

## **A co-operative solution in the provision of financial services:**

*The case of Greek Co-operative Banks*

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International Journal of Decision Ethics

(Vol. IV.1 - Fall 2007 - pp.95-147)

### **ABSTRACT**

*During the 90s a new form of co-operative activity has made its appearance in the Greek rural areas with remarkable dynamism. At the beginning of the decade there were only two credit co-operatives operating in Greece. However, at the end of the decade there were 16 co-operative banks, all located at provincial towns. Further, within that period, they have managed to build their apex institutions, a national association and their central bank.*

*This paper presents empirical results of a wider research effort, an important feature of which lies in its attempt to focus on the early stages of co-operative banks' development in order to analyse the initial, locally and socially contested processes that gave birth to these financial co-operatives. It seeks among the operational advantages of Greek co-operative banks to provide evidence of their importance for the development of the local areas they serve. Further, it elaborates on critical research findings to describe the difficulties that they faced in their development path and concentrates upon the institutional issues that have arisen once the financial co-operatives have been formed.*

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## **1. INTRODUCTION**

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. It is worth noting that during that period of the rapid development of co-operative credit the Greek agricultural and consumer co-operative movement has experienced extreme difficulties. 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.

The present paper is part of a wider research project, which 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, the research focused on the dual capacity of co-operative banks, that is, as a grass-root initiative and as a local financial intermediary. Adequate secondary data were collected from the co-operative banks and the Association of Co-operative Banks of Greece. Moreover, 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 random sample of 308 co-operative bank members, which were selected through a stratified probability sampling procedure.

The paper focuses firstly on the reasons that delayed the appearance of credit cooperatives in Greece and sketches briefly the financial environment in which the co-operative banks initiated their operations. It searches for the pressing needs that they were called to confront and provide answers to the question as to which segment(s) of the local society found in the co-operative solution the means to satisfy its needs. Then it traces how those segments of the local population joined forces, shaped the co-operatives orientation and finally utilized its services. Finally, it discusses from a co-operative management perspective these future steps which could add to their potential and help them confront the challenges they will face in an increasingly competitive environment.

The paper concludes that 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. Clearly the development of an alternative model has implications for increasing the effectiveness of market mechanisms to increase welfare by breaking up the tendency towards oligopoly as private sector financial services increasingly become more concentrated.

The study identified, also, some problematic issues and more specifically, the role of the state in hindering or confining co-operative development and, the role of miss-management and poor leadership in some sectors of the movement tarnishing the whole concept of co-operation. The suggestion arising from these findings is that the movement must become more proactive in its development of professional and managerial capacity that understands and is sympathetic to the co-operative purpose and values.

## **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<sup>1</sup> 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 enterprises of the country, the absence of co-operative credit can be attributed to a series of factors (Steriotis C. 1993; Tragakis G., 1996; Alexopoulos, G. 2006a):

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 should be mentioned 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 exodus" 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 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.

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<sup>1</sup> 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 4<sup>th</sup> 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 3<sup>rd</sup> 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.

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, in the last two decades of the 20<sup>th</sup> century and 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 (Papageorgiou, 2004). In sum, from these last remarks, the following problematic issues can be identified: a) The role of the state in hindering or confining co-operative development; and b) The role of mismanagement and poor leadership in some sectors of the movement tarnishing the whole concept of co-operation

However, researchers of the Greek banking system identify some key characteristics of a dynamically changing market (IOVE, 1996; BOG, 2001 & 2002; Belaisch *et al*, 2001; ECB, 2001; Eichengreen and Gibson, 2001; Staikouras & Wood, 2001). 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 (Berger *et al* 2001a & 2001b; Emmons & Schmid, 1999 & 2000; Farinha & Santos, 2002).

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, while until the 90s, according to relevant data (Table I in the Appendix) and for the reasons described earlier, only two credit cooperatives were active in Greece.

### **3. GREEK CO-OPERATIVE BANKING IN FIGURES**

According to the last available data of 31.12.2007, in total, Greek Co-operative Banks employ 1086 persons in 157 branches in order to serve 187,347 members. Their membership holds some 2.61 billion euros in deposits and received from their banks 2.54 billion euros in loans. With total assets of 3.29 billion euros, one sixth of which is own (equity) capital, their gross profits were nearly 131.31 million euros and their net pre-tax profits were 56.07 million euros.

In order to situate, at least schematically, the above mentioned figures of co-operative credit in the Greek banking market it should be mentioned that in 2007 its market share stood at the levels of 1% (0.8% of assets, 0.9% of deposits and 1.0 % of loans of the total). It is, also, worth noting that the Greek Co-operative banks' assets stand for less than 1% of the corresponding figure for the German credit co-operative institutions. This shows that the BVR assets equal the total assets of the entire Greek banking system. The following table present the evolution of the co-operative banks' main figures for the years 1998, 2002 and 2007 and gives a brief outline of the basic figures of Greek co-operative Banks (Table 1).

**Table 1 Main Figures of Co-operative Banking (1998, 2002 and 2007, year- end)**  
(financial data in million euros)

	1998	2002	2007	change 2002/1998	change 2007-2002	annual change
Members	62,455	112,736	187,347	80.5%	66.2%	22.2%
Assets	343.1	926.1	3,290.6	169.9%	255.3%	95.5%
Loans	251.0	721.4	2,543.7	187.4%	252.6%	101.5%
Deposits	223.2	682.1	2,616.6	205.6%	283.6%	119.1%
Co-op Capital	71.1	145.7	236.0	104.9%	62.0%	25.8%
Own Capital	103.7	214.8	489.2	107.1%	127.7%	41.3%
Profits (pre-tax)	11.5	17.7	56.1	53.9%	216.9%	43.1%
Personnel	247	556	1086	125.1%	95.3%	37.7%

**Source:** *ESTE, published balance sheets, author's calculations*

In the nine year period (1998-2007) total membership and co-op capital were tripled, assets, loans and deposits were ten times bigger and equity capital, pre tax profits and the number of employees grew by an annual rate of almost 40,0 per cent. It is important to note that while until 2002 the absolute figure of loans was steadily above that of deposits, the last five years the relevant increase of deposits was higher, even marginally, than 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 channeled 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, two in 1999, one in 2000 and one in 2004.

The relative importance of each co-operative bank to the total is shown in Table II in the appendix where the share of each co-operative bank in total membership, assets, loans and deposits for the years 2000 and 2007 are presented. 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 BoG and to be granted permission to operate as a Co-operative Bank. The growth of that 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 five years (2000-2005) managed to almost triple its branches (from 17 to 48). This advanced spatial penetration within its territory resulted to the impressively increased shares in the total main figures reported.

However, the impressive growth of Pancretan Co-operative Banks should not be regarded as typical of the performance of the average Greek credit co-operative institution. As it is often stressed in credit union studies (Ferguson and McKillop, 1997; McKillop et al, 1997; Frankel et al, 1999), financial co-operative industries are in fact heterogeneous, an argument which, as the data presented in this paper illustrate, is valid in the Greek case as well. Yet, focusing on the groups of local population that worked together is expected to provide valuable information on interesting aspects of their evolution.

#### 4. TURNING PROBLEMS INTO OPPORTUNITIES: STRATEGIC CHOICES FOR A NEW MARKET ENTRANCE

##### 4.1 The target: Filling the gap in the financial services provision

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 and thus in any case the origination of co-operative banks presents strong links with local entrepreneurial society (Diagram I -Appendix). Such a view is, also, verified by the composition of professional activities of the members of the co-operative banks. Table 2 shows that co-operative banks are particularly active in the fields of small and medium enterprises (SMEs)<sup>2</sup> and of self-employed professionals, two groups that correspond to 74.1 per cent of the total number of members.

Table 2 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

<sup>2</sup> Those referred as employers in the sample, employ 1-3 persons. Also, all professions serving the local population are included in the self-employed category, e.g. doctors, engineers, pharmacists, book-keepers, craftsmen, plumbers, etc.

It can be seen that the ‘older’<sup>3</sup> 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. 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 need further research.

The age structure of members (Table 3) 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 3 Age of Members by Age of Bank**

	Bank's age group (old banks - new banks)		Total
	members of old banks	members of new banks	
	Col %	Col %	Col %
<b>18 to 25</b>	6.1	.5	5.1
<b>26 to 35</b>	26.4	22.8	25.8
<b>36 to 45</b>	20.9	31.9	22.8
<b>46 to 55</b>	31.1	21.2	29.4
<b>56 to 65</b>	9.7	22.0	11.8
<b>&gt; 65</b>	5.8	1.5	5.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Members' Survey

Finally, the findings referring to the educational level of members of the co-operative banks appear to be quite interesting. 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 III (Appendix) presents the operational objectives that, according to the respondents, had to be achieved by means of efficient functioning of the co-operative banks.

<sup>3</sup> For research purposes the co-operative banks that initiated their operations before 1997 are defined as “old” and these that took the licence from the Bank of Greece after 1997 are defined as “new”. The survey results has shown that this was a justified distinction as the two groups present different operational characteristics and are found in a distinct development process

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.

#### *4.2 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. The most important problems as these were specified by the co-operative officials can be classified in the following categories (for detailed answers see Table IV-Appendix):

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-op 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 4 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 4 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	
	Col %	Col %	Col %
<b>Interesting Venture</b>	75.7	66.1	74.0
<b>Good initiative</b>	19.7	25.2	20.6
<b>I had reservations</b>	34.1	42.6	35.6
<b>Total</b>	<b>129.5</b>	<b>134.9</b>	<b>130.2</b>

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.<sup>4</sup>

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.

#### *4.3 The implementation of operational objectives: Searching for the competitive advantage of Greek Co-operative Banks*

At the beginning of the present analysis, 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. 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

<sup>4</sup> The degree of severity of these problems was decisive regarding the length of the transition period. While no particular delays were observed for coop banks that were granted permission before 1997, from 1998 onwards the period between the establishment of a credit coop and the approval of its operation as a coop bank ranges from two to six years.

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<sup>5</sup> accounts were added gradually, so that today all co-operative banks offer these services.

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.

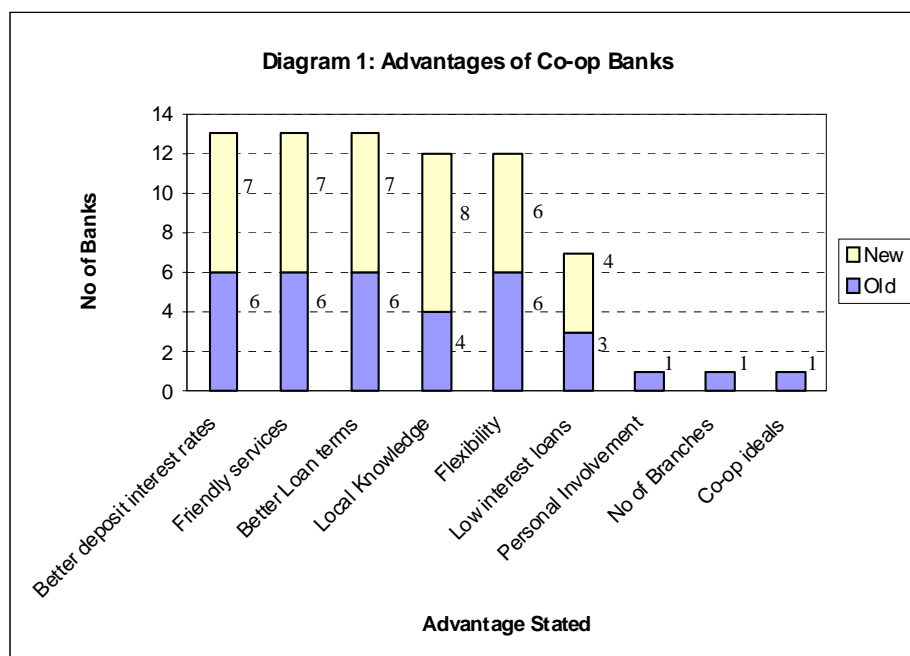
As one might expect, the 'older' and bigger co-operative banks offer a wider variety of products and services. The wider variety is offered by the Pancretan Co-operative Bank (17 products/services), followed by the Co-operative Bank of the Dodecanese (14), Lamia (13) and Chania (12). Despite the fact 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. 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. Thus, as should be expected, when members were 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. 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). 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. In this endeavour, co-op 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-op banks and the synergy of their efforts are not the sole advantages that co-operative banks recognise as being available to them. Diagram 1 below presents the advantages that co-op banks themselves consider to be at their disposal in their banking operation, in relation with their competitors (for detailed answers see Table V – Appendix).

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<sup>5</sup> 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



These advantages 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 extent, 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 researchers' 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 in Table 5.

Table 5 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 <sup>a</sup>	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) 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 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. 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. The members of 'old' banks are comparatively more satisfied from the terms applying to loans.

Members were, also, 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). Exceptionally high is also the percentage of members who are satisfied with the quality of products and services offered (87.0 per cent). 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. 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 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). 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.

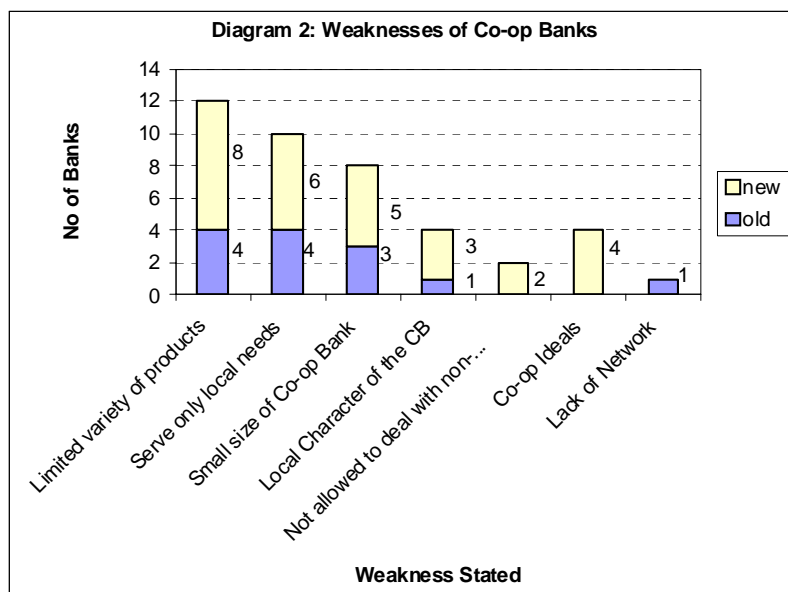
The similarity of members' views with the reasons stated by the co-operative banks as the ones that led to their establishment and inspire their everyday banking philosophy, allows for the following remarks. First, it appears that co-operative banks, in planning their policy, take into account the views 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.

## 5. WEAKNESSES IN CO-OP BANKS’ PERFORMANCE: IMPLICATIONS FOR FUTURE POLICY AND INSTITUTIONAL ELEMENTS

The analysis thus far has revealed in several parts various aspects of the co-operative banking development, which are definitely of considerable interest with reference to a thorough evaluation of its evolution. 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 exploring in the weaknesses that co-operative banks and/or their members mentioned to the researcher that they are facing, and; secondly 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.

The following diagram summarises the most important weaknesses that the officials acknowledge to be present in the co-operative banks’ performance information (detailed responses are provided in Table V – Appendix).



It appears that the ‘younger’ co-operative banks see that they 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). 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. 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 the 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 week, 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. 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’ officials 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) 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 should be mentioned 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- 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. 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) or the terms applying for loans (22.3 per cent and 33.9 per cent respectively). 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.

## 6. CONCLUSIONS AND DISCUSSION

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. 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.

The survey 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 confirms the validity of the argument, which, places 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 competition in a highly concentrated banking market, and strived to alter the functioning of the local market by forming their own co-operative banks. Earlier research findings (Alexopoulos 2006b) has also shown that they stress the necessity of enhancing and expanding the banking services toward a wider part of the local population. Clearly the development of an alternative model has implications for increasing the effectiveness of market mechanisms to increase welfare by breaking up the tendency towards oligopoly as private sector financial services increasingly become more concentrated. 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 was tempting, therefore, to seek for the route that the co-operative banks actually followed to mitigate such a market failure.

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 (Alexopoulos, 2006b). 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. 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 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 researchers' 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. However, more research needs to be undertaken to see whether the local competences in terms of service provision by the Co-operative Banks identified in the study have been replicated in other countries financial services sector.

Yet, 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.

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.

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-<sup>6</sup> 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 suggestion arising from these findings is that the movement must become more proactive in its development of professional and managerial capacity that understands and is sympathetic to the co-operative purpose and values. 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.

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<sup>6</sup> For more on these paradigms see among others : 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

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## Appendix

Table I: Co-operative Banks in Greece <sup>(1)</sup>

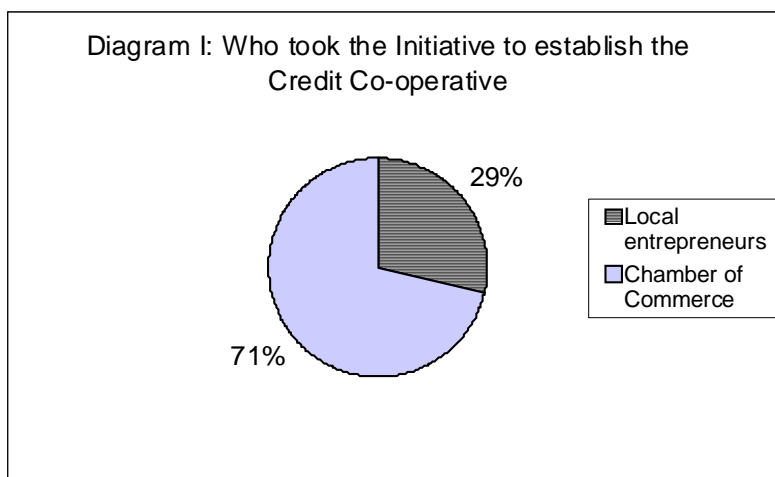
Co-operative Bank	Foundation Year of the Credit Co-operative	Foundation Year of the Co-operative Bank
Lamia	1900	1993
Ioannina	1978	1993
Achaiki	1993	1994
Pancretan	1993	1994
Chania	1993	1995
Dodecanese	1993	1995
Evros	1994	1996
Karditsa	1994	1998
Trikala	1995	1998
Evia	1996	1998
Corinth	1994	1998
Pieria	1995	1998
Drama	1994	1998
Lesvos-Limnos	1995	1999
Kozani	1995	2000
Serres	1995	2004

<sup>(1)</sup> 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

**Table II Co-operative Banks' shares in main total figures  
(2000 & 2007, year end)**

Co-op Bank	Members %		Assets %		Loans %		Deposits %		Branches No	
	2000	2007	2000	2007	2000	2007	2000	2007	2000	2007
<b>Lamia</b>	<b>17.4</b>	<b>6.9</b>	<b>14.1</b>	<b>2.2</b>	<b>18.6</b>	2.4	<b>13.2</b>	2.1	<b>3</b>	<b>6</b>
Ioannina	5.2	3.6	4.2	2.2	4.2	2.3	5.1	2.2	1	4
<b>Achaiki</b>	<b>5.9</b>	<b>7.2</b>	<b>7.1</b>	<b>6.5</b>	<b>7.1</b>	<b>6.6</b>	<b>5.2</b>	<b>6.3</b>	<b>2</b>	<b>10</b>
Pancretan	32.1	39.7	32.7	50.9	33.1	51.6	29.9	52.4	17	52
<b>Chania</b>	<b>10.1</b>	<b>11.0</b>	<b>14.7</b>	<b>12.2</b>	<b>13.8</b>	<b>11.1</b>	<b>16.7</b>	<b>11.1</b>	<b>8</b>	<b>22</b>
Dodecanese	9.7	9.8	10.9	7.8	10.1	8.5	13.1	8.7	6	17
<b>Evros</b>	<b>2.6</b>	<b>2.4</b>	<b>3.5</b>	<b>1.5</b>	<b>2.7</b>	<b>1.4</b>	<b>4.6</b>	<b>1.6</b>	<b>2</b>	<b>5</b>
Karditsa	2.7	2.0	2.6	1.4	2.0	1.3	2.8	1.1	1	1
<b>Trikala</b>	<b>3.3</b>	<b>3.5</b>	<b>1.9</b>	<b>3.6</b>	<b>1.5</b>	<b>3.7</b>	<b>1.9</b>	<b>3.6</b>	<b>1</b>	<b>5</b>
Evia	2.6	3.2	3.0	2.7	3.0	2.8	3.4	2.7	1	7
<b>Corinth</b>	<b>1.7</b>	<b>1.2</b>	<b>0.8</b>	<b>1.4</b>	<b>0.8</b>	<b>1.4</b>	<b>0.5</b>	<b>1.2</b>	<b>1</b>	<b>7</b>
Pieria	1.8	1.6	1.3	1.3	0.8	0.9	1.2	1.4	1	1
<b>Drama</b>	<b>2.5</b>	<b>1.8</b>	<b>1.7</b>	<b>1.1</b>	<b>1.3</b>	<b>1.1</b>	<b>1.4</b>	<b>1.0</b>	<b>1</b>	<b>2</b>
Lesvos-Limnos	2.3	2.6	1.4	2.1	0.9	2.2	1.0	2.0	1	11
<b>Kozani</b>	<b>-</b>	<b>1.8</b>	<b>-</b>	<b>1.3</b>	<b>-</b>	<b>1.3</b>	<b>-</b>	<b>1.1</b>	<b>-</b>	<b>5</b>
Serres	-	1.6	-	1.6	-	1.6	-	1.5	-	2
<b>Total</b>	<b>100.00</b>		<b>100.00</b>		<b>100.00</b>		<b>100.00</b>		<b>45</b>	<b>157</b>

Source: *ESTE, author's calculations*



Source: *Co-op Banks' Survey*



**Table III: Operational Objectives of Co-operative Banks**

Co-operative Bank	Objectives (in order of importance)		
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
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*

**Table IV: Identified Problems During the Transition Period**

Co-op Bank	Problems Identified (in order of importance)		
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>
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*

**Table V: Advantages of Co-op Banks**

Co-op Bank	Advantages stated in order of importance					
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>	6 <sup>th</sup>
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*

**Table V: Weaknesses of Co-op Banks**

Co-op Bank	Weaknesses stated in order of importance				
	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	4 <sup>th</sup>	5 <sup>th</sup>
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*