	Profits			% Change		
Coop. Bank	**1998**	**1999**	**2000**	**1999-1998**	**2000-1999**	**Total Change (*)**
Lamia	0	477	78	-	-83.6%	-
Ioannina	116	129	88	11.2%	-31.8%	-24.1%
Achaiki	401	421	426	5.0%	1.2%	6.2%
Pancretan	1,410	2,002	2,353	42.0%	17.5%	66.9%
Chania	411	1,075	839	161.6%	-22.0%	104.1%
Dodecanese	283	623	423	120.1%	-32.1%	49.5%
Evros	88	271	49	208.0%	-81.9%	-44.3%
Karditsa	86	254	261	195.3%	2.8%	203.5%
Trikala	88	131	98	48.9%	-25.2%	11.4%
Evia	44	171	282	288.6%	64.9%	540.9%
Corinth	37	54	92	45.9%	70.4%	148.6%
Pieria	0	0	5	-	-	-
Drama	0	230	207		-10.0%	-
Lesvos		(a)	29			-
Total	2,964	5,838	5,230	97.0%	-10.4%	76.5%

(*) Total change stands for the change encountered from the first year's available data to 2000.
(a) The first balance sheet of the Co-operative Bank of Lesvos was published in the year 2000
Source: *ESTE, Published Balance Sheets, author's calculations*

On the whole, the year 1999 was a better year compared with 1998 for all co-operative banks, both in absolute and in relative terms. This cannot be said for the year 2000 which presents a mixed picture. In this year, although no co-operative bank presented losses, seven of them present lower profits in comparison with 1999 or even lower than of 1998 for two of these.

It is also observed that although the majority of 'old' co-operative banks (Pancretan, Chania, Dodecanese and Achaiki) seem to be in a position to achieve higher profits, the smaller co-operative banks present more stable evolution with smaller – negative – fluctuations of their profits. However, in general, it can be said that the period under review is not sufficient to lead to conclusions regarding the future prospects of co-operative profits. It is a fact, nonetheless, that in this period, the profits of co-operative banks increased by 75 per cent and also that for the smaller co-operative banks these profits cannot lead to the desired increase of own capital.

Its is of importance to note that profits do not seem to follow the expansion of loans observed in the previous tables. Maximisation of profits is not the objective of the co-operative banks, as has been discussed in Chapter Three. This theoretical position seems to be adopted by the co-operative banks as they recognise the importance of a strong co-operative as a condition to offering better services to members and nor for its own sake (Table 7.3). But a strong financial institution is not the one that has, only, the capacity to make profits; it is the one that has the ability to sustain its efficiency in the years to come. It is necessary, therefore, to examine also the main indicators of efficiency, on the basis of which the operation of banking institutions is usually evaluated.

7.1.3.3 Are Co-operative Banks Sound Banking Institutions?

The orientation of the present investigation is not to effect a banking evaluation of co-operative credit institutions and for this reason this section will limit itself to the elaboration of only a few indicators of efficiency. Reference, however, to these indicators is necessary in order to evaluate the potential of co-operative banks to combine any positive impact with satisfactory banking results. The indicators to be elaborated in the present section are: a) The indicators of capital structure of co-operative banks, b) Efficiency indicators and c) Indicators of managerial policy.

a) Indicators of capital structure.

Two indicators of capital structure have been produced: The capital adequacy ratio and the capital/deposits ratio.

The capital adequacy ratio or solvency ratio is the ratio of own capital to total assets. It should be reminded that the solvency ratio of co-operative banks is specified by legislation that should be at a level not lower than 10 per cent. The corresponding level for commercial banks is 8 per cent. In the analysis that follows, total assets are accounted at their face value, because no information is available to make adaptations according to the risk attached to every kind of capital.

It can be seen from Table XX. 14 – Appendix XX, that the capital Adequacy ratio is estimated at levels much higher than the minimum specified by the banking legislation, for the entire three-year period 1998-2000. The lowest ratio of the three-year period is that of the Co-operative Bank of Chania (19.0 per cent in 1998), a ratio that was increased substantially in the year 2000 (29.2 per cent). It can be seen that the ratio is more stable in the 'older' banks. In the 'younger' banks the ratios for the early years is influenced by the limited availability of their total capital. For this reason, the ratio of the year 2000 is more important for the 'younger' banks. In that year, the lower ratio is that of the co-operative bank of Evros (21.9 per cent), which is more than double of the minimum limit.

The level of the solvency ratio indicates the importance attached by the co-operative banks to the sufficiency of own capital. Also, the kind of products and services usually offered by the co-operative banks is such that no additional capital requirements are needed to insure against other risks apart from the credit risk embodied in their loans. In spite of this, it has already been explained that most co-operative banks face serious problems regarding the minimum capital requirements set by the Bank of Greece.

The capital/deposits ratio represents the composition of the capital of co-operative banks. The fact that deposits constitute almost the total of outside capital utilised by the co-operative banks, this ratio is nearly identical to the ratio between own and outside capital. The estimations of this ratio for the three-year period 1998-2000 are shown in Table XX.15, Appendix XX. From these findings it is clear that this ratio is influenced by the stage of development of co-operative banks and by their policies to increase their own capital.

In evaluating these findings, it is firstly necessary to repeat that the high figures of the ratio in the early years of the 'younger' co-operative banks are due to the barriers set by the Bank of Greece to credit co-operatives in accepting deposits. The evolution of the ratio shows that in the first years of operation, members' savings are directed to own capital. New members, also, initially strengthen own capital and later add to deposits of the co-operative banks.

Finally, it is observed that in two of the 'old' co-operative banks the ratio shows wide fluctuations. In the Pancretan Co-operative Bank the ratio was doubled in 1999 in relation to that of 1998, due to the policy followed by this bank to increase own capital. The large increase of own capital made the bank stronger and attracted new deposits in the following year, causing a reduction of the ratio in the year 2000. Similar was the process in the Achaiki Co-operative Bank for the year 2000, the year in which the bank applied a policy to increase its own capital.

b) Efficiency indicators.

From the family of efficiency indicators, the ones examined here are the Return on Total Assets (ROA) and the Return on Equity (ROE).

The first of the above indicators is calculated as the ratio of profits before tax to average total assets, i.e. Pre tax $Profits_t$/ $((TA_{t-1}+TA_t)/2)$. The results appear in Table XX. 16, Appendix XX.

During the first years of their operation, co-operative banks demonstrate high levels of efficiency. These levels are lowered later as shown by the results referring to ‘younger’ co-operative banks. This evolution is attributed to the low level of total assets at the beginning of their operation and also to the ratio loans/deposits -and subsequently receipts/costs- which is quite high during this period.

The evolution of the indicator in the majority of ‘older’ and more ‘mature’ co-operative banks shows that efficiency is stabilised at satisfactory levels. By comparing the findings for the co-operative banks with those of commercial banks for the year 2000 (Table 4.7, Chapter 4), one can see that only 5 co-operative banks present lower performance from the average of commercial banks. The remaining 9 demonstrate better performance in comparison with both the larger state-controlled bank (vis. the National Bank) and the larger private bank (vis. the Alpha Bank). Also, 8 co-operative banks (3 ‘old’ and 5 ‘younger’) have higher indicators than the best performing commercial bank, i.e. Eurobank.

The Return on Equity (ROE) indicator, is calculated as the ratio of profits before tax to the average own capital of co-operative banks. The results of the calculations appear in Table XX. 17, Appendix XX.

Contrary to the findings concerning the ROA indicator, the return on equity of all co-operative banks is considerably lower than that of commercial banks and in addition shows wide differences among co-operative banks.

The low return on equity of co-operative banks and the small, in comparison with commercial banks, differentiation of the indicator from ROA is attributed to the extensive participation of own capital to the total available capital in the co-operative banks. It is also seen that the 'younger' co-operative banks show higher return on equity due to the lower share of own to total employed capital. Among the 'older' co-operative banks, those of Chania and of Dodecanese show higher, than the average for co-operative banks, indicators.

c) Indicators of managerial policy

In order to evaluate managerial policy in the co-operative banks, the indicators used refer to the evolution of operational expenses and personnel expenses, the average cost per employee and the indicators for deposits, loans and profits before tax per employee. Tables XX. 18 and 19 of the Appendix present the evolution of operational expenses and personnel expenses for the co-operative banks.

The rates of increase of operational expenses vary between the two basic groups of co-operative banks – 'older' and 'younger' – as well as within each group. Two co-operative banks, those of Lamia and of Ioannina, seem to control to a large extend the rate of increase of their operational expenses by showing zero increases in the three-year period under review. In the case of Lamia, this is of course the outcome of the rationalisation programme imposed on this co-operative bank.

It appears, however, that all other co-operative banks follow a prudent policy, despite the fact that the rates of increase in some cases are rather high. This becomes clear by examining operational expenses and personnel expenses together. In that case, it can be seen that the larger part of the increase in the operational expenses is due to increased personnel expenses. Even in those cases where there are zero increases in operational expenses, personnel expenses were increased. It is deemed quite fair to observe increases in personnel expenses in an institution found in its initial stages of development. 'Younger' banks proceed to staffing their departments gradually and the bigger ones need to recruit new employees for their new branches.

The importance attributed by co-operative banks to the rational increase of operational expenses is depicted in Table XX. 21 of the Appendix, which presents the average cost per employee. Comparing with commercial banks, with average cost per employee is 12.9 m. drs per year, the corresponding figure for the co-operative banks is 6.7 m. drs. All co-operative banks, except those of Corinth and Lamia, present a cost equal or lower of that figure. It should be expected, of course, that this cost will increase with increasing size and variety of products and services rendered to their members. However, the evolution of expenses is of particular importance to co-operative banks, because their most important, historically, advantages, comparing with large banking networks, derive from their lower operational cost.

The fact that salaries in co-operative banks are substantially lower in relation to those of commercial banks does not seem to influence the operational efficiency of their personnel. As can be seen from Tables XX. 22 and 23 of Appendix XX, deposits and loans per employee, although lower than those of commercial banks (Table 4.6, Chapter 4) the amounts dealt with by the co-operative banks' employees are not small. Also, the indicator profits per employee (Table XX. 24, Appendix XX) in six co-operative banks (3 'old' and 3 'younger') are higher than the average for commercial banks.

At this point, it is deemed necessary to point out that the banking philosophy of co-operative banks, is realised through the daily contact between employees and members. For this very reason, co-operative banks should be extremely cautious in recruiting new staff. With growing competition that is expected to become more intense with the expansion of the presence of co-operative banks at local level, this parameter will acquire principal role for the co-operative banks. In order to continue to offer benefits to the local population in the form of quality or quantity, co-operative banks should draw carefully their business objectives. At the same time they should pay equal attention to the achievement of these objectives, which, in turn, depends to a large extent, on the quality and the efficient co-operation of their personnel.

The preceding discussion shows that although there is room for improving the degree of penetration of co-operative banks to the local population and for increasing the number of shares of existing members in order to increase equity capital, these changes should not be expected to result from higher profitability.

A higher degree of acceptance by the local population will be achieved by proving that a co-operative bank can offer something that is not offered by the existing banking system. This approach, of offering something different, will be compensated by an increase in the number of customers (i.e. members) and in the volume of business that each member will chose to carry out through the co-operative bank. Also, increased participation of members in the co-operative (own) capital can be expected by convincing members that the benefits accruing from his participation in the co-operative bank are satisfactory in terms of quantity and of quality. In other words, attention should be paid to those elements that according to co-operative banks differentiate their banking practice and to find out whether these constitute a comparative advantage in relation to their competitors at local level. What should be evaluated is how the daily practice of co-operative banks which implements their banking philosophy serves the objectives set upon their foundation. The following section will elaborate on this issue.

7.1.4 The implementation of operational objectives: Searching for the competitive advantage of Greek Co-operative Banks

At the beginning of the present chapter, it was stated that co-operative credit started in Greece through the initiative of local entrepreneurs in groups or by means of their chambers of commerce. Equity capital originates from their shares and it is revolving through low-interest loans to members. From the very beginning until today, these credit co-operatives are not allowed to accept deposits from their members (see chapter 5). Because of restrictions like this, when they were granted permission to operate under the status of co-operative banks, the services rendered to members were limited, e.g. some depository services apart from short-term loans. The short life of credit co-operatives combined with the limited banking experience of their members and the uncertainties connected with these co-operative initiatives, necessitated the supply of simple and easily controlled banking products.

On the other hand, the very orientation of the operations of co-operative banks was not in need of complicated banking products. Credit should be exercised in a simple, and therefore easily controlled, manner and to be completely understood by members. At the same time, the simple deposit accounts that would offer better rewards, would strengthen the capital basis of the co-operative banks. The basic functions of mobilising savings and of efficient financing, should be based on simple banking products.

Today's picture of co-operative banks regarding the products and services offered to their members, is not very different from the above description, to a large extent. The services offered to their members by fourteen co-operative banks concern simple deposit accounts and sight accounts. Time deposit accounts and current[8] accounts were added gradually, so that today 13 co-operative banks offer these services (Appendix XX, Table XX.3).

So far as credit is concerned, co-operative banks offer short-term loans to enterprises and consumer/personal loans. As the availability of capital was increasing, they added medium and long-term loans and loans for the acquisition of fixed assets. In this area today, fourteen banks offer short and medium and long-term loans and one less –i.e. thirteen of them- offer loans for building construction or asset acquisition especially for enterprises – i.e. only a small proportion accounts for housing loans. (Appendix XX, Table XX. 4)

As one might expect, the 'older' and bigger co-operative banks offer a wider variety of products and services. The wider variety is offered by the Pancretan Co-operative Bank (17 products/services), followed by the Co-operative Bank of the Dodecanese (14), Lamia (13) and Chania (12) (Appendix XX, Tables 3, 4 and 5).

Despite the fact that services provided vary among co-operative banks, it should be stated that, more than one third of the members of the 'old' co-operative banks and almost one quarter of the 'younger' ones state that they are satisfied with the products and services offered by the co-operative banks (Table XXX. 40, Appendix XXX). For these members it seems that co-operative banks offer exactly what they were requesting in their banking transactions.

It is, however, of interest to note that only 5 co-operative banks issue cash/debit cards, so that their members have access to their accounts through the ATMs at national level

[8] The main difference between sight deposits and current accounts is that the former are issued only to entrepreneurs while the latter address only to individuals

(Appendix XX - Table XX.5). Thus, as should be expected, when members where asked to state the services that they desire to be made available by their co-operative banks most references (38.4 per cent) are related with the establishment of a network and with the presence of co-operative banks in wider geographical areas (Table XXX. 40, Appendix XXX). The fact that there are no differences between members of the 'old' and the 'young' co-operative banks signifies the importance attributed by members, from the early stages of their membership to easy and direct access to their accounts.

The next two categories of requests refer to products and services, such as credit cards for the personal use of members (26.6 per cent) and online connection of enterprises with the bank (EFT-POS, Electronic Funds Transfer Point of Sale) for the immediate debit of consumers' credit cards (21.1 per cent) (Table XXX. 40, Appendix XXX). The rate of introducing new products is expected to be speeding up, according to the boards of directors of the co-operative banks, so as all members to have access to the same services (Appendix XX - Table XX.3, 4 and 5 regarding products and services stated to be offered in the foreseeable future). In this endeavour, co-operative banks look at the contribution of the Central Co-operative Bank, that they themselves have established, especially for products, which should be centrally provided for reasons of economies of scale.

Co-operation among co-operative banks and the synergy of their efforts are not the sole advantages that co-operative banks recognise as being available to them. Table 7.17 presents the advantages that co-operative banks themselves consider to be at their disposal in their banking operation, in relation with their competitors.

Table 7.17 Advantages of Co-op Banks

Co-op Bank	Advantages stated in order of importance					
	1st	2nd	3rd	4th	5th	6th
Lamia	Better deposit interest rates	Better Loan terms	Low interest loans	Friendly services	Flexibility	Co-op ideals
Ioannina	Better deposit interest rates	Local Knowledge	Friendly services	Flexibility	Better loan terms	-
Achaiki	Friendly services	Personal Involvement	Flexibility	Better loan terms	Better deposit interest rates	-
Pancretan	Flexibility	Friendly services	Better deposit interest rates	Better loan terms	Low interest loans	Local knowledge

Chania	Friendly services	Flexibility	Better deposit interest rates	Local Knowledge	Better loan terms	No of Branches
Dodecanese	Low interest loans	Friendly services	Better loan terms	Better deposit interest rates	Local knowledge	Flexibility
Evros	na	na	na	na	Na	na
Karditsa	Local knowledge					
Trikala	Better deposit interest rates	Better loan terms	Local knowledge	Friendly services	Flexibility	Low interest loans
Evia	Friendly services	Local Knowledge	Better loan terms	Better deposit interest rates	Flexibility	
Corinth	Flexibility	Friendly services	Better deposit interest rates	Better loan terms	Local knowledge	
Pieria	Flexibility	Friendly services	Low interest loans	Better loan terms	Better deposit interest rates	Local knowledge
Drama	Local knowledge	Friendly services	Flexibility	Better deposit interest rates	Better loan terms	Low interest loans
Lesvos-Limnos	Better deposit interest rates	Friendly services	Better loan terms	Flexibility	Local knowledge	
Kozani	Local knowledge	Friendly services	Better deposit interest rates	Low interest loans	Better loan terms	

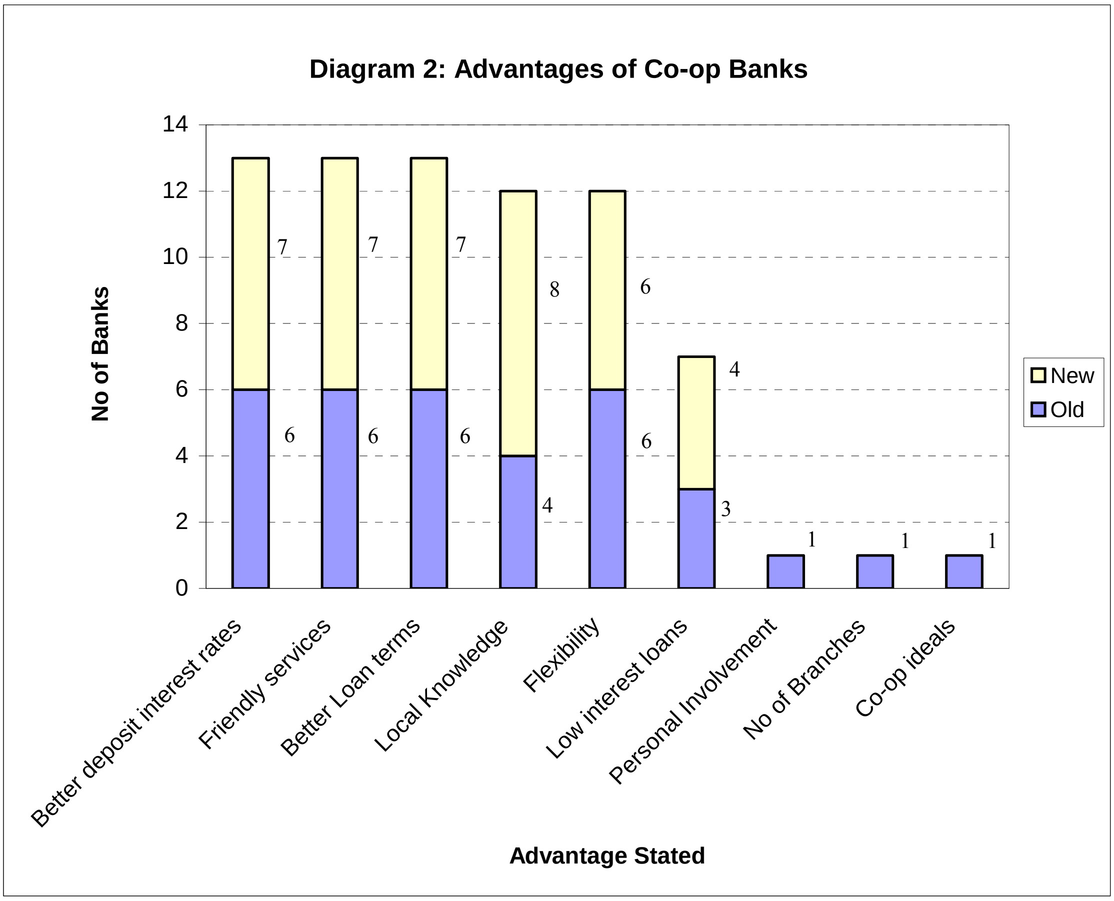
Source: Co-op Banks' Survey

Diagram 2 below summarises the information provided by the previous table. Cross reading of these two will ease the elaboration of arguments.

The advantages mentioned above can be broadly classified into two basic categories:

a) Advantages of the co-operative banks connected with the characteristics of their products and services, and

b) Advantages deriving from the local character of co-operative banks and from the way they carry-out their transactions.



With reference to the first category, there have been 13 references to better interest rates for deposits and 7 to lower interest rates for loans.

To these references that are connected with quantitative aspects of the principal functions of co-operative banks, one must add another 13 references to better terms of granting loans to members. It is worth pointing-out that the 'qualitative' aspects of loans are more emphasised by the co-operative banks as 13 of them consider this as their major advantage against their competitors, when only half of them state that they charge lower interest rates.

Overall, it appears that by means of higher interest rates for deposits, co-operative banks make use of their potential to encourage local saving and at the same time they strengthen their capital basis. At the same time, by means of more favourable terms for their loans they are in a position to cover their members' needs for loans. In this way, greater amounts of local capital – more easily collected due to higher interest rates for deposits – are addressed to a wider group of borrowers that make use of the available better terms. It should be understood that interest rate is not the only factor contributing to serving the needs of local entrepreneurs by local savings. The pay-back terms, the collaterals requested and the commissions connected with contracting a loan are often of critical importance regarding the access of would be borrowers to bank loans.

Co-operative banks consider as their prime advantage their ability to adapt their products to local conditions. By offering better terms for their loans, on the one hand they increase the number of potential borrowers and on the other they improve the terms of competition at local level.

An aggressive pricing policy from the side of co-operative banks would probably be easily overrun by the bigger and stronger commercial banks. In addition, it could create problems to the co-operative banks if the number of potential borrowers, attracted by low interest rates, were to be larger than the number that could be served. On the contrary, an approach attempting to improve the quality of the services provided by the co-operative banks would be a success if it pulled commercial banks to the same direction. In such a case, benefits would be greater for the entire local population served by the banking system.

The qualitative advantage of co-operative banks is also apparent in the second group of advantages that, according to their answers, possess with regard to their competitors. Thirteen co-operative banks make reference to friendly service and twelve to the flexibility in taking decisions. Friendly service derives clearly from the local character of the co-operative bank but at the same time it denotes the attitude of the co-operative banks that the services they render should be accessible to the local population. A bank established by the local population in order to serve this population should contribute towards reducing distrust against banking institutions. A co-operative bank is not a bank acting locally in order to promote a pre-arranged set of products and services. At least in theory, it is there in order to serve its members by offering those services that its members deem appropriate in order to satisfy their needs.

An approach like the above is, according to the answers of the co-operative banks, reached by means of the flexibility that characterises their mode of operation. Their direct contact with their customers and their simple operational structure deriving from the small size of local banks secure speedy transactions especially with reference to the time needed for an application of a member to be treated. In addition to speed, the adaptability to local conditions is also appreciated.

The establishment of a network of local branches is contributing to the direct contact with the customers. Although this characteristic has been stated only by the co-operative bank of Chania, the proximity of branches to the local population seems to serve multiple objectives such as shorter time and lower cost for members to reach them and increased penetration in the area of operation. In those cases where the daily banking practice is to be praised because of its quality, this acts as a promotional mechanism of a differential approach to local needs.

As one would reasonably expect, no one of the advantages discussed so far could be effected without the better knowledge of the local environment possessed by the co-operative bank. This is clearly recognised by 12 co-operative banks and by another one that makes indirect reference to the personal involvement characterising the transactions of the co-operative bank with its members.

Of particular interest is the fact that only one co-operative bank has included co-operative values among the advantages of co-operative banks in comparison with their competitors. The fact that the reference to co-operative values as an advantage was made by the co-operative bank of Lamia, signifies that the real mobiliser of these local endeavours comes to surface only when problems threaten their very existence. In other words, only at the moment of reflection and re-examination of the basic building blocks that made possible, to a large extend, a different operational practice to co-operative banks, only then reference is made to those elements that made possible their dynamic presence at local level.

Similar comments can be made regarding the finding that the ‘younger’ co-operative banks seem to better appreciate the reasons interpreting their comparative advantage. When referring to the most recognisable advantage –first in their list of advantages – three out of the six ‘older’ co-operative banks make reference to better rates of interest for deposits and for loans and the remaining three to friendly services and flexible operation. On the opposite 6 out of 8 ‘younger’ co-operative banks make reference to better knowledge of the local environment (3 cases), their flexibility in approaching local needs (2 cases) and to friendly servicing (1 case). Only the remaining two mention better rates of interest for deposits.

The abovementioned analysis presents in detail the view of the co-operative banks' officials on how they would describe the comparative advantage of these local financial institutions that differentiate them from their competitors and on where they would trace these essential characteristics that could help them implement the operational objectives that were set upon their initiation.

Clearly in these remarks one may identify and quote some very well known, in the co-operative credit and in the financial intermediation literature, arguments that could suffice to describe the strategic positioning of Greek co-operative banks in local financial markets. However, to the researcher's view, an additional step was of great interest and considerable importance. And that was to seek for the members' opinion on where do they identify the different approach of their financial co-operative to local needs, i.e. how do they perceive and specify the advantages of these financial institutions in comparison to their competitors. Their answers are summarised[9] in Table 7.18.

Table 7.18 Advantages that Members Stated by Age of Co-op Banks

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col Response %	Col Response %	Col Response %
What is the CBs strongest advantage? - Multiple Responses[a]	**Quality of products/services**	82.6	64.5	79.6
	Different market approach	53.9	41.6	51.8
	Membership-local effort	11.1	12.4	11.3
	None	.3	3.1	.7
	I don't know	.0	9.0	1.5
	Total	147.9	130.6	145.0

Source: Members' Survey, Table XXX.16-Appendix XXX

a. Percentage of Cases that Mentioned Recoded Category

Eight out of ten members (79.6 per cent) state that the main advantages of co-operative banks are found in the qualitative characteristics of the products and services offered. More specifically, members referred to the speed of the bank in examining their requests for loans and in carrying out their transactions (45.6 per cent – Table XXX. 16, Appendix XXX), to the favourable terms applying for loans (7.2 per cent) and to the flexibility characterising relevant decisions of the bank (4.8 per cent).

However, there are also references to deposits in co-operative banks, and this is the first time that quantitative advantages are mentioned. Thus, 11.7 per cent of members refer

[9] The detailed answers to the questions treated in Tables 8.16 and 8.17 are presented in Appendix XXX, Tables XXX.16 and XXX. 17.

to higher interest rates for deposits offered by co-operative banks and to the high-dividend policy that these banks follow. Also, 4.7 per cent of members made reference to instant access accounts (i.e. sight deposit and current accounts) pointing out the high interest rates that they enjoy and the low charges accompanying certain ancillary services (e.g cheque-books). Nonetheless, it must be pointed-out that this latter reference should be also credited equally to the products related with member financing. In general, it becomes clear that members place co-operative banks ahead of their competitors in matters concerning their loan policy.

In the second category of advantages – different market approach – to which reference is made by 51.8 per cent of members, the main answer is also related with this policy. Thus, 30.6 per cent of members state that the co-operative bank centres its interest to the real needs of its members and adapts accordingly its banking philosophy. Members think that this different approach is based on the better knowledge on the part of co-operative banks of the environment where it operates. This knowledge leads to serving common needs and also the maintenance of surplus at local level (14.1 per cent)

The local character of the co-operative endeavour constitutes the nucleus of the third category of the advantages to which 11.3 per cent of members referred. The advantage stated in this category is that a co-operative bank, as a local bank, uncovers, puts together and utilises the local human resources to the benefit of local society.

The smaller frequency of this last category of advantages should not be taken to mean lower appreciation of these characteristics of the co-operative banks by their members.

The scaling of the replies and the interpretation of the results have shown that the stated categories are inter-related and that each one presupposes the existence of the other. In other words, the different banking philosophy of co-operative banks is based on the participation of the local population both for its formation and for its implementation. The acceptance or rejection of its implementation is expressed in a direct manner by the satisfaction expressed by the local population for its transactions. This shows that members are at both ends of the co-operative endeavour: as inspirers and motivators but also as evaluators of banking practice. In most cases, however, it is easier to find out what is wrong in the practice that is followed (i.e. to evaluate the characteristics of banking products) than to diagnose the components that produce this result (i.e. to uncover the relationship between cause and effect).

Members, in their capacity of customers, are in a position to evaluate directly their transactions with the co-operative bank. The nature of these transactions is such that members can easily see these characteristics on which to base their positive or negative opinion. Thus, when members were asked to specifically state their level of satisfaction from quantitative and qualitative characteristics of co-operative banks' products and services the following situation emerged.

With reference to the rates of interest paid by the co-operative banks for deposits, three out of four members (73.0 per cent) state that they are satisfied or very satisfied with the range open to them (Table XXX. 42, Appendix XXX). This rises to 89.2 per cent for the members of 'young' co-operative banks.

With reference to the degree of satisfaction of members from interest rates and the terms applying for loans, it appears that the members of the 'young' co-operative banks are comparatively more satisfied from interest rates for loans in comparison with the members of the 'old' banks (Tables XXX. 53 and 54, Appendix XXX). The members of 'old' banks are comparatively more satisfied from the terms applying to loans.

Members were asked to express their views about the variety and the quality of the services offered by the co-operative banks as well as about how the employees of these banks exercise their duties.

The position of the members regarding the variety of the services offered, in line with what has been said until now, has been the one expected. On the whole, 63.2 per cent of members appear to be satisfied from the products available in the co-operative banks but this percentage is due exclusively to the views of the members of the 'old' co-operative banks (70,7 per cent, Table XXX. 57, Appendix XXX). Exceptionally high is also the percentage of members who are satisfied with the quality of products and services offered (87.0 per cent, Table XXX. 58, Appendix XXX). The percentage referring to the members of the 'young' co-operative banks is again lower than that of the 'old' banks, but in this case the percentages are not so distant from each other (79.6 per cent against 88.6 per cent). It is understood that the views of the members refer to the quality of the products that they have used and not the totality of the products offered by their co-operative bank. However, these high percentages allow with some certainty to conclude that the characteristics of the products and services offered by the co-operative banks are generally those desired by their members.

The satisfaction shown by members regarding the quality of the services offered, is naturally influenced by their opinion about two more characteristics related to transactions, i.e. the speed in serving and in reacting and the friendliness in the process of serving.
With reference to the speed of transactions and of reacting to members' requests from the part of the banks' employees, the degree of satisfaction is fairly good or very good for 96.0 per cent of members (Table XXX. 59, Appendix XXX). The small size of co-operative endeavours and also the daily social and/or professional contacts at local level create such a climate for the transactions that a small percentage would be a surprise.
The higher proportions observed for the members of the 'old' co-operative banks (97.8 per cent against 87.0 per cent) lead to the conclusion that the speed in serving and the swiftness in reacting are not simply the results of the limited number of business contacts. It could be said that that these are components of the banking philosophy applied by co-operative banks, which is based on the characteristics of joint actions, i.e. their local character and their co-operative nature.
The friendliness during serving is a natural extension of the above characteristics. The level of satisfaction of members with reference to friendliness is similar to the previous case (97.6 per cent for all members, 99.1 per cent for the 'old' banks, 90.0 for the 'young' ones, Table XXX. 60, Appendix XXX).

What is more important however, is the content of friendliness, as perceived by members. Friendliness is not limited to the contacts between members and employees but it is imputed in the way products are planned, so that they are easily understood in order to be used and to bring benefits to members. It is also reflected in the fact that members' needs are given priority if compared with increased profitability.
The above two characteristics are considered as the basic ones for an effective presence of co-operative banks at local level. The high percentages of positive views constitute the most important ones in differentiating co-operative banks from the rest.

The similarity of members' views with the reasons stated by the co-operative banks as the ones that led to their establishment and inspire their everyday banking philosophy, allows for the following remarks. First, it appears that co-operative banks, in planning their policy, take into account the views of their members. Second, the strategy decided is followed coherently and this is equivalent to an efficient "publicity", regarding their nature, addressed also to the new members. Third, although monetary benefits are appreciated by members (i.e. the ones that accrue from high deposit interest rates and low interest loans) and banks seem to follow a competitive price policy in their first steps, both members and banks agree that this is not the distinctive feature for the local economy. On the contrary, it is clear in their statements that they do not need to trade off the qualitatively different banking approach against an aggressive price policy in order to be competitive. They, also, seem to be aware of the fact that, in the long run, this may hinder their development and deprive members and local society of the essential characteristics of their performance up to date, which places the satisfaction of human and local needs at the centre of their operational objectives. And, as it will be shown in the next section, there is evidence that the Greek co-operative banks' impact in local economy is by no means negligible.

7.2 Qualitative and Quantitative Dimensions of the Impacts of Greek Co-operative Banking in the Economy of Rural Areas

7.2.1 A co-operative solution in the provision of financial services: At whose disposal and with what results

The previous section ended with a valuable remark. Co-operative Banks have managed to enter the Greek banking market because they succeeded in tracing their operational objectives among the real needs of local population and linked them to a banking philosophy which invests in qualitative aspects of products and services. The question that emerges is which part of the local society finds in the co-operative solution the means to satisfy its needs. In other words, which are the segments of local population that jointed forces, shaped the co-operatives orientation and finally utilizes its services. This question gains in importance and interest mainly because of a striking finding that emerged from the survey of the members of co-operative banks which referred to the educational level of members of the co-operative banks. As it was mentioned at the beginning of this chapter the proportion of members with higher education is almost equal to that of secondary education (40.3 per cent against 44.0 per cent - Table XXX.1-Appendix XXX).

These well above average figures for the educational level seem to be related with two parameters quite important for the development of co-operative banks in Greece.

The first is the fact that these co-operative initiatives emerge in the main urban centres of the prefectures. The administrative and production orientation of the main city is always attracting the well educated people of the prefecture. Because of this, and because these educational levels are not representative of the population of the corresponding prefectures, one can say that the figures in Table XXX.1 of the Appendix XXX, reflect the educational level of the population of the capital city of the prefecture.

The second parameter, a natural extension of the first, is related with the co-operative nature itself of the co-operative banks. The level of development of co-operative banks in Greece and the negative experiences deriving from the past of the co-operative institution in the country, need persons with higher educational level in order to face the difficulties of the first years of operation. This explanation is supported by the findings of Table 7.19, which presents the educational level in the 'older' and the 'younger' co-operative banks. For facilitating comparisons, it is noted that 51 per cent (44,168) of the members are old and 49 per cent (42,960) are new.[10]

Table 7.19 Educational level of Members by Membership duration

	members age group (old members before 1998 - new members since 1998)		Total
	membership before 1998	**membership since 1998**	
	Col %	**Col %**	**Col %**
Primary	8.8	17.4	13.1
Secondary	41.0	47.0	44.0
Higher/highest	47.8	32.8	40.3
Post-graduate	2.4	2.8	2.6
Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

From Table 7.19 it can be seen that the composition of membership with reference to the educational level changes through time.

In the category of old members the proportion of members with at least higher education is equal to that of members with lower education. On the opposite, in the case of new members, more than two thirds of members have primary or secondary education.

So, it can be said that the group of the local population that is initially mobilised for the co-operative bank to be founded and to operate, is that of the more educated, being more flexible and more dynamic. With time, it seems that the benefits accruing from the

[10] This relationship between old and new members is indicative of the good approximation of the sample to the characteristics of the population and, as a result, of the potential of the findings to represent closely the existing situation. Table 7.6 for the evolution of the number of members, shows that in the period 1998-2000, the relationship between old and new members was 55 per cent to 45 per cent (48,284 old – up to 1997 – and 38,884 new – for 1998-2000).

co-operative bank are diffused to those segments of the population that may be more in need of the bank's services but were unable or hesitant to take part in the joint endeavour from the beginning.

This explains also the higher proportion of university degree holders observed in the membership of the 'younger' banks in relation with the 'older' ones (58.0 per cent in the 'younger', 36.7 per cent in the 'older', Table 7.19). What one would expect to find in a future survey would be a convergence of these proportions to the ones appearing in Table 7.19, i.e. a comparatively wider participation of the less flexible and consequently more depended individuals of the local population.

What is important, however, is that these co-operative initiatives seem to embody a significant dynamism drawn from the higher educational level of their members. Thus, if these initiatives succeed to formulate and present a qualitatively better proposition regarding their banking and developmental philosophy, it will be easier for wide segments of local society to interpret and utilise it appropriately.

An equally interesting picture emerges in the classification of members on the basis of their family incomes. The findings in Table 7.20 show that the great majority of members declare family income above 6 million drs.

Table 7.20 Distribution of Members According to their Family Income

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
<1,500,000 drs	.0	1.0	.2
1,501,000 - 4,000,000 drs	10.0	23.6	12.3
4,000,001 - 6,000,000 drs	20.9	16.4	20.1
6,000,001 - 8,000,000 drs	42.5	35.0	41.2
8,000,001 - 12,000,000 drs	26.5	24.0	26.1
Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

This proportion is close to 70 per cent in the 'older' co-operative banks and in the 'younger' ones is not in an appreciable distance (59 per cent). At first sight these percentages might look overestimated but a closer look advises to take into account the following factors.

First, that this impression is not different from the estimates and the comments made about the educational level of members. Second, that the income of members refers to family income and not to personal income of members. It can be seen from Table XXX. 4 of Appendix XXX, that in more than 55,0 per cent of households, family income is formed by the member's and the spouse's income. Lastly, it may be recalled that the initiative to establish a co-operative bank was taken primarily by the chambers of commerce. For this reason, it would be reasonable to assume that the most dynamic – in terms of income – segments of the local population are mobilised in order to start and strengthen local activities.

However, it should be noted that one out of four members of the 'younger' banks and 10 per cent in the 'older' declare that their income is less that 4 million drachmas. These members are considered to belong to least well off part of local society. Although it would not be easy to define whether this income is close to the poverty threshold income[11] it would not be far from reality to say that this segment of membership definitely derives from the more economically depressed parts of local population. Thus, at this point it would suffice to note that members of such an economic status comprise at least a 12.5 per cent of total membership.

The picture already drafted about the socio-economic profile of members is also supported by Table 7.21, which presents the distribution of members by social grade.[12]

[11] There is no official reference to such an income. Although, following the Eurostat methodology, the conventional poverty rate for the country as a whole is estimated at 20-21.0 per cent, researchers hesitate to specify a level of poverty income for Greece in general and even more for rural areas. In Eurostat, FAO and OECD statistics the N/A (not available) indication is mentioned for Greece. (See among others, http://www.fao.org/fi/fcp/en/GRC/profile.htm, and Matsaganis, M., Papadopoulos, F. and P. Tsakloglou (2005) Estimating Extremen Poverty in Greece. *Report of the research project Social Exclusion and Social Protection – The EU dimension – EXSPO)*. In the absence of a sound reference that the researcher could find adequate for his arguments concerning the areas in focus, the analysis proceeded in forming, using the survey's data, the socio-economic grades according to the ESOMAR Social Matrices. As it will be shown, this provided for equally interesting findings to emerge.

[12] These social grades were formed in accordance with the European Society for Opinion and Marketing Research (ESOMAR) Social Matrices. Following the ESOMAR methodology, relevant information regarding the occupation and the terminal education age of the main income earner was used in order to construct the appropriate social grade categories. For more information on that procedure see ESOMAR

Table 7.21 Distribution of Members according to their Social Grade

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col %	Col %	Col %
Social Grade Defined by ESOMAR	Managers and Professionals - AB	42.8	44.7	43.2
	Well-educated non-manual skilled workers - C1	8.7	15.3	9.8
	Skilled workers and non-manual employees - C2	22.7	23.4	22.8
	Unskilled manual workers and other less well educated workers and employees - DE	25.8	16.5	24.2
	Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

According to ESOMAR classification, 53.0 per cent of the total number of members belong to the ABC1 grades. This proportion is 60.0 per cent in the 'younger' banks. It appears that a sizeable proportion of members is found in such a socio-economic condition that their participation in the local initiative is acting as a catalyst for co-operative banks.

An equally high percentage of 47.0 per cent of total membership, however, belong to the C2DE social grade; for the 'old' co-operative banks this percentage is 48.5 per cent. It should be reminded that, researchers of the European banking market have provided evidence that it was on customer in these social grades that the de-marketing bank strategies were focusing (see chapter 3 for more on that).

Moreover, use of the same social grades for the basic distinction between old and new members – in the same manner as it was presented for the educational level – results in the very interesting findings of Table 7.22.

(1997) Harmonisation of Social-demographics: The Development of the ESOMAR European Social Grade. Amsterdam, The Netherlands (www.esomar.nl)

Table 7.22 Member's Social Grade by Membership Duration

		members age group (old members before 1998 - new members after 1998)		Total
		membership before 1998	membership since 1998	
		Col %	Col %	Col %
Social Grade Defined by ESOMAR	Managers and Professionals - AB	52.3	33.8	43.2
	Well-educated non-manual skilled workers - C1	10.9	8.6	9.8
	Skilled workers and non-manual employees - C2	15.2	30.7	22.8
	Unskilled manual workers and other less well educated workers and employees - DE	21.6	26.9	24.2
	Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

The shares of members from the different grades change with the length of time of operation of co-operative banks. Thus, the share of old members of the AB and C1 grades is 63.2 per cent and for the new members this share is lower by twenty percentage units (42.4 per cent).

Consequently, almost 6 out of 10 new members belong to the C2DE grades. It can be said that with time these members see in the co-operative bank a friendly and accessible financial services provider. The initial action of the higher social strata of the local population is 'exploited' to a large extent in later stages by wider and probably more vulnerable strata.

It seems that a new form of 'social solidarity' is making its presence felt in the case of co-operative banks. A transfer and diffusion of the social surplus deriving from the co-operative effort is directed towards those sections of the local population that are mostly in need. This new relationship is expected to add a new dimension in the local development dynamic, to the extent that it encompasses a different proposal of social partnership.

In their first steps, co-operative banks seem to rely on the more prosperous and more educated segments of the local population. The true operational dimension of co-operative banks is, however, acquired by increasing their membership from the most dependent and vulnerable sections of the local population. So, it is obvious that the benefits harvested from the presence of the co-operative bank at local level are not one-sided.

Searching for more clear indications of pre-existing social bonds that foster active participation and collective action of local population, the research focused in the period that precedes the decision of the respondents to participate in the Co-operative Bank. This period is important for two reasons:
First, because it is directly related with the problems that co-operative banks had to face on their way and with their declared objectives for their operation at local level.
Second, because this shows the way co-operative banks approach the local population. This parameter is important as an indicator of the mechanism of mobilising the local population.
Table 7.23 presents the answers of members to the question "How did you learn about the Co-operative Bank". The figures of the Table refer to the first of their answers.[13]

Table 7.23 How did Members learn About the Co-op Bank

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
Informal channels	50.5	72.9	54.3
Official channels	49.5	27.1	45.7
Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey, Table XXX.5 - Appendix XXX

From these figures it can be seen that informal channels are rather more common among the local population regarding the medium through which they learned about the existence of the local bank. The excess of the informal over the official channels is principally due to the members of the 'younger' co-operative banks. 72 per cent of these

[13] Respondents were given the possibility to refer to more than one sources of information. Detailed replies are found in Tables XXX 5-7 of Appendix XXX.

members have stated that they were informed by friends, colleagues or other members. It seems, therefore, that links of social trust are at the centre of gathering close together of local people in support of a common cause.

This becomes clearer by examining the corresponding proportions of old and new members for each age group of banks. (Tables XXX 8 and 9 of Appendix XXX). One can see there that while among the old members of the 'older' banks the informal channels dominate, the opposite is true for their new members (Table XXX 8, Appendix XXX).
Different is the case in the new co-operative banks, which are found at their early stages. In these cases, their mobilisation continues to be based on trust created through daily professional or social contact among the local people (Table XXX 9, Appendix XXX). On the whole, however, these replies show that the 'older' co-operative banks can now address themselves to the mass of the local population and, as a result, to base their penetration policy on several alternative media for approaching new members.

The efficiency of the different channels of communication was measured as a function of the time elapsing between the moment respondents learned about the existence of the co-operative bank and the moment they decided to become members. There is strong and statistically significant relationship between the way respondents learned about the co-operative bank and the time that elapsed until they decided to become members (Table XXX 11, Appendix XXX).

What this relationship proves is that the stronger the pre-existing social bonds the faster the decision to become member of the co-operative bank. Of those who decided within a year to become members of the co-operative bank, 59.9 per cent based their decision upon information deriving from informal sources. On the contrary, 57.3 per cent of those members who became members after 2-3 years drew information from the local press or from the bank itself. This shows that trust, which is most important in strengthening local initiatives, is also benefiting from the positive development of the initiative.

It seems reasonable, at the same time, to assume that on trust is also based the utilisation of the formal channels of communication with the local population by the 'older' co-operative banks. Having overcome a critical stage of their development on the basis of local acceptance through daily contacts with their members, they strengthen their image by means of less personal but more far-reaching means of communication.

Four out of ten members needed more than one year to decide to become members in the co-operative bank (Table XXX. 11). Table 7.24 examines this relationship for members of 'older' and 'younger' banks.

Table 7.24 Distribution of Membership according to their promptness to enter the Co-op Bank

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col %	Col %	Col %
Time passed from hearing to becoming member	**1 year**	59.6	65.0	60.6
	2-3 years	25.4	11.3	23.0
	4+ years	14.9	23.7	16.4
	Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

It appears that the proportion of members that needed more than one year in order to decide to take part in the co-operative bank, is not appreciably different between 'old' and 'young' co-operative banks (35.0 per cent in the 'new' banks against 40.3 per cent in the 'old').

However, if the total number of members of the 'old' co-operative banks and the longer life of these banks at local level are also taken into account, then it can be said that they are found in a better position. In other words, the 'old' co-operative banks have already covered the "nucleus" of the population that was mobilised during the early years of their operation and, consequently, as they attract more members and expand towards wider social strata, they prove to be more efficient, as is indicated by the high rate (59.6 per cent) of those who become members within a year from the time they are first informed. This observation is supported by the fact that the 'old' co-operative banks demonstrate higher spatial penetration by establishing new branches.

The increase in the number of branches of co-operative banks at local level has the following impact: Basically, it improves the level of satisfaction of the needs of the local population by taking banking services close to the potential customer, reducing, thus, transaction costs. As a consequence of this, a wider section of the local population finds that it is beneficial to co-operate with the co-operative bank. At the same time, the increase in the number of members strengthens the position of the co-operative bank in the local market and improves its image to the local population.

It can be said however that the value of a co-operative bank and its operational success is measured by the satisfaction it can offer to its members in covering their financial needs. Any possible wider impacts at local level will not be but expectations if the primary objective of satisfying members is not reached. Hence, it should be of interest to focus on the banking relations of members with the Greek co-operative banks.

The level of transactions, as a qualitative variable, represents the intensity of transactions of members with the co-operative banks, in relation with the other banks present at local level. In other words, what is of interest is not the number of transactions as such that a member has with the banking system, but which bank he thinks that serves him best. The level of transactions of members with their co-operative bank is presented in Table 7.25.

Table 7.25 Transactions Level of Members by age of Co-op Banks

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col %	Col %	Col %
Is the CB your principal bank	**Yes, it's my exclusive bank**	8.1	3.6	7.3
	Yes, it's my principal bank	47.9	17.8	42.8
	I work with several banks - none is principal	21.7	4.1	18.7
	No, another bank is my principal bank	22.3	74.5	31.1
	Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

The proportion of members who consider the co-operative bank as their principal bank is higher than that of members who consider another bank as principal (42.8 per cent against 31.1 per cent). Together with those who consider the co-operative bank as their exclusive bank (7.3 per cent), it is shown that one in every two members have close links with their bank. The other half, state either that they must co-operate with several banks in order to satisfy their needs (18.7 per cent) or that another bank cover, to a large extent, their needs (31.1 per cent).

A comparison between 'old' and 'young' co-operative banks shows that the 'old' ones have better performance. 8.1 per cent of the members of the old banks state that the co-operative bank is their exclusive bank and 47.9 per cent that it is their principal one. These proportions are more than double the corresponding proportions for the 'younger' co-operative banks (3.6 and 17.8 per cent respectively). Approximately, one out of five (22.3 per cent) members of 'old' co-operative banks consider another bank as their main one. This proportion rises to three out of four (74.5 per cent) in the 'younger' banks.

It is interesting to see the differences in the level of transactions with the co-operative banks between old and new members (Table 7.26). It appears that new members tend to turn more to the co-operative bank in order to serve their activities. Old members consider almost equally the co-operative bank (38.7 per cent) or other bank (37.4 per cent) as their principal bank. On the contrary, the corresponding figures for new members are two to one (47.1 per cent to 24.7 per cent).

Table 7.26 Transactions level of Members by Membership Duration

		members age group (old members before 1998 - new members after 1998)		Total
		membership before 1998	membership since 1998	
		Col %	Col %	Col %
Is the CB your principal bank	**Yes, it's my exclusive bank**	5.8	8.9	7.3
	Yes, it's my principal bank	38.7	47.1	42.8
	I work with several banks - none is principal	18.1	19.3	18.7
	No, another bank is my principal bank	37.4	24.7	31.1
Total		**100.0**	**100.0**	**100.0**

Source: Members' Survey

The intensity of members' transactions with their co-operative banks increases with time. This is apparent for the new members from the information of Table 7.26. It can be said, however, that this is also true also for the old members of the old banks, if Tables 7.25 and 7.26 are both taken into account. From this joint reading, one concludes that the small proportion of members of the 'younger' co-operative banks that considers the co-operative bank as their principal bank (17.8 per cent, Table 7.25), suppresses[14] to low levels the corresponding proportion referring to all old members (38.7 per cent). Indeed, the proportion of members of the 'old' banks that considers the co-operative bank as their principal bank is 44 per cent, comparing with 27.2 per cent of those who have another bank as their principal bank (Table XXX. 13, Appendix XXX). For the new members of these banks, the corresponding proportions have a relation three to one (51.0 per cent to 17.7 per cent). In the 'young' co-operative banks, although the situation is somewhat better for the new members, it is found at essentially lower levels (Table XXX. 14, Appendix XXX).

The level of transactions of members in relation with their social grade is also interesting (Table XXX. 15, Appendix XXX). Out of the number of members who declared that the co-operative bank is their exclusive bank (7.3 per cent), 88.5 per cent belong to the two lowest social grades (C2 41.4 per cent and DE 47.1 per cent, column % in Table XXX. 15, Appendix XXX). It seems that, for these grades, co-operative banks either are the most competitive in the local market or are the only banks with which these members can co-operate. The share of these lowest social grades decreases with the increase of the proportion of members having other banks as principal (57.0 per cent for C2 and DE grades in column 2, 35.6 per cent in column 3 and 30.5 per cent in column 4). In addition, 67.0 per cent of the members of the C2 social grade and 64.5 per cent of members of the DE social grade declare that the co-operative bank is their principal or exclusive bank (row % within grades in Table XXX. 15, Appendix XXX).

On the last comments above, one can base the assumption that with time, with rising level of development and with increasing number of members in co-operative banks, the proportion of members who will consider co-operative banks as their principal banks

[14] It should be taken into account that the sample of members was drawn from the existing at the end of the year 2000 membership. This, for the new banks, had the effect of giving more weight to the views of the old members in relation to those of the new members. It can be seen from Tables XXX. 8 and 9 of the Appendix that for the 'old' banks old members constitute 48.9 per cent of the total (34,795 out of 72,383) and for the 'young' ones 63.6 per cent (9,373 out of 14,745).

will increase. It is reminded that co-operative banks draw more members from the two lowest social grades as time passes. These members, to a large extend, state that they are better served by their co-operative banks.

It should be stressed, however, that the proportions of members of the upper two social grades that consider the co-operative banks as their principal banks are significant. One in every three members belonging in the AB grade considers the co-operative bank as their principal bank (33.9 per cent) and this proportion rises to 39.6 per cent for the C1 social grade (row % within corresponding grades in Table XXX.15 of Appendix XXX).

Valuable findings provide, also, further evaluation of the impacts that the performance of co-operative banks has on members' saving attitude. The proportion of members, who state that their involvement with the co-operative bank and the range of choices open to them have influenced positively their propensity to save, is much higher for the members of the 'old' banks (19.8 per cent) in comparison with that for the members of the 'young' ones (3.6 per cent) (Table XXX. 43, Appendix XXX). This proportion is also slightly higher for the old members in comparison with the new ones (18.0 per cent and 16.1 per cent respectively, Table XXX. 44, Appendix XXX)

What is interesting is that there is strong and statistically significant relationship between social grade and influence on the propensity to save. The lower is the social grade, the higher is the proportion of members who state that membership in the co-operative bank has contributed positively to their propensity to save (Tables XXX. 45 and 46, Appendix XXX).

Thus, the 'older' the co-operative bank and the longer the duration of transactions, the more members feel the influence of the co-operative banks to their personal savings. Also, the more co-operative banks develop, the stronger is their influence to the economy of the lower social grades.

Another interesting relationship is found regarding the influence of co-operative banks to savings if members are divided into borrowers and depositors.[15]

[15] Table XXX.47 presents the distribution of members into two groups: Those who have applied for loan to the co-operative bank and those who have not. For the total number of members, as well as for the

The percentage of those who consider that membership to the co-operative bank had a positive influence to their savings is higher for the members who have contracted a loan in comparison with those who have not (18.9 per cent against 15.3 per cent) (Table XXX. 48, Appendix XXX). This difference is statistically significant, i.e. it is systematic and not accidental (Table XXX. 49, Appendix XXX). Thus, what seems to be true, even if marginally, is that the direct and easy access of these members to loans with favourable terms, is influencing also the rate of savings of borrowers.

The impact of the range of choices for borrowing offered by co-operative banks to their members-borrowers is clearer. Six out of ten members of the 'younger' co-operative banks and four out of ten members of the 'older' ones express the view that their co-operative bank makes easier their financing (Table XXX. 50, Appendix XXX). So, it seems that co-operative banks can broaden the levels of financing of the local population. Their effectiveness in this respect is independent of their level of development. In the early years of their operation, in particular, it seems that they are asked to cover pressing financial needs of the local population.

If the number of members who have not replied to the questions referring to rates of interest and terms of loans are excluded, the resulting picture is the following: The members of 'younger' banks are more satisfied from interest rates than the members of the 'older' banks (57.4 per cent, against 40.4 per cent, Table XXX. 55, Appendix, XXX). However, the fact that the majority of members of the 'old' co-operative banks are rather disappointed from interest rates is related rather with the intensity of competition that these co-operative banks have to face at local level. Also, the high operational cost that co-operative banks incur when they are found at a stage of rapid development of their services and their network of branches, pulls interest rates for loans towards the corresponding rates of the market. On the contrary, the satisfaction of members from the terms of loans offered by the co-operative banks is clearly higher as six out of ten members state that they are satisfied or very satisfied (61.1 per cent for the 'old' and 62.4 per cent for the 'young', Table XXX. 56, Appendix XXX). This is a re-assurance that the characteristics that are taken into account before contracting a loan

members of the 'old' co-operative banks the relationship between the two groups is 1 to 1. For the 'young' co-operative banks this relationship is 1 to 3.

are not only the loan size and the level of interest rate but additional – non-pecuniary - characteristics that often allow for the matching of supply with demand for loans at local level.

The wider impact, deriving from the operation of co-operative banks, in covering the financial requirements of the local population emerges when social grades enter into the picture (Table XXX. 51, Appendix XXX). The percentage of members belonging to the DE social grade, who state that the co-operative bank has facilitated their access to loans, is twice as high comparing with the corresponding percentage for the AB social grade (58.7 per cent against 29.4 per cent). This relationship is systematic (Table XXX. 52, Appendix XXX) and, therefore, it can be said that the lower is the social grade, the higher the possibilities offered to these members by a co-operative bank.

The picture that emerges from the analysis that was presented in this section allows for av interesting dimension of the development of Greek co-operative banking to be revealed. If most difficulties of co-operative banks are related with concepts such as trust and confidence in mutual local initiatives, then, the fact that co-operative banks multiply and have an impact on their members in the manner that research findings have described, may be attributed to a re-definition of the terms of co-operation by the local population of the Greek periphery. This also indicates that the benefits accruing from the joint venture is multi-faceted. First, the successful operation of the joint enterprise, reduces the intensity of the problems that led the local population to establishing a co-operative bank. Second, it allows for wider segments of local people to feel that their "involvement" can make a difference to their personal empowerment and to the benefit of local prospective. Thus, it enhances the potential of local population to create new and utilise existing possibilities for development. Finally, it gives a new meaning to the concepts of trust and joint local action. In other words, the new mentality that is cultivated allows the synergy of the individual with the collective interests to be served and also the local resources to prove efficient and demanding partner in wider efforts for development.

7.2.2 *Impacts of Co-operative Banks' Savings and Loans to the Local Economy*

In the present section an effort will be made to relate the published data with the evaluation of the co-operative banks about the impact of their operation in the local financing and savings attitudes. Thus, it concerns a combined analysis of information that the Co-operative banks' survey has revealed with official data concerning deposits and loans, which is conducted in order to allow for further qualitative and quantitative implications of the co-op banks' presence to be tested.

7.2.2.1 Co-operative Banks' share in local savings and loans

Co-operative banks replied to a series of questions about their share in the principal products and services they offer. Their replies are summarised in Table 7.27.

Table 7.27 Market shares of Co-operative Banks in local deposits and loans

Coop. Bank	A	B	C	D	E	F
Lamia	6.7%	Yes	-	-	Yes	-
Ioanninon	2.2%	Yes	3.0%	7.0%	Yes	8.0%
Achaiki	1.3%	No	-	4.0%	No	-
Pancretan	3.8%	No	-	-	Yes	-
Chania	8.5%	Yes	30.0%	10.0%	Yes	20.0%
Dodecanese	4.3%	No	-	7.0%	Yes	-
Evros	2.8%	na	na	na	na	na
Karditsa	2.4%	No	-	-	Yes	-
Trikala	1.3%	Yes	-	-	Yes	-
Evia	1.3%	Yes	1.0%	4.0%	Yes	3.0%
Corinth	0.3%	No	-	-	No	-
Pieria	1.0%	No	-	1.7%	No	-
Drama	1.1%	No	-	3.5%	No	-
Lesvos	n.a	No	-	5.0%	Yes	2.0%

Source: *Co-op Banks' Survey*

The first column, Column A, presents the replies to the question: 'What is the share of the co-operative bank in the deposits of the administrative Department?'. On the basis of available data for the total amount of savings at the level of administrative department, the replies were checked for validity and no major deviations were observed.

Column B presents the replies to the question: 'In your opinion, the presence of the co-operative bank has led to an increase of deposits in the area of activity?'.

Column C presents an estimation of that increase– if stated.

Columns D, E and F present the replies of the respondents to similar questions regarding loans. In this case, the replies to the question 'What is the share of the co-operative bank in the loans of the administrative Department?' was not possible to be cross-checked, because there are no disaggregated data for loans provided by commercial banks.

Columns B to F are the estimates of the co-operative banks for the year 2000. Column A refers to the share at the end of 1999. The share of the Pancretan Co-operative Bank has been calculated as a proportion to total savings of the region of Crete (including Chania).

As one would reasonably expect, the 'older' banks have attracted a higher proportion of the deposits in their area of operation. Even in the case of Lamia, the co-operative bank that suffered in 2000 a reduction by 50 per cent of the deposits held in 1999, its share remains at high levels. This indicates that in previous years, this co-operative bank was handling more than 10 per cent of the deposits of the prefecture.

Among the co-operative banks, the highest share is shown by the co-operative bank of Chania, followed by that of Dodecanese. For the Pancretan, the low figure is due to its extensive area. It seems obvious that in the prefecture of Iraklion its share is much higher.

The market shares shown in Table 7.27 are indicative of the room for considerable improvement existing especially for the smaller co-operative banks where shares are below 1.5 per cent with the exception of the co-operative bank of Karditsa.

It is of interest to note that 3 out of the 6 'older' co-operative banks and 2 out of the 7 'younger' ones state that their presence has contributed to increasing savings in the area of their operation (Column B). The meaning of this is that co-operative banks do not part a portion from the existing size of the market but contribute to increasing savings and to directing them to the banking system. This may be attributed to the practice of the co-operative banks to pay interest even in the smallest amounts deposited and also not to apply charges on these deposit accounts, a practice contrary to that of most commercial banks. In addition, if members – and particularly small and medium size enterprises – have been convinced that the co-operative bank offers them a flexible access to bank loans, then they may deposit larger amounts from those usually needed for current transactions and for reason of security.

The last of the above comments is strengthened by the answers of 9 co-operative banks – 5 'older' and 4 'younger' – which stated that their presence has increased the absolute size of loans in their area (Column E). It is also a fact that the share of co-operative banks in loans is higher than their share in deposits (Column D). These show the significance of easy access to bank loans offered by the co-operative banks not only to the increase of total loans in the local economy but also to encourage local savings.

The negative answer of 8 co-operative banks to the question: 'In your opinion, the presence of the co-operative bank has led to an increase of deposits in its area of activity?' (Column B of Table 7.27) could lead to false conclusions if the rules of the game are not taken into account. It has been said earlier that own capital of the co-operative banks derive from members alone.

So, in the case of 'younger' co-operative banks that are in need of increasing their capital basis in order to comply with the Bank of Greece's rules, part of members' savings is directed to shares and not to deposits. It is a question of conflicting interests between the member-owner and the member-customer of the co-operative bank. For the member-customer to be in a position to make use of the products offered by the bank, the member-owner must 'invest' in this same bank in order to strengthen its capital basis.

This dual capacity presents itself again during the subsequent stages of operation of the co-operative bank, namely in the distribution of surpluses deriving from its intervention. The co-operative bank may return the surpluses directly through more favourable interest rates or higher dividends or indirectly in the form of additional and qualitatively better services. In the latter case, it is the member-owner who decides to give up a part of his benefits which could be saved, for strengthening the capital structure of his bank. Thus, either through buying shares or through capitalisation of profits or improvement of its operation, it is the savings of members that strengthen the co-operative bank.

Having in mind the speed of development of co-operative credit in Greece during the last decade, it can be said that the rates of increase in deposits at local level caused by the presence of co-operative banks are significantly higher than what one derives by interpreting the relative figures. Also, it would be rather wrong to assume that deposits only satisfy the saving expectations of their owners. It should be rather seen as a form of ‘creative savings’ or the formation of a ‘social capital’ that serves the small and more extensive needs of the local economy, contributing, thus, to the expansion of the local potential.

7.2.2.2 Impacts of Deposit and lending interest rates on members’ and local economy

Competitive interest rates have traditionally acted as a means of attracting customers in the banking system. In the case of co-operative banks, the treatment of interest rates constitutes also a basic factor for re-distributing the surpluses deriving from their operation. The relation of interest rates of co-operative banks with those of their competitors is of interest both as a factor for attracting new members and as a basic component in their policy for surplus distribution.

Table 7.28 shows the differences in interest rates for deposits and loans by category of product for the year 2000. The way of deriving these differences is not the same for all co-operative banks (see also Appendix XX – Table XX. 9 for more details). Some explanations are in order here.

Table 7.28 Differences in Co-operative and Commercial Banking Interest Rates (per cent per annum for the year 2000)

	differences in deposit interest rates[1]			differences in lending interest rates[2]		
Coop. Bank	**Sight deposits**	**Saving deposits**	**Time-deposits**	**Short term loans**	**Consumer loans**	**Long-term loans**
Lamia	-	-	-	-	-	-
Ioanninon	2.3%	0.8%	3.0%	-	-	-
Achaiki	2.8%	0.8%	1.0%	1.7%	-1.5%	2.5%
Pancretan	0.5%			-0.5%		
Chania	0.5%	0.5%	1.2%	-0.5%		
Dodecanese	2.0%	3.0%	3.5%	-1.4%	-5.0%	-4%
Evros	na	na	na	na	na	na
Karditsa	0.5%	0.5%	1.0%	-1.0%		
Trikala	0.5%	0.5%	1.0%	-1.0%		
Evia	0.7%	1.5%	2.9%	1.2%	-0.5%	2.0%
Corinth	0.0%	1.58%	-	-1.8%	-2.6%	1.0%
Pieria	4.1%	1.14%	1.8%	-3.8%	-1.5%	3.0%
Drama	3.1%	1.8%	1.4%	2.3%	-0.35%	2.8%
Lesvos	0.5%	1.5%	2.0%	-2.0%	-1.0%	-0.5%

[1] positive figures stand for higher deposit interest rates offered from the co-operative compared with the average rate of commercial banks

[2] negative figures stand for lower lending interest rates charged from the co-operative bank compared with the average rate of commercial banks

Source: *Cop Banks' Survey, Table XX.9 – Appendix XX*

The Co-operative Bank of Lamia has stated that it applies the market interest rates both for deposits and for loans. The presence of the Bank of Greece, which implemented a corrective programme in the period under review in order to solve the accumulated problems, explains why this bank applies this rule. Market interest rates are also applied by the Co-operative Bank of Ioannina.

Five co-operative banks (i.e. Pancretan, Chania, Karditsa, Trikala, and Lesvos) have not recorded the average interest rates that they apply but stated directly the differences between their own and the most competitive interest rates in their area of operation. Four of these co-operative banks have not referred to individual interest rate differences

for the three categories of loans (and of deposits, in the case of the Pancretan) but have ascertained that the difference indicated applies in all cases.
The Co-operative Bank of Dodecanese has provided the differences for the three categories of deposits and the average interest rates applicable in its loans. The remaining co-operative banks gave the average interest rates applicable in the year 2000 for each category of product. In these cases, differences have been calculated by subtracting these interest rates from the average ones used by commercial banks in 2000. In the case of the Co-operative Bank of Corinth, interest rates for time deposits have not been stated because this bank does not offer this product to its members (see also Appendix XX, Table XX. 2)

The differences in interest rates shown in Table 7.28 are in accordance with the statements of the co-operative banks themselves regarding their advantages comparing with their competitors in the banking system (see Table 7.17). With the exception of the Co-operative Bank of Lamia, which is obliged to follow a different policy, all other co-operative banks offer better interest rates for deposits to their members.

With reference to interest rates for loans, most co-operative banks offer lower interest rates to their members. However, three co-operative banks vis. Achaiki, Evia and Drama, charge higher interest rates. Another two of the 'younger' banks, vis. Corinth and Pieria apply higher interest rates, though only to long-term business loans. A possible explanation for this, at least for the long-term loans, is the unwillingness of small co-operative banks to block capital for long time periods. An additional reason for charging high interest rates to long-term loans is that these loans normally refer to large amounts of money, so these cannot be served by small banks with limited capital. This policy seems to work, so that long-term loans in these five co-operative banks are much less than the short-term ones (see Appendix XX, Table XX. 11).
There should be a warning, however, concerning the quality of borrowers that are attracted by higher interest rates. As explained in Chapter 2, this form of credit rationing may attract loans of higher risk and for this reason the prospective borrower agrees to pay higher interest rate. According to Stiglitz and Weiss (1981), this policy may produce the opposite from the expected results. Instead of protecting the banks' portfolio from undesired loans, it attracts precarious borrowers having business plans of higher risk.

A prospect like the one described above, although probable, does not seem to consist a serious threat for the co-operative banks, at least for the existing situation to date. On the one hand, long-term loans are a small proportion of all loans. On the other, it should be recalled that in the banks that present higher interest rates the calculation of the difference with the competing interest rates has taken into account the average interest rates applicable in the year 2000. But, the co-operative banks usually declare the final interest rates to be charged on their members, inclusive of commission and other charges related to contracting loans. This differs from the practice of commercial banks which declare the nominal interest rates, omitting other charges, which differ among banks. It is, therefore, possible that the real differences are smaller than the ones cited in Table 7.28.

It should be also recalled that co-operative banks stated that more emphasis is given to the terms accompanying loans and to the lower commissions charged on loans. The level of interest rates was not their greater advantage. This different approach explains the comparatively high loans of the co-operative banks of Lamia and of Ioannina, which have stated that they apply market interest rates. In the case of Lamia, remarkably, despite the fact that its members could not take advantage of lower –than market-interest rates and in spite of the difficulties that it was facing, only a small decrease in loans was encountered in the five year period that was examined (1998-2002, Table 7.14). At the same time this bank shows the second best performance, among co-operative banks, in financing the local population.

The intention of co-operative banks to contribute towards improving the services offered to local entrepreneurs is also apparent from the interest rates offered for sight deposits. These accounts enjoy higher interest rates than those of the commercial banks and in most cases the difference observed is equal or larger than the difference in saving deposit accounts between commercial and co-operative banks. In addition, these accounts are not charged with servicing costs and expenses for issuing cheques, charges which are a normal practice for the commercial banks.

At first sight, figures in Table 7.28, show that co-operative banks follow a practice of ‘promoting’ the interests of member-depositors rather than of member-borrowers. In fact, the differences in deposits interest rates are larger from those in loans. Thus, they seem to be rather saver-oriented than borrower-oriented. Further investigation of this claim is attempted through calculation of the net money benefits deriving from the application of interest rates in the amounts of deposits and of loans to members for the year 2000. The results of this exercise appear in Table 7.29.

Table 7.29 Allocation of Benefits to Co-op Bank Membership
(in m. drs for the year 2000)

Coop. Bank	NMBS (1)	MLB (2)	MBB (3)	NMBB (4)=(3)-(2)	D (5)=(1)-(4)	Dw	NMB (6)=(1)+(4)	Dividend (7)	TNMB (6)+(7)
Lamia	**0.0**	-	-	**0.0**	-	-	-	**0.0**	**0.0**
Ioanninon	**114.4**	-	-	**0.0**	114.4	1.5%	**114.4**	**40.5**	**154.9**
Achaiki	**79.2**	*106.7*	*48.9*	**-57.7**	136.9	1.0%	**21.5**	**94.5**	**116.0**
Pancretan	**165.3**	-	*213.4*	**213.4**	-48.1	-0.1%	**378.7**	**993.8**	**1,372.5**
Chania	**153.2**	-	*89.1*	**89.1**	64.1	0.2%	**242.3**	**257.5**	**499.8**
Dodecanese	**409.5**	-	*341.8*	**341.8**	67.7	0.3%	**751.3**	**156.3**	**907.6**
Evros	**na**	na	na	**na**	na		**na**	**na**	**na**
Karditsa	**20.3**	-	*25.9*	**25.9**	-5.6	-0.1%	**46.2**	**41.3**	**87.5**
Trikala	**16.3**	-	*19.9*	**19.9**	-3.6	-0.1%	**36.2**	**54.9**	**91.0**
Evia	**46.5**	*42.8*	*1.9*	**-40.9**	87.4	1.6%	**5.6**	**88.5**	**94.0**
Corinth	**6.2**	*1.5*	*17.7*	**16.2**	-10.0	-0.6%	**22.4**	**0.0**	**22.4**
Pieria	**32.3**	*0.8*	*34.0*	**33.2**	-0.9	0.0%	**65.5**	**0.0**	**65.5**
Drama	**33.5**	*23.4*	*2.6*	**-20.8**	54.3	1.7%	**12.7**	**71.1**	**83.7**
Lesvos	**14.1**	-	*20.2*	**20.2**	-6.1	-0.2%	**34.3**	**21.5**	**55.8**
Total	**1,090.8**	*175.2*	*815.4*	**640.2**	450.6	0.2%	**1731.0**	**1,819.9**	**3,550.7**

(1) = NMBS: Net Monetary Benefit received by savers
(2) = MLB: Monetary Loss of Borrowers due to higher charges to loans
(3) = MBB: Monetary Benefit of Borrowers due to lower charges to loans
(4) =NMBB: Net Monetary Benefit received by borrowers (MBB-MLB)
(5) =D=NMBS-NMBB and Dw=D weighted by the total asset size of the Co-op bank
(6) =NMB: Net Monetary Benefit received by savers and borrowers
(7) =Dividend paid to members
(8) =TNMB: Total Net Monetary Benefit received by members

Source: *Co-op Banks' Survey, Tables 7.13, 14 & 28, Tables XX.10, 11 & 12-AppendixXX*

The methodological approach of the way of allocation to members of benefits accruing from the operation of a co-operative bank, follows the basic philosophy of similar works referring to credit unions.[16] The subsequent paragraphs discuss briefly how figures presented in Table 7.29 were calculated.

In the first column, the Net Monetary Benefit received by members-savers (NMBS) was calculated for each Co-operative Bank according to the following:

$NMBS = (I_{S0}-I_{S1}) \times S$,

where

$I_{S0}-I_{S1}$= difference in deposit interest rates between co-operative and commercial banks (Table 7.28)

S= co-operative bank savings for the year 2000 (Table 7.13)

Where interest rates and corresponding deposits figures were available in every major deposit category, the index NBMS stands for the sum of the three partial indexes (i.e. for sight deposits, simple deposits and time deposits). In all other cases the index was calculated as the result of total deposits multiplied by the average interest rate offered in the three deposit categories.

In Column 4, the Net Monetary Benefit received my members-borrowers (NMBB) was, also, calculated for every Co-operative Bank:

$NMBB = (I_{L0}-I_{L1}) \times L$,

where

$I_{L0}-I_{L1}$= difference in lending interest rates between co-operative and commercial banks (Table 7.28)

L= co-operative bank loans for the year 2000 (Table 7.14)

[16] See Patin, R.P. and McNeil, D.W. (1991a) Benefit imbalances among credit union members, *Applied Economics*, 23, pp. 769-780

Patin, R.P. and McNeil, D.W. (1991b) Member group orientation of credit unions and total member benefits. *Review of Social Economy*, December, 37-61, and

Ferguson, C. and D. Mckillop (1997) *"The strategic Development of Credit Unions"*, UK: Wiley, pp. 140-141

Calculations followed the same approach as in index NMBS. For the current index, however, an intermediate step was necessary, for cases where lending interests charged by co-operative banks were higher than the alternative market rates. For these co-operative banks, a Monetary Loss of Borrowers index (MLB-column 2) was calculated to take into account the higher interest rates and the corresponding loans and a Monetary Benefit of Borrowers for lower interest rates and relevant loans (MBB-column 3). Thus, NMBB index is the sum of MLB and MBB.

In order to compare the benefits allocated to each member group, i.e. savers and borrowers, the difference (D) between NMBS and NMBB was calculated for each co-operative bank, i.e.

D=NMBS-NMBB

That difference is shown in Column 5. A particular co-operative bank allocates more net monetary benefits to its member-savers if the corresponding *D* value is greater than zero and more to its member-borrowers if *D* is less than zero. Theoretically, for D equal to zero, the co-operative bank allocates equal benefits to both member groups, i.e. the co-operative bank is following a neutral behaviour.

Finally, in order to adjust for the possibility of size bias in calculations, the *D* difference was weighted by the Co-operative Bank's total assets (Dw). As Patin and Mc Neil argued, a Co-operative Bank with 100 million is assets and a D value of 320,000 is not necessarily 100 times more saver oriented than one with assets of 1 million and a D value of 3,200 (Patin and McNeil, 1991a, ibid, p. 774). Therefore, *Dw* stands for the weighted, by the total asset size, *D* value.

The results derived from Table 7.29 present a mixed picture of co-operative banks with regard to the way they allocate among their members the benefits accruing from their interest rate policy. For the entire group of co-operative banks, it appears that the benefits of members-depositors are higher than those returned to borrowers (1,090.8 m. drs. and 640.2 m. drs. respectively). The difference may be wider if the difference between the amounts deposited and the amounts of loans are taken into account (see Table 7.15 for the loan to deposit ratio). As a result, co-operative banks can be considered as saver oriented. Index Dw, however, shows that this trend is low as a proportion to total assets.

By applying indices in specific cases, it can be said that in absolute terms, larger banks produce more benefits both for their depositors and for their borrowers. This is obviously related with the amounts of deposits and of loans they handle. However, this observation is of particular importance if one considers that two co-operative banks, vis. Pancretan and Chania, offer only slightly higher interest rates (+0.5%) to their deposits. It seems, therefore, that the money benefits to the local population can be high even when the difference in interest rates is small.

More oriented towards their depositors appear to be the co-operative banks of Ioannina, Achaia, Evia and Drama. These results are to be expected, given that the first of them provides loans at market interest rate and the other three charge higher interest rates for two of the three categories of loans. In these three banks, according to index NMBB, borrowers appear to be charged 119.4 m. drs. more than the amount they would be charged if they were addressed to commercial banks.

Lastly, it is worth noting that five of the seven 'younger' co-operative banks appear to be borrower oriented, even if marginally. Two of them, vis. Corinth and Pieria, belong to that group which charged higher interest rates from their competitors in one category of loans.

Despite the usefulness of the above comments in understanding the behaviour of co-operative banks, it is understood that they do not give a full picture of this behaviour. One reason is that they rely on data of one year, the year 2000. A second reason is that the differences in the interest rates may be biased to a degree that cannot be specified. Thirdly, these comments concern only the policy applied by co-operative banks for the rates of interest. As can be seen from column 7 of Table 7.29, dividends brought more benefits to members than those accruing from more favourable rates of interest (column 6 – Net Monetary Benefit).

Six co-operative banks (three 'older' and three 'younger') returned to their members greater amounts of money through dividends whilst four (two 'older' and two ‘younger’) returned more money through favourable interest rates. In the latter case, the two ‘older’ (vis. of Ioannina and Dodecanese) returned comparatively higher benefits to their depositors whilst the two ‘younger’ (vis. of Karditsa and Lesvos) to their borrowers. Two co-operative banks that have not returned any dividends to their members (vis. Corinth and Pieria) are characterised as borrower oriented.

In the case of examining the benefits accruing from interest rates, one can find who is benefiting most from the policy followed. This, however, is not possible in the case of distributing dividends. It would be reasonable to assume that those who buy more shares are those benefiting most and this characteristic may be linked with increased deposits, especially with reference to ‘older’ banks. But no information is available linking share ownership with use of services or with deposits and loans. For this reason is not possible to find linkages between the policy applied for dividends and the characterisation of a bank as saver-oriented.

What could be said and be of interest to the local economy, is that either with interest rate policy or through the distribution of dividends, co-operative banks returned to the local population about 3.5 b. drs. in the year 2000 (last column of Table 7.29 – Total Net Monetary Benefit).

In monetary terms, ‘older’ co-operative banks appear able to produce higher total benefits for their members. For instance, the Pancretan Co-operative Bank returned 1,372.5 m. drs. to its members, a performance followed by the Co-operative bank of Dodecanese (907.5 m. drs.) and the Co-operative Bank of Chania (499.8 m. drs). The performance of the younger co-operative banks are substantially lower, as one would reasonably expect.

By taking into account the monetary benefit as a proportion to own capital or as a proportion to total assets of co-operative banks, the picture is different. As can be seen from Table XX. 13 – Appendix XX, the best performance belongs again to an ‘old’ bank and specifically to the Co-operative Bank of Dodecanese. It appears that this bank returned to the local population approximately 20 per cent of own capital in the year 2000. The ‘younger’ co-operative banks present equally good results with the ‘older’ ones. The Pancretan Co-operative Bank rates below five ‘younger’ co-operative banks and the Co-operative Bank of Chania is brought in the same position with that of

Trikala and slightly below that of Pieria. Finally, Achaiki has the worst performance among the 13 co-operative banks for which there is available information.

These observations may lead to some useful conclusions for the local population.

The size of the co-operative bank does not seem to be related with its capacity to produce and return monetary returns to the local economy. It is, however, connected with the size of these benefits but as proportions of own capital (or of total assets) there are no significant differences between co-operative banks. Consequently, one can say that with increasing the size of the co-operative bank the monetary returns to the local society increase.

An additional aspect of the dynamics of the co-operative endeavour emerges. This is the ability of a co-operative bank to return to the local society direct monetary gains. This money, by means of members, is channeled again to the local market. In this way, by means of the joint enterprise of members, a direct local surplus is created with multiplier effects, through its recycling, leading to creation of additional incomes.

7.3 WEAKNESSES IN CO-OP BANKS' PERFORMANCE: IMPLICATIONS FOR FUTURE POLICY AND INSTITUTIONAL ELEMENTS

The analysis thus far has revealed in several parts of this chapter various aspects of the co-operative banking development, which although there were not essential per se in the sections' relevant arguments are definitely of considerable interest with reference to a thorough evaluation of its evolution. Therefore, the last part of this chapter will try to shed light on the problems that the Greek co-operative banks have faced in their development course and on the operational weaknesses of their up to date performance.

This will be attempted through the following approach. First, by focusing on how did critical aspects of the external institutional environment, i.e. the current legislative and regulating framework, have influenced their development and how do research findings support these comments; second, by exploring in the weaknesses that co-operative banks and/or their members mentioned to the researcher that they are facing, and; finally by shedding light on new findings of this research, which although the researched subject was not in the position to recognize at all or to recognize as weaknesses, to the researcher's point of view are of considerable importance.

Starting from the legislative provisions, it is obvious that the Legislator following international paradigms on credit co-operatives has tried to keep the Greek institutions as close to their "grass roots" as possible. Thus, in the case of specifying the initial capital and through this the area of operations, he chose to use administrative units as a basis, i.e. Prefectures. Traditionally, in Greece prefecture was a historically, sociologically and economically well-defined territory, with homogeneous characteristics.

Hence, the law, without setting lower limits -such as a parish or a community operational level- seems to apply the "common bond" prerequisite on a residence characteristic. The impacts -both positive and negative- of the «common bond» have been described in details in previous chapters. Undeniably, this residential common bond application does not set constraints to multiple-common-bond endeavours as long as other prerequisites are met. A major issue of concern for financial cooperatives internationally -the weakening of the single common bond and in consequence the application of multiple common bond- is confronted effectively under the Greek law's provisions.

Another interesting rule concerns the fact that the law specifies that the statute of the co-operative should set the value of the co-operative's share. That means, that the co-operators themselves, who voluntarily join and form the institution aiming at their overall development, are responsible to set the value of the share according to their wishes and abilities. However in practice, it has been observed that, urban credit cooperatives in Greece, set the share's value at level multiple to that of a Co-operative Bank. That ratio varies from 3:1 to 8:1, i.e. one share of a credit co-operative equals as much as three to eight shares of a co-operative bank. Some reasons that might explain this observation include the following:

1. It allows the credit co-operative to accelerate accumulation of funds at its early steps, and hence, to meet as early as possible its members' financial needs.
2. The amount of money with which the potential member has to contribute to the risk capital of a credit co-operative is not negligible. That provides for a shield towards deliberate default on loans or even free-rider problems that might occur at this stage. However, peer monitoring and the common bond, might prove to be most effective means to confront the aforementioned problems.
3. Finally, if the credit-co-operative proves to be important for local needs, raising initial capital requirements in order to become a co-operative bank, might prove to be an easy task to accomplish.

However, setting the share at a high level might discourage potential members from joining the mutual effort in order to be served from the banking sector. It seems that, in the eyes of the credit co-operative, this is a target that has to be dealt with at a later stage of its development. Obviously, it is at the discretional power of the co-operatives' members the "when's and how's" of providing such a policy. It might be easier, however, for the members of the co-operative to postpone the development and implementation of such an approach towards the "unbankables" under the safety net that the evolution to a co-operative bank provides. The analysis provided sufficient evidence of such a possibility when it proved that with time and with rising level of development the more vulnerable and more in need parts of local population find in the co-operative bank a friendly and credible provider of financial services. That of course is expected to happen only if the credit co-operative will ever manage to become a co-operative bank.

This last remark, leads us to comment on the rules concerning the initial own capital requirements that a credit co-operative has to meet in order to become a co-operative bank. It raises, almost automatically, four issues:

1. Requirement for initial own capital is set at a high level
2. This requirement is changing at short intervals
3. It applies universally regardless of the size or the potential of the prefecture,
4. No other country has ever set such a high requirement.

Starting from the last point, the historical evolution of credit cooperatives in Europe and North America, shows a de facto indifference as regards an initial capital prerequisite. In fact, at the very early stages of the establishment of credit co-operatives, when the need to cope with severe socio-economic problems in an underserved population urged the formation of mutual associations, a relevant restriction was far beyond the pioneers' concern. Later on, credit institutions strengthened their position and progressively helped for - or even pressed towards - the establishment of a legal framework that could help them operate efficiently. In many cases, a few decades after the establishment of the first credit co-operative, the formation of regional or national association was already present. But, even in cases where the primary units - i.e. local credit co-operatives - are significantly smaller when compared to commercial banks, the foreign legislator never raises such a restriction in order to foster their operation. In the case of U.S. credit unions for instance, even today, regulation concerning capital requirements point towards the accumulation of sufficient reserve funds as a ratio of their own capital without setting lower limits on actual own capital in order to be in good standing.[17]

As regards the first two points – 1 and 2 above – they should be commented together. The BoG has deliberately set high capital requirements in order to protect the entire banking system from "unusual" banking practice that these "weak" financial intermediaries might apply. And of course, it is natural to ask for substantially high own capitals, when, for the license to be granted, the credit co-operative must:

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[17] U.S. Department of Treasury (1997) *Credit Unions*, Washington D.C., p. 132, capital requirements

- Organise an internal auditing division – which of course will act independently from the Supervisory Council. It should be reminded that the Supervisory Council is considered as an organ that introduced unique features of co-operative auditing in the theory of co-operation. That organ, along with the General Assembly and the peer monitoring that characterises these organisations, strengthens the potential of the "root" effect among the local population. Nevertheless, a banking-oriented internal auditing division, might prove to be of great assistance to local units if it manages to act in parallel with the Supervisory Council.
- Establish a fully organised accounting department which of course, is, indirectly, compelled to observe the sectoral accountancy model, as any other joint stock banking institution. That obligation should be met, regardless of its needs on infrastructure and capital cost, which subsequently will generate higher operational cost. It is true, however, that eventually, the co-operative will need such a fully organised accounting system, but there is no reason why the co-operative will not pursue such a target when it is needed and not as a prerequisite.
- Prove that the problems encountered in Agricultural Co-ops will not repeat themselves in the case of credit co-operatives. In a very sensitive sector as the banking one, there is no room for ambiguous practices. Thus, the BoG is actually exercising a "pro-cooperative" policy when is trying to connect a sound indicator, i.e. the own capital prerequisite, with the sound performance of co-op banks.

But, one can not help an institution when he is not familiar with the way that institution implements its policies. And the truth is, that financial co-operatives are not in the same business as any other banking institution. They are not serving same customer needs as any other bank. And, of course, they do not share the same maximisation objective. If the BoG was aware of these differences that characterise these credit institutions, or alternatively, if co-operative banks had succeeded in making their characteristics known, initial capital requirements would not be raised three times in the course of the last four years. Information provided in Table XX.1 of Appendix XX for the fifteen Co-operative Banks that are currently active in Greece, reveal the fact that as the time passed it was more difficult for credit co-operatives to change their status and become co-operative banks. Moreover, the analysis has proved that even co-operatives that are currently operating as co-operative banks, are facing serious difficulties in raising the additional capital required from the BoG.

It is to be expected that when co-operative banks are facing difficulties in raising additional capital, then a credit-co-operative, attempting to become a co-operative bank, must be in a more awkward position. It should be kept in mind that credit co-operatives are only allowed to grand loans. They can not accept deposits and they can not offer other facilities or services to their members. In an era of financial liberalisation when loan interest rates are falling to historically low levels a credit co-operative has to face a highly competitive environment. In addition, it looses two of his comparative advantages connected with loans:

- First, it can't "bank with the unbankables", because shares' level is high for the reasons explained in previous paragraphs, and
- Second, a loan contract between a member and the cooperative is charged with a 3,6% stamp tax and another 3,6% charge on the loan interest rate! These two additional tax burdens raise significantly the interest charged on loans.

Therefore, the credit co-operative cannot compete directly with the rest of the banking system, especially today when banks urge themselves to expand their customer basis and antagonise each other with offers and products extremely attractive to those that have access to them. In fact, in many cases, credit co-operatives are facing "crowding out" from the local bank market, especially where low prefecture potential cannot accelerate the evolution of the credit co-operative to co-operative bank. And that leads to the critique of the third point.

Initial capital requirements apply to every prefecture regardless of its size. The BoG, as the ultimate regulating authority of the Greek banking system should stick to the equal treatment principle. But equal treatment of unequals is not a fair treatment. For example, how can anyone expect, citizens that reside in Evritania, a small mountainous Greek prefecture with one of the lowest per capita incomes in the EU, to meet equal requirements with co-operators in Heraclion-Crete, residents of a prefecture with four times the population of Evritania and with at more than twice their income?

But even if a credit co-operative manages to accumulate the required capital, then it has to face two additional prerequisites:

- ✓ First, to prepare a feasibility study, which includes complete and detailed description of technical and financial operations.
- ✓ Second, the Board of Directors and the Internal Auditing Division must both have at least one person with significant professional experience in the financial sector.

Both requirements force credit co-operatives to seek external professional help. Thus, at a very early and undoubtedly critical stage of its development, the credit co-operative is faced with the principal-agent problem.

First of all, it is widely accepted that co-operative education is not of the required level. But even if it had succeeded in educating co-operators, it would be rather unlikely to succeed in offering at every local adventure, well trained – managerially and co-operatively- executives to hold positions both in the BoD and in the Internal Auditing Division. Research findings strengthen, also, this remark, inasmuch as one of the difficulties that the Greek co-operative banks mentioned that confronted during the transition period from a credit co-op to a bank was that they confronted enormous difficulties in recruiting high-quality executives. In fact, today, even large banks are facing difficulties in succeeding in their recruitment policies.

Moreover, international experience has shown that one of the problems facing co-operative banks is their difficulty in recruiting high level staff members that are familiar with co-operative theory and practice, who know the origin and the direction of utilisation of benefits deriving from co-operative activity, i.e. that a co-operative bank operates at local level aiming primarily to serve its members and improve the conditions of life and work in their area.

So, Greek credit co-operatives often seek professional assistance mainly among retired executives. This, of course, could be a rather convenient solution, especially if the retired executives appreciate the co-operative potential and believe at this local adventure. The hidden risk is laying at the limitations of applying his skills and knowledge because of the differences between credit cooperatives from the organisational structure of their prior employer. These are issues that even credit cooperatives that operate for many years in the past, are finding difficulties to confront. The Greek legal framework, however, force credit co-operatives to face these difficulties at a very early stage of their development, a fact that might hinder their development.

On the basis that the banking practice preached by the co-operative banks differs substantially from the usual banking practice of commercial banks, it is necessary for the co-operative bank personnel to know and to adopt this different philosophy of the co-operative endeavour. However, only one co-operative bank, the co-operative bank of Chania, declared to the researcher that it considers necessary for its employees to be trained in subjects related to the co-operative essentials and to the banking issues of local initiatives.

A last point of critique concerns the establishment of the Deposit Guarantee Scheme which is at the disposal of all, state, private and co-operative banks. It is, undoubtedly, an evolution, which was reasonably welcomed from all Co-operative Banks. However, one may be sceptical about that development for one reason: This Guarantee Fund came into existence before the establishment of a co-operative insurance guarantee scheme.

As it was mentioned earlier, that very same initiative of the US credit unions helped them overcome financial stress and economic difficulties in the late 80s early 90s. In addition, it helped them to form a common attitude, a common approach against the most important "asset" of a co-operative institution, i.e its members' money and consequently its members' trust. Not to mention that such a scheme actually strengthens co-operative links among territorially different efforts.

In the case of Greece, the abovementioned development might be considered as a "lost chance". A "lost chance" to exercise co-operative ideals in practice, to persuade authorities that financial co-operatives do apply different operating values and to set a qualitatively different ethical code for their members, local society and their competitors. Co-operative Banks and their National Association need to reconsider that issue and try to catch-up on that development.

As it might be recalled the Greek co-operative banks have already faced such problems in the case of Co-operative Banks of Lamia, a fact that stresses the importance of the last argument. The present Board of Directors of the Co-operative Bank of Lamia recognises that the Bank of Greece has treated their problems in a decisive manner but also with discretion. The importance of the involvement of the Bank of Greece is recognised also by the Association of Co-operative Banks of Greece on the grounds that if these problems were not to be dealt as they were, all other similar initiatives in other parts of the country would be endangered. At the same time this example pointed out again the importance of having a collective organ of solidarity of all and for all co-operative banks.

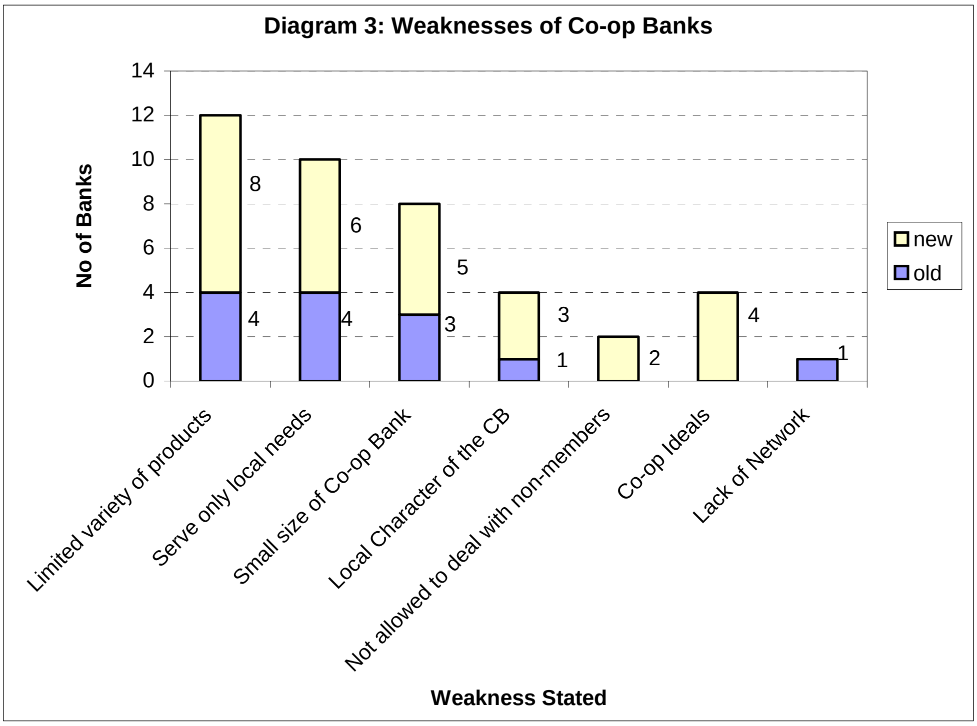
However, not one of the co-operative banks ever mentioned such a need to the researcher. In fact, as it is shown below, none of the most important weaknesses that the officials acknowledge to be present in the co-operative banks' performance is related to such institutional aspects. Their answers are summarised in Table 7.12.

Table 7.30 Weaknesses of Co-op Banks

Co-op Bank	Weaknesses stated in order of importance				
	1st	2nd	3rd	4th	5th
Lamia	Serve only local needs				
Ioannina	Limited variety of products	Serve only local needs			
Achaiki	Limited Variety of Products	Small size of Co-op Bank	Serve only local needs	Lack of Network	
Pancretan	Small size of Co-op Bank	Limited Variety of Products			
Chania	Local Character of the CB	Small size of Co-op Bank	Serve only local needs		
Dodecanese	Limited variety of Products				
Evros					
Karditsa	Limited variety of products				
Trikala	Small size of Co-op Bank	Limited Variety of Products	Serve only local Needs	Co-op Ideals	Local Character of the CB
Evia	Limited variety of products	Serve only local needs	Local Character of the CB		
Corinth	Limited variety of products	Small size of Co-op Bank	Local character of the CB	Serve only local needs	Not allowed to deal with non-members
Pieria	Serve only local needs	Small size of Co-op Bank	Limited variety of products	Co-op Ideals	
Drama	Small size of Co-op Bank	Limited variety of products	Co-op Ideals	Serve only local needs	
Lesvos-Limnos	Limited variety of products	Small size of Co-op Bank	Serve only local needs	Co-op Ideals	
Kozani	Limited variety of products	Not allowed to deal with non-members			

Source: *Co-op Banks' Survey*

The following diagram summarises the information provided by the previous table and alleviates the elaboration of arguments.



It appears that the 'younger' co-operative banks see that present more weaknesses than the 'old' ones regarding their operation in the competitive banking environment. The eight 'younger' co-operative banks mention 28 times 6 kinds of weaknesses, whilst the six 'old' ones refer to four basic weaknesses with 13 references. At first sight, it seems that the longer the experience that is accumulated the lesser the intensity and the number of weaknesses.

The limited variety of products and services is mentioned by 12 co-operative banks, of which 8 consider it as the most important weakness. The different level of development of co-operative banks is seen in these references being mentioned by all 'younger' co-operative banks but not by all the 'old' ones (4 out of six). Moreover, while 29.9 per cent of members of the 'younger' banks characterise the performance of their co-operative bank as poor in relation to their competitors and ask for more products and services, this percentage is very low for the members of 'old' banks (12.0 per cent, Members' survey, Table XX.17 – Appendix XXX). However, the attempt of co-operative banks to align and to improve their services to members seems reasonable.

It would be of interest, at this point, to refer to a product offered by the 'older' co-operative banks, which belongs to the category of "open-ended" loans and it is used by 34.6 per cent of members (Table XXX. 23, Appendix XXX). The specific reference to the 'older' banks is made because its characteristics differ from the corresponding open-ended loans of other banks and of those of the 'younger' co-operative banks. This loan is offered both to independent professional but also to other individuals, when this kind of loan is offered normally only to the first of the above groups. In addition, it allows the borrower to issue cheques on account of the loan that has been granted. It appears that these characteristics are the main reasons for the high proportion of members who choose the co-operative bank instead of another bank (25.4 per cent against 5.1 per cent). The drafting and implementation of new products, in the area of loans, by the 'older' co-operative banks may become beneficial to all co-operative banks, because other co-operative banks may benefit from the accumulated experience. Moreover, it is worth mentioning that a number of co-operative banks agree to undertake the trial of new products before these are offered by all co-operative banks. For instance, the Pancretan Co-operative Bank first tried the credit card on account of the others and the Achaiki Co-operative Bank tried the pilot project of a new software for banking services before its adoption by the rest.

Thus, these paradigms show that these weaknesses can be dealt with innovative behaviour, accumulated experience and inter-bank co-operation by co-operative banks. This last observation may be a guide for facing the remaining weaknesses that have been mentioned.

Ten of the co-operative banks state as one of the weaknesses the fact that they serve only local needs. That opinion is rather peculiar because this exactly is stated as a basic reason for deciding the establishment of a co-operative bank. What is actually meant is that co-operative banks can serve only needs expressed locally and, thus does not refer to their ability to serve local needs. In other words it is to be understood from these references that basic need of the present user of banking services is to have access to his money and to be in a position to transact from any place he may be found. The same meaning can be attributed to a reference to the lack of a network that was mentioned by one of the co-operative banks.

It should be mentioned however, that the development of a local network in the form of small units (i.e. branches with one or two employees) is considered to be less costly to the co-operative banks than to commercial banks. In addition, the benefits to be expected by a commercial bank are comparatively less than those of a co-operative network. The case of the co-operative bank of Dodecanese is offered as an innovative example. This bank is using a mobile branch for the needs of the island of Kalymnos, a small island of the Dodecanese with seasonal activities, insufficient for a permanent branch. The mobile branch visits the island on specific days of the weak, so that with part-time personnel that follows the seasonality of activities, the needs of the islanders are sufficiently met by the co-operative bank, with positive impact to the local population and the wider area. But, while the development of a network within the prefecture where the co-operative bank has its corporate seat is, of course, the responsibility of that bank, the establishment of a wider network requires co-operation of all co-operative banks.

Historically, the small size of co-operative banks has been balanced by their network organisation and the formation of higher order organs. Their structure as networks of banks and not as bank networks made possible the expression of the advantages deriving from small size. In addition, mutual help and solidarity among the autonomous co-operative banks has lessened the negative impacts of small size. The mobilisation and the strengthening of co-operative banking is linked with the following three kinds of weaknesses that are treated as a group.

Eight cooperative banks state as a weakness the small size of co-operative banks, three stress their local character and four refer to the fact that they are co-operatives.

Small size means limited possibilities, comparing with competitors, and weaknesses like those referred to earlier. An answer of this kind may be interpreted as doubts about the viability of small scale interventions in the banking sector which is dominated by big state and private enterprises. In addition, the difficulty of spreading the risk that possibly characterises a locally limited endeavour – which is expressed as a weakness due to the local character of co-operative banks – intensifies the doubts owed to small size. It requires considerate steps in the evolutionary process of co-operative banks for facing the climate of doubt just described. This is so particularly because at the side of the word ‘bank’ lies the word ‘co-operative’ …

Of particular interest is the fact that while only one co-operative bank has included co-operative values among the advantages of co-operative banks in comparison with their competitors, 4 co-operative banks -all of which belong to the younger ones- have made reference to co-operative values among the disadvantages characterising local endeavours.
However, members do not share that negative view with reference to the co-operative values that govern these financial institutions. The percentage of members who find weaknesses in the co-operative nature of the local bank is only 1.9 per cent of total membership and even more interesting is the fact that all these answers came from the members of older co-operative banks (Members' survey, Table XX.17 – Appendix XXX) It seems that the process of co-operative banks to date, reverses gradually the negative and critical position of the local population towards co-operative endeavours. It is a pity though that co-operative banks' official have failed to trace that change in local attitudes.

Nevertheless, as regards the rest of the weaknesses that the co-operative banks' officials have mentioned they seem to be in accordance with their members' evaluation. Thus, every other member (50.4 per cent) sees as the major disadvantage of co-operative banks their small size. For the members of the 'old' co-operative banks the small size is taken to mean lacking of a network in order to enjoy services in a wider geographical area (26.1 per cent, Table XXX.17, Appendix XXX) and also difficulty in covering larger financial requests (22.3 per cent). Different is the interpretation of weakness given by six out of ten members of the 'younger' banks. In this case small size means uncertainty regarding the viability of the initiative, a concern that makes members feel insecure in case of failure (27.2 per cent). Also, one in every four members (24.4 per cent) believes that the 'younger' co-operative banks are not in a position to serve big customers.

The similarity of opinions of co-operative banks members and officials that was presented above is to be credited to the daily contact of members with the bank, from which the latter trace the desires of their members. While this daily contact seems to be satisfying for officials –it is reminded that only one co-operative bank has ever conducted a market research among its membership and, moreover, as the survey has shown, the number of members that have been contacted for some form of market research ordered by other banks operating in the same area is larger than those contacted by their own banks (Table XXX. 41, Appendix XXX)- this practice does not seem to satisfy the co-operative banks' members.

It seems that 53.1 per cent of the members of 'young' co-operative banks are absolutely dissatisfied for not been kept aware by their co-operative bank in relation with new products and services offered by their bank (Table XXX. 18, Appendix XXX). If to this percentage, 5.4 per cent is added, to account for those members who know nothing about the communications policy of their co-operative bank, it is apparent that six out of ten members indirectly uncover a serious weakness of their banks. A better picture is observed in the 'old' co-operative banks, where, nonetheless, 36.1 per cent of members declare absolute dissatisfaction with the information received.

Moreover, quite significant proportions of members do not know the interest rates applying for loans (21.4 per cent of the 'old' banks and 31.4 per cent of the 'young' ones, Table XXX. 53, Appendix XXX) or the terms applying for loans (22.3 per cent and 33.9 per cent respectively, Table XXX. 54, Appendix XXX). These percentages are important because loans are the principal source of income for co-operative banks and for this reason, at least, the "strong points" of their banks should be known to members. Also, it is reminded that better terms and lower cost of loans have been presented by the boards of directors of co-operative banks as the principal advantages of co-operative banks and, consequently, the main pole for bringing together the local population. Of course, it cannot be expected that all members are interested in contracting loans with their co-operative bank. On the other hand, one third of the members of the 'younger' banks and one fifth of the members of the 'old' ones to be ignorant of one of the major advantages of local banks are thought to be rather high percentages. These percentages are the re-assurance of the finding that the communication of the messages of co-operative banks regarding products and services offered to members are disappointingly insufficient.

In an era in which marketing departments of multinational banking institutions struggle to develop strategies in order to make their customers "feel" that they are part of their philosophy, to keep them "involved" and to "listen" to what they have to say of their performance, it is definitely a luxury for co-operative banks to loose the close links with their membership. Co-operative banking institutions in Europe, with a long history and appreciated success –as the Rabobank and the UK co-operative banks are- rediscovered their comparative advantage when they re-established close links with their members/customers. In the case of Greek co-operative banks this is definitely a precondition, which, if failed to be met, would endanger their future development. This is of particular importance for Greek co-operative Banks, especially at the development stage that they are currently found, because they enjoy two strong advantages: First, because of their short history, it is expected that most of the members that pioneered in their development are present and active in the co-operative endeavour. This allows for a co-operative identity, based on the needs and aspirations of members that led to their emergence and development, to be expressed with clarity. Second, since members are the only owners of these co-operative institutions, all necessary "negotiations" on their common future are taking place within the co-operative.

However, in order to accommodate the different and often conflicting interests of membership, apart from having a concrete corporate identity that should be followed, there are two conditions that should, also, be satisfied. The one concerns the identification of the emerging forces among membership that might threaten their operational philosophy; the other concerns the presence of the adequate participatory procedures that would permit the necessary dialogue to commence and eventually allow for the mutually expressed needs and aspirations to be addressed.

As the following analysis will prove, in the case of the Greek co-operative banks these conditions have not matured yet. And it would be of interest to note that this threatens more the old co-operative banks, i.e. the most dynamic group of Greek co-operative banking.

So far, analysis has shown that 'old' banks are more efficient both in attracting new members and in having members with larger sums of capital in the equity capital. This attitude of the members of 'old' co-operative banks is the result of confidence in the potential of these banks but it is also related with the high dividends paid to members. It should be noted, here that this "Policy of High dividends" is not to be regarded as an outcome of the free choice of co-op banks' management. It has been followed in their attempt to confront the acute need of raising the repeatedly increasing necessary initial capital that the BoG demanded. Thus, in the following one may observe another dimension of the negative repercussions of the BoG decision which, although it has its routes in the initial stages of co-operative banks, emerges in later stages and threatens to alter the operational focus of co-operative banks toward a more profit oriented behaviour.

Table 7.31 presents the replies of members to the question about the degree of satisfaction from the dividends paid by their bank. It appears that six out of ten members of the 'old' co-operative banks (60.2 per cent) are very satisfied from the dividends, whilst an additional 31.7 per cent are quite satisfied.

Table 7.31 Are members satisfied with the dividend paid

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
Yes	60.2	33.6	55.7
Rather yes	31.7	13.8	28.6
Rather no	3.2	1.5	3.0
No	.8	.5	.8
Not applicable	.0	49.0	8.3
I don't know	4.1	1.5	3.6
Total	**100.0**	**100.0**	**100.0**

Source: Members' Survey

For interpreting properly the corresponding percentages for the 'younger' co-operative banks, some additional explanations are needed. The answer "not applicable" in Table 7.31, which is given by almost half of the respondents, refers to those members of co-operative banks that have not yet paid dividends. As has been shown in the preceding chapter, the policy of not paying dividends is quite common among the 'younger' co-operative banks. For the sake of the present analysis, the "not applicable" percentage is counted together with the negative answers of members, showing, thus, that the majority of members are not satisfied. If, on the other hand, the "not applicable" and the "don't know" replies are excluded, then the result is that the 'younger' banks can also have their members satisfied with the dividends (Table XXX. 67, Appendix XXX)

But, what about the position of members regarding the non-allocation of surpluses in the form of dividends. Although the percentages mentioned above are indicative of the interest of members, it seems useful to investigate further the views of members. The great majority of members may declare their satisfaction from the dividends paid but this is not a measure of how persuasive this incentive is for a decision to enter to the co-operative bank or to co-operate with it.

Table 7.32 presents the replies of members to the question “Do you care about dividends”. It should be made clear that this question was not addressed to members of co-operative banks that have not paid dividends.

Table 7.32 Do members care about the dividend

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Col %	Count	Col %	Count	Col %	Count
I do care about the dividend	59.9	43,361	56.0	4,209	59.5	47,570
I don't care about the dividend	40.1	29,022	44.0	3,307	40.5	32,329
Total	**100.0**	**72,383**	**100.0**	**7,516**	**100.0**	**79,899**

Source: Members' Survey

Six out of ten members gave a positive reply to the question and it seems that there is no substantial difference between members of ‘old’ and ‘young’ co-operative banks. If this attitude of members is related with the number of shares in their possession, the picture is different. In depth analysis (Table XXX. 68, Appendix XXX) shows that there is a systematic and statistically significant relationship between the number of shares in the possession of a member and his stand regarding dividends. The large majority (82.0 per cent) of members possessing more than 30 shares have replied that they are interested in the dividends they receive from the co-operative bank. Of those who replied that they are not interested in the dividends they receive, 80.1 per cent possess 1-30 shares.

Another interesting relationship is the one showing that 63.3 per cent of new members declare that they are interested in the dividends and that 54.5 per cent of those who declare that they are not interested derive from the old members (Table XXX. 69, Appendix XXX). Inasmuch as this relationship is also systematic and statistically significant (though weaker than the above), it can be said that for the new members high dividends is a powerful incentive for co-operating with co-operative banks. These findings are particularly important for the ‘old’ banks, where the number of members possessing more than 30 shares is high and the rate of new entrances is also very high.

In order to evaluate the degree of tolerance of members to the policy followed by their co-operative banks regarding dividends, members were asked how they would react if dividends were not satisfactory. Their replies appear in Table 7.33. In this case, also, members of those co-operative banks that have not paid dividends have been excluded.

Table 7.33 How would members react if the dividend were small

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Count	Col %	Count	Col %	Count	Col %
I would not object if that woul result in the growth of CB	44,878	62.0	4,961	66.0	49,839	62.4
I would not mind if it would b for one year	12,166	16.8	752	10.0	12,918	16.2
I would not mind if it would b than deposit interest rate	10,807	14.9	1,503	20.0	12,311	15.4
I would start thinking to get ri of my shares	4,531	6.3	301	4.0	4,832	6.0
Total	72,383	100.0	7,516	100.0	79,899	100.0

Source: Members' Survey

The majority of members (62.0 per cent of members of ‘old’ banks and 66.0 per cent of ‘young’ ones) state that they would not object in receiving low dividends if that would lead to the development of their co-operative bank. However, three out of ten members have placed a limit to their tolerance regarding low dividends and a small percentage replied that low dividends would lead to discontinuation of their co-operation with the co-operative bank.

These answers show that, within co-operative banks, a group of interests is formed with more apparent the characteristics of investors. In order to make clear the main characteristics of this group, the answers pertaining to the number of shares and those giving the duration of co-operation with the co-operative bank were interrelated with the members' reaction on the dividend policy.

On one hand, there seems to be a strong and systematic relationship between the number of shares that a member holds and his reaction to low dividends (Table XXX.70, Appendix XXX). The percentage of members that hold up to 30 shares is higher than the percentage of members that own more than 30 shares only in the first category of answers, i.e. where members state that they would not object in receiving low dividends if that would lead to the development of their co-operative bank (col percentages, Table XXX.70, Appendix XXX). Thus, it could be argued that the higher is a member's participation to co-operative capital the less tolerant the member is to low dividends.

A strong and statistically systematic relationship was identified also when the duration of co-operation with the co-operative bank of a member and his reaction on dividend policy were taken together (Table XXX.71, Appendix XXX). It can be observed from that Table that the presence of new members in the percentage of each reaction category increases as the tolerance to low dividends stated in each category decreases (row percentages, Table XXX.71, Appendix XXX). Thus, the "newer" the member is the more likely is to react strongly to a low dividend policy. Hence, new members consider dividends as a strong motive for entering -and retaining co-operation with- the co-operative bank.

Thus, while 'old' banks are more efficient both in attracting new members and in having members with larger sums of capital in the equity capital, nonetheless, some of the last findings above show that these developments may exercise pressures to banks, as the character of investor is becoming more pronounced among members. A nucleus of members is formed, whose interest is turning from the satisfaction of banking needs to satisfaction of investment interests. The importance of this valuable finding needs the following remarks in order to be evaluated and in order for its real dimensions to be revealed.

Member's participation in equity capital expresses one of the two dimensions of membership, that of the member - owner. This participation is the result of positive evaluation of the co-operative bank by prospective members. At a subsequent stage, an increase in participation in equity capital strengthens, up to a point, the development of the co-operative bank and, at the same time, adds new quantitative and qualitative aspects to its operation.

Purchase of shares may be regarded as “entrance fee” to the co-operative enterprise, due to be paid by prospective members in order to acquire access to its services. In the case of closed co-operatives (i.e. co-operatives with restricted membership and restricted transaction group, as can be characterised the Greek co-operative banks which are allowed to hold transactions only with members), this “entrance fee” is interpreted also as members’ entitlement and sole responsibility in defining their operational character.
By definition, members take part in the joint enterprise with the aim of satisfying their common needs. Consequently, the operational character of co-operative banks should be specified by the banking needs of members and be oriented towards their satisfaction. But, the products and services offered by a co-operative enterprise cover different needs of members or even are addressed to different segments of local population and, therefore, create and satisfy conflicting interests. It could be said that there exists a dynamic equilibrium between members and needs which defines the operational character of a co-operative bank. Its viability depends entirely on its adaptability and the effectiveness of its response to the varying messages that it receives from the transactional attitudes of members.

Another approach is to consider the purchase of shares as participation of members to risk capital of the co-operative enterprise. Business risk is undertaken jointly but it is shared in proportion to participation in the equity capital. Equivalent proportions are expected to hold in the allocation of the surpluses deriving from the operation of the co-operative enterprise. One of the co-operative principles underlines that capital remuneration should be limited. In other words, the recognition of the benefit deriving from transactions with the co-operative bank is taken to be the beginning of member participation to equity capital. Further, increased participation in the capital of the co-operative bank aims at strengthening its operation and improving the services offered and the corresponding benefits thereof.
The critical stage in which Greek co-operatives are found presently, combined with the institutional requirements imposed by the Bank of Greece has caused a change in the

above stated interrelationship between capital and benefit. In order to satisfy their needs for development, co-operative banks were driven to an aggressive policy for attracting equity capital. Such policies may be effective, but, as has been broadly stated earlirer, dissociate the participation in the equity capital of the co-operative bank from the transactions with it.

In other words, another interest group, which stresses the characteristics of members as investors, is added to the dynamic equilibrium between borrowers and depositors. Furthermore, the equilibrium between borrowers and depositors is reached at the operational level of co-operative banks, i.e. by means of transactions. On the contrary, investors exercise pressure in the formulation of the operational character of co-operative banks, because their center of interest is the remuneration of their capital. With increasing the relative weight of this latter group in the equity capital, the operational formation of the bank will depend more on the desires of this group. In this way, the terms of transactions available to borrowers and depositors are not under their control.

All the above relationships are in the sphere of economic transactions and decisions taking place in the co-operative enterprise. A potential risk is apparent for co-operative banks that re-defines the character of the joint endeavour, by adding characteristics of investor-oriented firms.

Another aspect, that of member participation in the joint endeavour, seems, at least in theory, to act in the opposite direction. Co-operatives are democratically controlled and administered enterprises. The principle 'one member one vote' shows the importance of participation and places the human factor ahead of capital. Member participation in co-operative organs, ascertains at least that the relative proportions of interest groups is ‘transferred’ to the decision making organs, responsible for the character and the development prospects of the joint enterprise. This principle, and in consequence members’ participation in the organs, constitutes, also, the means of formulating, specifying and disseminating the wider objectives that a co-operative enterprise wants to achieve with its operation. It is also the area for training members to democratic processes for formulating an autonomous dynamism for development. Democratic processes necessitate discussions and deliberations among members who seek different objectives. The strength that is needed for total or partial achievement of the common objectives is drawn from al partners. The necessary compromise resulting from democratic processes re-defines the opportunities of the local population to bargain its future through its own powers and capabilities.

It is apparent that the views of members regarding their participation in the decision making organs of their co-operative bank can lead to useful conclusions for the prospects of co-operative banks. Further, an investigation of the criticisms of members about the way these organs function will provide the necessary qualitative characteristics for the attempted evaluation.

Table 7.34 presents the percentage of members who stated that they took part in the last general meeting of their co-operative.

Table 7.34 Do members participate in the General Assemply of the Co-op Bank

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
Yes	23,3%	29,8%	24,4%
No	76,7%	70,2%	75,6%
Total	100,0%	100,0%	100,0%

Source: Members' Survey

It appears that three out of four members (75.6 per cent) did not take part in the general meeting of their co-operative bank. The decision to take part is related negatively to the age of bank and positively to the duration of participation and the number of shares (Tables XXX. 72-74, Appendix XXX).

In practice this means that the older the co-operative bank the smaller is the interest of members to take part in the general meeting (Table XXX. 72, Appendix XXX). The security feeling deriving from fast development and good results of the co-operative banks seems to lead members to the conclusion that the further development of their bank does not need their presence. This approach seems to characterise more the new entrants, whose participation in the general meeting is smaller (Table XXX. 73,

Appendix XXX). This should be rather expected because the impressions of new members derive from the services offered by the bank and not from the needs and the problems that led to the establishment of the bank. In any case, the absence of members from the general meeting deprives them the possibility of coming across the reasoning accompanying the operation of the co-operative bank. As a result, it can be said that they judge the performance of the bank mainly through their transactions with the co-operative bank, having no idea about the reasons that shape the character of transactions and the consequences of the policy followed.

Lastly, the fact that member participation in the general meeting increased with increasing number of shares (Table XXX. 74, Appendix XXX) indicates that the presence of the different interest groups in the general meeting is disproportional. Therefore, if the interest of members weakens as co-operative banks develop, if new members do not become aware with the reasoning behind the establishment of the co-operative bank or with the advantages deriving from its co-operative character and if capital investment dominates in the attitudes of the members present in the general meeting, then, it will be very difficult to maintain genuine the operational character that co-operative banks have at present.

Members have been also asked whether the opportunities offered to them in order to take part in the decision making organs of the co-operative bank are appropriate and practical. Their replies are summarised in Table 7.35.

Table 7.35 Do members think that the CB give opportunities for efficient participation

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
Yes	61.8	67.9	62.8
No	27.7	26.0	27.4
I don't know	10.5	6.1	9.8
Total	100.0	100.0	100.0

Source: Members' Survey

Six out of ten members state that the opportunities open to them are satisfactory (62.8 per cent) and the corresponding percentage is higher in the case of members of the ‘younger’ co-operative banks (67.9 per cent). It should be noted that 10.5 per cent of members of the ‘old’ co-operative banks gave the answer ‘I do not know’. It seems that with increasing number of members taking part in the co-operative endeavour, the procedures concerning participation in the governing organs become less satisfactory.

The replies given by members when they were asked to elaborate on the above position are quite interesting (Table 7.36 and Table XXX. 75, Appendix XXX for the detailed responses). The members of the ‘younger’ co-operative banks give priority in their positive replies to the efficiency of the general meeting and to the possibility to censure the composition and the decisions of the board of directors. On the contrary, the members of ‘old’ co-operative banks have the opinion that the direct contact during transactions and the confidence in the persons of the board of directors and the management are more important parameters comparing with participation in the organs of the co-operative.

Table 7.36 How members explain their opinion about the participation opportunities offered

	Bank's age group (old banks - new banks)		Total
	members of old banks	**members of new banks**	
	Col Response %	**Col Response %**	**Col Response %**
Available and effective cooperative organs	39.2	61.8	43.1
"Trust" - efficient management	61.8	40.9	58.3
Ineffective participation and organs - indifferent members	34.4	19.4	31.9
Total	135.5	122.0	133.2

Source: Members Survey - Table XXX.75, Appendix XXX

a. Multiple responses - percentage of cases that mentioned recoded category

Among the negative replies of members that amounted to 31.9 per cent, the most frequent is the one referring to ineffective general meeting (15.5 per cent, Table XXX. 75, Appendix XXX). This reply is usually connected with the large numbers participating in the general meetings that render them ineffective and with the long distances that make access difficult. The latter hindrance concerns primarily the 'old' banks, which expand their network and attract members from more distant areas. The distance from the seat of the co-operative bank, where the general meeting is normally held, acts as a barrier to participation. Some members of the 'old' co-operative banks (7.9 per cent) give as a reason of non-participation to the general meeting their insufficient knowledge of the subjects discussed. In addition, 6.0 per cent of the members of the 'old' co-operative banks allege that the board of directors formulates the policy of the co-operative bank without taking into account the needs of the members.

It appears that 'old' co-operative banks, in particular, face some problems in the organisation and the effective running of their general meetings. Such problems are not rare in co-operatives with large membership, especially if their members are widely scattered. These should rather adopt rules for effective functioning of their highest organ, without falsifying their democratic character.

The result of these problems is that members choose to exercise control and to influence the co-operative bank's operation through transactions and through the direct local contacts with members of the board of directors. Also, they measure the credibility of the board of directors by taking into account the position of its members to local society. But, however effective these ways of participation in the running of their co-operative may be considered, it is clear that members attempt to influence the results of the policies applied and not the processes that produced these policies and, subsequently, results.

An important dimension of this section's analysis refers to the fact that the future evolution of co-operative banks is unambiguously associated with the understanding of their basic weaknesses and with the development of the appropriate institutional characteristics to alleviate them. The nature and the intense of these weaknesses urge for co-operative actions at both the local and the national level.

However, Greek co-operative banks have proved in their development course that they do not lack neither objectives and vision nor of the innovative spirit, which are definitely needed for a successful sustainable development. These very features are regarded as valuable sources at the disposal of co-operative management and membership, which should guide their future steps.

And, above all, the international co-operative experience can offer valuable paradigms on how qualitative and quantitative dimensions of these problems can be alleviated. The bottom line in this paradigms -whether this is the UK Co-operative Bank's Mission statement and its 'Partnership approach' or the Rabobank's strategy to maintain close links with its members-[18] is that these institutions, and consequently the Greek co-operative banks as well, should focus on the co-operative and social value added that they can create and build upon its impacts to members and local society that they serve.

The International co-operative movement has proved that it can re-negotiate its future through qualitatively different approaches and vision-led management, which, however, needs its members by its side. If this would, also, be the case for the Greek co-operative banks, remains to be seen as a result of the attitude and the interventions of the 98.8 per cent of members who state that they will continue trying through their co-operative bank (Table XXX. 78, Appendix XXX).

[18] For more on these paradigms see analysis and references in chapter 3 and,

Davis Peter (2004) "Vision-led Human Resource Management. The Case of the UK Co-operative Bank" in *Human Resource Management in Co-operatives. Theory, Process and Practice*, Ch 11, pp. 141-151 ILO, Geneva

Chapter 8

Conclusions

“There is no ‘royal road’ to geometry”. This was one of the very first statements that this thesis quoted and employed as an entrance point to the presentation of the evolution of the rural development thinking. But one can not just use Sen as an alıbi for not having a more appropriate comment to link his thoughts with a subject. The author of this study, wandering in his own objectives, has tried to keep in mind Sen’s argument on several parts of his approach. Actually, it has influenced at least two critical aspects of this thesis i.e. its structure and the critical appraisal of the empirical results.

Much of the current research on co-operatives is biased toward weaknesses or advantages of the co-operative organization form. Typically, the rules of the game articulate around: a) the weaknesses of the co-operative form compared to the strengths of the investor-owned firms; or b) an idealistic co-operative form which, in its theoretical conceptualization, assign incentives to co-operators that, usually, are far beyond their pragmatic needs.

The present thesis, instead of arguing in favour of the co-operative form’s potential or in defence of its limitations as an effective entrepreneurial activity, has decided to proceed on a risky departure from the above. It has tried to describe the context of analysis in a pure non-cooperative framework. The reader might have found difficulties in explaining the almost complete absence even of the word “co-operative” in the first two chapters of the study. This was deemed necessary in order to avoid a biased interpretation of two critical components of the theoretical setting that this thesis has addressed.

First, which are the characteristics of a local initiative that are considered as essential, from a developmental start-point, in order to be effective and successful. The analysis of the first chapter approached this question both from a theoretical and from a policy implementation viewpoint. It was stressed, there, that, the current approach on the development of rural areas needs initiatives that mobilize endogenous resources, support active participation and collective action and enhance capabilities of local people. These initiatives are considered to favour the implementation of a sustainable process that unlocks local potential.

Second, which characteristics of the modern banking scene are considered as crucial for a financial intermediary in order to function properly and efficiently at the local level. Chapter two, concluded that there appear to be both a need and free space within market segments for the active participation of local banks, in order to facilitate macro and micro interventions to the development process. Moreover, it is in the operational behaviour of these financial intermediaries where one should locate their capacity to contribute to the overall development of the area they serve.

Most important was the fact that the above two points were not the outcome of a specific theoretical orientation that skewed the analysis toward a specific type of activities. Thus, any proposition in favour of a given initiative should be tested against the abovementioned concluding remarks.

Consequently, the next chapter had to focus on creating the appropriate linkages between these theoretical implications and the rich history of financial co-operatives. Inasmuch as, in abstract, these two dimensions, i.e. that of a local grass-root initiative and that of a local financial intermediary, might well be regarded as features of a "dismantled" nature of a financial co-operative, the analysis had to provide evidence that could reasonably justify or reject their institutional and financial importance in the modern spatial context. In other words, their historical and organizational evolution ought to be treated in a way that could challenge the potential and the limits, the pros and the cons of their institutional and financial intermediation capacity in a given context.

Co-operatives flourished and survived in various market conditions, mainly because they have succeeded in developing the necessary institutional characteristics through which they have managed to address these difficulties that other financial intermediaries were not capable -or were indifferent- to deal with. A critical component of that success is considered to rest among the co-operative's capacity to attach important functions and characteristics to the opposite side of the market.

Thus, on the one hand, the demand side of the market, i.e. the members, creates and configures the operational philosophy of the supplier of financial services in order to meet its needs and aspirations. On the other hand, the supply side of the market, i.e. the mutually owned enterprise, imposes to the opposite side of the market, functions that are essential for its financially sustainable operation.

In the course of the time, however, more formal characteristics of a financial intermediary were added into the organizational and operational character of co-operative banks, which unambiguously strengthened their intermediation competence and their financial stability. In spite of that, it was shown that, whichever their developmental status might have been, the determinant between a co-operative's presence in a market and a meaningful intervention to a market, lied within the quality and the strength of the links that the co-operative maintained with its members.

In the last two comments one may identify a well-known argument in co-operative literature, i.e. that successful co-operatives are successful business enterprises that create value for their owners. For the present thesis, this was regarded as an appropriate yardstick toward which the performance of the Greek co-operative banks should be evaluated. However, for this to be accomplished, the only possible way was to design a field approach that would allow for the evaluation of both the co-operative's entrepreneurial performance and, most of all, the members' perception on their mutually-owned enterprise's performance.

What was at stake, at least to the researcher's view, was not to search for exogenous, predetermined concepts of "value" or "success" in the operational philosophy of these financial co-operatives. On the contrary, a critical step in what was pursued was to accentuate what *members* think of their co-operative, how do *they* value its performance and in which ways *they* understand that it meets *their* needs. A researcher's responsibility, subsequently, is twofold. On the one hand to consider how these are connected with critical dimensions of the developmental process in rural areas. On the other hand, to explore the limits and the potential emerging from the studied situation for the sustainable future performance of co-operative banks.

In such cases one needs to be aware of the limits of any research approach that shares some of the abovementioned characteristics. Even if a researcher managed to provide outstanding evidence of a close-to-perfect co-operative performance and even if he had the ability to prescribe the most appropriate course for an equally promising co-operative future, which, in turn, would have the potential to influence positively qualitative and quantitative aspects of individual and overall development, he would definitely have to be prudent and cautious in the interpretation of his findings.

From the outset, co-operatives should not be regarded to act in social, spatial or economic isolation. Removing the lines of the research approach from the limits of the co-operative enterprise, inevitably, means that the field of analysis enters a wider socio-economic sphere whose dimensions are not, solely, defined by the co-operative and/or its members. A proof of this is the Ethical Code of the UK Co-operative Bank, which declares that the bank will not invest in any Government or business that fails to uphold basic human rights within its sphere of influence (Appendix II-Box II, Human Rights). The Co-operative Bank could not by itself adopt such a statement if this was not an intrinsic element of its customers' ethical stance, which of course, was shaped in a non-cooperative social context, under specific education policies and within a society that acknowledges the significance of human rights. On the other hand, the Co-operative Bank's determination on being loyal to its ethical stance, cannot, unfortunately, by itself lead to the elimination of such regimes or business practices.

But even when the research narrows its objectives and remains focused on specific functions of financial capacity, similar arguments can be developed. Thus, if a financial co-operative succeeds in its objective to provide credit to poor people, this should be regarded as a valuable finding and should be highlighted. It can't be argued, however, that the poor are often found in that situation only because they do not have access to credit. Thus, this finding should be treated with caution, if the researcher does not want to obscure the generative mechanism behind the powerlessness of poor people, which is often to be found in an unequal distribution of power at national, regional and local level and which only incidentally is expressed as a credit denial.

It is to be understood, therefore, that co-operatives constitute one means among many for raising rural people's income and improving the quality of people's lives. However, it is tempting to comment that the financial co-operative seem to be among the few that can give to the local population the opportunity to meet a wide variety of their actual and mental needs and aspirations.

Generally, the practical importance of several achievements of financial co-operatives – even if these seem to be lying at both ends of human needs, as the ones mentioned in the above examples- unambiguously, leads to an interesting remark: society should not be regarded to consist of nothing more than a collection of individuals; there are paradigms that, at least, deserve to attempt shifting the focus of attention away from the individual towards a society that has the ability to act collectively and to hold the individual up against -and accountable for- its future potential. Thus, there might be no 'royal road' to geometry, but there are definitely some pathways that could make the trip even more worth taking.

The direct importance of the previously mentioned arguments for drawing the general framework in which the findings of the researcher's approach should be discussed is almost self-evident. However, this thesis experienced a number of limitations, as its research project evolved which, although they were discussed thoroughly in due place, should be briefly reminded before the presentation of its main findings.

This is the first attempt that tried to study the Greek co-operative banking initiatives and for that reason it had to adjust its research methods accordingly in order to find all available data and information that such a study would require. This proved to be a difficult task and the difficulty increased by the short history of Greek co-operative banks, in two different ways.

First, a central question that had to be answered concerns the reasons that made the appearance of co-operative banks in the modern banking sector possible. This instinctively leads to searching the reasons that delayed their appearance in the historical evolution of the Greek banking system. These might be regarded as the two sides of the same coin, but they, definitely, stress for different approaches in order to be answered. Searching into the socio-economic evolution of the modern Greek state -and in the evolution of the banking market- for references that could provide the means to answer these questions, although fascinating, had proved once again a well known difficulty that Greek researchers often face; that, available data were, and still are, collected in a manner that usually do not allow for regional comparisons to be made.[19]

Even in more recent days and in more specific thematic fields, although things are considered to have improved, there are still many difficulties that a researcher has to

[19] It appears that regions and populations were not of interest *per se*; it was in their contribution to the sector-based and urban-oriented development strategy that was followed where one could identify their relative importance. It is important, also, to mention that due to historical incidents, the Greek rural context had to recompose its social tissue several times in the first three-quarters of the century.

surpass in his attempt to conduct a region-based research. The complete absence, for example, of available data concerning regional credit had definitely posed some difficulties in the researcher's approach, as he had to compare the figures of the local co-operative banks against the national records of commercial banks. Still, the fact that the Greek co-operative banks are the only regional banks present in the Greek context, restrained his ability to provide relevant comparable data.

The availability, of course, of such regional disaggregated data goes beyond its significance for the present study; it should be understood that this information would be highly appreciated by the local entrepreneurial and/or institutional environment, to mention only one possible interested stakeholder. In their absence some other interesting data, with reference to the local co-operative banks' performance, are presented and these could be of some value to those concerned with the matter discussed.

The short history of the financial co-operatives of the country is the main reason for lack of documentation. So, the researcher had to contact every local bank in order to collect even basic information. This has constituted a decisive limitation that has influenced the depth of the analysis and consequently the attainment of the research objectives. Among the many omissions, for example, an important one concerns the researcher's failure to present an index of non-performing loans for any of the researched co-operative banks. Although there was much indirect evidence in favour of a sound and well-coordinated lending policy –more notably the Bank of Greece's verbal reassurance that if there were any doubts, its commissioners would be among the first that the researcher would meet during his visits to the local banks – the researcher was not provided with hard facts and, thus, had to argue out of silence. However, it should be said that no commercial bank –state or private- publish such indexes.

Difficulties of this type, in collecting essential information, justified the researcher's decision to resort to personal interviews with the co-operative bank members. The rationale behind that decision and the methodological approach has been presented in the relevant sections.

The additional advantage of this process, which needs to be commented at this point, concerns the opportunity that this approach offered to the researcher to "feel" the character of the relationship that members build with their financial co-operative. Thus, it was not only the quality of information that the researcher secured through personal contact; most of all it was in the "direct observation" dimension of the field work, through which the researcher enriched both the collected information and his ability to interpret fuzzy findings under a more appropriate viewpoint. Nevertheless, the limitations discussed here and at the methodology chapter with reference to the tools of analysis, are the ones that define the level of reliability of the analysis, the main findings of which will be discussed below. What follows, however, should not be regarded as an exhaustive review of the main findings of this thesis. It is hoped that the preceding chapters have succeeded in presenting a close link between research questions and empirical evidence. The reader should rather try to see in the following, the researcher's attempt to re-visit some of the results in order to stress further their importance for the development of rural areas and for the future evolution of Greek co-operative banks.

An important feature of this research lies in its attempt to focus on the early stages of co-operative banks' development. Most of the relevant literature has tends to concentrate upon the development issues that have arisen once the financial co-operatives have been formed. While such an approach has captured a large part of the present research, also, the last two chapters illustrated that the analysis of the initial, locally and socially contested processes that give birth to financial co-operatives provide, in the researcher's opinion, equally valuable findings.[20]

First of all, it provided evidence about the reasons that led local people to form their co-operative banks. Thus, the provision of services at lower cost and access to products that would be designed to meet local needs were among the main objectives that they have assigned to their banks. This confirmed the validity of the argument, which, according to the secondary data analysis, placed the initiation of co-operative financial intermediaries as a local reaction to the prevailing forces that characterized the Greek banking system. Local entrepreneurs seem to have suffered from the results of increased

[20] This topic -i.e. the approach of the early stages of co-operative banks' development- was the first, and almost unique, feature of the research that was facilitated by the short history of Greek co-operative banks. It allowed the researcher to have access to opinions and record stances that are not regarded to have been altered significantly from the original that prevailed in the pre-registration period.

competition in a highly concentrated banking market, and strived to alter the functioning of the local market by forming their own co-operative banks. What is of interest, however, is that they stress the necessity of enhancing and expanding the banking services toward a wider part of the local population. This notion of equal treatment, which was present among the findings of both surveys, points toward the adoption of a financial exclusion hypothesis to be present at Greek local markets. It is tempting, therefore, on the one hand to search for further evidence that would justify such a contingence and on the other to seek for the route that the co-operative banks actually followed to mitigate such a market failure.

The analysis showed that there is only a small proportion of members (7.3 per cent) who declared that the co-operative bank is its exclusive bank. However, almost nine out of ten of those belong to the two lowest social grades (C2 41.4 per cent and DE 47.1 per cent), i.e. the segments of the population that are considered to be more vulnerable in their relationships within the market.

Moreover, further analysis reveals the possibility of a gradual increase of these social grades' participation in the co-operative bank in its development course, as almost 6 out of 10 new members belong to the C2DE grades. So, if there is a segment of the population that is excluded from the commercial banking system then this is to be found in the lower social grades and serving its needs is definitely not among the first priorities of Greek co-operative banks. While the former needs no more than common sense to be revealed – in fact any other result would have questioned heavily the quality of information – in the latter one may identify an interesting feature, which according to the researcher's opinion, constitutes an important element for a successful performance of the Greek co-operative banks.

Rutherford argued that "people do not run financial co-operatives for the sake of it; they pay the 'costs' for running them because they value the services they get" (1999, op.cit. p.53). The importance of that remark is related to the fact that the most dynamic part of the local societies was mobilised[21] toward the formation of Greek co-operative banks.

[21] This remark is consistent, also, with the findings of previous researches, which found that credit unions serve a range of people within their local areas and not solely the most disadvantaged residents (see chapter 3 for more on that). However, one might see a qualitatively different dimension in this thesis

So, if co-operative banks were to become efficient players in the local banking market, they would have to satisfy the needs of this part of local population that decided to pay the "costs" of creating them. This is regarded to have played a catalytic role in both the designing of the financial products and in the quality characteristics of the overall performance of the co-operative banks.

As the analysis shows, the most acknowledgeable characteristics of the co-operative banks operation are simplicity in designing the products, flexibility, speed and convenience in financial decisions and transactions and competitively priced loan and saving products. It is obvious that the Greek co-operative banks have decided to organise their intermediation initiative under a financial services perspective. This was a minimum precondition for retaining the close links with the most dynamic part of local entrepreneurship. It seems, in addition, that through these characteristics the co-operative banks have managed to approach the more vulnerable strata of local population. It is interesting to observe how a financial services perspective may be possibly linked to wider social and development objectives without appealing to social development objectives.

The quality of intermediation in the case of Greek co-operative banks does not concern sophisticated products and advanced technological services. It is rather related either to a different approach to local needs, which is transformed into qualitative characteristics of loan and saving products, or to a different approach of local people, which is expressed through a friendly, easy-to-access, human-centered image. Due to the local origin of these initiatives and the daily socio-economic interaction, members feel that they are dealing with their own friends when they are sharing with co-op bank's employees their entrepreneurial anxiety and needs of credit.[22] Thus, a major inability of a certain segment of local people, which face enormous difficulties when they are trying to do business with mainstream financial intermediaries, is mitigated.

The co-operative banks decision to build their network of small branches in small rural villages is a move toward the same direction as it definitely reduces transaction costs. These cost reductions do not concern only the lower transportation costs that rural

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finding on Greece, as it revealed the mobilisation of the most advantaged residents to the benefit, at a following stage, of the most disadvantaged ones.

[22] The researcher, however, needs to urge the importance of privacy in these close transactions. In some cases he spotted hesitancy on behalf of members, who needed sufficient evidence of co-operative bank employees' discretion before entering into lending or saving transactions.

people face; they are also connected with an increased sense of belonging and participation responsibility that they identify in these financial intermediaries, which take the initiative to approach the needs of those people instead of waiting for people to surpass their hesitancy and seek for financial services.

As this helplessness is inherent especially in low and middle classes of local population, the clarity and simplicity that characterizes the presentation of co-operative bank's services tackle down their exclusion from the financial service circuit and challenge the empowerment of a very sensitive and most in need part of local human resources. In doing so, on the one hand co-operative banks are strengthening the basis of their common pool and the roots that such a grass-root institution ought to have.

On the other hand, while broadening the size and the quality of its stakeholders they succeed in another important aspect of their objectives, which concerns the capabilities of local people to initiate a quality dialogue on local development. Enhanced capabilities of a broader part of local population can be, in consequence, translated into the necessary potential that could deal effectively with several aspects of the developmental process of rural areas. That of course, encompasses among other things, a qualitatively improved partnership in the multidimensional approach of a spatial context that strives to hold down the necessary forces which would lead to a sustainable improvement of their socioeconomic lives. A highly valued result, therefore, would be that enhancing the capabilities of the low and lower-middle income members of the co-operative society, inevitably leads to the sustainable improvement of the characteristics of the local stakeholders of the developmental process.

However, if these are the consequences of the simple and solid co-operative bank's operational approach to the more deprived members of local society, one can justifiably question which is the relevant evolution that this approach brings to the most dynamic parts of that society. It should be reminded that this part of local society was the one that was initially mobilized toward the formation of co-operative banks. No one can argue that these entrepreneurs and individuals do not appreciate the simple and effective characteristics of loan and saving products and services that their co-operative bank offers just because they can access with relative convenience and easiness other financial intermediaries in order to cover their needs. Even if this point fails to keep in mind the fact that the survey found that this was exactly their intention when they were visualizing a grass-root financial co-operative at their disposal, it is still hard to argue that the most energetic and dynamic local forces might disregard this very performance. Easy access to credit, friendly services and above all loan products that are designed and offered in a convenient to needs approach as regards loan terms and loan repayment, are characteristics that can be of remarkable importance to small and medium size enterprises in any local context.

On one hand these characteristics release resources that might add potential to the strategic actions of these entrepreneurs. On the other, they offer advanced opportunities for retaining and/or expanding further their presence at a highly competitive economic structure, as the modern context appears to be in such a globalised world. In addition, the acquired credit line acts as a safety net for their cash flow scheduling. Thus, it permits a higher level of savings to be deposited at the financial co-operative, because there is not an acute need to retain them in business for precautionary reasons.

If, in addition, in that rationale, one adds the fact that in most cases the economics of the small business is indistinct from the domestic economy of the entrepreneur, then the fruits of the mutually beneficial co-operation (between the member and its co-operative bank) diffuse towards the household and affect its prosperity. Hence, the positive effect of the operation of the co-operative institution is not merely restrained at the entrepreneurial sphere. It reaches and concerns almost spontaneously more dimensions of a communitarian and/or holistic approach of the relevant context of analysis.

Moreover, the qualitatively different services may affect competition at a local level. Those members that can negotiate their credit needs with other financial institutions may exercise pressure toward these institutions to proceed to changes in the products they offer. While it seems rather difficult, in a modest appraisal, for a banking network to differentiate spatially the characteristics of its products, however, one might expect its reaction to focus on an individualized manner. What is suggested here relates to the possibility of a commercial bank to offer to some members -leading entrepreneurs of the local market- better prices and advanced services than before. This reaction, which might be regarded as typical for a significant "player" at local markets that feel its market share to be in jeopardy, might pose some difficulties in the co-operative bank's operational philosophy. If the co-operative bank competes with an equivalent offer the result would be to the detriment of its financial stability in the long run. They would not be able to justify different treatment to the other members. If on the other hand the co-op bank does not follow its competitor the result might harm its prestige in the short run. A most probable evolution, from the side of a private bank, would be that it will not generalize its reaction neither in many of its customers, nor for a long time. On the contrary, in the long run, this will definitely shield the co-operative bank's operation provided that it succeeds in maintaining the quality that attracted the local population to become its members.

The description of the abovementioned situation concerns a rather reflexive and vague reaction on behalf of the private bank, in an attempt to "regain" its customers that became members of the co-operative bank. If in that scenario one adds the possibility of cumulative reactions of the non-members of the co-operative bank customers of the private bank, then there appear to be some very interesting insights. The private bank might consider that this pressure must result to the revision of its product and pricing policy, hence, an outcome that will benefit its customers. The result of such an evolution would be increased efficiency in the local banking market. This is a wider contribution that the mutual institution offers to local population.

In saying so, it is apparent that the effective banking policy and product designing of the co-operative bank benefits on one hand its members that take advantage of its services and, simultaneously, offers an advantage to the non-member local customers of financial services to renegotiate their financial relationship with their banking institution. If they fail to reach a qualitatively different agreement on saving or credit terms, the outcome would be the broadening of the co-operative banking membership which will, inevitably, cause further pressure toward the mainstream banking institutions. Thus, sooner or later, the non-cooperative providers of financial services, acting in defense, might think that it would be in their best interest to proceed in smoothening their monopolistic behavior if they are to retain their customers. Hence, local population, regardless of their membership status, will be confronting an advanced financial environment. What is at stake here, however, is the promptness of the co-operative bank to adjust to that new improved environment. The level of its reaction and its ability to innovate might prove to be critical for the efficient presence at a local level. This dimension will be discussed further in conjunction with the following argument.

It should be understood that co-operative banks actually need members that hold multiple banking relationships for at least two reasons. First, these members can "force" co-operative bank managers to follow a risk-averse attitude and reduce their risk in general and their risk from lending in particular because they can discipline a "risky behaviour" by withdrawing their deposits or by limiting their transactions. Second, a member that is aware of the alternatives that the market offers, can exercise pressure to the co-operative to adjust its services accordingly. Thus, competition can force co-operative banks to improve their services and their performance. The current mix of members of Greek co-operative banks shows that they can take advantage of this opportunity.

On the other hand, if a co-operative bank focuses mainly on satisfying the needs of the disadvantaged, it may also improve, in the long run, their capacity to have access to alternative forms of credit. There is always a risk for the co-operative members to think of their co-operative banks as the helping hand in times of difficulty; so, when the period of distress is over, they may turn to "normal" credit providers. Although this would be regarded as an improvement *per se*, the result for the co-operative bank would be a decrease in its members. Because of this, a co-operative bank needs to formulate the image of a regular and trusted supplier of local banking services. If on the other hand, the co-operative bank fails –for any possible reason- to improve the credit image of the rural poor, then it might be possible in some cases to be trapped in a lending relationship that would require additional funds to avoid losses on previously issued credit. Which again leads to the conclusion that the co-operative bank should follow a prudent lending policy.

It might be true that much of the evolution described above might not be as attainable as it seems if one takes into account the presence and performance of one co-operative bank operating at one prefecture or in isolation from the credit co-operative movement as a whole. These improvements in the financial environment might need a more concentrated action on behalf of the entirety of co-operative banks in a given context. Thus, what is needed here is a credit co-operative corporate identity that will act as a catalyst in the aforementioned evolution. Empirical evidence, up to now, has stressed the qualitative advantages that co-operative banks enjoy, on which such an identity might be based. But it remains to be found if these characteristics are sufficient to form a distinctive corporate identity. And, moreover, if these characteristics can be translated into quantitative impacts at the local level in the case of Greek co-operative banks.

The two surveys of the present research have in various parts searched, within the performance of Greek co-operative banks for pecuniary and non-pecuniary characteristics that could result into direct or indirect evidence about the quantitative impacts of their operation at the local level. In many cases, however, although the components that could produce such an impact were identified, it was rather difficult to calculate monetary benefits. In the analysis of the member's survey, for example, reference is made to the "open loan" that the co-operative banks launched in the local banking market as an innovative product. This was promoted as a joint product that could be used by all members as a short-term consumer or business loan or as an instant access account upon which cheques could be issued. The significance of such a combined product in reducing the necessary paperwork, and consequently time, for both the bank and the customer is obvious. What is not that obvious, however, is the impact of using that product on reducing the price that the customers would have faced if they had to use three different loan products instead of one. This argument applies in the case of lower charges on other ancillary services that members enjoy, as well as, in the decision of co-operative banks not to apply account maintenance charges or minimum required balances on deposit accounts. The value of these decisions can only be revealed through their impact on deposit mobilization and the member's propensity to save or the volume of outstanding loans.

The researcher's survey has revealed that only 13.6 per cent of members hold a second deposit account in another bank, meaning that they appreciate their bank's saving policy. Moreover, six out of ten members prefer to have an instant access account with their bank while one in every four members are issuing cheques only through their co-operative bank. Overall, almost three quarters of members declared that they are completely satisfied by the deposit interest rates that their bank offers. In addition one out of four members stated that the presence of co-operative bank at the local market has influenced positively their propensity to save. Further, it was found that the lower is the social grade the higher is the proportion of members who state that membership in the co-operative bank has influenced positively their propensity to save.

Effective deposit mobilization policy on behalf of co-operative banks, influence positively the amount of credit that they channel locally. As the high figures of their loan to deposit ratio indicated, they have the capacity to increase the absolute size of funds loaned in the area they serve. Moreover, every other member declared that the co-operative bank had facilitated its attempt to meet its credit needs. Further, it was found that the lower the social grade the higher the opportunities offered to these members by a co-operative bank.

It might also be interesting to note an important dimension of the lending policy that the co-operative banks follow. The percentage of those who consider that membership to the co-operative bank had a positive influence to their savings is higher for the members who have contracted a loan in comparison with those who have not. Thus, what seems to be true is that the direct and easy access of these members to loans with favourable terms is influencing also the rate of savings of borrowers.

Apart from these findings about the potential impact on an individual basis, which in turn affects positively the local economy, the analysis has focused on another interesting dimension of these co-operative financial intermediaries. Traditionally, a central argument in credit union literature has been whether borrowers or savers gain more in the distribution of member benefits through low loan or high deposit interest rates.

This study, in addition to estimating net benefits for each group, proceeds one step further in order to address an interesting subject for rural development. It approximates the net monetary benefit that the local economy enjoys as a result of the interest rate and dividend policy that the co-operative banks follow. It was shown that in the year 2000 the co-operative banks have "returned" to the local population about 3.5 billion drs. either through the distribution of dividends or through the application of favourable interest rates. Thus, by means of the joint enterprise of members, a direct local surplus is created with multiplier effects, which through its recycling may lead to the creation of additional incomes.

A more interesting finding is that such monetary benefits can be returned to the local population even if the difference in interest rates is small. In the case of the Pancretan co-operative bank, for instance, that applies only marginally better interest rates than its competitors, the monetary benefit that was returned to its members was almost 1.4 billion. drs. But, even in this case, it was shown that if this amount is calculated as a percentage of the bank's total assets, the Pancretan has a lower record than five other younger co-operative banks. Thus, the size of the co-operative bank is not a decisive factor for its capacity to produce and return monetary benefits to the local economy. Nevertheless, it is connected with the size of these benefits. Hence, with increasing size of the co-operative bank the monetary returns to the local society increase.

The abovementioned research findings are in favour of an operational character of Greek co-operative banks that can influence positively critical parameters of the local economy. Moreover, a joint reading of the qualitative and quantitative elements that accrue from the co-operatives' presence in rural areas, may provide evidence for a positive impact of their performance until today.

In fact, if one takes into account their short history, the significance of these remarks is increasing. This remark indirectly indicates a co-operative's capacity on the one hand to satisfy in the short run the needs of the people who were mobilized toward its formation and on the other to influence positively their perspectives in the long run. In the case of Greek co-operative banks, this was made possible through a financial intermediation perspective that built its operational characteristics on the advantages that derive from its local knowledge. The significance of a successful business performance in the Greek rural context is even more important if one takes into account the negative connotations that even the word "co-operative" had for the Greek public opinion.

However, the reader might have noticed that the researcher although he used the words "co-operative bank(s)" several times he never referred to these local institutions as anything like "credit co-operative movement". In fact, if these local initiatives were not to be found in their initial stages the researcher would have not hesitated to speak of a complete absence of a credit co-operative movement. However, it is deemed necessary, on the one hand to adopt a more mild approach in the evaluation of their attempts to "build" a credit co-operative movement and on the other to focus on the importance of such a task to be among the highest priorities to be accomplished.

It should be reminded that these initiatives had to face various difficulties at different stages of their development course. One of them was repeatedly mentioned earlier and concerns problems that arose from previous unsuccessful co-operative endeavours. Mismanagement, profound state intervention and economic losses were the most acknowledged characteristics of the most commonly found agricultural and consumer co-operatives at local level. If one adds to these the limited experience in the area of co-operative credit then the picture reads as follows: Not only the local population had limited trust at a co-operative endeavour but their uncertainty was augmenting by the lack of trust toward a new institution which bears an unknown probability to produce results given the limited availability of local capital.

Thus, the only way to prove that these initiatives had the ability to become an efficient local player in the field of banking was to organize and promote, eventually, their business character. While this was highlighted earlier as the cornerstone for their success, it should be recalled that it represents a necessary but not sufficient condition for a meaningful intervention to the benefit of local people. In the researcher's opinion, some findings of this research may be in favour of the prospect that the critical components necessary to reveal the significant potential of a credit co-operative at the local level, are already present among these local banks.

From the analysis it emerged that at the initial stages the co-operatives used mainly informal channels in order to built their membership. Moreover, it was found that those people who learned about the co-operative bank through informal channels –i.e. through people that they trusted more – became members earlier than those that heard about it from mass media or other formal channels.

This indicates that the stronger the pre-existing social bonds the faster the decision to become member of the co-operative bank. It was also interesting to find that it was the most dynamic part of the co-operative that mobilized toward the formation of the co-operative banks. Thus, it can be argued that the local population has managed to overcome a fragile no-trust equilibrium that was related to the co-operative image by reconstituting it at a more appreciated level in terms of local importance.

This notion of "trust" re-entered the current picture of a co-operative bank's operation in several parts of the analysis. One is related to the members' opinion that a critical point of internal control concerns the evaluation of the character of the members of the board of directors. A similar one concerns their appreciation of the members of the credit committee that acts in parallel with the banks management in the loan approval procedure. Finally another, and probably the most valuable one, is related to the reaction of the members of the co-operative bank of Lamia, which managed to overcome its difficulties only because its members decided to stand by its side, recognizing with their attitude the importance of the bank's presence at the local level.

It is important, therefore, for the co-operative bank members to understand that it was their ability to transfer the pre-existing social trust that was lying within their socio-economic relationships to the formation of an institution, destined to care their needs' fulfilment. On the other hand, co-operative bank managers need to understand that if they fail to retain their members' trust toward the financial intermediary they run, they will definitely loose the propulsive force and the comparative advantage that can make their business successful. But most of all, if both parts fail to understand the significance of trust and participation in mutual local initiatives, the result will be damaging the entire local population, who will loose an effective means to re-define its future prospects.

The members' survey has revealed an interesting dimension, which relates to what was argued above. It was shown that the interest of new members for participating in the general meeting is weaker than the interest of old members. Moreover, new members tend to base the evaluation of the co-operative bank's performance on product characteristics and that they are more likely to react strongly to a low dividend policy. If this proves to be dominant, in the long run the co-operative banks will experience serious difficulties in maintaining genuine the operational character they have at present and thus, they will become less distinguishable from their competitors behaviour. Thus, there are internal forces within credit co-operatives, which call for the adoption of a statement that would underline the co-operative philosophy of these financial intermediaries that is behind their distinctive relation to local community.

Such a statement, however, cannot be formed from every local co-operative bank on an individual manner. The analysis provided sufficient evidence of an independent operation on behalf of the fifteen co-operative banks. Moreover, it revealed that despite the fact that the majority of the Greek co-operative banks were initiated over the same period, there are many differences in their characteristics, their performance and the problems they face. Clearly, if one considers the Ferguson and McKillop framework, these attributes are indicative of a transition period that the co-operative banks are going through.

In such a tense period, however, the Greek co-operative banks actually need more to develop close links among their local initiatives. The younger co-operative banks can definitely take advantage of such links in order to confront the problems they face with their limited development. On the other hand, the older co-operative banks which present a fast growth rate should understand that it is in the strength of the network of co-operative banking that their future success lies. The rich history of financial co-operatives has long proved that these institutions can benefit from the internal strength that derives from their grass-root orientation, the local knowledge that they possess and the sense of belonging that they can attach at the local context. Then again, it is their organizational structure that while allows for the potential that accrues from the local level to be utilised, it simultaneously strengthens further their financial and organizational stability.

In sum, it can be argued that the Greek co-operative banks are soon to be found in a pivotal stage of their development course. Much of the above discussion urges for further research attempts in order to explore further the leading forces of their evolution and to outline the appropriate policies for a successful development. The present research work has tried to provide evidence and information that could justify the initiation of a dialogue among co-operative banks in order to shape their co-operative future. Moreover, it is hoped that it has managed to underline the actual and potential difficulties that these local institutions may face in their attempt to provide efficient financial services to rural people. Any of these problems can undermine the credibility of the institution, negating the advantages outlined earlier. The challenges for effective local collective action show the way for the co-operative banks to improve the efficiency of financial markets and in the process to generate more equitable outcomes. What is needed is to combine appropriate institutional design and effective local collective action. After all, this is what conventional wisdom urges for a meaningful developmental approach at the local level. And that is exactly what makes studying and understanding co-operatives an interesting task to accomplish.

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APPENDIX I

The International Co-operative Alliance, at its Manchester Congress in September, 1995, adopted a Statement on Co-operative Identity. The Statement included a definition of co-operatives, a listing of the movement's key values, and a revised set of principles intended to guide co-operative organisations at the beginning of the twenty-first century.

STATEMENT ON THE CO-OPERATIVE IDENTITY

Definition

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1st Principle: Voluntary and Open Membership

Co-operatives are voluntary organisations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political, or religious discrimination.

2nd Principle: Democratic Member Control

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organised in a democratic manner.

3rd Principle: Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public – particularly young people and opinion leaders - about the nature and benefits of co-operation.

6th Principle: Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional, and international structures.

7th Principle: Concern for Community

Co-operatives work for the sustainable development of their communities through policies approved by their members.

APPENDIX II

Box II.1 Cost reduction with financial intermediation

Figure 2.1 below reveals how a financial intermediary reduces the costs of direct lending in the loanable funds market.

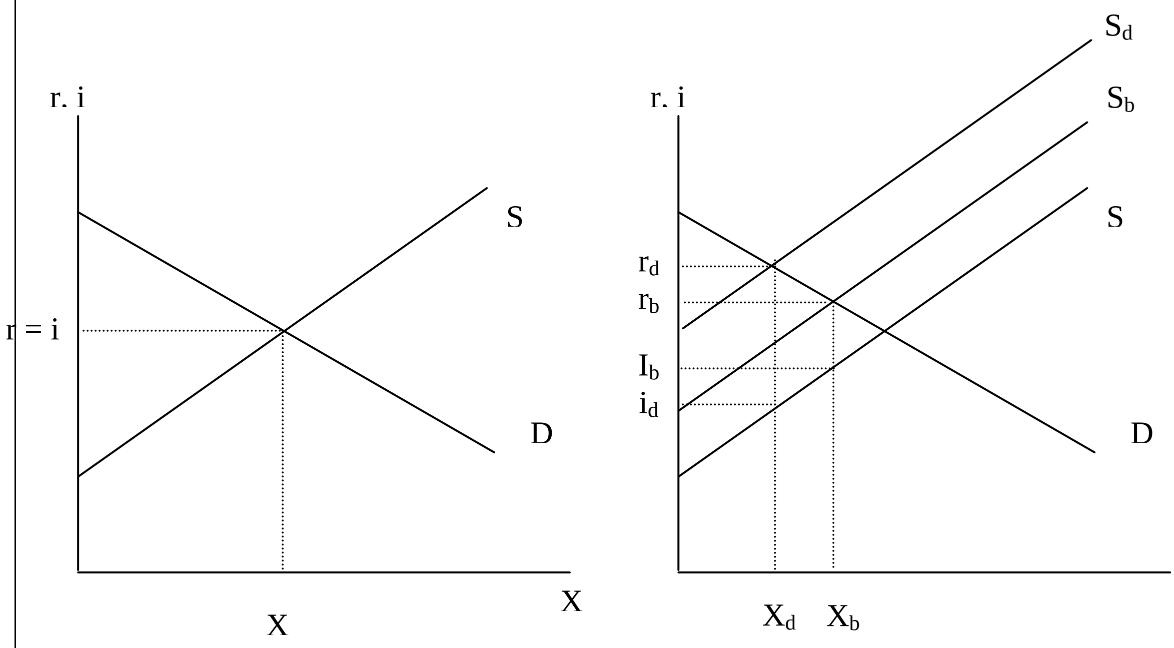

Figure 2.2

In the two graphs above, the horizontal axis measures the quantity of borrowing or lending per unit of time (X), and the vertical axis measures the cost of borrowing (r) and the return for lending (i). An economy's demand for credit is depicted by the downward-sloping curve labeled D. The upward-sloping curve labeled S depicts an economy's supply of credit. If there were no transaction costs, the market-determined rate of interest would be r = i, and the amount of credit per period would be X.

However, with information and transaction costs, the amount lenders must charge borrowers to cover the screening costs, is an amount additional to the cost of covering expected defaults. Such costs reduce total borrowing and lending in an economy. The right diagram above shows the amount lenders must charge borrowers to cover these costs as reflected in the curve S_d. The vertical distance between this curve and the supply of funds curve (S) is the amount of these costs. Under these circumstances lenders only supply a quantity of funds equal to X_d in the expectation of earning i_d.

For that amount of credit, borrowers would be paying r_d. Therefore, information and transaction costs introduce a wedge between the cost to borrowers and the return to lenders. This in turn reduces the amount lent.

If an intermediary is introduced into an economy it can reduce these costs of borrowing and lending because it is able to produce information cheaper and more efficiently than N monitors monitoring one borrower (Diamond, 1984). As a result, more efficient credit allocation will take place. Curve S_b in the right diagram of Figure 2.2 now represents the new supply of funds. Borrowing and lending in this economy increases as the amount lent moves from X_d to X_b. In addition, the return to lenders increases from i_d to i_b, and the cost to borrowers falls from r_d to r_b. The wedge between the cost to borrowers and the return to lenders is now the intermediary's spread. The results of these effects are greater for those intermediaries that are better at reducing information and transaction costs.

Box II.2

Note on liquidity and risk management.

The high cost of information acquisition that individual savers pay when assessing the quality of a wide array of investment projects stems, in part, from a savers desire to maintain liquidity (Bhattacharya and Thakor 1993, ibid, pp. 5-6). Liquidity is a valued attribute of a financial asset, and financial intermediaries are able to provide liquidity through their function as risk managers. For an asset that is less liquid, it is more difficult for investors to shift it into alternative investment projects or cash. The risk of illiquidity is diminished when assets are easier to exchange. Information asymmetries intensify liquidity risk and create incentives for the emergence of financial markets and institutions (Levine 1997, op.cit.). Financial assets are said to be liquid if the expense to trade and the uncertainty regarding cash settlements are insignificant.

Financial intermediaries facilitate risk management and liquidity by offering demand deposits contracts. Diamond and Dybvig (1983)[1] model the banking firms and the economic role these institutions play in transforming illiquid assets into liquid liabilities. These contracts improve competitive market exchanges by providing better risk sharing among individuals with random consumption timing. Banks perform this transformation by offering a liability contract that provides a "smoother" return pattern over time than those of the risky assets.

Bhattacharya and Thakor (1993) also contend that financial intermediaries are able to reduce liquidity risk. They identify brokerage services and qualitative asset transformation services as the means through which these institutions reduce liquidity risk. Brokerage services come in the form of transaction services, financial advice, screening and certification, origination, and issuance. When financial intermediaries act as qualitative asset transformers, they affect the terms to maturity, divisibility, liquidity, and credit risk of assets. Moreover, as a qualitative asset transformer, financial intermediaries can process liquidity risk by permitting the payout and holding periods of savers and borrowers to diverge (Bhattacharya and Thakor, 1993,

[1] Diamond, D and P. Dybvig (1983) Bank runs, Deposit insurance and liquidity, *Journal of Political Economy*, 91(3), pp.401-419

ibid, p.29). Santomero (1984)[2] identifies this friction of a financial intermediary referring to it as the transformation of large-denominated financial assets into smaller units. Baltensperger (1980, p.2),[3] however, references this function of a financial intermediary as consolidation and transformation of risks, as well as the production and maintenance of financial contracts.

Savers demand such services by an intermediary because as uninformed investors, savers would otherwise be forced to acquire illiquid information-sensitive securities issued by borrowers possessing superior information. In most cases, savers are risk-averse in that they prefer a certain outcome to an uncertain one. They are also unwilling to tie up their savings for extended periods of time. It is also difficult for an individual to effectively monitor all the entities it would have to invest in to create a diversified portfolio. These screening costs that individual savers face act to restrict their ability to undertake investments across a wide variety of production processes. By pooling investment projects from different firms, industries, and regions within an economy, a financial intermediary is able to issue a liquid liability backed by this asset pool (Levine, 1997, op.cit. p. 692 and 694).

Thus, financial intermediaries enhance liquidity, provide asset diversification services, and offer a risk-return combination in their pool of financial assets that savers find most attractive. And further, financial intermediaries protect investors from losses they would suffer in trading illiquid claims while affording them an opportunity to "spread their eggs among many baskets."

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[2] Santomero, A. (1984) Modelling the Banking Firm: A Survey" *Journal of Money, Credit and Banking*, Vol. 16, pp.576-602

[3] Baltensperger, E. (1980) Alternative Approaches to the Theory of the Banking Firm" *Journal of Monetary Economics*, Vol. 6, pp. 1-37

APPENDIX III

TABLE III.1: STRUCTURE OF CO-OPERATIVE BANKS AND CREDIT UNIONS
(Adopted by Etienne Pflimlin
International Co-operative Banking Association Journal, No 6, 1994 pp 9-10)

	CO-OPERATIVE BANKS	CREDIT UNIONS
1. Legal Framework		
a) Banking Legislation:	- national (Banking Acts) - European (1st and 2nd banking directives, etc.) - international (Basle Committee, etc.)	- national (separate laws on Credit Unions) - European: exempt - international: exempt
b) Co-operative legislation:	- national - ~~potentially~~ [(a)] European (European Co-operative Statute)	- national - ~~potentially~~ [(a)] European (European Co-operative Statute) - international (WOCCU rules)
2. Monitoring & Supervision		
a) Instances:	- Central Bank - Ministry of Finance	- Ministry for Industry & Commerce or Finance; perhaps assisted by a consultative committee on Credit Unions - Registrar of Friendly Societies
b) Reporting Level:	- regional or national (collective authorization), exempt for German Coop Banks	- national (Registrar of Friendly Societies)
3. Structure		
a) Operational:	- structured on 1 & 2 or 1,2 & 3 levels	- structured at each Credit Union individually and nationally
b) Political:	- *ditto*	- structured at level of each Credit Union & nationally in league form
4. Taxation		
	- subject to same provision as banks	- Credit Unions in the Republic of Ireland exempted – except for those services normally subject to VAT; no exemptions for Credit Unions in the UK
5. Activities		
a) Deposit Collection:	- members & non-members	- members[(1)]
b) Loan-granting	- members[(2)]	- members
c) Other Services	- members & non-members	- members
d) Deposit Protection:	- European deposit guarantee schemes directive accepts the principle of equivalence of own schemes	- own scheme

cont.

	CO-OPERATIVE BANKS	CREDIT UNIONS
6. Membership		
a) Criteria for Membership:	- freedom of membership, traditionally on territorial or professional criteria; membership being a standard requirement for loan-granting(3)	- strict compliance with "common bond" of association; may be based on place of residence/locality/employment/ employer/organization (association, trade union, etc.) and any other organization legally restricted
b) Democracy:	- mutualist principle of "one person one vote" implemented at primary level and in most political instances. Votes may be weighted at the higher levels within prescribed limits	- "one person one vote" principle strictly implemented

(a) Reg ???/??? of the EU has introduced in the European law the European Co-operative Statute

(1) Since June 19th 1994, Credit Unions in the USA have been authorized to collect deposits from non-members up to a maximum of 20% of total shares or US$ 1.5 million

(2) Several European co-operative banks grant loans to non-members, sometimes on less preferential terms than those offered to members. However, competitive pressures are tending to erode differences in the treatment of members and non-members

(3) Where co-operative banks restrict loan-granting to members (private individuals) a derogation frequently exists which enables them to grant credits to legal persons without the latter being permitted or obliged to become members

Adopted by Etienne Pflimlin
International Co-operative Banking Association Journal, No 6, 1994
pp 9-10

TABLE III.2 WORLDWIDE CREDIT UNION STATISTICS (2001)

Region / Country	Credit unions	Members	Penetration	Savings (US$)	Loans (US$)	Reserves (US$)	Assets (US$)
AFRICA							
Benin	NA	NA	NA	NA	NA	NA	NA
Botswana [(a)]	12	6,978	2.98%	6,181,775	4,867,716	208,948	8,270,035
Burkina Faso	NA	NA	NA	NA	NA	NA	NA
Cameroon	297	149,383	2.49%	36,565,993	25,627,142	4,526,293	50,787,437
Congo	NA	NA	NA	NA	NA	NA	NA
Cote D' Ivoire	NA	NA	NA	NA	NA	NA	NA
Dem. Rep. of Kongo	NA	NA	NA	NA	NA	NA	NA
Ethiopia	NA	NA	NA	NA	NA	NA	NA
Gambia	84	13,424	3.36%	1,639,671	1,098,964	165,922	165,922
Ghana	232	96,052	1.07%	11,552,562	8,105,054	1,148,027	13,465,940
Kenya [(a)]	1,390	951,685	5.76%	384,619,014	362,665,825	19,682,979	422,929,192
Lesotho	NA	NA	NA	NA	NA	NA	NA
Malawi	74	61,074	1.22%	4,744,959	4,308,044	748,056	6,143,818
Mauritius [(a)]	105	60,000	7.46%	13,814,510	12,125,165	483,508	NA
Namibia	NA	NA	NA	NA	NA	NA	NA
Nigeria	NA	NA	NA	NA	NA	NA	NA
Rwanda	148	NA	NA	NA	NA	NA	NA
Senegal	71	22,565	0.56%	576,164	1,043,163	1,043,163	NA
Seychelles	1	9,470	30.65%	6,556,222	4,946,937	307,582	7,285,685
Sierra Leone	NA	NA	NA	NA	NA	NA	NA
South Africa	28	12,252	0.07%	1,490,077	1,389,673	NA	NA
Swaziland	NA	NA	NA	NA	NA	NA	NA
Tanzania	476	136,75	1.01%	1,316,862	1,020,382	NA	NA
Togo [(a)]	152	133,461	5.17%	17,596,210	11,872,159	1,174,991	NA
Uganda	243	307,5	2.80%	2,883,506	2,306,805	115,34	5,190,311
Zambia	NA	NA	NA	NA	NA	NA	NA
Zimbabwe	46	35,159	0.64%	4,906,107	4,100,500	315,14	5,841,193
TOTALS:	***3,359***	***1,995,753***	***2.24%***	***494,443,632***	***445,477,529***	***28,898,264***	***520,079,533***
ASIA							
Bangladesh	399	106,580	0.17%	8,990,284	11,163,197	NA	12,120,615
Hong Kong	37	60,141	1.77%	234,600,949	99,458,973	19,104,552	282,451,467
Indonesia	1,071	295,924	0.30%	24,174,262	26,368,590	1,776,968	34,704,828
Japan	30	4,587	0.01%	9,538,247	2,468,275	756,266	10,412,720
Korea	1,268	5,371,919	24.42%	16,632,000,000	7,907,000,000	106,000,000	16,720,000,000
Malaysia [(a)]	507	35,490	0.27%	10,708,920	5,534,969	542,31	12,166,500
Nepal [(a)]	334	32,000	0.23%	3,900,482	2,444,308	15,374	4,050,445
Papua New Guinea	NA	NA	NA	NA	NA	NA	NA
Philippines [(a)]	271	69,972	0.15%	5,000,200	4,368,040	140,406	11,125,936
ROC Taiwan	353	181,550	1.17%	455,624,261	358,601,725	35,882,964	574,484,486
Sri Lanka	8,320	788,143	11.94%	49,224,320	30,625,709	5,247,196	NA
Thailand	1,322	2,157,146	5.99%	6,988,132,845	5,638,276,497	397,195,669	8,495,857,604
Uzbekistan	6	320	0.00%	NA	NA	NA	NA
TOTALS	***13,918***	***9,103,772***	***2.31%***	***24,421,894,770***	***14,086,310,283***	***566,661,705***	***26,157,374,601***
CARIBBEAN							
Antigua & Barbuda	5	15,084	50.28%	13,901,665	9,793,801	872,980	15,159,421
Bahamas	16	25,571	16.39%	96,410,566	78,338,419	5,363,133	116,388,588
Barbados	39	94,600	69.56%	203,609,020	169,214,904	16,744,013	246,884,824
Belize [(c)]	14	68,689	96.75%	59,488,338	71,523,848	8,593,654	83,262,368
Bermuda	1	4,229	11.98%	7,587,894	4,994,962	2,166,693	8,335,984
Cayman Islands	2	6,432	32.45%	52,241,135	50,086,033	8,643,306	61,603,198
Dominica [(c)]	17	70,739	282.96%	76,659,443	73,035,144	7,398,753	94,406,631
Grenada	20	19,638	46.43%	25,771,446	26,401,221	2,303,131	33,177,770
Guyana	24	26,802	10.92%	2,000,414	2,847,018	575,204	3,691,622
Jamaica	58	635,250	56.22%	299,616,029	193,141,760	35,909,043	365,405,848
Montserrat [(c)]	1	4,294	94.98%	9,234,114	9,620,604	211,500	10,184,590
Netherlands Antilles	26	16,800	18.88%	20,945,285	41,871,410	609,916	42,310,254
St. Kitts & Newis	3	11,337	62.39%	11,165,253	10,866,284	1,398,447	14,046,233
St. Lucia	17	26,821	61.24%	36,868,825	40,531,583	4,664,515	47,706,883
St Vincent & The Grenadines	9	31,108	46.43%	28,248,514	24,567,476	16,875,324	30,220,769
Suriname	27	27,541	27.54%	6,500,000	4,500,000	1,000,000	8,000,000
Tortoia	1	247	3.53%	50,772	72,395	NA	72,395
Trinidad & Tobago	79	290,575	52.01%	358,124,626	318,696,786	26,816,251	456,766,982
TOTALS	***359***	***1,375,757***	***49.63%***	***1,308,423,339***	***1,130,103,648***	***140,145,863***	***1,637,624,360***

cont.

Region / Country	Credit unions	Members	Penetration	Savings (US$)	Loans (US$)	Reserves (US$)	Assets (US$)
EUROPE							
Bulgaria	13	11,067	0.29%	1,727,668	1,464,272	145,856	1,858,875
Great Britain	473	303,000	1.04%	273,636,684	254,358,978	28,731,852	320,154,920
Ireland [c]	535	2,570,000	141.21%	5,968,167,127	3,878,013,082	687,532,853	6,823,230,145
Latvia	22	12,270	0.88%	1,260,343	1,907,307	128,228	2,567,786
Lithuania	34	10,783	0.54%	8,397,908	5,161,325	57,697	8,669,157
Macedonia	5	1,273	0.13%	182,430	366,858	31,393	729,004
Moldova	369	37,766	2.22%	870,421	3,201,871	73,505	3,963,722
Poland	140	525,055	3.05%	390,919,825	309,937,259	39,882,227	445,794,906
Romania	4,107	1,570,424	15.86%	122,507,988	118,702,429	5,716,111	138,827,941
Russia [a]	78	62,300	0.06%	7,164,377	6,472,193	212,899	8,386,252
Ukraine	122	111,493	0.45%	6,134,856	6,922,372	749,764	7,674,687
TOTALS	***5,898***	***5,215,431***	***3.05%***	***6,780,969,627***	***4,586,507,946***	***763,262,385***	***7,761,857,395***
LATIN AMERICA							
Argentina	NA	NA	NA	NA	NA	NA	NA
Bolivia [a]	15	101,701	4.07%	50,468,935	44,597,991	7,396,327	61,955,847
Brazil	423	467,084	0.59%	200,571,174	190,732,094	24,491,434	285,043,489
Chile	NA	NA	NA	NA	NA	NA	NA
Colombia	360	682,012	3.73%	788,630,134	746,400,752	40,997,907	1,363,443,553
Costa Rica	NA	NA	NA	NA	NA	NA	NA
Dominican Republic	13	89,787	2.24%	78,198,354	59,978,101	1,667,081	97,358,659
Ecuador	332	1,481,430	35.27%	161,682,790	143,062,378	53,705,796	220,095,966
El Salvador	29	83,797	3.57%	121,211,510	102,264,960	6,798,843	140,735,782
Guatemala	28	406,074	9.67%	169,024,070	114,925,129	21,636,114	200,682,044
Honduras	98	401,000	17.43%	210,692,326	185,088,271	18,204,383	254,593,822
Mexico	330	496,581	1.25%	450,526,715	284,300,851	31,252,441	475,718,559
Nicaragua	17	17,937	1.06%	2,093,673	2,848,415	776,851	4,006,109
Panama [a]	179	125,365	7.04%	194,871,168	213,393,429	16,946,545	283,411,159
Paraguay	NA	NA	NA	NA	NA	NA	NA
Peru	175	348,551	4.59%	226,219,947	178,421,967	19,318,407	270,665,152
Uruguay	23	122,675	8.18%	52,643,076	50,218,946	NA	NA
Venezuela	NA	NA	NA	NA	NA	NA	NA
TOTALS	***2,022***	***4,823,994***	***2.86%***	***2,706,833,872***	***2,316,233,284***	***243,192,129***	***3,657,710,141***
NORTH AMERICA							
Canada	694	4,888,921	30.37%	36,795,201,909	31,659,235,069	1,763,010,111	40,468,504,679
Canada - Desjardins [c]	901	5,560,443	108.12%	40,317,151,292	35,938,579,413	2,654,022,483	45,964,328,330
United States	10,355	81,589,260	57.91%	449,013,076,760	330,894,122,753	55,909,787,489	514,690,786,450
TOTALS	***11,950***	***92,038,624***	***55.08%***	***526,125,429,960***	***398,491,937,235***	***60,326,820,083***	***601,123,619,459***
SOUTH PACIFIC							
Australia	181	3,082,504	32.45%	8,737,760,746	8,304,612,215	914,843,352	10,420,802,035
Fiji [a]	38	15,000	2.85%	7,549,422	6,390,674	1,053,408	7,724,990
New Zeland	57	180,495	9.60%	183,084,003	158,228,322	21,637,200	194,505,813
Samoa	20	4,000	4.44%	889,756	1,120,188	40,400	1,326,806
TOTALS	***296***	***3,281,999***	***28.04%***	***8,929,283,927***	***8,470,351,399***	***937,574,360***	***10,624,359,644***

TOTALS	Credit unions	Members	Penetration	Savings (US$)	Loans (US$)	Reserves (US$)	Assets (US$)
Worldwide Credit Unions	**37,802**	**117,835,330**	**11.30%**	**570,767,279,127**	**429,526,921,324**	**63,006,554,789**	**651,482,625,133**

Source: 2001 Statistical Report, World Council of Credit Unions

Key
NA: Not Available
(a) Data from 2000
(c) The high penetration rate figure is explained by the existence of multuple membership by adults in more than one credit unions and/ or by youth accounts

Table III.3 European Co-operative Bank Statistics (year end 2001)

Country	Local Banks	Banking Outlets	Members	Clients	Deposits (Euro 000,000)	Loans (Euro 000,000)	Assets (Euro 000,000)	Market Share deposits (%)	Market Share Credits (%)
Belgium									
Credit Professionnel	N/a	N/a	N/a	21,046	511	1,511	2,239	N/a	N/a
Denmark									
Sammenslutningen Danske Andelskasser	37	80	55,000	110,000	850	660	1,070	1.0	1.0
Germany									
BVR	1,621	16,707	15,154,624	30,000,000	392,477	336,961	552,904	16.4	11.1
Ireland									
ACCBANK	1	47	N/a	150,000	2,165	2,319	3,314	2.0	1.5
Irish League of Credit Unions	N/a	534	2,068,631	2,068,631	3,657	2,709	4,301	6.5	6.9
Spain									
Union National de Cooperativas de Credito	88	4,161	1,420,460	8,169,083	37,575	30,302	45,181	5.0	4.8
France									
Credit Agricole	48	7,467	5,500,000	16,000,000	266,700	269,100	563,300	21.0	16.0
Crédit Mutuel	18	3,150	5,700,000	9,900,000	74,699	76,091	171,861	7.4	8.5
Banques Populaires	29	2,203	2,000,000	5,400,000	86,500	101,500	193,600	5.6	7.4
Crédit Coopératif	35	250	140,000	320,000	4,160	5,710	9,200	0.5	0.5
Greece [(1)]									
Association of Coop Banks of Greece	15	48	87,128	87,128	324	379	545	0,3	0,5
Italy									
Assoc.Nazionale fra le Banche Popolari	85	6,730	1,150,000	7,700,000	209,100	179,700	337,000	23.3	21.2
FEDERCASSE	474	3.061	616,067	1,239,381	67,144	48,583	85,864	7.2	4.8
Luxemburg									
Caisse Central Raiffeisen	35	71	4,988	112,318	2,518	1,320	2,795	6.0	6.0
Netherlands									
Rabobank Netherland	369	2.017	825,000	9,000,000	172,174	208,614	363,619	30.0	30.0
Austria									
Österreichische Raiffeisenbanken	611	1,690	1,696,300	3,600,000	64,577	68,564	110,177	24.8	21,5
Österreichischer Genossenschafts-verband	70	594	650,000	700,000	16,413	14,658	29,359	5.8	5.3
Portugal									
FENACAM	132	592	300,000	1,600,000	6,477	5,020	7,501	5.0	3.0
Finland									
OKOBANK	245	693	984,000	2,967,000	18,477	21,946	30,031	32,0	32,4

Table III.3 European Co-operative Bank Statistics (year end 2001)

(Cont.)

Country	Local Banks	Banking Outlets	Members	Clients	Deposits (Euro 000,000)	Loans (Euro 000,000)	Assets (Euro 000,000)	Market Share deposits (%)	Market Share Credits (%)
Sweden[1]									
Landshypotec	10	10	69,126	69,126	N/a	3,602	3,787	N/a	N/a
United Kingdom									
The Co-op Bank	N/a	136	N/a	2,240,000	9,908	6,268	12,678	2.0	2.0
Total (EU 15)	***3,923***	***50,252***	***38,435,656***	***101,468,045***	***1,436,870***	***1,385,708***	***2,531,216***		***[2]17.0***
Cyprus									
Co-operative Central Bank	363	464	505,922	600,000	5,243	4,115	5,523	26.5	31.0
Hungary									
National Federation of Savings Co-operatives	169	1,704	1,000,000	3,000,000	1,900	900	2,750	15.0	20.0
Poland									
Krajowy Zwiazek Bankow Spoldzielchych	642	2,231	2,600,000	10,000,000	4,568	3,045	6,107	5.8	5.8
Bulgaria									
Central Co-operative Bank	33	121	5,743	95,952	87	51	107	1.7	1.5

Source: European Association of Cooperative Banks, Activity Report June 2000 – June 2002, pp. 87-89

Key: *[1] 2000 figures - [2] Estimate - n/a: not applicable*

Box I – The Co-operative Bank's Mission Statement

"We The Co-operative Bank Group, will continue to develop a successful and innovative financial institution by providing our customers with high quality financial and related services whilst promoting the underlying principles of co-operation which are

Quality and excellence:	To offer all our customers high quality and god services and strive for excellence in all that we do.
Participation:	To introduce and promote the concept of full participation by welcoming the views and concerns of our customers and by encouraging our staff to take an active role within the local community
Freedom of Association:	To be non-partisan in all social, political, racial and religious matters.
Education and Training:	To act as a caring and responsible employer encouraging the development and training of all our staff and encouraging commitment and pride in each other and the Group.
Co-operation:	To develop a close affinity with organizations which promote fellowship between workers, customers, members and employers.
Quality of Life:	To be a responsible member of society by promoting an environment where the needs of local communities can be met now and in the future.
Retentions:	To manage the business effectively and efficiently attracting investment and maintaining sufficient surplus funds within the business to ensure the continued development of the Group.
Integrity:	To act at all times with honesty and integrity and within legislative and regulatory requirements"

Source: Davis P. (1999) The Co-operative Bank Case Study. p. 113, in Davis, P. *Managing The Co-operative Difference*, pp. 111-123, Co-operative Branch, International Labour Office, Geneva

Box II - Ethical Policy of *The Co-operative Bank* - 2003

Human Rights

Through our investments, we seek to support the principles of the Universal Declaration of Human Rights.

In line with this, we will not invest in:

¥ any government or business which fails to uphold basic human rights within its sphere of influence
¥ any business whose links to an oppressive regime are a continuing cause for concern.

The Arms Trade

We will not invest in any business involved in:

¥ the manufacture or transfer of armaments to oppressive regimes
¥ the manufacture of torture equipment or other equipment that is used in the violation of human rights.

Corporate Responsibility and Global Trade

We advocate support for the Fundamental International Labour Organisation Conventions. In line with these, we will seek to support businesses which take a responsible position with regard to:

¥ fair trade
¥ labour rights in their own operations and through their supply chains in developing countries.

We will not support:

¥ irresponsible marketing practices in developing countries
¥ tobacco product manufacture
¥ currency speculation.

Genetic Modification

We will not invest in businesses involved in the development of genetically modified organisms (GMOs), where, in particular, the following issues are evident:

¥ uncontrolled release of GMOs into the environment
¥ any negative impacts on developing countries; in particular, the imposition of Terminator technologies
¥ patenting; in particular, of indigenous knowledge
¥ cloning; in particular, of animals for non-medical purposes.

Social Enterprise

We will seek to support charities and the broad range of organisations involved in the Social Enterprise sector, including:

¥ co-operatives
¥ credit unions
¥ community finance initiatives.

Ecological Impact

In line with the principles of our Ecological Mission Statement, we will not invest in any business whose core activity contributes to:

¥ global climate change, through the extraction or production of fossil fuels
¥ the manufacture of chemicals which are persistent in the environment and linked to long term health concerns
¥ the unsustainable harvest of natural resources, including timber and fish.

Furthermore, we will seek to support businesses involved in:

¥ recycling and sustainable waste management
¥ renewable energy and energy efficiency
¥ sustainable natural products and services, including timber and organic produce
¥ the pursuit of ecological sustainability.

Customer Consultation

¥ We will regularly reappraise customers views on these and other issues and develop our Ethical Policy accordingly.
¥ From time to time, we will seek to represent our customers views on the issues contained within our Ethical Policy and other ethical issues, through, for example, our campaigning activities.
¥ On occasion, we will make decisions on specific business, involving ethical issues not included in our Ethical Policy.

Animal Welfare

We will not invest in any business involved in:
¥ animal testing of cosmetic or household products or ingredients
¥ intensive farming methods, for example, caged egg production
¥ blood sports, which involve the use of animals or birds to catch, fight or kill each other
¥ the fur trade.

Furthermore, we will seek to support businesses involved in:

¥ the development of alternatives to animal experimentation
¥ farming methods which promote animal welfare, for example, free range farming.

For further information on this Ethical Policy visit The Co-operative Bank's website: www.co-operativebank.co.uk/ethics

APPENDIX IV

APPENDIX IV

TABLE IV.1
ACQUISITIONS AND MERGERS OF BANKS IN GREECE
IN THE PERIOD 1998-2001

Year	**Purchasing Bank**	**Acquired Bank**
1998	Piraeus Bank	Macedonia-Thrace Bank,
		Credit Lyonnais, Grece
		Chios Bank
	Eurobank	Athens Bank,
		Bank of Crete
	Egnatia Bank	Bank of Central Greece
	National Bank	National Mortgage Bank of Greece
1999	Piraeus Bank	National Westminster Bank
		(Greek Network)
	Alpha Credit Bank	Ionian Bank
	Telesis Financial Bank	Dorian Bank
	Eurobank	Ergasias Bank
2001	Eurobank Ergasias	Telesis Investment Bank
	Marfin Investment Bank	Piraeus Prime Bank
	Piraeus Bank	Hellenic Industrial Development Bank (ETBA)

Source: Bank of Greece, *Annual Report for the year 2001*

APPENDIX V

APPENDIX V

Box V.1.

The operational axes of the Association of Co-operative Banks of Greece

The operational axes of the Association of Co-operative Banks of Greece are summarised in the following guidelines:

- The planning and implementation of policies for the promotion and development of the Cooperative Credit System in all the regions of Greece
- The creation of a framework and the prerequisites for a closer, tighter and more effective cooperation of the Cooperative Banks and Credit Cooperatives and, in consequence, the creation of a Cooperative Credit network
- The representation of Cooperative Credit in the Institutional instruments of the State
- The systematic intervention for claiming solutions in the significant problems that are of concern to Cooperative Credit and obstruct its development
- The support of Cooperative Banks and Credit Cooperatives in educational, legal, and organizational matters
- The development of ties and partnerships with European and International Cooperative Banks.
- The development of inter-cooperative partnership and promotion of Social Economy in Greece

Adopted by: Association of Co-operative Banks of Greece (2001) *"Co-operative Credit in Greece"*, p. 6

Appendix V - Table 5.1

Differences between Co-operative and Commercial Banks in Greece

Regulation/ Legislation	Co-operative Banks	Commercial Banks
Initial Own Capital Requirements	Local CB Until 31.12.1997, 600 mil drs. 1.1.1998 - 30.6.98, 900 mil drs 1.7.98 - 9.4.2001, 1.200 mil drs Since 10.4.2001, 2,044.5 mil drs (6 mil Euros) Regional CB Until 31.12.1997, 2,000 mil drs 1.1.98 - 9.4.2001, 2,500 mil drs Since 10.4.2001, 3,407.5 mil drs (10 mil. Euros) CBs operating at a National Level or at the Prefectures of Attica or Thessalonica Until 9.4.2001, 4,000 million drs Since 10.4.2001, 6,133.5 mil drs. (18 mil Euros)	Until 9.4.2001 4,000 million drs Since 10.4.2001 6,133.5 million drs (18 million euros)
Limitations on Transactions with customers	They can deal only with: Their members Other Banks The Greek State	None
Lending Limits	The aggregate amount of loans outstanding to any one member may not exceed 15% of co-op bank's own capital	The aggregate amount of loans outstanding to any customer may not exceed 40% of bank's own capital
Investment limits in mutual funds & stocks	The aggregate amount invested may not exceed 10% of co-op bank's own capital.	Reference limit stands to 25% of own capital
Limitations on investment transactions	Co-operative Banks are not allowed to act as securities underwriters	None
Interbank Market transactions	Funds channeled from the interbank market may not exceed 15% of co-op bank's own capital. (Until 19.10.2000 limits stood up to 10% for drachmas and 5% for foreign currency)	No limitations
Reserve requirements with the BoG	Reserve ratio stands at 2% of all deposits (Until 1.6.2000 the ratio was at 12%)	Reserve ratio stands at 2% of all deposits (Until 1.6.2000 ratio was at 12%)
Prudential Supervision	All commercial and Co-operative Banks are supervised by the General Inspectorate of Banks of the Bank of Greece Capital Adequacy Ratio 10% Open foreign currency position ratio may not exceed 5% of own capital	Capital Adequacy Ratio 8% No limitation as regards their open currency position

Table 5.1 *cont.*		
Regulation/ Legislation	Co-operative Banks	Commercial Banks
Tax treatment	40% until 31.12.2001 37.5% until 31.12.2002 35% from 1.1.2003 onwards Additional tax: 1.20% on net profits.	40% until 31.12.2001 37.5% until 31.12.2002 35% from 1.1.2003 onwards
	Interest on Members' deposits is subject to 15 per cent tax Interest on deposits in the interbank market is subject to 15 per cent tax Capital accumulation procedures are subject to 1% income tax	Interest on customers' deposits is subject to 15 per cent tax No tax for interbank market transactions

APPENDIX X

SURVEY ABOUT CO-OPERATIVE BANKING IN GREECE
QUESTIONNAIRE FOR CO-OPERATIVE BANKS

CO-OPERATIVE BANK OF ……. (01)

A. PREPARATORY STAGE

	code
1. In which year the first steps were made for establishing the CB? *19 . .*	(02)
2. Who took the initiative? *- Chamber of Commerce* 01 *- Development Agency* 02 *- Municipality* 03 *- Group of Entrepreneurs* 04 *- Other (specify) …………………………………………* 77	(03)
3. Which were the most important problems? *(state up to 3 in order of importance)* (01)…………………………………………………………………………………………… …………………………………………………………………………………………… (02)…………………………………………………………………………………………… …………………………………………………………………………………………… (03)…………………………………………………………………………………………… ……………………………………………………………………………………………	(04)
4. When was the "dossier" with the requested documentation submitted to the Bank of Greece asking for permission to operate? *(mention month and year)* *. . /19 . .*	(05)
5. When was permission granted? *(mention month and year)* *. . /19 . .*	(06)
6. The first Branch office started its operation in? *(mention month and year)* *. . /19 . .*	(07)
7. For what reason you have chosen the co-operative legal form? …………………………………………………………………………………………… …………………………………………………………………………………………… ……………………………………………………………………………………………	(08)

8. Which are the objectives that specify the orientation of the bank's operation?	(09)
9. Have these objectives been differentiated following the granting of the permission? *YES* ☐ 01 *NO* ☐ 02 **If yes, specify how**	(10) (11)
10 Do you consider co-operative principles to be a "commercial advantage" of CBs? *Yes* ☐ 1 *Rather Yes* ☐ 2 *Rather No* ☐ 3 *No* ☐ 4	(12)

B. Information for the Members of the CB.

1. How many are the members of the CB? *(on 31.12.2001)* *(No)*	(13)
2. With a total number of shares?? *(on 31.12.2001)* *(No)*	(14)
3. What was the nominal value of share? *On 31.12.2001* ....(01) *On 31.12.2000* ....(02) *On 31.12.1999* ....(03)	(15)
4. What was the dividend paid to members per share? *For the 2001 fiscal year* .... (01) *For the 2000 fiscal year* .... (02) *For the 1999 fiscal year* .... (03)	(16)
5. What is the number of active shareholders? *(with at least one transaction –deposit or loan repayment- in the last sic months)* *....% of the total membership* **Do you consider this proportion to be satisfactory?** *YES* ☐ 01 *Relatively satisfactory* ☐ 03 *NO* ☐ 02	(17) (18)

6. Give the proportion of members that have received loans from the CB? *.....% of the total membership*	(19)
7. Give the proportion of members that are only shareholders? *.....% of the total membership*	(20)
8. Classification of members according to their field of activity: *- Co-operatives:* *....%* (01) *- Other legal entities:* *....%* (02) *- Merchants:* *....%* (03) *- Salaried:* *....%* (04) *- Entrepreneurs:* *....%* (05) *- Self-employed:* *....%* (06) *- Farmers:* *....%* (07) *- Pensioners:* *....%* (08) *- Housewives:* *....%* (09) *- Other...................... :* *....%* (77)	(21)
9. To what degree do you consider satisfactory the increase of the membership in the CB? *- Quite satisfactory* ☐ 01 *- Not disappointing* ☐ 03 *- Not satisfactory* ☐ 02	(22)
10. How many members took part in the last General Meeting? *.....% of the total membership* **You consider this as satisfactory?** *YES* ☐ 01 *so and so* ☐ 03 *NO* ☐ 02 **If NO, which are the ways to reverse the climate;**	(23) (24) (25)
11. Which are the ways used in order to acknowledge the operational principles and the objectives of the CB to members and prospective/potential members?	(26)

And which are the ways used in order to inform members for new services and products offered by the CB? *(state up to 3)* (01).......... (02).......... (03)..........	(27)
12. Do you encourage the participation of members to the operation of the CB? *YES* ☐ 01 *NO* ☐ 02 **If YES, how?**	(28) (29)

C. Services And Products Offered by the CB

1 What kinds of deposit accounts were made available to members when the CB started its operations? What are offered today? What do you plan for the foreseeable future (next two years)? (30)

			Initially	*Today*	*Future*
- *SIGHT*..........		01	1	2	3
- *CURRENT*..........		02	1	2	3
- *DEPOSIT*..........		03	1	2	3
- *TIME DEPOSIT*..........		04	1	2	3
- *FOREIGN CURRENCY*..........		05	1	2	3
- *CAPITAL GUARRANTEED...*..........		06	1	2	3
- *Other*..........		771	1	2	3
- *Other*..........		772	1	2	3

2 Other services and products available to members initially, today and in the foreseeable future (next two years)? (31)

			Initially	*Today*	*Future*
- *SALARIES*..........		01	1	2	3
- *CREDIT CARD*..........		02	1	2	3
- *CASH / DEBIT CARD*..........		03	1	2	3
- *MUTUAL FUNDS*..........		04	1	2	3
- *BONDS TRANSACTION*..........		05	1	2	3
- *SHARES TRANSACTIONS*..........		06	1	2	3
- *REPOS*..........		07	1	2	3
- *INTERNET BANKING*..........		08	1	2	3
- *PHONE BANKING*..........		09	1	2	3
- *CONSUMER / PERSONAL LOANS*		10	1	2	3
- *MORTGAGE LOANS*..........		11	1	2	3

CONT.

		Initially	Today	Future
- *STUDENT LOANS*....................................	12	1	2	3
- *SHORT TERM BUSINESS LOAN*	13	1	2	3
- *LONG TERM BUSINESS LOAN*	14	1	2	3
- *LIFE INSURANCE*..................................	15	1	2	3
- *PENSION PROGRAMME*....................	16	1	2	3
- *OTHER INSURANCE*..........................	17	1	2	3
- *STANDING ORDERS*..........................	18	1	2	3
- *Other*..	77	1	2	3

3. In your judgment, what is the most powerful advantage of CB in relation with its competitors if you take into account all products and services offered? *(Put in order of importance those of the following that you consider as advantage)* (32)

- *Low interest loans* ☐ 01
- *Better lending terms* ☐ 02
- *Better deposit interest rates* ☐ 03
- *Local character of CB* ☐ 04
- *Friendly services* ☐ 05
- *Quality of services* ☐ 06
- *Service of local needs* ☐ 07
- *Co-operative ideals* ☐ 08
- *Flexibility* ☐ 09
- *Other.........................* ☐ 771
- *Other.........................* ☐ 772

4. In your judgment, what is the most important weakness of the CB compared with its competitors with regard to all products and services offered? *(Put in order of importance those of the following that you consider as weaknesses)* (33)

- *Variety of products* ☐ 01
- *Small size of the CB* ☐ 02
- *Local character of the CB* ☐ 03
- *Availability of services* ☐ 04
- *Quality of services* ☐ 05
- *Serving only local needs* ☐ 06
- *Co-operative Ideals* ☐ 07
- *Luck of flexibility* ☐ 08
- *Other.........................* ☐ 771
- *Other.........................* ☐ 772

5. Have you ever contacted any kind of: (34)

		YES	NO
- *Marketing research*......................	01	1	2
- *Telephone survey*......................	02	1	2
- *Other Survey (αναφέρατε)*	03	1	2

D. POSITION OF THE CB IN THE LOCAL MARKET

I. DEPOSITS

1. Share of CB in the deposits of the Department? *(on 31.12.2000)* 01 *.......% of the deposits of the department* *(on 31.12.1999)* 02 *.......% of the deposits of the department* *(on 31.12.1998)* 03 *.......% of the deposits of the department*	(35)
2. Which arguments would persuade someone to open an account in the CB? *(state up to 3 reasons in order of importance)* 01... 02... 03...	(36)
3. State the difference in the rate of interest for deposits between the CB and the most competitive rate of interest in the market *(Refer to average annual rates of interest for the fiscal years 1999 and 2000)* ***Account*** — ***1999*** — ***2000*** *- Sight:* 01 ....1 ....2 *- Current:* 02 ....1 ....2 *- Deposits:* 03 ....1 ....2 *- Time deposits:* 04 ....1 ....2 *- Other.................:* 77 ....1 2	(37)
4. In your opinion, the presence of the CB has led to an increase of deposits in its area of activity? *YES* ☐ 01 *NO* ☐ 02 **If YES, how much?** *.....%*	(38) (39)

II. LOANS

1. Share of the CB in loans of the Department? *(on 31.12.2000)* 01 *.......% of the loans of the department* *(on 31.12.1999)* 02 *.......% of the loans of the department* *(on 31.12.1998)* 03 *.......% of the loans of the department*	(40)

2. The sum of all loans of the Cb in 31.12.2000 amount to *............ Mil. Drs.* **Of Which** *............. m. Drs. in short-term loans (up to 12 months)* 01 *............. m. Drs. in medium-term loans (from 1 to 3 years)* 02 *............. m. Drs. in long-term loans (longer than 3 years)* 03	(41) (42)
3. In your opinion, the presence of the CB has led to an increase of loans in its area of activity? *YES* ☐ 01 *NO* ☐ 02 **If YES, how much?** *.....%*	(43) (44)
4. Give the most important reasons for someone to apply for a loan to the CB *(state up to 3 reasons in order of importance)* (01).. (02).. (03)..	(45)
5. State the difference in the rate of interest for loans between the Cb and the most competitive rate of interest in the market *(Refer to average annual rates of interest for the financial years 1999 and 2000)*	(46)

Category of loan		***1999***	***2000***
- Consumer/Personal loan:	01	1	2
- Mortgage loan:	02	1	2
- Short-term business loan:	03	1	2
- Long-term business loan:	04	1	2
- Other:............................:	77	1	2

6. Distribution of total loans by branch of economic activity (47)

Branch of activity		***1999***		***2000***	
		No of loans	***% Total drs.***	***No of loans***	***% Total drs***
- Industry:	01	1	2	3	4
- Handicraft:	02	1	2	3	4
- Trade:	03	1	2	3	4
- Consumption:	04	1	2	3	4
- Construction:	05	1	2	3	4
- Mortgage:	06	1	2	3	4
- Tourism:	07	1	2	3	4
- Other Services:	08	1	2	3	4
- Agriculture:	09	1	2	3	4
- Other:..............:	771	1	2	3	4
- Other:..............:	772	1	2	3	4

7. Proportion of applications for loans served by the CB? ......*% of the total*	(48)
In your judgment, is this high? *YES* ☐ 01 *NO* ☐ 02	(49)
State the main reasons for rejecting loan applications	(50)
(01)..	
(02)..	
(03)..	
(04)..	
8 Do you apply the same criteria on entrepreneurial loans as on every other category of loans? *YES* ☐ 01 *NO* ☐ 02	(51)
If NO, state the differences	(52)
....	
....	
....	
....	
9. Is the size of the loan or the number of loans linked to:	
A. Size of member;s deposits? *YES* ☐ 01 *NO* ☐ 02	(53)
If YES, state how	(54)
....	
....	
....	
B. His shareholding? *YES* ☐ 01 *NO* ☐ 02	(55)
If YES, state how	(56)
....	
....	
....	
C. Period (length) of membership? *YES* ☐ 01 *NO* ☐ 02	(57)
If YES, state how	(58)
....	
....	
....	
D. Other characteristics? *YES* ☐ 01 *NO* ☐ 02	(59)
If YES, state which and how these are related	(60)
....	
....	
....	

10. Do you have any small business development scheme? *YES* ☐ 01 *NO* ☐ 02 **If YES, please describe it**	(61) (62)

E. CB's Perception on Local Development

1 How would you characterize the developmental status of your prefecture? *Developed* ☐ 1 *Rather Developed* ☐ 2 *Stagnant* ☐ 3 *In decline* ☐ 4 *Problematic* ☐ 5 *DK* ☐ 88 *NA* ☐ 99	(63)
2 In your opinion, which are the most serious developmental problems that your prefecture has to deal in priority? *(state up to 3 in order of importance)* 1) .... 2) .... 3)	(64)
3 In your opinion, which are the advantages that your prefecture should exploit in order to foster its development? *(state up to 3 in order of importance)* 1) .... 2) .... 3)	(65)
4 In your judgment, can the CB help toward the:	(66)

	Yes	Rather Yes	Rather No	No	DK	NA
- Confrontation of the prefectural problems 01	☐ 1	☐ 2	☐ 3	☐ 4	☐ 88	☐ 99
- promotion of developmental advantages 02	☐ 1	☐ 2	☐ 3	☐ 4	☐ 88	☐ 99

Date: *2002* (67)

Name: ....

Tel. No: ....

Thank you for your co-operation!

Survey About Cooperative Banking In Greece

Questionnaire for the Members of Cooperative Banks

We certify that the Survey in which you are kindly asked to participate, meets the requirements described by the Greek Law for the protection of personal data. More specifically, following consultation with the Greek Authority for the Protection of Personal Data we certify that:

"The personal data that will be collected with your approval will be processed and used in accordance with the Law 2472/92 which sets the legal framework for personal data protection, they will not become available to third parties and will not be used for any other purpose. In any case you are entitled to have access to the data collected (Article 12) and you have the right to object (Article 13)"

		code
- Interview Number:	__|__|__	(1)
- Prefecture:	__|__	(2)
- City:	__|__	(3)
- Starting time:	__|__	(4)

A. FIRST CONTACT

1 When did you learn about the existence of the CB? *(month/ year)* .... (5)

2 How did you learn about the existence of the CB? (6)

- *From friends / relatives*.. 01
- *From comrades / colleagues*.. 02
- *From the local media*.. 03
- *From a CB's leaflet / public event* 04
- *From the Chamber of Commerce*............................. 05
- *From existing members*.. 06
- *From another CB*.. 07
- *Other*.. 77

3 How did you firstly react about the CB? (7)

		YES		NO	
- *Interesting venture*	01		1		2
- *Good initiative*..	02		1		2
- *I had reservations*..	03		1		2
- *Other*..	77				

4 When did you become member? *(month and year)* .... (8)

5 Why did you become member? *(Arrange those of the following reasons that apply starting from the most important)* (9)

- *Low interest loans*.. 01
- *Better lending terms*... 02
- *Better interest rates for deposit*.................................. 03
- *Good initiative for my province*....... 04
- *Friendly service*... 05
- *Quality of service*.. 06
- *Serves local needs*... 07
- *Co-operative ideals*... 08
- *The CB belongs to its members*............................... 09
- *Other*.. 77

6 Is the CB your principal bank? (10)

- *Yes, it is my exclusive bank*...................... 01
- *It is my principal bank*.. 02
- *I work with several banks - none is principal*.. 03
- *No, another bank is my principal bank*.. 04
- *Other*.. 77

7 Are you satisfied with the CB? - *YES* .... ☐ 01 - *Relatively yes* .... ☐ 02 - *Relatively no* .... ☐ 03 - *NO* .... ☐ 04		(11)
What is its strongest advantage? .... ☐ 05 *(record in full)*		(12)
What is its principal weakness? .... ☐ 06 *(record in full)*		(13)

B. Participation Of Member In the Functioning Of The CB

1 Did you take part in the last General Meeting? - *YES* .... ☐ 01 - *NO* .... ☐ 02		(14)
2 Have you ever been a candidate for election in the Board of Directors of the CB? - *YES* .... ☐ 01 - *NO* .... ☐ 02		(15)
If yes, in which organ? .... ☐ 011 *(record in full)*		(16)
Were you elected? .... YES ☐ 01 NO ☐ 02		(17)
3 Have you ever participated to a market research conducted by the CB? By another Bank?		(18)

			Co-operative Bank		*Other Bank*	
- *Market Research*	☐	01	☐	1	☐	2
- *Telephone survey*	☐	02	☐	1	☐	2
- *Other survey*	☐	03	☐	1	☐	2

4 Is the way of functioning of the CB appropriate for member participation in shaping the principles and the way of functioning of the CB? - *YES* .... ☐ 01 - *NO* .... ☐ 02		(19)
Why do you say that?		(20)

C. MEMBER PARTICIPATION IN THE CAPITAL OF THE CB.

1 How many shares do you have in your possession? (21)

- *(No)* .... [ ] 01

2 Did you buy all of them at once? (22)

- *YES* .... [ ] 01
- *Gradually, but the largest part:* .... [ ] % 02
  in the year: .... [ ] 03
- *Other* .... 77 ....

3 Do you plan to buy more shares? (23)

- *YES, soon* .... [ ] 011 *(how many)* [ ] 1
- *YES, but after some time* .... [ ] 012
- *NO* .... [ ] 02
- *I have not decided yet* .... [ ] 03
- *I' d like to but I cannot* .... [ ] 04
- *Other* .... 77 ....

4 What was the dividend you have earned on your shares the following years? (24)

- *1999* .... *dividend* [ ] 01
- *2000* .... *dividend* [ ] 02
- *2001* .... *dividend* [ ] 03

5 Are you satisfied with the dividend? (25)

- *YES* .... [ ] 01
- *Rather yes* .... [ ] 02
- *Rather no* .... [ ] 03
- *NO* .... [ ] 04

6 If the dividend were small, how would you react? (26)

- *I would not mind if it was for one year* .... [ ] 01
- *I would not object if that would result in building the reserve funds of the CB or in the growth of the CB* .... [ ] 02
- *I would not mind if it would be higher than the current interest rate* .... [ ] 03
- *I would start thinking to get rid of the shares* .... [ ] 04
- *Other* 77

D. Services And Products Of The CB Serving The Member

1 What kind of accounts do you have in the CB? What kind of accounts do you have in other banks? (27)

	Code	Co-operative Bank		Other Bank	
- SIGHT	01		1		2
- CURRENT	02		1		2
- DEPOSIT	03		1		2
- TIME DEPOSIT	04		1		2
- FOREIGN CURRENCY	05		1		2
- CAPITAL GUARRANTEED	06		1		2
- Other	771		1		2
- Other	772		1		2
- Other	773		1		2

2 What kinds of services and products do you use and from which bank? (28)

	Code	Co-operative Bank		Other Bank	
- SALARIES	01		1		2
- CREDIT CARD	02		1		2
- CASH / DEBIT CARD	03		1		2
- MUTUAL FUNDS	04		1		2
- BONDS TRANSACTIONS	05		1		2
- SHARES TRANSACTIONS	06		1		2
- REPOS	07		1		2
- INTERNET BANKING	08		1		2
- PHONE BANKING	09		1		2
- CONSUMER / PERSONAL LOANS	10		1		2
- MORTGAGE LOANS	11		1		2
- STUDENT LOANS	12		1		2
- SHORT-TERM BUSINESS LOANS	13		1		2
- LONG-TERM BUSINESS LOANS	14		1		2
- LIFE INSURANCE	15		1		2
- PENSION PROGRAMME	16		1		2
- OTHER INSURANCE	17		1		2
- STANDING ORDERS	18		1		2
- Other	77		1		2

3 How satisfied are you from the CB as regards the following? (29)

			Very much		A lot		Fairly		rather not		dissatisfied	
- *Variety of products*		01		1		2		3		4		5
- *Quality of products*		02		1		2		3		4		5
- *Reputation*		03		1		2		3		4		5
- *Friendly services*		04		1		2		3		4		5
- *Promptness*		05		1		2		3		4		5
- *Deposit interest rate*		06		1		2		3		4		5
- *Loan interest rate*		07		1		2		3		4		5
- *Lending terms*		08		1		2		3		4		5
- *Information about new services and products*		09		1		2		3		4		5
- *Social responsibility*		10		1		2		3		4		5
- *Business ethics*		11		1		2		3		4		5

4 Do you use the services of other banks for services offered by the CB? (30)

- *YES* 01
- *NO* 02
- *Other* .... 77 ....

- **If yes, why?** (31)
- *For facilitating my transactions* 011
- *The other banks demand it* 012
- *For additional security* 013
- *Other reasons (state)* .... 0177 ....

5 Do you save more now that you are member of the CB? (32)
- *More* 01
- *About the same* 02
- *Less* 03

6 What is your opinion about loans? (33)
- *I prefer not to borrow* 01
- *I borrow occasionally only for high priced goods that I can't buy otherwise* 02

- *I borrow only when I face difficulties in my enterprise or when I buy something very expensive - investment* 03
- *Loans are a sensible and convenient way for consumption or investment* 04
- *Other* 77

7 Have you ever applied for a loan to the CB? (34)

- *YES* .... 01 *(go to the next question)*
- *NO* .... 02 *(go to question 14)*

Was your application approved? (35)

- *YES* .... 01 *(go to the next question)*
- *NO* .... 02 *(go to question 12)*

Can you give some details about this loan? (36)

- *Category of loan:* .... 01 *Duration (months):* 02
- *Size of loan (drs):* .... 03 *Interest rate (%):* 04
- *No of instalments:* .... 05 *Rate of repayment (drs)* 06

Were you given the full amount of money requested? (37)

- *YES* 01
- *NO* 02
    - *I received (%):* 021

8 Are you satisfied with the loan terms? (interest rate, guarantees, etc.) (38)

- *YES* 01
- *Relatively yes* 02
- *Relatively no* 03
- *NO* 04

If not, explain why: .... (39)

....

....

9 Was it necessary for another member to guarantee for the loan's repayment? (40)

- *YES* 01
- *NO* 02
- *I do not know* 88

10 **Did it happen that you were unable to pay an instalment on time?** (41)

- *YES* 01
- *NO* 02
- *Not applicable (recent loan)* 03

- If YES, how did the CB react? .... (42)

....

- If NO, do you know how the CB reacts in such cases? .... (43)

....

11 **For your business the loan resulted in:** *(applies only to business loans)* (44)

		YES			NO
- *Increase in its activity?*	01	1	*By %*	11	2
- *Increase in employment?.*	02	1	*No of work places*	12	2
- *Increase in profits?.*	03	1	*By %*	13	2
- *Not applicable (recent loan)*	04				

12 **Are you satisfied with the way your application for loan was treated by the personnel of the CB?** ***(Were they helpful in preparing the application, did they instruct you about alternatives?)*** (45)

- *YES* 01
- *Relatively no* 02
- *Relatively yes* 03
- *NO* 04

Why do you say that? .... (46)

....

13 **In case your application was not approved, what would you do? (Or what did you do in such a case?)** (47)

- *I would go (I went) to another bank* 01
- *I would borrow (I borrowed) from relatives - friends* 02
- *I would borrow (I borrowed) from other sources* 03
- *I would use (I have used) my deposits in the CB* 04
- *I would use (I have used) my deposits in other banks* 05
- *I would be unable (I was unable) to satisfy my needs* 06
- *Other* 77

14 Have you applied to another bank for a loan? YES NO - *Before you became member of the CB?* .... 01 ☐ 1 ☐ 2 ☐ - *After your membership in the CB?* 02 ☐ 1 ☐ 2 ☐ **Was your application approved?** 03 ☐ 1 ☐ 2 ☐		(48) (49)
15 Which are the principal advantages of the CB with regard to granting of loans? *(state 3 advantages starting from the most important)* A) ...... B) ...... C)		(50)
16 Which are the most serious disadvantages of the CB with regard to granting of loans? *(state 3 disadvantages starting from the most important)* A) ...... B) ...... C)		(51)
17 Do you make use of the possibility to borrow more often now that you are member of the CB? - *More often* ...... ☐ 01 - *About the same* ...... ☐ 02 - *Less often* ...... ☐ 03		(52)

E. Evaluation of the CB

1 How would you evaluate the overall presence of the CB? - *Very successful* ...... ☐ 01 - *Rather successful* ...... ☐ 02 - *Not so successful* ...... ☐ 03 - *Not successful* ...... ☐ 04		(53)
2 What other services you would request from the CB? A) ...... B) ...... C) ...... D)		(54)

3	**Do you think that the operation of the CB has benefited your:**							(55)
			Yes	*Rather Yes*	*Rather No*	*No*	*DK*	*NA*
	- Business?	01	1	2	3	4	88	99
	- Family?	02	1	2	3	4	88	99
	- Town?	03	1	2	3	4	88	99

4 Do you intent to continue being member of the CB? (56)

Certainly Yes	*Rather Yes*	*Rather No*	*No*	*DK*	*NA*
1	2	3	4	88	99

5 How would you characterize the developmental status of your prefecture? (57)

Developed	*Rather Developed*	*Stagnant*	*In decline*	*Problematic*	*DK*	*NA*
1	2	3	4	5	88	99

6 In your opinion, which are the most serious developmental problems that your prefecture has to deal in priority? *(state up to 3 in order of importance)* (58)

1) ...

2) ...

3) ...

7 In your opinion, which are the advantages that your prefecture should exploit in order to foster its development? *(state up to 3 in order of importance)* (59)

1) ...

2) ...

3) ...

8 In your judgment, can the CB help toward the: (60)

		Yes	*Rather Yes*	*Rather No*	*No*	*DK*	*NA*
- Confrontation of the prefectural problems	01	1	2	3	4	88	99
- promotion of developmental advantages	02	1	2	3	4	88	99

F. Personal Characteristics Of Member

1 Marital status? (61)

- *Single* ... 01 *(go to Question 3)*
- *Married* ... 02 *(go to next Question)*
- *Other* ... 77 *(go to Question 3)*

2 Is your spouse also a member of the CB? (62)

- *YES* 01
- *NO* 02

3 Age? (63)

- *Respondent* 01
- *Spouse* 02

4 Age and sex of children? (if any) (64)

		Male	*Female*
- *Number of children*	01	1	2
- *Age of children*		1	2
		1	2

5 Educational level? (65)

		Respondent	*Spouse*
- *Primary school*	01	1	2
- *Secondary school*	02		
- *Higher / Highest education*	03		
- *Post-graduate*	04		
- *Other*	771		
- *Other*	772		

6 Professional status? (66)

		Respondent	*Spouse*
- *Employer*	01	1	2
- *Self-employed*	02		
- *Civil servant*	03		
- *Employee in the private sector*	04		
- *Pensioner*	05		
- *Farmer*	06		
- *Unemployed*	07		
- *Housewife*	08		
- *Other*	771		
- *Other*	772		

7 **Your family income is in the range?**		(67)
- *< 1.500.000*	☐ 01	
- *1.500.001 – 3.000.000*	☐ 02	
- *3.000.001 – 5.000.000*	☐ 03	
- *5.000.001 – 8.000.000*	☐ 04	
- *8.000.001 – 12.000.000*	☐ 05	
- *12.000.001 – 20.000.000*	☐ 06	
- *> 20.000.000*	☐ 07	

Thank you for your co-operation!

Date: *2002* (68)

Duration of interview: .... (69)

We certify that the Survey in which you are kindly asked to participate, meets the requirements described by the Greek Law for the protection of personal data. More specifically, following consultation with the Greek Authority for the Protection of Personal Data we certify that:

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APPENDIX XX

Table XX.1 The transition of Greek Credit Co-operatives to Co-operative Banks

Co-operative Bank	Foundation Year Of Credit Co-op	Who took the Initiative to establish Credit Co-operative	When application was submitted to the BoG	When Permission was Granted	When first bank branch started its operations
Lamia	1900	Local entrepreneurs	June 1993	Nov. 1993	Nov. 1993
Ioannina	1978	Local entrepreneurs	March 1993	Nov. 1993	Nov. 1993
Achaiki	1993	Chamber of Commerce	March 1994	July 1994	Dec. 1994
Pancretan	1993	Chamber of Commerce	July 1993	May 1994	Dec. 1993
Chania	1993	Local entrepreneurs	1994	Sept. 1995	Sept. 1995
Dodecanese	1993	Chamber of Commerce	Feb. 1995	Sept. 1995	Nov. 1995
Evros	1994	na	na	1996	1996
Karditsa	1994	Chamber of Commerce	Dec. 1996	March 1998	April 1998
Trikala	1995	Chamber of Commerce	April 1996	Dec. 1997	May 1998
Evia	1996	Chamber of Commerce	Jan. 1998	July 1998	Dec. 1998
Corinth	1994	Chamber of Commerce	July 1997	Sept. 1998	Nov. 1998
Pieria	1995	Local entrepreneurs	Dec. 1997	July 1998	Nov. 1998
Drama	1994	Chamber of Commerce	Nov. 1997	Oct. 1998	Jan. 1999
Lesvos-Limnos	1995	Chamber of Commerce	June 1998	Nov. 1999	Nov. 1999
Kozani	1995	Chamber of Commerce	1999	Dec. 2000	Jan. 2001

Source: *Survey*

Table XX.2 How do Co-op Banks Comment on the change of their membership

Coop. Bank	Quite Satisfactory	Not disappointing	Not Satisfactory
Lamia	✓		
Ioannina		✓	
Achaiki		✓	
Pancretan	✓		
Chania		✓	
Dodecanese	✓		
Evros	na	na	na
Karditsa	✓		
Trikala	✓		
Evia		✓	
Corinth			✓
Pieria		✓	
Drama			✓
Lesvos		✓	
Total	**5**	**6**	2

Source:Survey

TableXX.3 Deposit Accounts Offered to Members

Coop. Bank	Sight	Current	Deposit	Time Deposit	Foreign Currency	Capital Guaranteed	Total per Bank (out of 6 services)
Lamia	N	N	I/N	I/N	N	N	6
Ioannina	I/N	I/N	I/N	I/N	-	-	4
Achaiki	N	-	I/N	N	F	F	3
Pancretan	I/N	I/N	I/N	I/N	-	-	4
Chania	N	N	I/N	I/N	F	F	4
Dodecanese	I/N	I/N	I/N	N	F	-	4
Evros	na	na	na	Na	na	na	-
Karditsa	I/N	I/N	I/N	I/N	-	-	4
Trikala	N	N	I/N	N	F	F	4
Corinth	I/N	I/N	I/N	F	F	-	3
Pieria	I/N	I/N	I/N	I/N	-	-	4
Evia	N	N	I/N	I/N	-	-	4
Drama	I/N	I/N	I/N	I/N	F	F	4
Lesvos	I/N	I/N	I/N	I/N	F	F	4
Kozani	I/N	I/N	I/N	I/N	F	F	4
Total per service (out of 14 banks)	**14**	**13**	**14**	**13**	**1**	**1**	

I: Offered from the beginning; I/N: Offered from the Beginning and still offered
N: Was not offered initially but it does now; F: Is planned to be offered in the future
Totals count services/products offered at the time of survey

Source: Survey

TableXX.4 Loan Products and Services Offered to Members

Coop. Bank	Consumer/personal	Mortgage	Student	Short-term	Long-term	Total per Bank (out of 5 services)
Lamia	N	I/N	F	I/N	I/N	4
Ioannina	I/N	I/N	F	I/N	I/N	4
Achaiki	I/N	N	-	I/N	I/N	4
Pancretan	I/N	I/N	I/N	I/N	I/N	5
Chania	N	N	F	I/N	N	4
Dodecanese	I/N	N	N	I/N	I/N	5
Evros	na	na	na	na	na	na
Karditsa	I/N	I/N	I/N	I/N	N	5
Trikala	I/N	N	I/N	I/N	N	5
Corinth	I/N	I/N	I/N	I/N	I/N	5
Pieria	I/N	I/N	-	I/N	I/N	4
Evia	I/N	F	N	I/N	N	4
Drama	I/N	N	I/N	I/N	I/N	5
Lesvos	I/N	N	N	I/N	N	5
Kozani	I/N	I/N	I/N	I/N	I/N	5
Total per service (out of 14 banks)	14	13	9	14	14	

I: Offered from the beginning; I/N: Offered from the Beginning and still offered
N: Was not offered initially but it does now; F: Is planned to be offered in the future
Totals count services/products offered at the time of survey

Source: Survey

TableXX.5 Other Services Offered to Members

Coop. Bank	Salaries	Credit Card	Cash/ Debit Card	Mutual Funds	Bonds Transactions	Shares Transactions	Internet Banking	Phone Banking	Life insurance	Standing Orders	Total per bank (out of 10)
Lamia	F	F	N	F	F	N	F	F	N	N	3
Ioannina	F	F	F				F	F	F		0
Achaiki	-	F	N	-	-	-	F	-	N	F	2
Pancretan	N	N	N	-	N	-	-	N	I/N	N	8
Chania	N	F	N	F	F	N	F	F	N	F	4
Dodecanese	N	F	N	F	F	N	F	F	N	N	5
Evros	na	na	na	na	na	na	na	na	na	na	-
Karditsa	-	-	-	-	-	-	-	-	N	-	1
Trikala	F	F	F	F	F	N	F	F	F	F	1
Corinth	F	F	F	F	F	-	-	-	-	F	0
Pieria	F	F	F	F	F	F	F	F	F	F	0
Evia	-	F	F	-	-	-	-	F	N	F	1
Drama	F	F	F	F	-	-	-	-	N	F	1
Lesvos	F	F	F	F	F	N	F	F	N	F	2
Kozani	N	F	F	F	F	F	F	F	N	F	2
Total per service (out of 14 banks)	**4**	**1**	**5**	**0**	**1**	**5**	**0**	**1**	**10**	**3**	

I: Offered from the beginning; I/N: Offered from the Beginning and still offered
N: Was not offered initially but it does now; F: Is planned to be offered in the future
Totals count services/products offered at the time of survey

Source: Survey

TableXX.5 Weaknesses of Co-op Banks

Weakness Stated	Number of Banks that stated the weakness in order of importance (Old-New banks Distinction)											
	1st		2nd		3rd		4th		5th		**Total**	
	Old	New	Old	New	Old	New	Old	New	Old	New	**Old**	**New**
Limited variety of products	3	5	1	2		1					**4**	**8**
Serve only local needs	1	1	1	1	2	2		2			**4**	**6**
Small size of Co-op Bank	1	2	2	3							**3**	**5**
Local Character of the CB	1					2				1	**1**	**3**
Not allowed to deal with non-members				1						1		**2**
Co-op Ideals						1		3				**4**
Lack of Network							1				**1**	
Total	**6**	**8**	**4**	**7**	**2**	**6**	**1**	**5**		**2**	**13**	**28**

Source: Survey

TableXX.6 Advantages of Co-op Banks

Advantage Stated	No of Banks that stated the advantage in order of importance (Old-New banks Distinction)													
	1st		2nd		3rd		4th		5th		6th		**Total**	
	Old	New	Old	New	Old	New	Old	New	Old	New	Old	New	**Old**	**New**
Better deposit interest rates	2	2			2	2	1	2	1	1			**6**	**7**
Friendly services	2	1	2	5	1		1	1					**6**	**7**
Better Loan terms			1	1	1	2	2	2	2	2			**6**	**7**
Local Knowledge		3	1	1		1	1		1	2	1	1	**4**	**8**
Flexibility	1	2	1		1	1	1	1	1	2	1		**6**	**6**
Low interest loans	1				1	1		1	1			2	**3**	**4**
Personal Involvement			1										**1**	
No of Branches											1		**1**	
Co-op ideals											1		**1**	
Total	**6**	**8**	**6**	**7**	**6**	**7**	**6**	**7**	**6**	**7**	**4**	**3**	**34**	**39**

Source: Survey, (Table 7.14 – chapter7)

Table XX.7 Deposits per Member
(in m. drs)

Coop. Bank	1998	1999	2000
Lamia	1.8	1.4	1.0
Ioanninon	0.7	0.9	1.2
Achaiki	1.1	1.2	1.1
Pancretan	1.1	0.9	1.2
Chania	2.5	2.5	2.1
Dodecanese	1.5	1.4	1.7
Evros	1.1	0.9	2.2
Karditsa	0.6	1.0	1.3
Trikala	0.1	0.3	0.7
Evia	0.1	0.4	1.6
Corinth	0.0	0.3	0.4
Pieria	0.1	0.3	0.9
Drama		0.5	0.7
Lesvos			0.5
Total	1.2	1.1	1.3

Source: ESTE, Survey, author's calculations

Table XX.8 Loans per Member
(in m. drs)

Coop. Bank	1998	1999	2000
Lamia	1.72	1.71	1.58
Ioanninon	0.91	1.07	1.20
Achaiki	1.64	1.54	1.76
Pancretan	1.36	1.26	1.53
Chania	2.38	2.14	2.03
Dodecanese	1.36	1.29	1.54
Evros	1.05	1.28	1.49
Karditsa	0.75	1.11	1.09
Trikala	0.39	0.53	0.70
Evia	0.03	0.73	1.66
Corinth	0.11	0.49	0.74
Pieria	0.62	0.71	0.68
Drama		0.52	0.77
Lesvos			0.61
Total	1.34	1.33	1.48

Source: ESTE, Survey, author's calculations

Table XX. 9 Average Interest rates of Co-operative Banks

(per cent per annum for the year 2000)

	Deposit interest rates			**Lending interest rates**		
Bank	**Sight deposits**	**Saving deposits**	**Time-deposits**	**Short term loans**	**Consumer loans**	**Long-term loans**
Average rates of Commercial Banks*	2.7%	5.7%	7%	12.3%	17%	11.5%
Lamia	-	-	-	-	-	-
Ioanninon	5.0%	6.5%	10,0%	-	-	-
Achaiki	5.5%	6.5%	8.0%	14.0%	15.5%	14%
Pancretan	*0,5%*			*-0,5%*		
Chania	*0,5%*	*0,5%*	*1,2%*	*-0.5%*		
Dodecanese	*2*	*3*	*3,5*	10.9%	12.0%	7.5%
Evros	na	na	na	na	na	na
Karditsa	*0,5%*	*0,5%*	*1%*	*-1%*		
Trikala	*0,5%*	*0,5%*	*1%*	*-1%*		
Evia	2.0%	7.2%	9.9%	13.5%	16.5%	13.5%
Corinth	2.7%	7.28%	-	10.5%	14.4%	12.5%
Pieria	6,8%	6.84%	8.8%	8.5%	15.5%	14.5%
Drama	5.8%	7.5%	8.4%	14.6%	16.65%	14.3%
Lesvos	*0,5*	*1,5*	*2*	*-2*	*-1*	*-0,5*

- * As stated at the Monthly Statistical Bulletin of the Bank of Greece, June 2002
- figures in italics concern differences is interest rates stated by co-op banks. All other banks stated average annual interest rates for relevant categories of deposits/loans

Source: Survey

Table XX.10 Distribution of Co-operative Banks Deposits
(in m. drs, year end 2000)

Coop. Bank	Sight deposits	Saving deposits	Time deposits	Total
Lamia	-	-	-	14,598
Ioanninon	-	-	-	5,624
Achaiki	1,481	2,183	2,028	5,692
Pancretan	-	-	-	33,067
Chania	2,033	7,763	8,687	18,483
Dodecanese	-	-	-	14,453
Evros	-	-	-	5,094
Karditsa	-	-	-	3,048
Trikala	178	820	1,126	2,124
Evia	-	-	-	3,767
Corinth	147	392	-	539
Pieria	-	-	-	1,376
Drama	475	815	290	1,580
Lesvos	-	-	-	1059
Total				110,504

Source: Survey

Table XX.11 Distribution of Co-operative Banks Loans (in m. drs, year end 2000)

Coop. Bank	Short term loans	Consumer /personal loans	Long term loans	Total
Lamia	-	-	-	24,033
Ioanninon	1,088	595	3,729	5,412
Achaiki	5,036	3,261	842	9,139
Pancretan	-	-	-	42,674
Chania	13,361	1,247	3,207	17,815
Dodecanese	7,784	2,431	2,781	12,996
Evros	-	-	-	3,450
Karditsa	-	-	-	2,591
Trikala	1,171	601	217	1,989
Evia	3,248	374	191	3,813
Corinth	783	139	154	1,076
Pieria	808	222	27	1,057
Drama	772	735	202	1,709
Lesvos	898	122	200	1,220
Total				128,974

Source: Survey

Table XX.12 Evolution Of Co-op Banks' Total Assets (in m. drachmas)

	Total Assets			% Change		
Coop. Bank	**1998**	**1999**	**2000**	**1999-1998**	**2000-1999**	**Total Change %(*)**
Lamia	36,629	32,567	26,161	-11.1%	-19.7%	-28.6%
Ioannina	4,615	6,274	7,798	35.9%	24.3%	69.0%
Achaiki	9,018	9,573	13,216	6.2%	38.1%	46.6%
Pancretan	29,749	45,712	60,597	53.7%	32.6%	103.7%
Chania	15,240	23,100	27,358	51.6%	18.4%	79.5%
Dodecanese	10,578	14,997	20,144	41.8%	34.3%	90.4%
Evros	3,392	3,604	6,575	6.3%	82.4%	93.8%
Karditsa	2,168	3,471	4,829	60.1%	39.1%	122.7%
Trikala	1,512	2,047	3,564	35.4%	74.1%	135.7%
Evia	985	2,206	5,544	124.0%	151.3%	462.8%
Corinth	808	1,315	1,556	62.7%	18.3%	92.6%
Pieria	1,141	1,228	2,439	7.6%	98.6%	113.8%
Drama	1,066	2,587	3,193		23.4%	199.5%
Lesvos		1,543	2,584		67.5%	67.5%
Total	***116,901***	***150,224***	***185,555***	***28.5%***	***23.5%***	**58.7%**

(*) Total change stands for the change encountered from the first year's available data to 2000.

Source: ESTE, author's calculations

Table XX.13 Total Net Monetary Benefit (in m. drs, 2000 year end)

Coop. Bank	TNMB	Own Capital	TNBM as a % of Own Capital	Total Assets	TNBM as a % of Total Assets
Lamia	0.0	9,366	-	26,161	-
Ioanninon	154.9	1,840	8,4%	7,798	2,0%
Achaiki	116.0	6,754	1,7%	13,216	0,9%
Pancretan	1,372.5	25,029	5,5%	60,597	2,3%
Chania	499.8	7,552	6,6%	27,358	1,8%
Dodecanese	907.6	4,712	19,3%	20,144	4,5%
Evros	na	1,442	na	6,575	na
Karditsa	87.5	1,512	5,8%	4,829	1,8%
Trikala	91.0	1,380	6,6%	3,564	2,6%
Evia	94.0	1,531	6,1%	5,544	1,7%
Corinth	22.4	996	2,2%	1,556	1,4%
Pieria	65.5	964	6,8%	2,439	2,7%
Drama	83.7	1,409	5,9%	3,193	2,6%
Lesvos	55.8	1,264	4,4%	2,584	2,2%
Total	**3,550.7**	**65,751**	**5,4%**	**185,555**	**1,9%**

Source: ESTE, Survey, author's calculations

Table XX.14 Estimation of Capital Adequacy Ratio of Greek Co-operative Banks

Coop. Bank	1998	1999	2000
Lamia	22,6%	29,3%	35,8%
Ioanninon	33,7%	28,2%	27,4%
Achaiki	36,7%	36,1%	51,2%
Pancretan	35,2%	52,4%	41,3%
Chania	19,0%	20,8%	29,2%
Dodecanese	20,6%	28,7%	25,0%
Evros	35,1%	41,5%	21,9%
Karditsa	49,4%	37,1%	31,3%
Trikala	73,1%	61,7%	38,7%
Evia	89,6%	57,3%	27,7%
Corinth	90,8%	65,2%	64,1%
Pieria	88,4%	72,1%	35,8%
Drama		52,6%	44,1%
Lesvos			48,9%
Total	29,7%	37,4%	36,0%

Source: ESTE, Balance Sheets, author’s calculations

Table XX.15 Own Capital as a Percentage of Co-op Bank Deposits

Coop. Bank	1998	1999	2000
Lamia	30,1%	43,0%	64,2%
Ioanninon	51,9%	42,0%	38,1%
Achaiki	69,1%	61,8%	118,8%
Pancretan	59,1%	121,5%	75,7%
Chania	25,4%	28,6%	43,2%
Dodecanese	27,5%	41,6%	34,8%
Evros	56,1%	74,9%	28,3%
Karditsa	108,6%	67,0%	49,6%
Trikala	354,2%	189,6%	65,0%
Evia	1117,7%	165,1%	40,7%
Corinth	1033,8%	196,1%	185,0%
Pieria	917,3%	281,0%	63,4%
Drama		133,2%	89,2%
Lesvos			119,4%
Total	45,6%	65,4%	60,4%

Source: ESTE, Balance Sheets, author's calculations

Table XX.16 Return on Assets (ROA)

Coop. Bank	1998	1999	2000
Lamia	0,0%	1,4%	0,3%
Ioanninon	2,8%	2,4%	1,3%
Achaiki	4,7%	4,5%	3,7%
Pancretan	5,5%	5,3%	4,4%
Chania	3,3%	5,6%	3,3%
Dodecanese	3,4%	4,9%	2,4%
Evros	3,0%	7,7%	1,0%
Karditsa	7,9%	9,0%	6,3%
Trikala	11,6%	7,4%	3,5%
Evia	8,9%	10,7%	7,3%
Corinth	9,2%	5,1%	6,4%
Pieria	0,0%	0,0%	0,3%
Drama		12,6%	7,2%
Lesvos			1,4%
Total	**3,0%**	**4,4%**	**3,1%**

Source: ESTE, Balance Sheets, author’s calculations

Table XX.17 Return on Equity (ROE)

Coop. Bank	1998	1999	2000
Lamia	0,0%	5,4%	0,8%
Ioanninon	7,9%	7,8%	4,5%
Achaiki	12,7%	12,4%	8,3%
Pancretan	16,2%	11,6%	9,6%
Chania	17,2%	28,0%	13,1%
Dodecanese	14,1%	19,2%	9,1%
Evros	8,2%	20,2%	3,3%
Karditsa	16,1%	21,5%	18,6%
Trikala	15,9%	11,1%	7,4%
Evia	10,0%	15,9%	20,1%
Corinth	10,1%	6,8%	9,9%
Pieria	0,0%	0,0%	0,6%
Drama		33,8%	14,9%
Lesvos			4,6%
Total	**10,1%**	**12,8%**	**8,5%**

Source: ESTE, Balance Sheets, author's calculations

Table XX.18 Evolution Of Co-op Banks' Operational Expenses (in m. drachmas)

	Operational Expenses			% Change		
Coop. Bank	**1998**	**1999**	**2000**	**1999-1998**	**2000-1999**	**Total Change %(*)**
Lamia	726	952	723	31,1%	-24,1%	-0,4%
Ioannina	141	158	141	12,1%	-10,8%	0,0%
Achaiki	167	225	318	34,7%	41,3%	90,4%
Pancretan	819	1.176	1.708	43,6%	45,2%	108,5%
Chania	512	717	910	40,0%	26,9%	77,7%
Dodecanese	310	504	598	62,6%	18,7%	92,9%
Evros	148	140	170	-5,4%	21,4%	14,9%
Karditsa	63	97	128	54,0%	32,0%	103,2%
Trikala	81	94	144	16,0%	53,2%	77,8%
Evia	48	108	108	125,0%	0,0%	125,0%
Corinth	49	78	112	59,2%	43,6%	128,6%
Pieria	58	68	94	17,2%	38,2%	62,1%
Drama	58	108	107	86,2%	-0,9%	84,5%
Lesvos		61	108		77,0%	77,0%
Total	**3.180**	**4.486**	**5.369**	**41,1%**	**19,7%**	**68,8%**

(*) Total change stands for the change encountered from the first year's available data to 2000.

Source: ESTE, author's calculations

Table XX.19 Evolution Of Co-op Banks' Personnel Expenses (in m. drachmas)

	Personnel Expenses			% Change		
Coop. Bank	**1998**	**1999**	**2000**	**1999-1998**	**2000-1999**	**Total Change %(*)**
Lamia	302	350	394	15,9%	12,6%	30,5%
Ioannina	55	65	75	18,2%	15,4%	36,4%
Achaiki	76	95	130	25,0%	36,8%	71,1%
Pancretan	396	559	838	41,2%	49,9%	111,6%
Chania	161	268	342	66,5%	27,6%	112,4%
Dodecanese	144	219	295	52,1%	34,7%	104,9%
Evros	56	51	66	-8,9%	29,4%	17,9%
Karditsa	15	48	61	220,0%	27,1%	306,7%
Trikala	31	33	50	6,5%	51,5%	61,3%
Evia	13	38	41	192,3%	7,9%	215,4%
Corinth	8	58	57	625,0%	-1,7%	612,5%
Pieria	21	28	36	33,3%	28,6%	71,4%
Drama	28	41	46	46,4%	12,2%	64,3%
Lesvos		14	25		78,6%	78,6%
Total	***1.306***	***1.867***	***2.456***	***43,0%***	***31,5%***	88,1%

(*) Total change stands for the change encountered from the first year's available data to 2000.

Source: ESTE, author's calculations

Table XX.20 Evolution Of Co-op Banks' Personnel

	Personnel			% Change		
Coop. Bank	**1998**	**1999**	**2000**	**1999-1998**	**2000-1999**	**Total Change %(*)**
Lamia	38	45	45	18,4%	0,0%	18,4%
Ioannina	8	8	12	0,0%	50,0%	50,0%
Achaiki	19	20	22	5,3%	10,0%	15,8%
Pancretan	72	109	118	51,4%	8,3%	63,9%
Chania	34	44	54	29,4%	22,7%	58,8%
Dodecanese	32	40	50	25,0%	25,0%	56,3%
Evros	12	12	14	0,0%	16,7%	16,7%
Karditsa	8	9	10	12,5%	11,1%	25,0%
Trikala	5	6	12	20,0%	100,0%	140,0%
Evia	6	5	6	-16,7%	20,0%	0,0%
Corinth	7	8	6	14,3%	-25,0%	-14,3%
Pieria	3	4	6	33,3%	50,0%	100,0%
Drama	3	7	7	133,3%	0,0%	133,3%
Lesvos		6	7		16,7%	16,7%
Total	***247***	***323***	***369***	***30,8%***	***14,2%***	49,4%

(*) Total change stands for the change encountered from the first year's available data to 2000.

Source: ESTE, author's calculations

Table XX.21 Average Cost per Employee (in m. drachmas)

Coop. Bank	1998	1999	2000
Lamia	7.9	7.8	8.8
Ioanninon	6.9	8.1	6.3
Achaiki	4.0	4.8	5.9
Pancretan	5.5	5.1	7.1
Chania	4.7	6.1	6.3
Dodecanese	4.5	5.5	5.9
Evros	4.7	4.3	4.7
Karditsa	1.9	5.3	6.1
Trikala	6.2	5.5	4.2
Evia	2.2	7.6	6.8
Corinth	1.1	7.3	9.5
Pieria	7.0	7.0	6.0
Drama		5.9	6.6
Lesvos		2.3	3.6
Total	5.3	5.8	6.7

Source: ESTE, Balance Sheets, author's calculations

Table XX.22 Deposits per Employee
(in m. drachmas)

Coop. Bank	1998	1999	2000
Lamia	723	493	324
Ioanninon	375	527	469
Achaiki	253	280	259
Pancretan	246	181	280
Chania	13	153	628
Dodecanese	335	381	342
Evros	248	258	289
Karditsa	177	166	364
Trikala	123	213	305
Evia	62	111	177
Corinth	10	55	90
Pieria	37	79	229
Drama		146	226
Lesvos			151
Total	**308**	**266**	**299**

Source: ESTE, Balance Sheets, author's calculations

**Table XX.23 Loans per employee
(in m. drachmas)**

Coop. Bank	1998	1999	2000
Lamia	709	597	534
Ioanninon	492	632	451
Achaiki	377	353	415
Pancretan	308	250	362
Chania	325	327	330
Dodecanese	231	231	260
Evros	176	233	246
Karditsa	164	250	259
Trikala	170	209	166
Evia	7	249	636
Corinth	23	90	179
Pieria	247	202	176
Drama		157	244
Lesvos			174
Total	**340**	**310**	**350**

Source: ESTE, Balance Sheets, author's calculations

Table XX.24 Pre tax Profits per Employee (in m. drachmas)

Coop. Bank	1998	1999	2000
Lamia	0	11	2
Ioanninon	15	16	9
Achaiki	24	22	20
Pancretan	23	22	21
Chania	15	28	17
Dodecanese	12	17	9
Evros	6	23	4
Karditsa	22	30	27
Trikala	35	24	11
Evia	15	31	51
Corinth	11	7	13
Pieria	0	0	1
Drama	0	46	30
Lesvos			4
Total	**14**	**20**	**15**

Source: ESTE, Balance Sheets, author’s calculations

APPENDIX XXX

APPENDIX XXX

Table XXX.1 Educational Level of Members

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
Primary	14.4	6.7	13.1
Secondary	46.1	33.8	44.0
Higher/highest	36.7	58.0	40.3
Post-graduate	2.8	1.5	2.6
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.2 Member's Spouse participation in Coop Bank

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col %	Col %	Col %
Is your spouse also a member of the CB	**yes**	51.1	51.2	51.1
	no	48.9	48.8	48.9
Group Total		**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.3 Member's Additional Employment Activity
Professional status of member - 1 * Professional status of member - 2 Crosstabulation

			Professional status of member - 2				
			employer	self-employed	private sector employee	farmer	Total
Professional status of member - 1	employer	Count			200	1,172	**1,372**
		% within Professional status of member - 1			14.6	85.4	**100.0**
		% within Professional status of member - 2			100.0	63.9	**30.8**
		% of Total			4.5	26.3	**30.8**
	self-employed	Count				586	**586**
		% within Professional status of member - 1				100.0	**100.0**
		% within Professional status of member - 2				32.0	**13.2**
		% of Total				13.2	**13.2**
	civil servant	Count	586	75		75	**736**
		% within Professional status of member - 1	79.6	10.2		10.2	**100.0**
		% within Professional status of member - 2	50.0	6.0		4.1	**16.5**
		% of Total	13.2	1.7		1.7	**16.5**
	farmer	Count	586	1,172			**1,758**
		% within Professional status of member - 1	33.3	66.7			**100.0**
		% within Professional status of member - 2	50.0	94.0			**39.5**
		% of Total	13.2	26.3			**39.5**
Total		Count	**1,172**	**1,247**	**200**	**1,833**	**4,452**
		% within Professional status of member - 1	**26.3**	**28.0**	**4.5**	**41.2**	**100.0**
		% within Professional status of member - 2	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
		% of Total	**26.3**	**28.0**	**4.5**	**41.2**	**100.0**

Source: Survey

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Professional status of member - 1 * Professional status of member - 2	4,452	5.1	82,676	94.9	87,128	100.0

Table XXX.4 Member's Spouse Employment Activity

		Bank's age group (old banks - new banks)				Total	
		members of old banks		members of new banks			
		Count	Col %	Count	Col %	Count	Col %
Professional status of member's spouse - 1	employer	10,194	14.1	1,189	8.1	11,383	13.1
	self-employed	9,435	13.0	3,872	26.3	13,307	15.3
	civil servant	6,462	8.9	2,306	15.6	8,769	10.1
	private sector employee	6,862	9.5	3,342	22.7	10,205	11.7
	pensioner	2,359	3.3	75	.5	2,434	2.8
	farmer	2,345	3.2	75	.5	2,420	2.8
	housewife	16,497	22.8	1,203	8.2	17,700	20.3
	not applicable	18,228	25.2	2,682	18.2	20,911	24.0
Group Total		72,383	100.0	14,745	100.0	87,128	100.0

Source: Survey

Table XXX.5 How did Members Learn about the Co-op Bank

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col %	Col %	Col %
How did you find out about the CB - 1st Choise	friends/relatives	28.0	55.7	32.7
	partner/colleague	9.2	7.1	8.9
	other members	7.8	6.8	7.7
	i was one of the first members that founded the CB	5.4	3.3	5.0
	local media	26.5	15.2	24.6
	from the CB	17.3	4.1	15.0
	i saw the CB while i was walking	4.9	.0	4.0
	chamber of commerce	.8	7.8	2.0
Group Total		100.0	100.0	100.0

Source: Survey

Table XXX.6 How did members learn about the Co-op Bank (Total answers)

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col Response %	Col Response %	Col Response %
how did you find out about the CB-Mulitple repsonses[a]	friends/relatives	38.6	55.7	41.5
	partner/colleague	19.5	10.2	17.9
	other members	14.4	14.9	14.5
	i was one of the first members that founded the CB	5.4	3.3	5.0
	local media	36.0	30.8	35.2
	from the CB	34.6	5.1	29.6
	i saw the CB while i was walking	7.3	.0	6.1
	chamber of commerce	.8	9.3	2.2
Total		**156.6**	**129.2**	**152.0**

Source: Survey

a. % of Cases that mentioned category

Table XXX.7 How did Members Learn about the Co-op Bank (Total Answers)

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col Response %	Col Response %	Col Response %
How did you find out about the CB? Multiple responses[a]	informal channels	77.9	84.1	78.9
	official channels	78.7	45.2	73.1
Total		**156.6**	**129.2**	**152.0**

Sourc: Survey, Table XXX.6

a. % of Cases that mentioned recoded category

Table XXX.8 How did Members learn about the Co-op Bank

Bank's age group (old banks - new banks) members of old banks

		membership age group (old members before 1998 - new members after 1998)				Total	
		membership before 1998		membership since 1998			
		Count	Col %	Count	Col %	Count	Col %
How did you find out about the CB? - 1st choice	**informal channels**	21,670	62.3	14,911	39.7	36,581	50.5
	official channels	13,125	37.7	22,677	60.3	35,802	49.5
Group Total		**34,795**	**100.0**	**37,588**	**100.0**	**72,383**	**100.0**

Source: Survey

Table XXX.9 How did Members learn about the Co-op Bank

Bank's age group (old banks - new banks) members of new banks

		membership age group (old members before 1998 - new members after 1998)				Total	
		membership before 1998		membership since 1998			
		Count	Col %	Count	Col %	Count	Col %
How did you find out about the CB? - 1st choice	**informal channels**	6,144	65.6	4,610	85.8	10,754	72.9
	official channels	3,229	34.4	762	14.2	3,991	27.1
Group Total		**9,373**	**100.0**	**5,372**	**100.0**	**14,745**	**100.0**

Source: Survey

Table XXX.10 How did Members learn about the Co-op Bank

Group Total

		membership age group (old members before 1998 - new members after 1998)				Total	
		membership before 1998		membership since 1998			
		Count	Col %	Count	Col %	Count	Col %
How did you find out about the CB? - 1st choice	**informal channels**	27,814	63.0	19,521	45.4	47,335	54.3
	official channels	16,354	37.0	23,439	54.6	39,792	45.7
Group Total		**44,168**	**100.0**	**42,960**	**100.0**	**87,128**	**100.0**

Source: Survey

Table XXX.11 Effectiveness of different mobilising channels
Time passed from hearing to becoming member * How did you find out about the CB? Crosstabulation

			Time passed from hearing to becoming member			
			1 year	2-3 years	4+ years	Total
How did you find out about the CB? - 1st Choice	informal channels	Count	31,608	8,576	7,151	**47,335**
		Expected Count	28,665.1	10,900.9	7,768.9	**47,335.0**
		% within Time passed from hearing to becoming member - new	59.9	42.7	50.0	**54.3**
		% within How did you find out about the CB? - 1 new	66.8	18.1	15.1	**100.0**
		% of Total	36.3	9.8	8.2	**54.3**
	official channels	Count	21,155	11,489	7,149	**39,793**
		Expected Count	24,097.9	9,164.1	6,531.1	**39,793.0**
		% within Time passed from hearing to becoming member - new	40.1	57.3	50.0	**45.7**
		% within How did you find out about the CB? - 1 new	53.2	28.9	18.0	**100.0**
		% of Total	24.3	13.2	8.2	**45.7**
Total		Count	**52,763**	**20,065**	**14,300**	**87,128**
		Expected Count	**52,763.0**	**20,065.0**	**14,300.0**	**87,128.0**
		% within Time passed from hearing to becoming member - new	**100.0**	**100.0**	**100.0**	**100.0**
		% within How did you find out about the CB? - 1 new	**60.6**	**23.0**	**16.4**	**100.0**
		% of Total	**60.6**	**23.0**	**16.4**	**100.0**

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**1854,818**[a]	2	**,000**
Likelihood Ratio	1855,364	2	,000
Linear-by-Linear Association	1020,276	1	,000
N of Valid Cases	87128		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 6531,08.

Table XXX.12 Reasons that lead local population to join the Co-op Bank

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col Response %	Col Response %	Col Response %
why did you become member - Multiple Responses[a]	good initiative for my province	72.4	85.3	74.6
	friendly service	47.1	22.0	42.8
	quality of service	19.5	3.1	16.7
	bank's premises are close to me	4.9	.0	4.0
	they opened a branch in my village!	4.9	.0	4.0
	one of the employees is a friend of mine	.8	1.0	.8
	low interest rates	22.0	19.1	21.5
	better lending terms	21.1	10.7	19.3
	i found out that as a new enterpreneur i was served better	.8	.0	.7
	free cheque book/sight deposits bare saving interest rate	.0	1.5	.3
	serves local needs	36.1	33.5	35.6
	better interest rates for deposits	14.3	14.2	14.3
	due to high dividend paid	.8	.0	.7
	my father bought shares for me/inherited the shares	1.1	1.0	1.1
	Co-operative ideals	8.9	10.2	9.1
	The CB belongs to us - the members	4.9	18.2	7.1
Total		**259.5**	**219.8**	**252.7**

Source: Survey

a. Percentage of cases that mentioned category

Table XXX.13 Transactions Level of Members by Membership Duration

Bank's age group (old banks - new banks) members of old banks

		membership age group (old members before 1998 - new members after 1998)				Total	
		membership before 1998		membership since 1998			
		Count	Col %	Count	Col %	Count	Col %
Is the CB your principal bank	**Yes, its my exclusive bank**	2,345	6.7	3,517	9.4	5,862	8.1
	yes, its my principal bank	15,511	44.6	19,173	51.0	34,684	47.9
	i work with several banks - none is principal	7,462	21.4	8,235	21.9	15,697	21.7
	no, another bank is my principal bank	9,476	27.2	6,662	17.7	16,139	22.3
	Group Total	**34,795**	**100.0**	**37,588**	**100.0**	**72,383**	**100.0**

Source: Survey

Table XXX.14 Transactions Level of Members by Membership Duration

Bank's age group (old banks - new banks) members of new banks

		membership age group (old members before 1998 - new members after 1998)				Total	
		membership before 1998		membership since 1998			
		Count	Col %	Count	Col %	Count	Col %
Is the CB your principal bank	**Yes, its my exclusive bank**	225	2.4	301	5.6	526	3.6
	yes, its my principal bank	1,578	16.8	1,052	19.6	2,631	17.8
	i work with several banks - non is principal	526	5.6	75	1.4	601	4.1
	no, another bank is my principal bank	7,043	75.1	3,944	73.4	10,987	74.5
	Group Total	**9,373**	**100.0**	**5,372**	**100.0**	**14,745**	**100.0**

Source: Survey

Table XXX.15 Transactions Level by Member's Social Grade

		Is the CB your principal bank								Total	
		Yes, its my exclusive bank		yes, its my principal bank		i work with several banks - none is principal		no, another bank is my principal bank			
		Col %	Row %	Col %	Row %	Col %	Row %	Col %	Row %	Col %	Row %
Social Grade Defined by ESOMAR	**Managers and Professionals - AB**	1.2	.2	33.9	33.7	56.0	24.3	58.0	41.9	43.2	100.0
	Well-educated non-manual skilled workers - C1	10.4	7.7	9.1	39.6	8.4	16.1	11.5	36.6	9.8	100.0
	skilled workers and non-manual employees - C2	41.4	13.3	28.6	53.7	17.3	14.2	13.9	18.9	22.8	100.0
	Unskilled manual workers and other less well educated workers and employees - DE	47.1	14.3	28.4	50.2	18.3	14.2	16.6	21.4	24.2	100.0
	Group Total	**100.0**	**7.3**	**100.0**	**42.8**	**100.0**	**18.7**	**100.0**	**31.1**	**100.0**	**100.0**

Source: Survey

Table XXX.16 Advantages that Members Stated by age of Banks

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col Response %	Col Response %	Col Response %
what is the CBs strongest advantage - Multiple Responses[a]	*immediate response, approval, draw of money/fast services*	*45.7*	*45.1*	*45.6*
	high returns/high saving interest rates/high dividends	*12.8*	*6.6*	*11.7*
	loan terms/policy, debt policy	*7.1*	*8.2*	*7.2*
	flexibility	*5.7*	*.5*	*4.8*
	free or very cheap cheque book - sight deposits with high interest	*4.4*	*4.1*	*4.3*
	offer the best exchange rates on market	*4.6*	*.0*	*3.8*
	stock exchange market services	*2.4*	*.0*	*2.0*
	CB focus on members needs - serve people other banks don't	30.6	30.8	30.6
	we know each other - serve mutual needs - retains benefit localy	15.0	9.8	14.1
	they came to us and opened a branch to serve us!	4.0	.0	3.4
	proximity in space	3.5	.0	2.9
	focus on actual needs and not on callateral availability	.8	1.0	.8
	personnel,director,executives, management,people that run CB	*4.9*	*4.1*	*4.7*
	its members, the substance of the cooperative institution	*3.0*	*5.3*	*3.4*
	BoD consists of well known local people	*2.4*	*3.1*	*2.5*
	transactions with members that trust	*.8*	*.0*	*.7*
	NONE	.3	3.1	.7
	i don't know	*.0*	*9.0*	*1.5*
	Total	**147.9**	**130.6**	**145.0**

Source: Survey

a. Percentage of Cases that Mentioned Category (font changes when recoded category changes)

Table XXX.17 Weaknesses that Members Stated By Age of Co-op Banks

		Bank's age group (old banks - new banks)		Total
		members of old banks	members of new banks	
		Col Response %	Col Response %	Col Response %
what is the CBs principal weakness - Multiple Responses[a]	***None***	*22.7*	*23.4*	*22.8*
	weak network/few branches - can't cover (inter)national needs	26.1	8.7	23.1
	small bank/insufficient money to cover "big" customers needs	22.3	24.4	22.6
	we don't feel secure - there is no safety net	.0	27.2	4.6
	high interest rates in some loan products	*12.1*	*.5*	*10.2*
	inadequate credit scoring - Too many "bad" loans	*2.7*	*.0*	*2.2*
	Bureaucratic procedures even for small loans	*2.4*	*.0*	*2.0*
	lack of competitive spirit	*1.6*	*1.0*	*1.5*
	unwillingness to serve new entrepreneurs	*1.6*	*.0*	*1.3*
	Delay on cheque payments issued by the CB	*.8*	*.0*	*.7*
	lack or complete absense of confidence - discretion - privacy	*.0*	*1.0*	*.2*
	need to improve variety of product/services	12.0	29.4	14.9
	Cannot spot and finance dynamic enterprises	.8	.0	.7
	Absense of efficient information policy	.0	1.0	.2
	Did not find what i was looking for	.0	.5	.1
	inexperienced personnel - insufficient in rush hours	*4.9*	*1.0*	*4.2*
	Unclear recruitment policy	*2.7*	*.5*	*2.3*
	fast growth/can they handle it? will we have the same quality	*1.4*	*.5*	*1.2*
	the director	*.8*	*1.0*	*.8*
	unclear perception of local development attributes	*.8*	*.0*	*.7*
	non-banking,non-cooperative loan decisions (outside pressure)	1.1	.0	.9
	poor history of Coop Banking is linked with uncertain future	1.1	.0	.9
	reservations due to prior experiences of Coops	.8	.0	.7
	no private bank is as solvent as state banks	.6	.0	.5
	A few members of the CB	.0	1.5	.3
	i don't know	*2.2*	*12.8*	*4.0*
	Total	**121.4**	**134.5**	**123.7**

Source: Survey

a. Percentage of Cases that Mentioned Category (font changes when recoded category changes)

Table XXX.18 How Satisfied are members from the Information Policy of their Coop Bank

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	19.4	2.5	16.6
a lot	25.2	23.6	24.9
fairly	19.5	4.6	17.0
rather not	19.6	10.7	18.1
dissatisfied	15.5	53.1	21.9
i dont know	.8	5.4	1.6
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.19 Why do Members Use other Banks' Services

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col Response %	Col Response %	Col Response %
facilitate transactions	91.4	80.5	89.5
additional security	28.2	42.5	30.6
other banks demand it - subsidies/salaries	12.4	3.1	10.9
not satisfied with CB	3.8	9.1	4.7
Total	**135.8**	**135.1**	**135.7**

Source: Survey

a. Multiple Responses, Percentage of Cases that Mentioned Categories

Table XXX.20 Members that have Deposit Accounts

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
Coop Bank	13.8	12.8	13.6
both banks	86.2	87.2	86.3
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.21 Members that Have Time-deposit accounts

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	72.6	57.6	70.0
Coop Bank	9.5	3.6	8.5
Other Bank	5.7	37.3	11.0
both banks	12.2	1.5	10.4
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.22 Members that Have Sight Deposits

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	22.8	54.9	28.3
Coop Bank	26.5	12.7	24.2
Other Bank	11.6	17.4	12.6
both banks	39.0	15.0	34.9
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.23 Members that have received an "open" loan

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	60.3	68.9	61.7
Coop Bank	25.4	7.6	22.4
Other Bank	5.1	16.1	7.0
both banks	9.2	7.3	8.9
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.24 Members that have received a short-term business loan

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	87.3	93.7	88.4
Coop Bank	8.9	1.5	7.7
Other Bank	2.2	3.2	2.3
both banks	1.6	1.5	1.6
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.25 Members that have received a personal/consumer loan

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	82.7	81.3	82.4
Coop Bank	9.5	3.6	8.5
Other Bank	6.8	14.6	8.1
both banks	1.1	.5	1.0
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX. 26 Members that have received a long-term business loan

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	87.3	98.0	89.1
Coop Bank	6.5	.5	5.5
Other Bank	5.4	1.5	4.8
both banks	.8	.0	.7
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.27 Members that have received a mortgage loan

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	89.2	88.3	89.0
Coop Bank	1.9	.5	1.7
Other Bank	8.9	11.2	9.3
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.28 Members that have received a student loan

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	100.0	100.0	100.0
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.29 Members that hold a Cash/debit card

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	32.7	25.2	31.4
Coop Bank	6.5	.0	5.4
Other Bank	43.5	74.8	48.8
both banks	17.3	.0	14.4
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.30 Members that hold a credit card

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	46.1	49.4	46.7
Other Bank	53.9	50.6	53.3
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.31 Members that use standing orders services

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	93.4	99.0	94.4
Other Bank	6.6	1.0	5.6
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.32 Members that use Phone Banking

	Bank's age group (old banks - new banks)		Group Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	95.4	100.0	96.2
Coop Bank	1.6	.0	1.3
Other Bank	1.9	.0	1.6
both banks	1.1	.0	.9
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.33 Members that use Internet Banking

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	97.0	96.3	96.9
Other Bank	3.0	3.7	3.1
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.34 Members that receive their pension/salary through a bank

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	88.6	89.4	88.8
Other Bank	11.4	10.6	11.2
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.35 Members that have invested in a pension programme

	Bank's age group (old banks - new banks)		Total
	members of	members of	
	Col %	Col %	Col %
At no Bank	98.4	100.0	98.7
Other Bank	1.6	.0	1.3
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.36 Members that have bought a life or other Insurance

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	94.3	96.9	94.8
Coop Bank	.8	.0	.7
Other Bank	4.9	3.1	4.6
Total	100.0	100.0	100.0

Source: Survey

Table XXX.37 Members that have shares transactions

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	70.4	94.3	74.5
Coop Bank	13.8	.0	11.6
Other Bank	7.9	5.7	7.4
both banks	7.9	.0	6.5
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.38 Members that have invested in Mutual Funds

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	95.4	98.0	95.8
Other Bank	4.6	2.0	4.2
Total	100.0	100.0	100.0

Source: Survey

Table XXX.39 Members that have Bonds transactions

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
At no Bank	98.1	100.0	98.4
Other Bank	1.9	.0	1.6
Total	100.0	100.0	100.0

Source: Survey

Table XXX.40 Services that members request from their CBs

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col Response %	Col Response %	Col Response %
no other product-satisfied with what they offer	*33.0*	*24.6*	*31.6*
just to do their business as they do to cover our needs	*3.5*	*.0*	*2.9*
Cash card	12.9	15.8	13.4
ATM's	13.7	7.6	12.7
national-international network	10.9	12.7	11.2
more local branches	1.1	1.5	1.2
credit cards-online credit cards equipment for businesses	*24.3*	*5.2*	*21.1*
internet banking	*3.2*	*9.1*	*4.2*
sme's financial mentoring-project appraisal services	8.9	.5	7.5
factoring	4.6	4.2	4.6
leasing	2.7	1.5	2.5
import-export services	2.4	1.5	2.3
marketing mentoring	1.9	.0	1.6
tax payment services (VAT etc.)	1.6	.0	1.3
bankassurance	.8	.5	.8
flexible open hours programme in high seasons	.8	.0	.7
venture capital-start up capital	.8	.0	.7
improved loan terms	.3	2.0	.6
credit cards to consumers	*26.3*	*28.2*	*26.6*
more products (not stated)	*8.1*	*18.3*	*9.8*
standing orders	*2.4*	*.5*	*2.1*
salaries and pensions	*1.9*	*.0*	*1.6*
improve mortgage loan rates	*.0*	*8.6*	*1.5*
improve their responsibility and credibility	*.8*	*1.5*	*.9*
real estate	*.8*	*1.0*	*.8*
improve/establish information policy	*.0*	*.5*	*.1*
i don't know	3.5	10.5	4.7
Total	**171.4**	**156.2**	**168.8**

Source: Survey

a. Percentage of cases that mentioned category (font changes when recoded category changes)

Table XXX.41 Members that have participated in a marketing research

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
cb	.8	.0	.7
other bank	3.5	2.2	3.3
both banks	.8	.0	.7
no bank	94.9	97.8	95.4
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.42 How satisfied are members from the deposit interest rates that Cbs offer

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	15.9	31.2	18.5
a lot	53.8	58.0	54.5
fairly	23.5	4.7	20.3
rather not	.8	.0	.7
dissatisfied	1.6	.0	1.3
i dont know	3.5	6.1	3.9
no answer	.8	.0	.7
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.43 Do Members think that the CB influenced their saving attitude (by age of banks)

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
more	19.8	3.6	17.1
same	29.2	8.7	25.7
irrelevant	51.0	87.8	57.2
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.44 Do Members think that CB influenced their saving attitude (by age of membership)

	membership age group (old members before 1998 - new members after 1998)		Total
	membership before 1998	membership since 1998	
	Col %	Col %	Col %
more	18.0	16.1	17.1
same	17.0	34.6	25.7
irrelevant	65.0	49.3	57.2
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.45 Do Members think that the CB influenced their saving attitude (by social grade of members)

	Social Grade Defined by ESOMAR				Total
	Managers and Professionals - AB	Well-educated non-manual skilled workers - C1	skilled workers and non-manual employees - C2	Unskilled manual workers and other less well educated workers and employees - DE	
	Col %	Col %	Col %	Col %	Col %
more	13.6	17.0	19.7	20.8	17.1
same	21.0	23.2	34.5	26.7	25.7
irrelevant	65.4	59.8	45.8	52.5	57.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.46 Do members think that the Cb influenced their saving attitude by members social grade - Crosstab

			Social Grade Defined by ESOMAR				
			Managers and Professionals - AB	Well-educated non-manual skilled workers - C1	skilled workers and non-manual employees - C2	Unskilled manual workers and other less well educated workers and employees - DE	Total
Do you save more as a member of the CB	**more**	**Count**	5,107	1,448	3,917	4,393	14,865
		Expected Count	6,415.6	1,456.9	3,396.4	3,596.2	14,865.0
		% within Do you save more as a member of the CB	34.4	9.7	26.4	29.6	100.0
		% within Social Grade Defined by ESOMAR - New	**13.6**	**17.0**	**19.7**	**20.8**	17.1
		% of Total	5.9	1.7	4.5	5.0	17.1
	same	**Count**	7,911	1,984	6,874	5,626	22,395
		Expected Count	9,665.4	2,194.9	5,116.9	5,417.9	22,395.0
		% within Do you save more as a member of the CB	35.3	8.9	30.7	25.1	100.0
		% within Social Grade Defined by ESOMAR - New	21.0	23.2	34.5	26.7	25.7
		% of Total	9.1	2.3	7.9	6.5	25.7
	irrelevant	**Count**	24,585	5,107	9,116	11,059	49,867
		Expected Count	21,522.0	4,887.3	11,393.7	12,064.0	49,867.0
		% within Do you save more as a member of the CB	49.3	10.2	18.3	22.2	100.0
		% within Social Grade Defined by ESOMAR - New	**65.4**	**59.8**	**45.8**	**52.5**	57.2
		% of Total	28.2	5.9	10.5	12.7	57.2
Total		**Count**	37,603	8,539	19,907	21,078	87,127
		Expected Count	37,603.0	8,539.0	19,907.0	21,078.0	87,127.0
		% within Do you save more as a member of the CB	43.2	9.8	22.8	24.2	100.0
		% within Social Grade Defined by ESOMAR - New	100.0	100.0	100.0	100.0	100.0
		% of Total	43.2	9.8	22.8	24.2	100.0

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**2458,276**[a]	6	**,000**
Likelihood Ratio	2442,349	6	,000
N of Valid Cases	87127		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 1456,86.

Table XXX.47 Members that have received a loan from their CBs

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
yes	53.5	23.1	48.4
no	46.5	76.9	51.6
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.48 Do members think that the CB influenced their saving attitude (by borrowers and savers)

	Have you ever received a loan from the CB		Total
	yes	no	
	Col %	Col %	Col %
more	18.9	15.3	17.1
same	27.1	24.4	25.7
irrelevant	54.0	60.3	57.2
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.49 Do members think that the Cb influenced their saving attitude by borrowers and savers - Crosstab

			Have you ever received a loan from the CB		
			yes	**no**	**Total**
Do you save more as a member of the CB	**more**	**Count**	7,985	6,880	14,865
		Expected Count	7,193.5	7,671.5	14,865.0
		% within Do you save more as a member of the CB	**53.7**	**46.3**	100.0
		% within Have you ever received a loan from the CB	**18.9**	**15.3**	17.1
		% of Total	9.2	7.9	17.1
	same	**Count**	11,429	10,967	22,396
		Expected Count	10,837.9	11,558.1	22,396.0
		% within Do you save more as a member of the CB	51.0	49.0	100.0
		% within Have you ever received a loan from the CB	27.1	24.4	25.7
		% of Total	13.1	12.6	25.7
	irrelevant	**Count**	22,749	27,118	49,867
		Expected Count	24,131.6	25,735.4	49,867.0
		% within Do you save more as a member of the CB	45.6	54.4	100.0
		% within Have you ever received a loan from the CB	54.0	60.3	57.2
		% of Total	26.1	31.1	57.2
Total		**Count**	42,163	44,965	87,128
		Expected Count	42,163.0	44,965.0	87,128.0
		% within Do you save more as a member of the CB	**48.4**	**51.6**	100.0
		% within Have you ever received a loan from the CB	100.0	100.0	100.0
		% of Total	48.4	51.6	100.0

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**384,740**[a]	2	**,000**
Likelihood Ratio	384,894	2	,000
Linear-by-Linear Association	384,734	1	,000
N of Valid Cases	87128		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 7193,47.

Table XXX.50 Do members think that the CB influenced their borrowing abilities (by age of banks)

		Bank's age group (old banks - new banks)				Total	
		members of old banks		members of new banks			
		Col %	Count	Col %	Count	Col %	Count
Do you borrow more often now that you are member of the CB	**more**	41.0	17,828	59.6	1,804	42.2	19,632
	same	27.4	11,925	30.5	923	27.6	12,847
	irrelevant	31.5	13,697	9.9	301	30.1	13,998
	Total	**100.0**	**43,450**	**100.0**	**3,027**	**100.0**	**46,477**

Source: Survey

Table XXX.51 Do members think that the CB influenced their borrowing abilities (by social grade of members)

		Social Grade Defined by ESOMAR								Total	
		Managers and Professionals - AB		Well-educated non-manual skilled workers - C1		skilled workers and non-manual employees - C2		Unskilled manual workers and other less well educated workers and employees - DE			
		Col %	Count	Col %	Count	Col %	Count	Col %	Count	Col %	Count
Do you borrow more often now that you are member of the CB	**more**	29.4	5,766	41.8	1,909	49.2	5,816	58.7	6,141	42.2	19,632
	same	17.9	3,517	45.3	2,070	40.3	4,765	23.8	2,495	27.6	12,847
	irrelevant	52.7	10,330	12.8	586	10.5	1,248	17.5	1,834	30.1	13,998
	Total	**100.0**	**19,614**	**100.0**	**4,565**	**100.0**	**11,829**	**100.0**	**10,470**	**100.0**	**46,477**

Source: Survey

Table XXX.52 Do you borrow more often now that you are member of the CB by Social Grade Crosstabulation

			Social Grade Defined by ESOMAR				
			Managers and Professionals - AB	Well-educated non-manual skilled workers - C1	skilled workers and non-manual employees - C2	Unskilled manual workers and other less well educated workers and employees - DE	Total
Do you borrow more often now that you are member of the CB	more	Count	5,766	1,909	5,816	6,141	19,632
		Expected Count	8,284.6	1,928.3	4,996.6	4,422.6	19,632.0
		% within Do you borrow more often now	29.4	9.7	29.6	31.3	100.0
		% within Social Grade	**29.4**	**41.8**	**49.2**	**58.7**	42.2
		% of Total	12.4	4.1	12.5	13.2	42.2
	same	Count	3,517	2,070	4,765	2,495	12,847
		Expected Count	5,421.4	1,261.8	3,269.7	2,894.1	12,847.0
		% within Do you borrow more often now	27.4	16.1	37.1	19.4	100.0
		% within Social Grade	17.9	45.3	40.3	23.8	27.6
		% of Total	7.6	4.5	10.3	5.4	27.6
	irrelevant	Count	10,330	586	1,248	1,834	13,998
		Expected Count	5,907.1	1,374.9	3,562.7	3,153.4	13,998.0
		% within Do you borrow more often now	73.8	4.2	8.9	13.1	100.0
		% within Social Grade	52.7	12.8	10.6	17.5	30.1
		% of Total	22.2	1.3	2.7	3.9	30.1
Total		Count	19,613	4,565	11,829	10,470	46,477
		Expected Count	19,613.0	4,565.0	11,829.0	10,470.0	46,477.0
		% within Do you borrow more often now	42.2	9.8	25.5	22.5	100.0
		% within Social Grade	100.0	100.0	100.0	100.0	100.0
		% of Total	42.2	9.8	25.5	22.5	100.0

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**9313,533[a]**	6	**,000**
Likelihood Ratio	9375,553	6	,000
N of Valid Cases	46477		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 1261,84.

Table XXX.53 How satisfied are members from the loan interest rates that CBs charge

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	4.0	7.5	4.6
a lot	27.7	31.9	28.4
fairly	35.2	25.1	33.5
rather not	8.4	3.1	7.5
dissatisfied	3.2	1.0	2.9
i dont know	21.4	31.4	23.2
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.54 How satisfied are members from the CBs lending terms

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	7.3	4.1	6.7
a lot	51.1	38.5	41.5
fairly	21.9	23.5	22.2
rather not	4.0	2.0	3.7
dissatisfied	2.4	.0	2.0
i dont know	22.3	31.9	23.9
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.55 How satisfied are members from the loan interest rates that the CBs charge

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Col %	Count	Col %	Count	Col %	Count
very much/a lot satisfied	40.4	22,960	57.4	5,812	43.0	28,772
fairly	44.8	25,491	36.6	3,708	43.6	29,199
rather not satisfied - dissatisfied	14.8	8,407	5.9	601	13.4	9,009
Total	**100.0**	**56,858**	**100.0**	**10,122**	**100.0**	**66,980**

Source: Survey

a. percentages re-calculated only for valid responses

Table XXX.56 How satisfied are members from the CBs lending terms

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Col %	Count	Col %	Count	Col %	Count
very much/a lot satisfied	63.1	35,126	62.4	6,274	63.0	41,400
fairly	28.5	15,870	34.6	3,472	29.4	19,342
rather not satisfied - dissatisfied	8.4	4,690	3.0	301	7.6	4,990
Total	**100.0**	**55,685**	**100.0**	**10,047**	**100.0**	**65,732**

Source: Survey

a. percentages re-calculated only for valid responses

Table XXX.57 How Satisfied are members form the variety of CBs products/services

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	10.0	5.6	9.3
a lot	60.7	27.2	55.1
fairly	21.2	45.4	25.3
rather not	2.4	2.0	2.4
dissatisfied	.8	9.2	2.2
i dont know	4.9	10.6	5.7
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.58 How satisfied are members form the quality of CBs products

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	23.0	15.2	21.6
a lot	65.6	64.4	65.4
fairly	7.3	11.1	8.0
rather not	.8	1.0	.8
dissatisfied	.8	.0	.7
i dont know	2.5	8.3	3.5
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.59 How satisfied are members from the "promptness" of transactions

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	83.4	59.4	79.4
a lot	14.4	27.4	16.6
fairly	1.6	6.3	2.4
i dont know	.6	7.0	1.6
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.60 How satisfied are Members from the "friendliness" of CBs services

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
very much	86.1	55.4	80.9
a lot	13.0	34.6	16.7
fairly	.6	3.6	1.1
i dont know	.3	6.5	1.3
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.61 How satisfied are members for the "reputation" that follows their CB

	Bank's age group (old banks - new banks)		Total
	members of	members of	
	Col %	Col %	Col %
very much	56.3	30.2	51.9
a lot	39.3	41.2	39.6
fairly	4.3	22.7	7.5
i dont know	.0	6.0	1.0
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.62 T-Test analysis on number of shares of members between old and new banks

Group Statistics

	Bank's age group (old banks - new banks)	N	Mean	Std. Deviation	Std. Error Mean
No of shares that members hold	**members of old banks**	72383	116,88	189,246	,703
	members of new banks	14745	13,79	24,619	,203

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
No of shares that members hold	**Equal variances assumed**	13011,408	,000	66,031	87126	,000	103,09	1,561	100,027	106,147
	Equal variances not assumed			140,820	82125,185	,000	103,09	,732	101,652	104,521

Table XXX.63 Distribution of Members according their contribution to the Co-operative capital (by age of membership)

Bank's age group (old banks - new banks) members of old banks

	membership age group (old members before 1998 - new members after 1998)		Total
	membership before 1998	membership since 1998	
	Col %	Col %	Col %
1-30 shares	44.0	58.3	51.5
31+ shares	56.0	41.7	48.5
Total	**100.0**	**100.0**	**100.0**

Source: Survey

Table XXX.64 Distribution of Members according their contribution to the Co-operative capital (by age of membership)

Bank's age group (old banks - new banks) members of new banks

	membership age group (old members before 1998 - new members after 1998)		Total
	membership before 1998	membership since 1998	
	Col %	Col %	Col %
1-30 shares	91,0%	95,6%	92,7%
31+ shares	9,0%	4,4%	7,3%
Total	100,0%	100,0%	100,0%

Source: Survey

Table XXX.65 Distribution of Members according their contribution to the Co-operative capital (by age of membership)

Group Total

	membership age group (old members before 1998 - new members after 1998)		Total
	membership before 1998	membership since 1998	
	Col %	Col %	Col %
1-30 shares	54,0%	63,0%	58,4%
31+ shares	46,0%	37,0%	41,6%
Total	100,0%	100,0%	100,0%

Source: Survey

Table XXX.66 Do you plan to buy more shares * Bank's age group (old banks - new banks) Crosstabulation

			Bank's age group (old banks - new banks)		
			members of old banks	members of new banks	Total
Do you plan to buy more shares	yes, soon	Count	9,794	1,083	10,877
		Expected Count	9,036.4	1,840.6	10,877.0
		% within Do you plan to buy more shares	90.0	10.0	100.0
		% within Bank's age group (old - new banks)	13.5	7.3	12.5
		% of Total	11.2	1.2	12.5
	yes, but after some time	Count	44,533	11,570	56,103
		Expected Count	46,609.1	9,493.9	56,103.0
		% within Do you plan to buy more shares	79.4	20.6	100.0
		% within Bank's age group (old - new banks)	61.5	78.5	64.4
		% of Total	51.1	13.3	64.4
	i would like but i canot	Count	8,663	601	9,264
		Expected Count	7,696.3	1,567.7	9,264.0
		% within Do you plan to buy more shares	93.5	6.5	100.0
		% within Bank's age group (old - new banks)	12.0	4.1	10.6
		% of Total	9.9	.7	10.6
	i don' know	Count	9,394	1,490	10,884
		Expected Count	9,042.2	1,841.8	10,884.0
		% within Do you plan to buy more shares	86.3	13.7	100.0
		% within Bank's age group (old - new banks)	13.0	10.1	12.5
		% of Total	10.8	1.7	12.5
Total		Count	72,384	14,744	87,128
		Expected Count	72,384.0	14,744.0	87,128.0
		% within Do you plan to buy more shares	83.1	16.9	100.0
		% within Bank's age group (old - new banks)	100.0	100.0	100.0
		% of Total	83.1	16.9	100.0

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1720,245[a]	3	,000
Likelihood Ratio	1929,304	3	,000
Linear-by-Linear Association	99,927	1	,000
N of Valid Cases	87128		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 1567,68.

Table XXX.67 Are Members Satisfied with the Dividend Paid (recoded)

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Col %	Count	Col %	Count	Col %	Count
yes	62.8	43,588	68.1	4,961	63.3	48,549
rather yes	33.0	22,918	27.8	2,029	32.5	24,948
rather no	3.4	2,345	3.1	225	3.3	2,570
no	.8	586	1.0	75	.9	661
Total	**100.0**	**69,438**	**100.0**	**7,291**	**100.0**	**76,729**

Source: Survey

a. Analysis includes only valid responses

Table XXX.68 How many shares * Do you care about the dividend? Crosstabulation

			Do you care about the dividend?		
			yes	no	Total
How many shares do you have	1-30 shares	Count	18,269	25,889	44,158
		Expected Count	26,290.6	17,867.4	44,158.0
		% within How many shares	41.4	58.6	100.0
		% within Do you care about the dividend?	38.4	**80.1**	55.3
		% of Total	22.9	32.4	55.3
	31+ shares	Count	29,301	6,440	35,741
		Expected Count	21,279.4	14,461.6	35,741.0
		% within How many shares	**82.0**	18.0	100.0
		% within Do you care about the dividend?	61.6	19.9	44.7
		% of Total	36.7	8.1	44.7
Total		Count	47,570	32,329	79,899
		Expected Count	47,570.0	32,329.0	79,899.0
		% within How many shares	59.5	40.5	100.0
		% within Do you care about the dividend?	100.0	100.0	100.0
		% of Total	59.5	40.5	100.0

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**13522,256**[b]	1	**,000**		
Continuity Correction[a]	13520,570	1	,000		
Likelihood Ratio	14227,694	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	13522,086	1	,000		
N of Valid Cases	79899				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 14461,64.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	**-,411**	**,000**
	Cramer's V	,411	,000
N of Valid Cases		79899	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

Table XXX.69 Do you care about the dividend? * membership age group (old members before 1998 - new members after 1998) Crosstabulation

			membership age group (old members before 1998 - new members after 1998)		
			membership before 1998	membership since 1998	Total
Do you care about the dividend?	yes	Count	22,226	25,344	47,570
		Expected Count	23,714.4	23,855.6	47,570.0
		% within Do you care about the dividend?	46.7	53.3	100.0
		% within membership age group	55.8	**63.3**	59.5
		% of Total	27.8	31.7	59.5
	no	Count	17,605	14,724	32,329
		Expected Count	16,116.6	16,212.4	32,329.0
		% within Do you care about the dividend?	**54.5**	45.5	100.0
		% within membership age group	44.2	36.7	40.5
		% of Total	22.0	18.4	40.5
Total		Count	39,831	40,068	79,899
		Expected Count	39,831.0	40,068.0	79,899.0
		% within Do you care about the dividend?	49.9	50.1	100.0
		% within membership age group	100.0	100.0	100.0
		% of Total	49.9	50.1	100.0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**460,412**[b]	1	**,000**		
Continuity Correction[a]	460,103	1	,000		
Likelihood Ratio	460,896	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	460,407	1	,000		
N of Valid Cases	79899				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 16116,55.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	**-,076**	**,000**
	Cramer's V	,076	,000
N of Valid Cases		79899	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

Table XXX.70 if the dividend were small how would you react BY How many shares Crosstabulation

			How many shares do you have		
			1-30 shares	31+ shares	Total
if the dividend were small how would you react	i would not object if that would result in the growth of CB	Count	**30698**	19141	49839
		Expected Count	**27544,7**	22294,3	49839,0
		% within Row	61,6%	38,4%	100,0%
		% within Col	**69,5%**	53,6%	62,4%
		% of Total	38,4%	24,0%	62,4%
	i would not mind if it would be > than current interest rate	Count	4559	**7751**	12310
		Expected Count	6803,4	**5506,6**	12310,0
		% within Row	37,0%	63,0%	100,0%
		% within Col	10,3%	**21,7%**	15,4%
		% of Total	5,7%	9,7%	15,4%
	i would not mind if it was for one year	Count	6828	**6090**	12918
		Expected Count	7139,4	**5778,6**	12918,0
		% within Row	52,9%	47,1%	100,0%
		% within Col	15,5%	**17,0%**	16,2%
		% of Total	8,5%	7,6%	16,2%
	i would start thinking to get rid of my shares	Count	2073	**2759**	4832
		Expected Count	2670,5	**2161,5**	4832,0
		% within Row	42,9%	57,1%	100,0%
		% within Col	4,7%	**7,7%**	6,0%
		% of Total	2,6%	3,5%	6,0%
Total		Count	44158	35741	79899
		Expected Count	44158,0	35741,0	79899,0
		% within Row	55,3%	44,7%	100,0%
		% within Col	100,0%	100,0%	100,0%
		% of Total	55,3%	44,7%	100,0%

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**2791,443**[a]	3	**,000**
Likelihood Ratio	2793,253	3	,000
Linear-by-Linear Association	909,184	1	,000
N of Valid Cases	79899		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 2161,49.

Table XXX.71 if the dividend were small how would you react BY membership age group (old members before 1998 - new members after 1998) Crosstabulation

			membership age group (old members before 1998 - new members after 1998)		
			membership before 1998	membership since 1998	Total
if the dividend were small how would you react	i would not object if that would result in the growth of CB	Count	28902	20937	49839
		Expected Count	24845,3	24993,7	49839,0
		% within Row	**58,0%**	42,0%	100,0%
		% within Col	72,6%	52,3%	62,4%
		% of Total	36,2%	26,2%	62,4%
	i would not mind if it would be > than current interest rate	Count	4897	7414	12311
		Expected Count	6137,2	6173,8	12311,0
		% within Row	39,8%	**60,2%**	100,0%
		% within Col	12,3%	18,5%	15,4%
		% of Total	6,1%	9,3%	15,4%
	i would not mind if it would be for one year	Count	4757	8161	12918
		Expected Count	6439,8	6478,2	12918,0
		% within Row	36,8%	**63,2%**	100,0%
		% within Col	11,9%	20,4%	16,2%
		% of Total	6,0%	10,2%	16,2%
	i would start thinking to get rid of my shares	Count	1275	3557	4832
		Expected Count	2408,8	2423,2	4832,0
		% within Row	26,4%	**73,6%**	100,0%
		% within Col	3,2%	8,9%	6,0%
		% of Total	1,6%	4,5%	6,0%
Total		Count	39831	40069	79900
		Expected Count	39831,0	40069,0	79900,0
		% within Row	49,9%	50,1%	100,0%
		% within Col	100,0%	100,0%	100,0%
		% of Total	49,9%	50,1%	100,0%

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**3761,550**[a]	3	**,000**
Likelihood Ratio	3825,451	3	,000
Linear-by-Linear Association	306,053	1	,000
N of Valid Cases	79900		

a. 0 cells (,0%) have expected count less than 5. The minimum expected count is 2408,80.

Table XXX.72 Do members participate in the G.A. By Bank's Age - Crosstab

			Bank's age group (old banks - new banks) members of old banks	members of new banks	Total
Did you take part in the last General Meeting	yes	Count	16,842	**4,398**	21,240
		Expected Count	17,645.5	**3,594.5**	21,240.0
		% within Did you take part in the last General Meeting	79.3	20.7	100.0
		% within Bank's age group (old banks - new banks)	23.3	**29.8**	24.4
		% of Total	19.3	5.0	24.4
	no	Count	**55,541**	10,347	65,888
		Expected Count	**54,737.5**	11,150.5	65,888.0
		% within Did you take part in the last General Meeting	84.3	15.7	100.0
		% within Bank's age group (old banks - new banks)	**76.7**	70.2	75.6
		% of Total	63.7	11.9	75.6
Total		Count	72,383	14,745	87,128
		Expected Count	72,383.0	14,745.0	87,128.0
		% within Did you take part in the last General Meeting	83.1	16.9	100.0
		% within Bank's age group (old banks - new banks)	100.0	100.0	100.0
		% of Total	83.1	16.9	100.0

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**285,875**[b]	1	**,000**		
Continuity Correction[a]	285,519	1	,000		
Likelihood Ratio	275,768	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	285,871	1	,000		
N of Valid Cases	87128				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 3594,53.

(cont. next page)

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**285,875**[b]	1	,000		
Continuity Correction[a]	285,519	1	,000		
Likelihood Ratio	275,768	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	285,871	1	,000		
N of Valid Cases	87128				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 3594,53.

Table XXX.73 Do Members participate in the G.A. By Membership Age - Crosstab

			membership age group (old members before 1998 - new members after 1998)		
			membership before 1998	membership since 1998	Total
Did you take part in the last General Meeting	yes	Count	12,561	8,679	21,240
		Expected Count	10,767.2	10,472.8	21,240.0
		% within Did you take part in the last General Meeting	**59.1**	40.9	100.0
		% within membership age group (old members - new members)	28.4	20.2	24.4
		% of Total	14.4	10.0	24.4
	no	Count	31,607	34,281	65,888
		Expected Count	33,400.8	32,487.2	65,888.0
		% within Did you take part in the last General Meeting	48.0	**52.0**	100.0
		% within membership age group (old members - new members)	71.6	79.8	75.6
		% of Total	36.3	39.3	75.6
Total		Count	44,168	42,960	87,128
		Expected Count	44,168.0	42,960.0	87,128.0
		% within Did you take part in the last General Meeting	50.7	49.3	100.0
		% within membership age group (old members - new members)	100.0	100.0	100.0
		% of Total	50.7	49.3	100.0

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**801,434**[b]	1	**,000**		
Continuity Correction[a]	800,987	1	,000		
Likelihood Ratio	805,313	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	801,425	1	,000		
N of Valid Cases	87128				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 10472,76.

(cont. next page)

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	**Phi**	**,096**	**,000**
	Cramer's V	,096	,000
N of Valid Cases		87128	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

Table XXX.74 Do members participate in the G.A by No of Shares thy hold - Crosstab

			How many shares do you have		
			1-30 shares	31+ shares	Total
Did you take part in the last General Meeting	yes	Count	8705	12535	21240
		Expected Count	12409,6	8830,4	21240,0
		% within Did you take part in the last General Meeting	41,0%	59,0%	100,0%
		% within How many shares	17,1%	34,6%	24,4%
		% of Total	10,0%	14,4%	24,4%
	no	Count	42200	23688	65888
		Expected Count	38495,4	27392,6	65888,0
		% within Did you take part in the last General Meeting	64,0%	36,0%	100,0%
		% within How many shares	82,9%	65,4%	75,6%
		% of Total	48,4%	27,2%	75,6%
Total		Count	50905	36223	87128
		Expected Count	50905,0	36223,0	87128,0
		% within Did you take part in the last General Meeting	58,4%	41,6%	100,0%
		% within How many shares	100,0%	100,0%	100,0%
		% of Total	58,4%	41,6%	100,0%

Source: Survey

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	**3517,599**[b]	1	**,000**		
Continuity Correction[a]	3516,650	1	,000		
Likelihood Ratio	3480,348	1	,000		
Fisher's Exact Test				,000	,000
Linear-by-Linear Association	3517,559	1	,000		
N of Valid Cases	87128				

a. Computed only for a 2x2 table

b. 0 cells (,0%) have expected count less than 5. The minimum expected count is 8830,42.

Symmetric Measures

		Value	Approx. Sig.
Nominal by Nominal	Phi	-,201	,000
	Cramer's V	,201	,000
N of Valid Cases		87128	

a. Not assuming the null hypothesis.

b. Using the asymptotic standard error assuming the null hypothesis.

Table XXX.75 How do members explain their opinion about the participation opportunities offered

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col Response %	Col Response %	Col Response %
effective G.A./democratic procedures/accountability of BoD	38.4	61.8	42.4
Effective supervisory committee	.8	.0	.7
we know who they are/ trust/ close everyday contact	*32.2*	*24.2*	*30.9*
Accessible-open to remarks BoD	*11.9*	*11.6*	*11.9*
You can make the difference if you talk with the BoD	*8.7*	*.5*	*7.3*
BoD controls everything/no need for members to participate	*4.6*	*3.1*	*4.4*
inform frequently and ask pressure to participate	*2.7*	*1.5*	*2.5*
Transparent procedures/You can check on every transaction	*1.6*	*.0*	*1.3*
ineffective General Assembly/we cannot participate (distance)	15.7	14.8	15.5
we don't have information-technical knowledge to participate	7.9	.5	6.6
A small group runs the CB/They don't "listen" to our needs	6.0	1.5	5.2
members participation cannot influence bank's procedures	3.2	.0	2.7
Indifferent memebrship-the syrvey an opportunity to learn CB	.8	.5	.8
local committees could be a solution	.8	2.0	1.0
Total	**135.5**	**122.0**	**133.2**

Source: Survey

a. Multiple responses - percentage of cases that mentioned category (font changes when recoded category changes

Table XXX.76 Development problems that members' prefecture face

	Bank's age group (old banks - new banks)			
	members of old banks		members of new banks	
	Count	Col %	Count	Col %
problems that local authorities should face	104	**63.8**	61	42.1
problems deriving from inappropriate state policies	96	58.9	88	**60.7**
problems concerning local market structure and performance	73	**44.8**	58	40.0
unemployment	69	42.3	56	38.6
low investment and low product prices in agriculture	18	11.0	94	**64.8**
none	6	3.7		

Source: Survey

Table XXX.77 Can the Coop Bank help confronting the developmental problems

	Bank's age group (old banks - new banks)			
	members of old banks		members of new banks	
	Count	Col %	Count	Col %
certainly yes	34	**20.9**	15	10.3
rather yes	81	**49.7**	45	31.0
rather no	26	16.0	57	**39.3**
no	9	5.5	17	**11.7**
i dont know	7	4.3	10	6.9
no answer	6	3.7	1	.7
Total	163	100.0	145	100.0

Source: Survey

Table XXX.78 Do members intend to continye their membership with their Co-op Bank

	Bank's age group (old banks - new banks)				Total	
	members of old banks		members of new banks			
	Count	Col %	Count	Col %	Count	Col %
certainly yes	59,761	82.6	8,241	55.9	68,003	78.0
rather yes	12,621	17.4	5,465	37.1	18,086	20.8
no	0	.0	964	6.5	964	1.1
i dont know	0	.0	75	.5	75	.1
Total	72,383	100.0	14,745	100.0	87,128	100.0

Source: Survey