



CO-OPERATIVE BANKING IN GREECE: A PROPOSAL FOR RURAL REINVESTMENT AND URBAN ENTREPRENEURSHIP

Observatory of Economic and Social Developments, Labour Institute, Greek General
Confederation of Labour
(Παρατηρητήριο Οικονομικών και Κοινωνικών Εξελίξεων, Ινστιτούτο Εργασίας, ΓΣΕΕ)

Dimitri B. Papadimitriou
Taun Toay

April 2014
Annandale-on-Hudson, New York

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ACRONYMS

AECR – Asociación Española de Cajas Rurales

BaFin – Federal Financial Services Authority (Germany)

BCC – Boston Community Capital

BCE – Spanish Co-operative Bank

BP – Banque Populaire

CA – Crédit Agricole

CARS – Community Development Financial Institutions Assessment and Rating System

CCB – Central Co-operative Bank

CDBs – Community Development Banks

CDBIs – Community Development Banking Institutions

CDCs – Community Development Corporations

CDCUs – Community Development Credit Unions

CDFIs – Community Development Finance/Financial Institutions

CDLFs – Community Development Loan Funds

CDVCFs – Community Development Venture Capital Funds

CEI – Coastal Enterprises Incorporated

CFIs – Co-operative Financial Institutions

CNCA – Caisse Nationale de Crédit Agricole

CTO – Cyprus Tourism Organization

DDI – Development Deposit Intensity

DLI – Development Lending Intensity

DZ Bank – Zentral-Genossenschaftsbank (German Central Co-operative Bank)

ACRONYMS continued

EACB – European Association of Co-operative Banks

EC – European Commission

ECB – European Central Bank

ECS – European Co-operative Society

ELSTAT – The Hellenic Statistical Authority

EMU – Economic and Monetary Union

ESC – Economic and Social Community

EU – European Union

FCU – Federal Credit Union

GDP – Gross Domestic Product

GNP – Gross National Product

HMDA – Home Mortgage Disclosure Act

ICA – International Co-operative Alliance

ICCREA – Istituto di Credito delle Casse Rurali ed Artigiane

ILO – International Labour Organization

IMF – International Monetary Fund

INE/GSEE – Labour Institute of the Greek General Confederation of Labour

LIIF – Low Income Investment Fund

LLCs – Limited Liability Companies

LMI – Low-to-Moderate Income

M&E – Monitoring and Evaluation

MFIs – Microfinance Institutions

ACRONYMS continued

MIS – Management Information System

NCIF – National Community Investment Fund

NGO – Nongovernment Organization

OECD – Organization for Economic Co-operation and Development

OTOE – Greek Federation of Bank Employee Unions (in Greek)

PASEGES – Panhellenic Confederation of Unions of Agricultural Co-operatives

PSTS – Project Statistics Tracking System R&S – Regulation and Supervision

ROA – Return on Assets

RSI – Rural Servicios Informáticos

RZB – Raiffeisen Zentralbank

SCE – European Co-operative Society

SMEs – Small and Medium-size Enterprises

WWOOF – World Wide Opportunities for Organic Farms

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EXECUTIVE SUMMARY

Among the many ills facing Greece during its continuing crisis is the disenfranchisement of businesses and individuals, in many poor regions, from the financial system: many start-ups and small enterprises have no access to loans to grow their businesses, and for those to whom credit can be extended, it is at disproportionately high interest rates averaging over 8 percent—the highest level since Greece joined the European Economic and Monetary Union (EMU)—despite the extraordinary low benchmark interest rates currently set by the European Central Bank (ECB). Furthermore, low-income people have very limited access to financial services. While this exclusion was evident before the crisis in Greece began, it has been exacerbated by the crisis. To be sure, private sector loans are down in the eurozone as a whole because of the economic contraction and lack of demand, but in Greece the capital adequacy of the banking sector is still tenuous, rendering credit liquidity very hard to access.

Community development banks (CDBs) in the United States present a bold and serious initiative addressing the main function of a financial system—that is, the capital development of the economy. It appears that the ideas of CDBs and other financial co-operatives, especially those in Europe, are currently garnering support from small business and agricultural firms within Greece. In a recent study, Germany's Sparkassestiftung fuer der Internationalen Kooperation urged the creation in Greece of a network of autonomous savings and/or co-operative banks, similar to those in Germany (Sparkassen), offering financial and technical support from the Union of German Savings Banks (Katsaganis 2014). The Association of Small- and Medium-Size Enterprises (SMEs) in Greece in many news articles echoes the urgent need for restructuring the existing and increasing the number of co-operative banks in Greece (Katsaganis 2013, *To Vima* 2013), if the country's economic growth is to begin.

Our proposal takes a larger view of expanding the reach and services of co-operative financial institutions (CFIs), drawing upon lessons from the US experience of CDBs and co-operative banking in many European countries. Establishing a nationwide system of community development banks in the United States has long been on the policy agenda of the Levy Economics Institute (Minsky et al. 1992, 1993; Papadimitriou, Phillips, and Wray 1993a,b). This need is based on the notion that existing institutions are not adequately performing critical functions of the financial system for start-up and small- and medium-size business entrepreneurs, and for low-income urban residents and rural citizens who seek modest financing and other banking services. The primary goals of the CDBs are to deliver credit, payment, and savings opportunities to regions and communities not well served by banks, and to provide financing throughout a designated area for businesses too small to attract the interest of the investment banking and normal commercial banking communities. An analogous, although distinct, system already exists in the credit unions network in the United States, and among co-operative financial institutions throughout Europe.

The primary goals of the co-operative financial institutions in Greece would be to make credit available, process payments, and offer savings opportunities to communities not well served by the

major commercial—and still undercapitalized—Greek banks. Furthermore, the massive closure of SMEs in Greece and the relatively high rate of population returning to the agricultural regions for agrobusiness or tourism make CFIs an important part for the economic recovery in Greece.

Within co-operative banks, members include both savers and borrowers, with savings used to back loans and increase the pool of available funds from local and regional depositors. CFIs, comprising co-operative banks and savings and credit co-operatives, would not rely on capital markets for funding, but would be financed initially from the government, nonprofit institutions, social entrepreneurs, and member deposits. Coupled with the limited access to outside lending windows, this would be one reason for stricter loan underwriting standards, setting lower leverage ratios, restrictions on the types of acquired assets, and higher capital ratios. Experience shows that member-owned co-operatives tend to focus on “relationship banking,” and, in general, to be more risk averse than major financial institutions. Experience has also shown that when financial co-operatives are run efficiently, loan performance is better than that in commercial banks. The savings and credit co-operatives would be profit-making institutions, but not hungry for higher returns that would, ultimately, diminish their special purpose in the country’s financial structure.

The community service aspects of the banks involve the payment mechanism and the savings facility. These require the return to traditional banking, in which the loan officer is familiar with the customer’s needs and can use the long-established concept of “relationship banking” that informs the assessment and pricing of risk. In this regard, an assumption underlying the lack of credit facilities asserts that there are “bankable risks” and feasible “equity investments” in distressed and underserved communities that involve amounts too small for the established commercial banking community. Even small commercial banks customarily handle asset and liability denominations that are larger than those typically generated in low-income communities.

There are, usually, six identifiable banking functions that could be performed by the CFIs:

1. Providing a payments system for cash withdrawals and deposits, including deposit insurance, and issuing credit and debit cards.
2. Securing depositories for savings and transaction account balances.
3. Offering household financing including mortgage, auto, and other consumer loans.
4. Providing commercial banking services for loans, payroll services, and advice to start-ups and SMEs.
5. Providing investment banking to businesses and households.
6. Offering financial education and advice and asset management to households.

This list is not meant to imply that every bank should perform all of these functions. The argument for community or co-operative financial institutions is that one or more of the above functions is not being

adequately performed by the existing, larger money center financial institutions for well-defined segments of the population: low-income urbanites, rural citizens, and craftsmen or entrepreneurs who seek modest banking services, including financing for start-up and existing small enterprises.

In addition, co-operative enterprises have a different governance structure, where local entities scrutinize the decisions of the central bodies. In the case of financial co-operatives, transparency and the direct connection between savings and loans—not always obvious among some of the commercial and even earlier forms of co-operative banks—would serve as deterrents to corruption and nepotism. Compared with commercial banks, CFIs freeze credit only under extraordinary circumstances, have lower interest rate increases, and are generally more stable because of stricter capitalization requirements, quality of assets, and lending practices.

The success of micro-lending institutions in developing nations (such as the Grameen Bank) has highlighted the positive economic performance of community-based credit. The deployment of such lending models has proven to be an important poverty policy alternative in areas where transfer payments are limited or inappropriate for the borrowers. More analogous to Greece would be the resilient performance of American credit unions during the subprime downturn. While commercial banks were failing at a rate not seen since the 1980s, US federal credit unions (FCUs) were actually attracting deposits and continuing to lend. Yet, while both of these lending systems boast default rates lower than most commercial bank operations, robust procedural and post-lending impact assessments are quite scant.

This report offers a historical overview of co-operative banks in the United States and Europe and proposes procedural guidelines for a reformulated network of Greek co-operative banks focused on lending to locales and populations underserved by traditional credit and banking services. Furthermore, these banks would be transparency guided, thwarting nepotism and tracking effective lending outcomes. A follow-up to this report will include a large monitoring and evaluation (M&E) component to couple with pilot-program case studies. Not only is the lending system an important component of ensuring that lower-income households and small businesses can weather the crisis and partake in an eventual recovery, but the addition of M&E and case studies will also be an important addition to a currently underserved area of research.

I. OVERVIEW

The dangerous idea of austerity and the harshness of its application in Greece have delivered a deepening recession for six years, with no clear pathways out of the country's economic malaise. The economic collapse has brought a shaky and unstable banking system to its knees not only because of the huge losses on the asset side of its balance sheet—more than a 70 percent present value haircut of its Greek government bond holdings, and a high number of its private sector loans are in arrears and default—but also due to the effect on the liability side from the international financial flight of its deposits that ensued; banks remain undercapitalized, and lending has been restricted to only the most creditworthy individuals or businesses.

Despite a liquidity freeze that shows few signs of thawing, alternatives—albeit underutilized—are possible within the existing lending infrastructure. Notably, co-operative banks have the infrastructural base to reinvent themselves to serve the underserved of the banking society. While these financial co-operatives have traditionally been focused on agricultural enterprise and localized lending, they could fill a crucial financial function by extending entrepreneurial loans and offering low-cost banking that the current, larger banks are either unwilling to offer, are too undercapitalized to offer, or are avoided by the public due to perceived risk, account minimums and high fees, or overbearing bureaucracy. While co-operative banks exist in Greece, this proposal discusses a network of banks that is not as dependent on shareholders' capital for localized lending, but can instead draw on public funds and interbank lending. By linking these banks and tying them to public funding, such banks can gain economies of scale while still maintaining lending to underserved areas.

Formal lending institutions are reluctant to lend to households without credit history and verifiable steady employment, both of which have been erratic in Greece since the crisis began. Furthermore, these two characteristics are inherent to people employed in the informal sector, which includes any economic activity that is not taxed or monitored by the government. It is a mistake to think that borrowing is lower among such groups. Instead, those without access to formal credit turn to alternative suppliers: friends, relatives, and—more tenuously—expensive alternative informal lenders.

There are three main types of co-operatives: (1) *Consumer co-operatives*, which include the financial co-operatives, allow members to purchase goods or obtain services close to cost. (2) *Producer co-operatives*, which include agricultural co-operatives, allow members to increase efficiency, by reducing the cost of supply of raw materials, and improve the promotion of their products. Finally, (3) *employee or employee-owned co-operatives* provide members with opportunities for employment and improving their skills. This report is focused only on financial co-operatives, although there is some discussion on the potential synergies of producer co-operatives and consumer co-operatives. While there is variation among the systems under which co-operative banks operate, there are some common features that define them across systems, including the following:

- Maximizing the rate of return on capital is not the primary goal, as shareholders are members in the bank, socially conscious, and interested in the region's economic stability. This structure is similar to the system of federal credit unions in the United States; however, among co-operative banks, shareholders can make investments larger than simple membership dues. While this generalization is true of most co-operatives, Greek co-operative banks have often given disproportionate power to larger shareholder and/or disjoined investment from membership.
- Members of a co-operative bank are not only owners, but also form part of the bank's governance structure. They have equal voting rights regardless of their capital investment.
- Members cannot sell their ownership stakes in an open secondary market; occasionally, however, they can sell shares back to the bank.
- Unlike American credit unions, not all customers are members. The governance structure is one that can differ in practice from the paper egalitarian structure that many such banks claim. This was the unfortunate case in Greece, where nepotism and off-balance-sheet (off-books) loans were commonplace, maximizing returns for a small number of larger investors.

Additionally, the source of capital for a co-operative bank is often retained profits. Members' shares are not transferable and profits are not used to pay the principal, but are generally reinvested in the business in the form of reserves. As such, the capital base of a co-operative bank does not belong to the current cohort of members. Co-operative banks are often part of a banking network that allows them to centralize the provision of certain services, especially where economies of scale are significant. Co-operative banks typically encourage close banking relationships with customers, fostered through geographical proximity (Ayadi et al. 2010). The Greek system is somewhat wanting on this last point. The long delay in the institutional foundation and development of co-operative credit institutions in Greece, especially in comparison to the impressive development in Europe as a whole, is strongly linked with the history of state-controlled agricultural credit in the former Agricultural Bank of Greece.

Even in the face of the euro crisis, co-operative banks remain a large force in local European banking, albeit to various extents by country. In 2010, European co-operative banks accounted for 21 percent of the market share in deposits, with 3.1 trillion euros; and 19 percent of the market share of loans at 3.3 trillion euros, as well as 5.6 trillion euros in assets. The banks employed 777,469 workers among 3,874 branches. To provide a specific example of the major role these banks play, the Netherlands Rabobank had 40 percent of the market share in deposits and 29 percent of the market share in loans (Birchall 2013).

The next section discusses the origins of co-operative banking in Europe and its uniqueness compared to traditional financial institutions. The report then turns, in Section III, to Greece, a country with a checkered past in the co-operative banking arena. Section IV proposes a new structure for networking co-operative banks and key services. We conclude in Section V. In addition, we have added a series of appendices for reference and further reading, covering the robust lending networks that comprise the United States' co-operative and community-focused financial institutions; country experiences with co-operative banking throughout Europe; time-series data on Greek financial institutions during the buildup to the eurozone crisis; and, finally, a discussion on one area that could pair the benefits of co-operative banking with rural redevelopment in the form of agrotourism.

II. CO-OPERATIVE BANKING IN EUROPE

Germany established Europe's first co-operative banks early in the 19th century. These institutions were the outgrowth of the ideas of Hermann Schulze (1808–1883) and Friedrich Wilhelm Raiffeisen (1818–1888), both advocates for farmers' access to financial services. Since the early incarnations, co-operative banks have been found throughout Europe. Germany's foundation of agricultural credit co-operatives enjoyed great success up to 1870, with the emergence of 75 co-operatives and the establishment of the first credit union co-operative under the name Agricultural Co-operative Bank of the Rhine. The foundation has been accompanied by the establishment of other compounds, as well as the establishment of the Central Agricultural Fund, later renamed the German Bank Raiffeisen, after its early founder. Schulze was the founder of the urban credit co-operatives, originally serving craftsmen.

Today, the rural focus is often still a characteristic of many co-operative banks. There is considerable variation in the growth of co-operative banks and commercial banks. More than 100 countries around the world operate more than 60,000 credit unions or co-operatives, with more than 200 million members. The European Association of Co-operative Banks (EACB) was founded in 1970; headquartered in Brussels, it represents 34 national co-operative organizations and members across 21 European countries.

The German system, detailed in Appendix B, is characteristically decentralized, despite the appearance of regulatory tiers. France and Finland take a far more hierarchical approach, with various stages of reporting and oversight. Both France and Finland are characterized by extensive public support, a framework that we will later argue is better suited to Greece than the decentralized and local structures that are common among German co-operative banks. Part of the difference in systems among nations is the product of history; in France, for example, the social Catholic movement played a large role in the development of co-operative banks. Other co-operative banks have been set up by, or with the support of, trade unions or agricultural associations (Ayadi et al. 2010). History aside, the widespread failure of many banks in Greece offers an opportunity to rebuild the system by drawing lessons from other nations.

Much of the period prior to the Great Recession was relatively flat for co-operative banking in Europe. Some of the banks diminished in importance during the period of financialization that followed the turn of the century, as giant banks grew in reach in France and Germany. Table 1a displays the market share of co-operative banks in Austria, Finland, France, Germany, Greece, Italy, the Netherlands, Portugal, and Spain between 1994 and 2003—the period of transition for the European Monetary Union.

Table 1a: Co-operative Banks Over EMU Convergence—Market Share of Assets (percent of total banking system asset)

	1994	1997	2000	2003
Austria	...	29.4	29.5	35.6
Finland	18.5	17.5	16.2	15.9
France 1/	28.4	27.9	28.1	24.1
Germany	14.3	12.4	9.8	10.3
Greece	...	0.2	0.3	0.6
Italy	...	17.0	16.8	14.9
Netherlands	...	21.2	29.0	26.7
Portugal	...	3.5	3.4	3.5
Spain	3.0	3.5	3.7	3.9

Sources: OECD – Bank profitability report; and IMF staff calculations

1/ Including savings banks, before and after their conversion to cooperative banks in 2000

In France and other European countries, there is a broad use of co-operative savings banks at both the regional and national levels. These banks are interconnected with the financial system with a cohesive structure that is able to exploit the benefits of large amounts of capital in the money markets. In this way, the co-operatives can provide the advantages of the big banks in terms of lending power, credit risk management, expert employee advisers, and, of course, utilization of economies of scale. Some of the largest banks in the world are co-operatives: the Dutch-based Rabobank, for example, is the largest agricultural bank in the world and was rated the third-safest bank in the world in 2010 (Ayadi et al. 2010).

On aggregate, these banks have a market share of about 20 percent of deposits and finance, and nearly 30 percent of SME loans in Europe (EACB 2014). In the United Kingdom, co-operative banks quadrupled their market share from 1.2 percent in 2009 to 5 percent in 2010. In recent years, in Italy, Banche di Credito Cooperativo increased deposits by 49 percent, loans by 60 percent, and employment by 17 percent (while the rest of the Italian banking sector employment decreased by 5 percent). In Cyprus, according to the authority responsible for the supervision and development of co-operatives, co-operative banks increased their market share in 2011, from 35 percent to 38 percent in deposits and from 27 percent to 29 percent in loans (EACB 2013). Table 1b shows a snapshot of co-operatives in Europe in 2010.

Table 1b: Co-operative Banks in Europe: 2010

Country	Co-operative Organizations	Members (x 1,000)	Employees	Branches	Book € (x 1,000,000)
Bulgaria	805	153	9,761	2,856	127.8
Cyprus	157	29.9	140	19	41.8
Czech Republic	56	231.7	14,075	2,893	1,057.7
Denmark	418	1,600	35,000	1,196	5,888.0
Estonia	19	83	4,400	358	391.0
Finland	22	1,994	42,142	1,668	11,460.7
Germany	1	53,027	5,161	224	1,260.0
Hungary	97	50	32,000	5,250	1,851.3
Italy	114	7,702	56,951	1,474	13,140.0
Netherlands	1	780	4,547	211	740.0
Norway	117	1,306	22,500	955	4,047.1
Romania	899	27	7,916	6,303	83.5
Slovakia	31	173	13,089	2,225	1,146.0
Spain	170	2,347	50,951	2,827	8,436.0
Sweden	42	3,237	8,366	760	4,463.0
Ukraine	2,163	469.9	54,872	9,675	489.6
United Kingdom	24	7,200	102,007	5,000	16,951.0
Total	5,138	27,378.50	463,529	43,894	71,560.5

Source: International Co-operative Alliance, OTOE 2013 (translated from the Greek)

The Case for Financial Co-operatives

While much of the growth in co-operatives may come on the heels of disenchantment with the traditional financial institutions following the Great Recession and the European financial crisis, there is good evidence that localized banking is often a safer haven for individuals' savings. Indeed, the US experience with credit unions (an analogous structure to many co-operatives) is that they were largely insulated from the subprime mortgage crisis and the complex financial instruments that magnified the American financial crisis. Appendix A outlines the American system in more detail as a point of comparison. The International Monetary Fund (IMF) emphasized the relative safety of co-operative banks as follows:

Smaller, co-operative banks or mutual institutions may also thrive. These banks, less reliant on shareholders' expectations, were generally able to avoid many of the mistakes made by larger private sector institutions. Though not always considered the most efficient, vibrant, or innovative institutions, in many countries they dependably and safely supply the small and medium-sized enterprises and many households with their credit needs. (Kodres and Narain 2010)

This is in concert with Hyman Minsky's views that successful banking should be "boring" (Minsky 2008 [1986]). In addition, co-operative banks had outstanding success in anticipating market needs, often pioneering products and technology; for example, in the 1970s and 1980s, the French co-operative banks, led by *Crédit Mutuel*, established the concept of banking insurance (*bancassurance*). The recent success of electronic banking operations by the Finnish *Okobank* and the Dutch *Rabobank* is a further example of the innovative power of co-operative banks.

Co-operative Values:

The co-operative, in general, is people-centered and emphasizes the value of democracy. The members of the co-operative are its focus; the co-operative gives members the rights and obligations through which proper staging and management can be established, leading to the prosperity of the co-operative. Anyone can be a member of a financial association, and all members have equal rights and responsibilities, regardless of deposit share. All members have full access to the services offered.

The obligations of the members are not only to the co-operative, but also to the community as a whole. Many co-operative banks have regional or industry focuses, making it an enterprise that requires local knowledge and investment. At the same time, honesty and transparency between members and third parties should characterize transactions and actions. This will help to maintain a continuous process of checks and balances in the business.

Co-operative Characteristics:

The comparative advantages of co-operative associations and co-operative banks are as follows (OTOE 2013):

1. The acquisition of ownership rights to the bank: the biggest advantage of the co-operative bank is that its customers are also its owners; it is a bank that only serves its associates.
2. Associates have the right to hold office: member associates of the co-operative apply to take the office of any available position that is specified in the statute and the relevant legislation. It is possible to elect members who may not have contributed funds, but who have the necessary skills to maintain a specific office of the co-operative. This is a point of contention that we will revisit later.
3. The right to vote: members have the right to elect the best possible candidates who will elicit the best possible outcomes, including high rates of return, for the co-operative as a whole, as per the values and principles of the co-operative, to ensure the delivery of satisfactory profits to the members while remaining beneficial to the local community.
4. Ability to increase equity: the equity of the co-operative banks can be increased easily by issuing new shares to new members; commercial banks, on the other hand, have to go through many costly processes and levels of bureaucracy to attract new investors.
5. Complete transparency: all members are equally in control of the co-operative, electing its officers in a completely transparent and accessible manner since they have all documents of the co-operative available to them. The elected supervisory board members are continuously scrutinized to ensure proper management. Specifically, in Greece, legislation provides for the Bank of Greece to place controls on the co-operative banks as institutions issuing checks and providing credit.
6. Right to borrow depending on the co-operative shares: co-operative banks lend to business members without discrimination. The amount of credit is proportional to the amount of savings (both mandatory and optional) of each member.
7. Limited to unlimited liability: depending on the statute, members may be liable for any damages to the co-operative, which may be a clear shortcoming of the current structure.
8. Large liquidity: co-operatives as a rule only give out loans for the short term, while the assets purchased with the loans have readily realizable values. Therefore, few large or long-term loans are made.
9. Participation in profit distribution: some fraction of profits is distributed evenly among members; the remaining profits are kept for growth and development of the co-operative. The elected supervisory board is charged with the responsibility of profit distribution and/or retention.
10. Easy transfer of shares: shares can be easily transferred to other members, third parties, or heirs as long as the proper procedure is followed.

11. Appreciation of savings: as the size of the co-operative grows, the equity of member investments increases and the members have higher equity value than when they started the co-operative.
12. Regional credit policy: co-operatives may operate from various regions of the country and give out loans from local warehouses.
13. Shared responsibility of the board and members: since the co-operative's board of directors has an equal share of the co-operative's holdings, it will have the same motivations as any other member to work for the common good.

The Economic and Social Significance of Co-operative Banks:

Co-operative banks may have not only an advantage among their communities and their members, but also an important role to play in the economy of a country. Each locally established co-operative bank competes with others, as well as with commercial banks, thus giving a competitive edge to local economies. Additionally (ibid.):

1. The co-operatives help to mobilize and utilize a significant part of domestic social savings, thus achieving self-financing and self-sufficiency of the local credit economy.
2. The co-operative banks exercise selective credit policy depending on the economic situation and the conditions of the locality. This, in turn, helps to support and strengthen certain economic activities or professional classes of a region.
3. Since the administration of a co-operative bank is made up, in part, of members, they are better able to understand the needs of the potential borrower, the necessity of development of a particular region, and local implications of enhancing entrepreneurial endeavors.
4. As the local economy of a region is strengthened, it will prevent the migration and centralization of labor forces, and thus prevent the social strife that is faced in many urban centers.
5. Since the co-operatives are local entities, they create a connection between the private sector and the culture of the locality in which they operate, and thus contribute to more locally owned businesses, ensuring continued development of the region.

Co-operative banks also contribute significantly to the economic environment of a country, enhancing the profitability of the banking system, the stability of the financial system, and the economy as a whole. Profits are necessary for the continued development of the co-operative. Because of their proximity to members, and the constant local presence, co-operative banks can effectively gather the most comprehensive information on their customers at the lowest cost. This provides them with the ability to assess the needs and ability of their clients in greater detail than commercial banks. Information asymmetry is reduced, and thus the potential risk of poor choices is minimized. Co-operative banks, therefore, are able to both achieve higher lending abilities and provide the best products and services tailored to the real needs of the customers at the best prices. This ability has intensified the competition with commercial banks, thereby making the overall banking system more

efficient and stable, and the economy as a whole more stable. Evidence shows that co-operative banks also contribute to the efficiency of the European economy, since their local presence has improved access to financial services in the rural areas of the EU. The deep-rooted connection co-operative banks have with the local economy ensures their continued support for the development of the region by helping to create more jobs and businesses, thereby increasing GDP. Unlike the publicly traded commercial banks, co-operative banks are not subject to market volatility and, in a way, both the bank and its clients are protected, with the bank able to continue to offer the best possible service.

Co-operative Banks' Regulatory Frameworks: Trends and Observations

One of the major challenges for co-operative banks is that the regulatory framework is often designed with commercial banks in mind. The third pillar of the New Basel Capital Accord (Basel II) significantly reduced effectiveness in the case of co-operative banks (Fonteyne 2007). Unlike commercial banks, co-operative banks can neither rely on shareholder pressure nor on interbank markets or debt issuance as sources of funds (Hesse and Čihák 2007). Regulators of all countries have agreed to adopt a more integrated regulation to secure efficient monitoring and exert more practical controls on the banking system. De Serres, Jaeger, and Ory (2010) note the following options as being under study and/or having been applied:

- Raise the ratios of shareholders' funds and liquidity reserves;
- Review the valuation rules of several asset classes;
- Tax the bankers' compensation based on excessive profitability;
- Forbid banks from speculating with their own capital and investing in speculative funds;
- Extend the regulation of derivatives (especially credit derivatives) and establish structured markets to reduce the volume of transactions traded over the counter;
- Reinforce the control and consolidation of various activities of financial groups.

Even though these rules and principles were mainly conceived to regulate shareholder-based banks, they were applied without any distinction to co-operative banks. Yet fundamental differences distinguish co-operative banks from shareholder-based groups in terms of mission and governance, and thus, their own financial, organizational, and social performance goals (ibid.). In earlier works, the authors reported the constraining effect of those rules on the distinct characteristics of co-operative banks (De Serres and Roux 2008; Ory, Gurtner, and Jaeger 2006; De Serres and Ramboarisata 2008).

The institutions regulating and supervising competition levels in Europe's banking sector should keep in mind that regional economic conditions play a significant role in determining the stability of banks. Some results suggest that banking risks heighten in regions with high unemployment, and that diversified banks are found to be less stable than their smaller and more focused counterparts (Liu, Molyneux, and Wilson 2010). Furthermore, mutual banks appear more stable than their commercial

banking counterparts. There also appears to be a nonlinear relationship between bank competition and stability. This implies that prudential regulation is essential to ensure that bank sector competition maintains a moderate level. If competition becomes too high or too low, a bank will face higher risk and financial instability.

EU-wide Financial Regulation and Supervision:

At the EU level, co-operatives are among the major groups of institutions that constitute the so-called “social economy,” as they create employment opportunities and mobilize local capital for productive initiatives. In most EU countries, this sector is governed by a special legal regime and supported by specific financial tools that promote government bodies, banks, or specialized financial institutions. Repeating past opinions, as well as those adopted by resolution of the European Parliament in 2012 (CCMI/093), the Economic and Social Committee (ESC) of the EU highlighted the importance and necessity of co-operatives for their success in meeting the objectives of the European Social Charter, and encouraged the development of the social economy, especially in disadvantaged regions of the community (OTOE 2013).

The EU facilitates the development of the co-operative banks, promoting cross-border activities and taking into account the uniqueness of this system. The EU has equipped these banks with the appropriate legal means and facilitates the creation of new co-operatives across Europe. With the adoption of Regulation (EC) No. 1435/2003 establishing a truly unified legal framework for the European Co-operative Society (SCE), it is now possible for a group of people or legal entities or residents to establish an association, even if they are in different member states. These new co-operatives, with a minimum capital of 30,000 euros, will be able to pursue activities as a single legal entity in the EU’s single market and maintain a single set of rules and structure in all the member states. This would allow the co-operatives to expand and restructure without having to create a network of affiliates, which can be costly in terms of money and time. Furthermore, the co-operatives of several countries can now merge to form an SCE. Finally, an association of a member state that has activities in other member states can be converted into a European co-operative without dissolving.

In 2012, the European Commission proposed the creation of a single supervisory mechanism for banks in the eurozone—where the ultimate responsibility for supervision would lie with the European Central Bank—while national supervisors would continue to play an important role in day-to-day supervision, as well as in preparing and implementing ECB decisions. The European Association of Co-operative Banks (EACB) notes that regulations and changes in legislation come at a significant cost to the co-operative banks, which is often overlooked by regulators (EACB 2012). Among the co-operative banks, the sense prevails that the “one model fits all” approach to regulation is not always appropriate for the co-operative banking model (McCarroll and Habberfield 2012).

On the topic of co-operative banks, the World Bank (2011) has stated that the following pitfalls of legal, regulatory, and supervisory frameworks need to be rectified for the development of sustainable rural finance:

1. Missing or inappropriate laws on property—especially land, but also other kinds of physical property and their use as collateral—as well as the lack of efficient bankruptcy laws. These rights need to be administered and enforced by institutions that have both legal backing and social legitimacy, and must be accessible by and accountable to the holders of property rights.
2. The importance of land transactions such as rentals and sales to realizing full benefits. Most financial institutions will not provide credit without collateral—meaning, in most cases, land or the right to use land. However, land as collateral by itself is only valuable if it can be collected, or if the threat of collection contributes to credit discipline. Efforts to support land titling as well as the establishment of property registries can make a significant contribution to accessible credit for rural populations, as can efforts to establish efficient markets for land.
3. Lack of contract enforcement capabilities or willingness to take action against offenders, even if there is an appropriate legal framework.
4. Issues with the regulation of the financial sector. These issues range from inadequate regulation to excessive regulation, and disagreements on which institutions should be defined as being part of the financial sector and therefore subject to supervision. Usually, unsupervised financial institutions are not allowed to collect deposits, in order to provide protection to depositors. These institutions are thus likely to depend on governments or donors for refinancing, or on capital markets in more mature markets, and often have limited growth potential.
5. Shortage of institutional capacity in banking supervision. Supervising financial institutions is costly and resource intensive. This is especially true for smaller institutions in rural areas.

These worries are surprisingly applicable to Greece, which, despite being a well-developed economy, has a large stake in agricultural and primary product activities. Land registration problems, as well as permitting, zoning, and inheritance issues, have also long plagued Greece.

Another potential pitfall is that supervisors and promoters could be inclined to shield co-operative banks from competition through preferential tax treatment, control of rates, and subsidized credit. Such policies are likely to increase the risk of insolvency of co-operative (Rabobank 2012). Nonetheless, among the co-operatives a range of regulation and supervision (R&S) frameworks exists. Table 2 presents the most common.

		Cooperative	CFI Specialized	Banking
Direct		IC: New Zealand, UK DC: Argentina, Bangladesh, Benin, Botswana, Bolivia, Colombia, Costa Rica, Ecuador, Ghana, India, Malaysia, Nigeria, Panama, Paraguay, Philippines, Thailand	IC: Ontario (Ca)§, Saskatchewan (Ca)§, United States, DC: Belize(☼)	IC: Italy (B. Popolari), Switzerland DC: Argentina*, Bolivia, Colombia, Costa Rica, Ecuador, Jamaica, Uruguay*
Indirect (2)	Auxiliary	IC: DC:	IC: DC:	IC: Australia, Austria, British Columbia (Ca), France, Germany, Ireland, Italy (BCC), Netherlands, DC: Benin, Brazil, Korea, Lithuania, Mali, Madagascar, Mexico, Senegal
	Delegated	IC: DC:	IC: DC:	IC: Quebec (Ca), DC: Peru
Auto-control (2)		IC: DC: Colombia, Sri Lanka		

Notes:

IC: industrialized countries; DC: developing countries.

1. Countries that are mentioned twice are under a split regime under which some CFIs are under banking authority supervision and others (smaller or “close”) are under cooperative authority supervision. This is the case of Argentina, Bolivia, Colombia, etc.

2. Empty cells are those in which information available does not allow to pinpoint examples unambiguously. They tend to be the odd cases

* Argentina and Uruguay can be considered under direct banking authority supervision if one considers the BCC and COFAC as consolidated structure. If they are regarded as networks that were forced to merger by the regulators, then they would fall under the “delegated” category. Directives of both institutions often insist that in reality they are federations with a consolidated balance sheet.

§ The Deposit Insurance Corporation performs the supervision on behalf of the state.

☼ The “authority” is the registrar of credit unions. Insufficient information to assert whether it can be considered a specialized CFI supervisory authority in the sense of the United States’ NCUA.

Source: Authors’ compilation. While we are confident in the correctness of the classification, there might be small errors in it. Many other countries were not listed due to difficulties in inferring the regulatory regime from the patchy documentation available.

Source: Cuevas and Fischer 2006

In contrast to investor-owned banks’ shareholders, members of a CFI have no incentive to expose the portfolio to risk or to speculate on risky positions (interest rate, foreign exchange, off-balance-sheet liabilities) for the sake of increasing the volatility of assets. The question thus becomes whether an R&S framework is still applicable when the subject of monitoring is a mutual institution. According to Cuevas and Fisher (2006), a specialized R&S framework must take three fundamental factors into consideration:

1. The agency conflicts that render the CFI most vulnerable are not those that render an investor-owned bank vulnerable. In the latter it is the shareholder-depositor conflict that encourages shareholders to exploit various risk taking opportunities. In the CFI it is the members-manager conflict that encourages managers to engage in expenses that debilitate the institution.
2. The fact that CFIs tend and need to improve their competitiveness to organize themselves into alliances designed to limit risk in the procurement of inputs and exploit economies of scale, thus resulting in the layered structure of a typical integrated CFI system.
3. The fact that CFIs operate in a special market segment—where other market-based institutions are not able to perform transactions due to information asymmetry and transaction costs and market failures—but must do so by adapting ownership structure, transaction cost structure, and business practices to the limited possibilities of the communities they serve. It is, for example, highly unlikely that a CFI that serves a poor rural community will be able to support the costs of meeting commercial-bank-like reporting standards.

The Euro Crisis

While the majority of companies are still suffering from the fallout of the eurozone economic crisis, co-operative enterprises are showing resistance to the crisis. The recent massive public bailout of large commercial and investment banks has underscored the virtues of a co-operative banking system. Like almost all European banks, the co-operative banks have been affected by the euro crisis that started in 2007, though not always to the same degree. The German co-operative banks have been affected by the financial crisis, but the consequences have so far been less serious than in the case of many other banks and banking groups, for the co-operative banks did not hold assets that were considered “toxic.” Losses and write-downs of co-operative banks in France have been significant, particularly in the investment banking arm of *Crédit Agricole* and in the investment arm of *Banque Populaire (BP)* and *Caisse d’Épargne* (which merged with BP in 2006), and all three French co-operative banks accepted public funds from a newly formed public bank-recapitalization vehicle at the height of the crisis in October 2008. In the Netherlands, co-operative banks were affected by the crisis too, but the impact on the co-operative banking sector has not been as severe, and the sector resisted the crisis without public support (Ayadi et al. 2010). Overall, it appears that the European co-operative banking groups escaped relatively unscathed from the crisis (Groeneveld 2013). Greece is the notable exception. Table 3 provides an overview of the largest co-operative banks in Europe as of 2011 and presents their scores on several financial indicators. This, however, is not to say that co-operatives should not receive government assistance and/or be afforded many of the protections provided to traditional financial institutions.

Table 3. Key Statistics (Financial Indicators) 12.31.2011

Full Member Organisations	Economic indicators			Profitability indicators		
	Total assets (EUROmio)	Total deposits (EUROmio)	Total loans (EUROmio)	ROA (%)	ROE (%)	Cost/Income (%)
Austria						
Österreichische Raiffeisenbanken	269.629	161.151	171.166	0,60	5,54	68,19
Österreichischer Genossenschaftsverband ^(b)	65.167	29.588	45.021	0,3	5,1	62,5
Bulgaria						
Central Co-operative Bank ^(a)	1.535	1.318	728	0,48	4,34	79,32
Cyprus						
Co-operative Central Bank	20.714	14.468	14.820	0,01	0,11	48,47
Denmark						
Nykredit	187.364	7.722	156.470	0,10	2,00	62,10
Finland						
OP-Pohjola Group	92.287	45.974	60.331	0,49	6,50	63,00
France						
Crédit Agricole	1.879.536	833.000	929.800	n.a.	n.a.	61,60
Crédit Mutuel	605.096	584.300	338.400	0,36	7,95	67,84
BPCE ^(a)	1.138.000	537.700	583.100	n.a.	n.a.	n.a.
Germany						
BVR/DZ Bank	1.058.479	646.760	606.820	0,54	8,91	71,2
Greece						
Association of Cooperative Banks of Greece	3.610	2.879	3.181	0,01	0,09	n.a.
Hungary						
National Federation of Savings Co-operatives	4.654	3.885	2.103	0,44	5,66	69,87
Italy						
Assoc. Nazionale fra le Banche Popolari ^(a)	481.472	425.375	378.391	0,70	5,10	57,6
FEDERCASSE	181.263	139.356	130.891	0,20	1,70	69,80
Lithuania						
Association of Lithuanian credit unions	415	351	246	-0,24	-2,01	105,04
Luxembourg						
Banque Raiffeisen	6.054	5.131	4.292	0,28	7,60	74,00
Netherlands						
Rabobank Nederland	731.665	329.892	448.337	0,38	7,60	65,20
Poland						
Krajowi Związek Banków Spółdzielczych	17.600	13.400	9.729	1,24	11,88	67,4
Portugal						
Crédito Agrícola	13.030	9.884	8.587	0,40	5,10	64,70
Romania						
Creditcoop	198	127	122	1,02	4,75	95,68
Slovenia						
Deželna Banka Slovenije d.d.	893	806	504	0,99	11,63	82,95
Spain						
Unión Nacional de Cooperativas de Crédito	126.891	93.489	93.793	n.a.	n.a.	n.a.
Sweden						
Landshypotek ^(a)	4.648	n.a.	4.123	n.a.	n.a.	n.a.
United Kingdom						
The Co-operative Bank	61.781	45.962	42.612	0,11	2,48	60,70
Total (EU 27)^(a)	6.951.981	3.932.516	4.033.568			

Source: European Association of Co-operative Banks, Annual Report 2012

Governments wishing to promote co-operatives of all types and from all over the world have already received advice in the form of the International Labour Organization (ILO) Recommendation 193 on the "Promotion of Co-operatives." Per Rec. 193, savings, credit unions, and co-operative banks in particular need immediate access to the payments system, clearing, and settlement, particularly in credit card networks. Access to deposit insurance systems should be equal to that for commercial banks. Finally, there are also common international regulations that sometimes unintentionally restrict the growth and development of all types of co-operatives, including international accounting standards and international financial regulations such as Basel. Furthermore, Europe's financial sector remains in a very precarious state. Any future financial rescue package should be extended to co-operative financial institutions, if necessary.

The current pressure on US CFIs stemming from the Dodd-Frank regulation passed in response to the subprime mortgage meltdown may serve as a cautionary regulatory tale that the United States can tell the world. Early indications are that the regulations intended to thwart illegitimate activities among large banks may be overly onerous for small financial institutions to comply with. The recent uptick in co-operative bank failures in the United States may be an early indication that regulation is having unintended consequences on otherwise sound small financial institutions.

III. GREEK CO-OPERATIVE BANKING IN THE CONTEXT OF EUROPE

Despite the long history of co-operative banking in Europe, there is considerable variation and market penetration across Europe for these financial institutions. Appendix B details the various origins and structures of co-operative banks by country, but the structures all follow a combination of tiers. A “single tier” structure is completely decentralized, with all the institutions existing at the local level with little to no oversight and a hierarchy for borrowing among the network or from larger banks. A “two tier” or “dual tier” structure often has the localized branches overseen by a central authority, either a central bank or an authority on the co-operative banks that is nested within a larger ministry or financial entity. The “three tier” structure has a local, regional, and central authority, and is hierarchical in its reporting and lending responsibilities. Often in the three-tier system the central oversight exists within the central bank of the nation. While Appendix B discusses these variations in detail within each nation, the focus of this section is on the current Greek system of co-operative banks, to set the stage for the recommended changes to the structure that follow in Section IV.

Key Differences

While all of the European co-operative banks make use of the member structure, they vary in the ways in which they secure their access to capital, their level of integration, and the scope of activities with which they concern themselves. To ensure access to capital, some co-operative banking models have moved from obtaining all their capital from their member-customers. Some have formed groups that include non-co-operative entities, which provide access to external capital. Rabobank Nederland and others have found innovative ways to issue profitable financial products.

The second point of comparison is the level of integration. While co-operative banks started out as fully decentralized structures, some of the European co-operative banking models now include central institutions. In Finland, France, and the Netherlands, such central institutions have come to play a major role (see Appendix B). While France is centralized at the regional level, Finland and the Netherlands are centralized at the national level. German co-operative banks are more decentralized, with Italian and Spanish co-operative banks ceding the least function to central institutions and/or authorities (Ayadi et al. 2010; Di Salvo 2003).

A third distinct characteristic among the European co-operative banking structures is their scope of activities, as some have come to include a greater variety than others. Most of the institutions included in this study have some form of an investment-banking arm, and several banks have taken up insurance services (most notably, the Finnish OP-Pohjola Group and the Dutch Rabobank).

Efficiency

Critics of co-operative banks often point to the lack of profit motive as an assurance of inefficiency. Brunner et al. (2004) find no compelling evidence that co-operative banks in France, Germany, Italy, and Spain are less effective at managing revenues and costs than commercial banks. Fonteyne (2007) shares this perspective, and points to no indication of a systematic “efficiency deficit” among co-operative banks.

Among more traditional efficiency metrics, Bos and Kool (2008) conducted a study in which they focused on the issue of whether it is appropriate to assume a common efficient frontier when performing efficiency studies for the co-operative banking sector. They anticipate that environmental factors can easily bias efficiency estimates of co-operative banks if they have not been controlled for. Their findings show that environmental factors do play a role to a limited extent. They note that banks can influence their costs and efficiency through a careful choice of main offices and branches, as well as their distribution of automated teller machines (ATMs). Centralization, however, does not always increase efficiency.

Co-operative banks in Greece are marred by a checkered past in many cases. While corruption and nepotism are well-known problems in Greece, co-operative banks were both archetypes and scapegoats of various types of malfeasance. There were three major types of corruption that were beyond anecdotal in the past operations: (1) *Off-balance-sheet deposits, where depositors were promised higher interest rates, go onto the shadow books.* This money was lent at usurious rates of interest to desperate borrowers, with the broker (often the banker himself) receiving commissions under the table. Such a fringe bank within a co-operative bank was fairly common in practice, although statistics on pervasiveness are difficult to gauge. (2) *Loan approvals that do not meet underwriting standards.* Most of these so-called “red loans” (κόκκινα δάνεια) were never repaid. (3) Often tied to the red loans were the more ubiquitous corruption of bribery and nepotism. While there is an understandable skepticism of bureaucracy in Greece, many of the problems with co-operative banks stemmed from their lack of oversight and regulation by outside agencies.

Origins of the Greek Co-operative System

In Greece, the first credit union was established in Lamia, but co-operative credit in Greece began its largest development during the mid-1990s to early 2000s. The operation of Greek co-operative banks is governed by Law 2076/92, incorporated into Greek law under European Union Directive 77/78, articulating the structure and operations of credit institutions, and the Bank of Greece’s Act No. 2258/2.11.1993. After raising the minimum capital required and fulfilling certain conditions, would-be CFIs can apply and obtain the permit from the Bank of Greece to operate as credit institutions within a defined geographic area of operation. Credit co-operatives that obtain the permit to operate as a credit institution do not alter their legal status and can use the term “Co-operative Bank” in their name.

Co-operative banks transact only with their members and can perform all banking activities except for underwriting. Co-operative banks are allowed to do business with nonmembers after obtaining a special permit from the Bank of Greece on the grounds that the institution fulfills certain conditions (defined under Law 3483/7.8.06, Chapter B, article 8).

The Greek Co-operative System, pre-2004

In the lead-up to the euro inclusion and the 2004 Olympic Games, Greece saw a flood of foreign direct investment. During this time, 16 co-operative banks operated in Greece: three of them nationally, eight regionally, and five locally. As mentioned, Greek co-operative banks have a short history, with seven created from 1993 to 1997; six in 1996; and three from 1999 to 2004. Despite a 20-year history, the market penetration remained very low prior to the financial crisis, with a mere 0.8 percent of total deposits and 1 percent of total loans (Staikouras, Gortsos, and Livada 2007). Their branch network, however, claimed 4 percent of total banking branches in Greece and 8 percent in the area of Greece excluding the regions of Attica and Thessaloniki (*ibid.*).

On the surface, such numbers seem insignificant, but looking at percentages, Greek co-operatives were exploding prior to the depression. Branches more than tripled, from 39 in 1999 to 171 in 2008; membership grew more than 150 percent from 1999 to 2008; deposits were up tenfold over the same period; loans increased 895 percent over this time (Poli-Karadouka 2009); and 74 percent of members were SMEs and self-employed professionals (Alexopoulos and Goglio 2009). This last figure is important to consider later when discussing the composition of the entrepreneur groups in Greece.

The Greek Co-operative System, 2004–08

The total assets of the financial system in Greece for 2008 amounted to €531 billion, which, according to the Bank of Greece, was more than double the gross national product (GNP). The average market share of credit institutions, in terms of assets, loans, and deposits, over the period 2004–08 is illustrated in the table below (translated from Poli-Karadouka 2009):

	Greek Commercial Banks	Foreign Banks	Co-operative Banks	Special Credit Organizations
Assets:	85.9%	9.7%	0.8%	3.6%
Loans:	85.1%	8.7%	1.1%	3.3%
Deposits:	86.0%	8.7%	0.9%	4.3%

The total number of financial institutions in Greece increased from 63 in 2007 to 66 in 2008, due to the commencement of operations of three new foreign banks. The total number of branches reached 4,097 in 2008, versus 3,850 in 2007. According to Bank of Greece data, the density of banking branches in Greece, compared to the EU countries, remained low (37 vs. 47 per 100,000 inhabitants), but the branches were heavily concentrated in the urban centers, with little representation in rural areas. Furthermore, despite the increase in the number of branches, the number of employed personnel per unit decreased from 17 in 2007 to 16 in 2008, continuing the downward trend of previous years. However, this number, compared to the respective average in the EU, is still higher by four persons (16 vs. 12). This can be interpreted as an efficiency gap relative to the rest of Europe that Greek financial institutions still have to close (Bank of Greece 2011).

The average increases for the five-year period 2004–08 were: 24 percent on assets; 24.7 percent on loans; 23.4 percent on deposits; 18.9 percent on equity; 10.3 percent on co-operative capital; and 16.2 percent on profits. In nominal averages, the increases were: €2.65 billion in assets; €2.08 billion in loans; €2.13 billion in deposits; €379.65 million in equity; €200.45 million in co-operative capital; and €42.94 million on profits (before taxes). It should be noted that, prior to the Greek crisis (i.e., the four-year period 2004–07), the aforementioned percentage changes would have been 3 to 3.5 percentage points higher and profits before taxes would have been 8 percentage points higher (Poli-Karadouka 2009).

The Greek Co-operative System, 2008–Present

At the time of writing, 16 co-operative banks were operating in Greece, with a total network of 181 branches covering almost the major area of the country. From the abovementioned banks, three have already been qualified by the Bank of Greece to operate countrywide, while another seven have reached the level of co-operative capital required to allow them to extend their operations to neighboring regions. In addition, there are 16 credit co-operatives operating, which, besides the efforts undertaken in evolving into co-operative banks, are active in granting loans or providing other financial facilities to their members. The development of co-operative banks can be noted in Tables 1.4a and 1.4b (at the end of this section), which illustrate the banks' level of development internationally and in Greece. It should be noted that during the last five years, the average increase in equity capital was 18.9 percent; assets, 24.0 percent; loans, 24.7 percent; and deposits, 23.4 percent.

Already, co-operative banks and credit co-operatives have embarked on a strategy that will increase their size, enhance their equity capital, develop their network, and improve their competitive position. The aim is to form a national network, reduce their costs, and give the opportunity to their members to be served in every co-operative banking point. Additionally, the network in Greece aims to join with other major European co-operative banks to acquire technical know-how. Already, DZ Bank, Germany's central co-operative bank, provides capital to certain Greek co-operative banks. Negotiations have begun to expand such partnerships with European co-operative banks in Bulgaria, Rumania, Portugal, Italy, and Poland (OTOE 2013).

Nonetheless, there are a number of reasons to view foreign involvement in such transaction with hesitation. One of the key roles for co-operative banks is the localization of banking services and financial training. In Greece, this is particularly important, as the country has a great degree of variation in credit access across regions. Figure 1 depicts the existing co-operative banks in Greece, save the nationally operating ones. Two things are important to note in this map: first, most regions have a co-operative bank, so the spread of existing institutions is currently strong; second, co-operative banks are conspicuously absent in greater Athens and Thessaloniki, which are both urban centers well served by existing financial institutions. The next section builds on this landscape to offer an alternative proposal for co-operative banking in Greece other than foreign capitalization.

Figure 1: The Geography of Greek Co-operative Banks

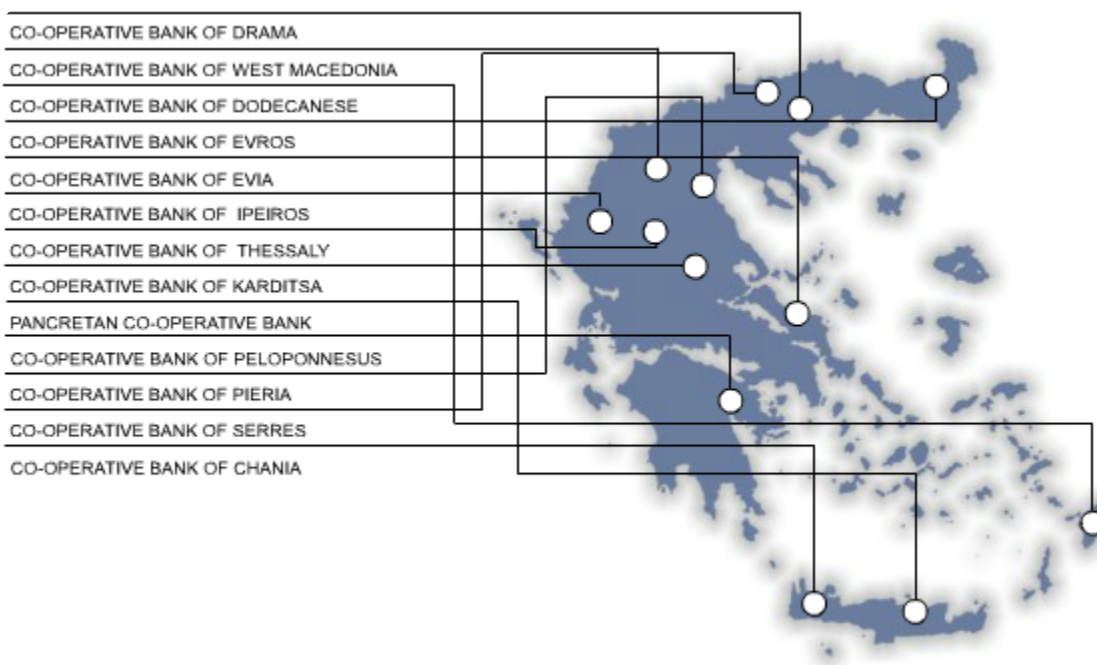




Table 1.4a

KEY STATISTICS as on 31-12-12 (Financial Indicators)
(When not specified figures refer to the Group)

Full Member Organisations	Economic indicators			Profitability indicators			Capital solidity indicators					Other indicators				Market share				
	Total assets (EUROME)	Total deposits (EURO/M)	Total loans (EUROME)	ROA (%)	ROE (%)	Cost/income (%)	Tier 1 capital ratio (%)	CET 1 Capital ratio (%)	Total capital ratio (%)	Long term rating	Moodys	Fitch	S&P	Nb Employees	Nb Clients	Regional / Local Banks	Branching Outlets	Nb members	Market share deposits (%)	Market share credits (%)
Austria																				
Osterreichische Refinanzbank	291.538	172.195	189.879	0,40	5,63	90,29	9,10	6,00	11,90	A	A2	A	29.758	3.600.000	527	1.758	1.220.000	29,8	26,1	
Osterreichischer Volksbanken (a)	57.465	11.793	27.975	-0,18	-3,73	66,00	10,10	n.a.	14,20	n.a.	n.a.	A	5.995	900.000	64	525	687.902	7,2	6,4	
Bulgaria																				
Central Co-operative Bank	1.713	1.467	647	0,30	3,03	84,41	41,42	n.a.	15,13	n.a.	n.a.	n.a.	2.166	1.393.138	30 (6)	271	6.998	2,89	5,01	
Cyprus																				
Co-operative Central Bank	21.169	15.165	13.923	0,32	5,75	51,83	10,73	10,73	5,98	n.a.	n.a.	n.a.	2.886	988.959	97	420	621.967	21,62	19,21	
Denmark																				
Myredit	192.955	7.323	164.213	0,20	4,60	56,60	19,10	15,80	19,10	A+	n.a.	A	4.115	1.092.000	1	1.483	291.000	4,40	31,00	
Finland																				
OP-Pohjola Group	99.769	49.690	65.161	0,49	7,00	63,00	14,10	14,10	14,10	n.a.	n.a.	A+	12.028	4.210.335	197	519	1.371.347	34,10	33,40	
France																				
Credit Agricole	2.008.152	812.100	876.100	n.a.	n.a.	65,80	12,90	9,30	14,00	A2	A2	A+	190.000	51.000.000	39	11.300	7.000.000	23,40	22,80	
Credit Mutuel	645.216	640.048	343.216	0,30	5,75	61,72	n.a.	n.a.	14,50	A+	A+3	A+	79.080	301.000.000	18	5.961	7.400.000	15,0	17,1	
IFC CE (b)	1.138.000	537.700	583.100	n.a.	n.a.	n.a.	10,90	n.a.	n.a.	A	A+3	A+	117.000	36.000.000	36	8.000	8.100.000	n.a.	n.a.	
Germany																				
BVR	1.090.236	664.839	652.448	0,85	13,90	61,20	10,10	n.a.	14,70	A+	n.a.	A+	190.095	30.000.000	1.101	13.211	17.200.000	19,8	18,3	
Greece																				
Association of Co-operative Banks of Greece	3.610	2.393	3.299	-0,70	-6,12	n.a.	n.a.	n.a.	10,92	n.a.	n.a.	n.a.	1.133	396.173	13	162	189.222	1,8	1,3	
Hungary																				
National Federation of Savings Co-operatives	6.386.00	4.366.69	2.707,32	0,47	6,48	72,25	19,77	15,91	7,07	n.a.	n.a.	n.a.	7.326	1.190.000	105	1.484	84.000	8,69	4,44	
Italy																				
Aspic Nazionale Fila Banche Popolari (b)	481.472	425.375	378.391	0,70	5,10	57,60	7,90	n.a.	11,20	n.a.	n.a.	n.a.	84.500	9.953.198	100	9.514	1.212.789	26,9	24,7	
FEDERASSSE	201.593	138.366	153.743	0,20	2,39	60,30	14,10	14,10	15,00	n.a.	n.a.	n.a.	32.000	6.000.000 (a)	394	4.448	1.135.095	7,4	7,1	
Lithuania																				
Association of Lithuanian credit unions	479,02	405,48	281,40	0,02	0,22	99,63	17,80	n.a.	20,24	n.a.	n.a.	n.a.	566	135.920	63	122	135.920	4,80	6,80	
Luxembourg																				
Banque Bellesse	6.291	5.654	4.455	0,68	15,40	61,60	8,28	8,28	9,61	n.a.	n.a.	n.a.	540	127.159	13	48	8.388	n.a.	n.a.	
Netherlands																				
Robbank Nederland	752.410	334.271	498.091	0,28	5,60	66,60	17,20	13,20	19,00	A+	A+2	AA	99.628	10.000.000	138	826	1.918.000	39,0	31,0	
Poland																				
National Union of Co-operative Banks (KZBS) (d)	115.800	101.800	59,5	1,40	12,80	63,30	13,00	n.a.	13,80	n.a.	n.a.	n.a.	32.966	10.000.000 (a)	572	4.193	1.051.897	9,4	7,7	
Portugal																				
Credito Agricola	13.748	10.178	8.385	0,30	3,80	65,30	11,10	11,63	10,90	n.a.	n.a.	n.a.	4.243	1.138.122	84	686	388.295	4,5	3,7	
Romania																				
Creditcoop	192	127	124	0,63	2,85	97,21	37,81	n.a.	22,18	n.a.	n.a.	n.a.	2.248	1.097.830	47	779	667.815	n.a.	n.a.	
Slovenia																				
Dzavna Banka Slovenije d.d. (b)	893	806	504	0,99	11,63	82,95	10,90	n.a.	11,90	n.a.	n.a.	n.a.	362	84.358	1	85	280	2,8	1,6	
Spain																				
Union Nacional de Cooperativas de Credito	131.649	90.960	89.676	-1,18	-18,43	49,34	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	19.674	10.998.300	68	4.832	2.554.627	6,72	5,82	
Sweden																				
Landsticket (b)	4.648	n.a.	4.123	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	A2	n.a.	100	69.216	10	n.a.	57.606	n.a.	n.a.	
United Kingdom																				
The Co-operative Bank	61.119	45.336	41.104	0,40	9,78	74,30	6,30	n.a.	3,40	n.a.	A3	BBB+	9.032	4.700.000	n.a.	340	2.000.000	n.a.	3,0	
Total (EU 27)	7326.063	4.073.848	4.045.746										947.031	485.634.688	3.716	70.967	55.914.049			

GREECE

Table 1.4.b. Income statement and balance sheet, co-operative banks, percentages
Analysis in percentage of aggregates

	2002	2003	2004	2005	2006	2007	2008	2009	
INCOME STATEMENT ANALYSIS									
% of balance sheet total, average total									
1	Interest income	..	..	7.09	6.87	6.79	6.88	7.41	..
2	Interest expenses	..	..	2.51	2.52	2.74	3.07	3.89	..
3	Net interest income	..	..	4.58	4.35	4.06	3.81	3.52	..
4	Net non-interest income	..	..	0.90	0.84	0.81	0.83	0.84	..
4.a	Fees and commissions receivable	..	..	0.72	0.68	0.65	0.60	0.63	..
4.b	Fees and commissions payable	..	..	0.04	0.04	0.05	0.04	0.04	..
4.c	Net profit or loss on financial operations	..	..	0.04	0.06	0.03	0.06	0.00	..
4.d	Other net non-interest income	..	..	0.19	0.14	0.17	0.22	0.25	..
5	Net interest and non-interest income	..	..	5.48	5.19	4.86	4.64	4.36	..
6	Operating expenses	..	..	2.48	2.26	2.07	1.95	1.89	..
6.a	Staff costs	..	..	1.25	1.16	1.06	0.98	0.95	..
6.b	Property costs	..	..	0.34	0.30	0.25	0.23	0.22	..
6.c	Other operating expenses	..	..	0.89	0.80	0.76	0.74	0.72	..
7	Net income before provisions	..	..	3.00	2.93	2.79	2.70	2.46	..
8	Net provisions	..	..	0.95	0.99	0.96	0.91	1.11	..
8.a	Provisions on loans	..	..	..	..	..	..	..	..
8.b	Provisions on securities	..	..	..	..	..	..	..	..
8.c	Other net provisions	..	..	..	..	..	..	..	..
9	Income before tax	..	..	2.05	1.95	1.83	1.79	1.36	..
10	Income tax	..	..	0.72	0.61	0.50	0.43	0.33	..
11	Net income after tax	..	..	1.33	1.34	1.33	1.36	1.03	..
12	Distributed profit	..	..	0.62	0.54	0.52	0.32	0.51	..
13	Retained profit	..	..	0.71	0.80	0.81	1.04	0.50	..
% of net interest and non-interest income									
3	Net interest income	..	..	83.55	83.81	83.44	82.05	80.72	..
4	Net non-interest income	..	..	16.45	16.19	16.56	17.95	19.28	..
4.a	Fees and commissions receivable	..	..	13.08	13.10	13.32	12.89	14.56	..
4.b	Fees and commissions payable	..	..	0.78	0.75	0.96	0.86	1.01	..
4.c	Net profit or loss on financial operations	..	..	0.65	1.07	0.61	1.21	0.00	..
4.d	Other net non-interest income	..	..	3.50	2.77	3.59	4.70	5.73	..
6	Operating expenses	..	..	45.21	43.56	42.60	41.95	43.42	..
6.a	Staff costs	..	..	22.80	22.26	21.83	21.08	21.87	..
6.b	Property costs	..	..	6.22	5.86	5.08	4.99	5.10	..
6.c	Other operating expenses	..	..	16.19	15.44	15.69	15.88	16.45	..
7	Net income before provisions	..	..	54.79	56.44	57.40	58.05	56.59	..
8	Net provisions	..	..	17.36	18.96	19.72	19.52	25.46	..
8.a	Provisions on loans	..	..	..	..	..	..	..	..
8.b	Provisions on securities	..	..	..	..	..	..	..	..
8.c	Other net provisions	..	..	..	..	..	..	..	..
9	Income before tax	..	..	37.44	37.49	37.68	38.53	31.13	..
10	Income tax	..	..	13.21	11.72	10.34	9.19	7.56	..
11	Net income after tax	..	..	24.22	25.77	27.35	29.35	23.57	..
% of net income before provisions									
8	Net provisions	..	..	31.68	33.59	34.36	33.62	44.99	..
8.a	Provisions on loans	..	..	..	..	..	..	..	..
8.b	Provisions on securities	..	..	..	..	..	..	..	..
8.c	Other net provisions	..	..	..	..	..	..	..	..
9	Income before tax	..	..	68.32	66.42	65.64	66.38	55.01	..
10	Income tax	..	..	24.11	20.76	18.02	15.83	13.36	..
11	Net income after tax	..	..	44.21	45.66	47.64	50.55	41.65	..
BALANCE SHEET ANALYSIS									
% of balance sheet total, end-year total									
Assets									
14	Cash and balance with Central bank	..	..	5.87	5.68	3.13	4.80	3.65	3.38
15	Interbank deposits	..	..	10.78	11.71	15.54	12.18	9.34	17.65
16	Loans	..	..	77.04	74.61	72.95	74.90	79.01	71.83
17	Securities	..	..	3.04	5.07	4.00	3.53	3.05	3.16
18	Other assets	..	..	3.27	2.93	4.38	4.59	4.96	3.98
Liabilities									
19	Capital and reserves	..	..	16.75	13.97	12.41	13.69	12.69	11.48
20	Borrowing from Central bank	..	..	..	..	0.00	0.47	0.39	0.96
21	Interbank deposits	..	..	0.00	0.11	0.04	0.50	4.09	4.06
22	Customer deposits	..	..	80.92	82.12	80.31	78.43	75.41	76.34
23	Bonds	..	..	0.00	1.47	1.13	0.88	0.77	0.64
24	Other liabilities	..	..	2.33	2.33	6.11	6.03	6.65	6.52
Memo items:									
Assets									
27	Short-term securities	..	..	..	..	..	..	..	..
28	Bonds	..	..	0.69	2.73	2.23	1.50	1.00	1.06
29	Shares and participations	..	..	2.35	2.34	1.77	2.03	2.05	2.10
30	Claims on non-residents	..	..	..	..	..	..	..	..
Liabilities									
31	Liabilities to non-residents	..	..	..	..	..	..	..	..

Note: Detailed metadata: [http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=BPF1&Coords=\[COU\].\[GRC\]](http://stats.oecd.org/OECDStat_Metadata/ShowMetadata.ashx?Dataset=BPF1&Coords=[COU].[GRC])

IV. A NEW PROPOSAL FOR GREECE

The present trend of financial consolidation forced by the country’s international lenders and the capital inadequacy of the major systemic banks has also adversely affected the recapitalization of co-operative banks. A vacuum in rural finance and marginalized borrowers has emerged, and it will become more acute if efforts of recovery are to begin in earnest. We know that when marginalized areas or individuals need to borrow or bank, they turn to very costly means in the absence of formalized credit structures (i.e., loan sharks, payday loans, pawning, and informal borrowing). The deleterious impact of informal credit structures is well documented for both the negative impact on economic well-being and the social ills that often accompany such arrangements.

A characteristic feature of the Greek economy is the large percentage of self-employed persons and large number of small enterprises. While there has not been a large redistribution of employment from self-employment to wage and salary earners, as one might expect under EU convergence policies, sole proprietorships have grown slightly in the face of the crisis (Figures 2 and 3). Although some of the self-employed persons are in regulated professions—such as doctors, lawyers, architects, and the like—they have experienced severe financial and economic stress, as a large number of small businesses were forced to close during the economic crisis. Many self-employed people and wage or salary employees that have been laid off are entering the shadow economy. As the data makes its way to the surface, previous experience in other countries would lend support to the anecdotal evidence suggesting increased unreported activity (IMF 2011; Schneider 2004).

FIGURE 2 –

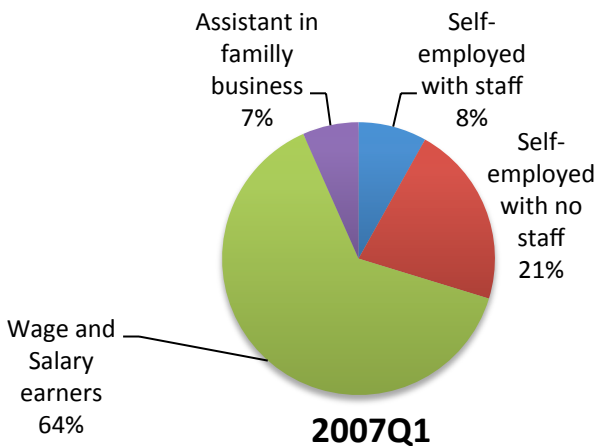
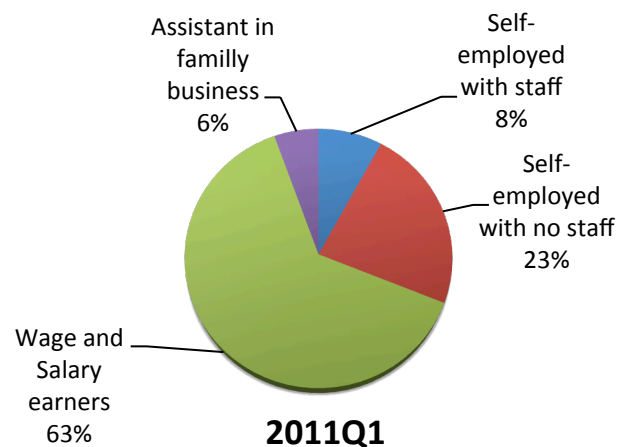


FIGURE 3 –



Source: Antonopoulos et al. 2011

Several other troubling axioms have emerged from periodic crises internationally, including the regressive, inequality-increasing impact of unemployment, duration of unemployment, and dual labor

markets (formal versus shadow). It is estimated that the recent upsurge in unemployment has increased inequality by an estimated 2 percentage points in the euro area as a whole, and by as much as 10 percentage points in Greece, Ireland, Portugal, and Spain (*ibid.*).

Another feature that is pronounced in the Greek labor market is the prevalence of informal work. While estimates of informal economic activity—often referred to as the “shadow economy,” or *παραοικονομία*—vary widely, most estimates place Greece’s gray sector between one-quarter and one-third of GNP in size. One shadow economy estimate puts only Italy near Greece within Europe, at 27 percent and 28.6 percent of GNP, respectively (Schneider 2004 and Katsios 2006).

While both the large sole-proprietary reliance and the large informal sector could be construed as negatives in the Greek economy, this entrepreneurship could serve the country well if such groups were to gain access to formal (and regulated) lending structures. This possibility, coupled with setting up support structures for new business, could offer a great development opportunity in Greece and bring these entrepreneurs into the formal sector of the Greek economy.

Nonetheless, the current structure of Greek co-operative banking is disjointed, with many organizations having unclear or overlapping activities. This is the case with the Association of Co-operative Banks of Greece and the Co-operative Banking Group, neither of which have meaningful responsibilities. Furthermore, the present central bank of co-operative banks (National Bank SA) lacks coordinated policy, with branches and common policy. The National Bank was originally founded to create economies of scale by offering working capital, credit card issuance, and foreign trade operations to the various levels of co-operative banks. In practice, the National Bank functioned more as an independent commercial bank.

The following section proposes a structure for networking co-operative banks and key services. We then look at the possible impact that such a network could have, especially in terms of rural development, start-up businesses, and SME development. The final section discusses limited evidence from other countries and some lessons from the United States’ community development financial institutions (CDFIs) that could extend to co-operative banking.

In structuring a proposal for Greece, it is important to note that a key component missing in the current co-operative banking structure is formal networking among themselves and access to lending windows. This could be ameliorated through a three-tier system that includes the establishment of a Central Co-operative Bank (CCB) whose operations are overseen by the Bank of Greece. The main function of the CCB would be to act as the central bank of the co-operative banking network, carrying out the usual central bank functions; that is, chartering, regulating, and supervising existing and new local co-operative banks and providing lending facilities to them. The CCB would be capitalized with public funds. The second tier of the CCB is composed of the regional branches (13 total, listed in Figure 4 as the “Regional Tier”), in accordance with Kallikratis, each of which would gather data and assess

economic conditions of the region and coordinate the activities of all branches within that region. The organizational structure of the Central Co-operative Bank and its Regional Tier CCBs follows the analogous structure of the Federal Reserve System in the United States. The “Local Tier” would offer the opportunity for existing and new co-operatives to become chartered and access the lending windows and technology platforms of the Regional Tier. Banks within the chartered networks would have access to discounted overnight and interbank lending rates and their deposits would be insured in the same manner as the deposits in commercial banks. Banks would be required to have their books examined, establish lending standards in line with CCB objectives, and demonstrate acceptable levels of repayment and default. Figure 4 outlines the hierarchy of such a system.

Figure 4: Three-Tier Co-operative Structure (illustrative)

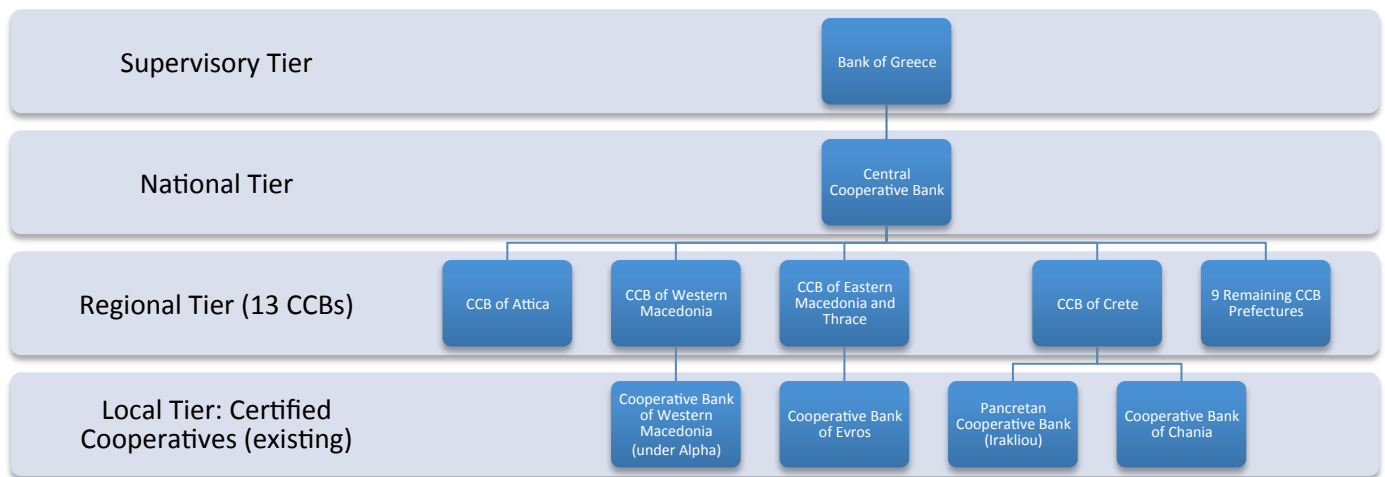


Figure 4 lists a selection of Regional Tier CCBs, but the entire 13 would comprise the following:

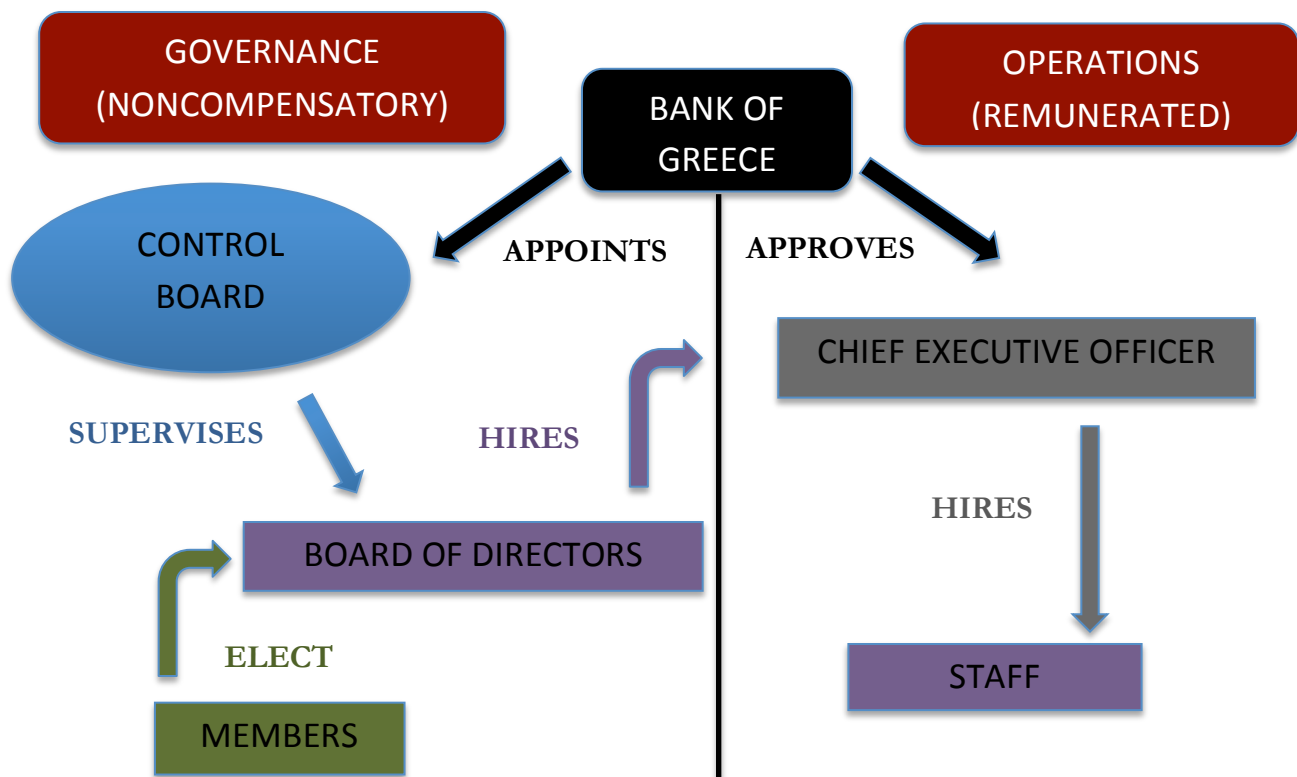
- East Macedonia and Thrace (Ανατολικής Μακεδονίας και Θράκης)
- Central Macedonia (Κεντρικής Μακεδονίας)
- Western Macedonia (Δυτικής Μακεδονίας)
- Epirus (Ηπείρου)
- Thessaly (Θεσσαλίας)
- Ionian Islands (Ιονίων Νήσων)
- Western Greece (Δυτικής Ελλάδας)
- Central Greece (Στερεάς Ελλάδας)
- Attica: Athens and Piraeus (Αττικής)
- Peloponnese (Πελοποννήσου)
- Northern Aegean (Βορείου Αιγαίου)
- South Aegean (Νοτίου Αιγαίου)
- Crete (Κρήτης)

Considering the lack of clear hierarchy and inefficiencies in the current structure of co-operative banks in Greece, alteration and institutional strengthening of the Central Co-operative Bank is a prerequisite for the system’s harmonization with European best practices. The main responsibilities of the Central Co-operative Bank would be to:

- Develop and extend a common network platform, operating system and services, operating limits, and branch training and technical services to ensure economies of scale.
- Supervise Regional Tier co-operatives and examine the operation of the local co-operative banks.
- Develop new products for rural development banking.
- Set and review socioeconomic lending practices, risk tolerance, deposit and loan targets, and financial access goals.
- Provide lending windows to co-operative banks based on recommendation of the regional CCB.

The following scheme (Figure 5) presents a viable co-operative structure:

Figure 5: Illustrative Co-operative Structure Scheme



Source: Authors’ revisions based on Rabobank

The Board of Directors: One good structure for the Board of Directors of the Central Co-operative Bank is to have each Regional Tier CCB represented with full and equal rights. The Board of Directors would elect a nonexecutive chairman with a veto vote from the Bank of Greece. The board would also elect the chief executive officer responsible for the operations of the Central Co-operative Bank, including regulation, supervision, and examination of the network of co-operative banks. Both appointments would be subject to the approval of the Bank of Greece. An identical organization would be at each individual co-operative bank, with a nonexecutive chairman and chief executive approved by the regional CCB Board of Directors. The main role of the Board of Directors of the Central Co-operative Bank would be to strengthen governance through coherent, consistent, and convergent policies.

The Supervisory Board (Control Board): This board acts as an impartial examiner of the structure and Board of Directors decisions of the Central Co-operative Bank. Its members would be appointed by the Bank of Greece and be responsible for specific operation areas; that is, human resources, risk management, loan performance and nonperformance, liability and asset management, information technology systems (IT), life-cycle credit and savings, and other areas.

The same person cannot be a member of both the Supervisory Board and the Board of Directors simultaneously; nor should an individual be able to serve on each board in direct succession, having to wait a service term (three to five years in order to prevent aligning to the political cycle) before joining the other board.

Implementation: The above proposal would require the following steps to be practically realized:

1. A statute change to the existing co-operative structure to equalize the voting rights of shareholders. This can be done either by changing the legal form to a co-operative or by altering the common shares to exclude preferential voting.
2. Write new statutes of the Bank of Greece to include the supervision of a newly established Central Co-operative Bank with Regional Tier CCBs.
3. Enact new legislation to delineate the powers of the Central Co-operative Bank and its Regional Tier CCBS. Enact legislation articulating the organizational structure of regulation, supervision, and examination of all co-operative banks.
4. Unify the operating framework of co-operative banks, which would be accomplished through formal oversight. Specifically, attention must be given to unifying regulation, managing accounts in arrears, deposits and other operations, security, and human resource management/oversight. Part of this would involve developing a single management information system to establish common accounting plans and budget.
5. Related to the previous point is the necessary integration of computer systems and operating a common platform.

6. Increase the involvement of the Bank of Greece in determining the capital requirements of co-operative banks to ensure a clear oversight of the co-operative network's operations.

V. CONCLUDING REMARKS

It is well known that the banking system in Greece faces some very serious challenges in the years ahead. Corporate corruption can easily make everyone pessimistic. The major commercial banks in Greece, with a large number of nonperforming (κόκκινα) loans and fewer depositors, remain capital inadequate, with credit liquidity available only to the most credit-worthy and no capacity to assist in pulling the economy out of its continuing downward spiral (Papadimitriou 2014). A recent report by the ECB shows that bank lending to the private sector continues its decreasing trend, especially in the corporate sector, and is declining sharply and at a much faster rate in Greece than in the rest of the eurozone. This has affected even more adversely the start-up and small- and medium-size businesses, especially in the more economically distressed regions. If we assume that the vitality of the Greek economy depends on the continual creation of new SMEs and the expansion of existing ones, it is in the public interest to have a network of strong, independent, and profitable co-operative financial institutions that specialize in financing such businesses. When market forces fail to provide financial services that are needed and profitable, it is appropriate for the government to help create the market. Financial co-operatives fall into such a category. They do not require a government subsidy, and after start-up costs, these type of banks would be profitable. The primary perspective of this proposal is that the main function of any country's financial structure is to advance the capital development of the economy—to increase the real productive capacity and wealth-producing ability of the economy (Minsky et al. 1993). Given that in Greece the existing banking sector is particularly weak in servicing small and start-up businesses and certain consumer groups in both urban and rural areas, empirical evidence supports the importance in advancing a program to develop a network of financing co-operatives.

The proposal we have discussed in this report attempts to provide a blueprint for instituting such a network of co-operative banks, drawing from the experiences of similar structures in the United States and Europe. Our proposal offers suggestions on the organization of co-operative banks, and a framework within which they would be chartered, regulated, and supervised by a newly created central bank of co-operative banks.

We believe that local banking is desirable for many reasons, including the familiarity of the lender's region or community, and it is crucially important in Greece, where the opportunity to provide much-needed financing for small businesses and expand the primary sector of the economy together with tourism (agrotourism), discussed with some detail in Appendix D, could become a significant growth driver for the country's economic recovery.

While many readers may not agree with our proposal to create a network of local financing co-operatives that would support the revitalization and promotion of rural reinvestment and urban entrepreneurship, we hope that it helps place co-operative banks on Greece's economic agenda.

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APPENDIX A: UNITED STATES BACKGROUND

The community development banking network is made up of a variety of institutions that share the goal of providing financial services to those individuals otherwise underserved by the financial sector. The commonality among these institutions is their track record of directing their products and services to economically vulnerable communities. The first such institutions are community development corporations (CDCs), of which bank CDCs are a subdivision. Bank CDCs may be owned by one or more banks. Other community banking institutions are community development banks, community development loan funds, community development credit unions, and community development venture capital funds, which can all be described as community development banking institutions (CDBIs). The most recognizable CDBIs are certified as Community Development Financial Institutions (CDFIs) by the CDFI Fund. For CDBIs to become certified CDFIs, CDBIs need to be able to show how their services are oriented toward community development.

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFIs)

Community Development Finance Institutions (CDFIs) are enterprises that deliver financial services to businesses (existing businesses, start-ups, and social enterprise) and individuals that cannot obtain financing from the mainstream banking sector. Many CDFIs operate on a not-for-profit basis, on the basis of public funding. CDFIs have an explicit social welfare mission; for instance, by focusing their lending within disadvantaged areas and/or amongst financially excluded groups. The US CDFI movement was founded in the early 1970s and consists of four types of CDFIs (GHK Holdings Limited 2010):

1. Community Development Banks

For-profit deposit-taking corporations with community representation on boards that target low and middle income communities.

2. Community Development Credit Unions (CDCUs)

Mutual, not-for-profit, deposit-taking financial institutions.

3. Community Development Loan Funds (CDLFs)

These organizations serve microenterprises, small businesses, housing, and community-service organizations. They tend to be not-for-profit, with community representation on their boards.

4. Community Development Venture Capital Funds (CDVCFs)

Offer equity with debt targeting of small and medium businesses in deprived areas.

The following organizations are examples of certified CDFIs:

Boston Community Capital

Boston Community Capital (BCC) includes a CDLF, a CDVCF, a real estate and residential mortgage group, a renewable energy financier, and 13 New Markets Tax Credits LLCs. The organization was founded in 1985 and had over \$550 million in assets as of 2010. Despite its relatively large scale, BCC is staffed with only 20 full-time employees (Crandall et al. 2011).

Coastal Enterprises Inc.

Coastal Enterprise Incorporated (CEI) is a nonprofit organization founded in 1977 in Wiscasset, Maine. CEI provides a range of services, but its main areas of focus are financial services for small businesses.

Hope Enterprise Corporation

Hope offers a wide array of services, including policy research, environmental protection, health course curriculum development, broader coalitions and partnerships with community development actors in the region, and a range of financial products targeted to low-income communities.

Low Income Investment Fund

Founded in 1984, the Low Income Investment Fund (LIIF) is a national CDFI that provides funding and technical assistance to help finance facilities and programs in low-income communities. With offices in San Francisco, Los Angeles, New York, and Washington, D.C., LIIF's main focus is on serving the nation's poorest populations. Very-low-income families represent approximately 75 percent of the families involved with LIIF (ibid.).

IMPACT ASSESSMENT OF CDFI RATING AGENCIES

Impact Assessment for CDFIs can be done internally or externally. External assessments may come in the form of data collection and assessment as performed by rating agencies such as the CDFI Assessment and Rating System (CARS). CARS assesses the social impact and financial strength and performance of individual CDFIs. It produces a score for social impact (AAA, AA, A, and B) and for financial strength and performance (1–5), so that AAA 1 is the highest score and B 5 is the lowest score. Investors can pay a fee to CARS in order to obtain the ratings of CDFIs in which they are interested (GHK Holdings Limited 2010).

Case Study 1: Boston Community Capital's Impact Assessment

Historically, BCC has relied on interviews with borrowers and credit memos for output data. But in 2012, they introduced a Web-based survey to serve as an additional measure of impact. While this could improve BCC's impact assessment, the institution expresses a concern with burdening their

borrowers with too many reporting requirements. As with other CDFIs, timely responses and accurate information remain difficult to obtain. As a result, BCC can measure the immediate outputs of its services, but finds it challenging to estimate their ripple effects (outcomes). BCC does not have a single individual who is responsible for impact assessment and instead includes aspects of the work in several employees' responsibilities (Crandall et al. 2011).

Case Study 2: Coaster Enterprises Inc.'s Impact Assessment

CEI received a grant for impact assessment from the Ford and Heron Foundations in the mid-2000s and directed its assessment to capturing both social and economic successes. Much like BCC, however, CEI expresses difficulty in measuring indirect outcomes of their services. CEI claims to use internally defined measures to get as close to measuring their impact as possible. To estimate its impact on job growth, for example, CEI measured the net number of full-time jobs created and maintained over time as well as the salaries and benefits that employees received at each of the companies funded by CEI. CEI has also given considerable thought to how to measure the longer-term systemic impacts of its work, such as regional and quality of life impacts. CEI does find it challenging that additional reporting requirements tend to deter borrowers and that many data collection tools, despite being simple in content, have rates of return too low for the generation of accurate results (ibid.).

Case Study 3: Hope Enterprise Corporation

Ed Sivak, Hope's senior vice president of policy and evaluation, is in charge of the organization's assessment and evaluation activities. Since 2002, Hope has published annual Impact Reports, which are available on its website. Data is collected by loan officers, who obtain many of the output data when filling out loan applications with a borrower. On a quarterly and annual basis, staff pulls impact metrics from these applications to complete evaluation processes. Sivak is aware of the fact that some CDFIs use a multiplier to assess certain impacts, such as job creation, but finds that Hope does not have the time and resources to explore the relevance and appropriateness of such tools.

Case Study 4: Low-Income Investment Fund

LIIF has made use of CARS for external assessment and gathers output data from borrowers and grantees during the underwriting and approval process. This information is then entered into LIIF's custom Project Statistics Tracking System (PSTS). A single administrative employee is charged with these data entry duties, which helps maintain consistency in records. To assist in translating outputs into outcomes, LIIF has developed a number of formulas for estimating outcomes based upon outputs achieved. When published, such estimations are often accompanied by disclaimers stating that figures are "intended only to describe the approximate level of social benefit that flows from LIIF's work" (ibid.).

To assess the social impact of the services that these different institutions provide, various measures have been employed. Bank CDCs appear to be the only institutional structures that neither publish impact evaluations of their services nor undergo external assessments.

Many CDFIs employ impact assessments to identify what contribution to society their services yield. Some CDFIs make use of the external assessments as performed by rating agency CARS. Others have a division that handles impact assessment internally. The latter is typically done by requiring clients to provide feedback through surveys, and by tracking clients' assets and liabilities. Many CDFIs still find it challenging to measure the indirect impact of their services, and to ensure that reporting requirements do not become a burden to their customers.

Much like CDFIs, impact-investing organizations aim to measure the direct as well as indirect benefit as caused by their investment. Frameworks may be developed for each particular investment, and can be costly to carry out. As with microfinance institutions, the absence of a control group tends to make impact measurements imperfect now that evaluative measures are typically required to take a more empirical approach. The impact evaluation of MFIs has become contentious as a result of this methodological difficulty. But with the eruption of microfinance investment funds, a new metric has been suggested by MicroRate, through which sustainability, size, and transparency are considered and the MFI is assigned to tier 1, 2, or 3 according to its score.

COMMUNITY DEVELOPMENT CORPORATIONS (CDCs)

Community development corporations are nonprofit, community-based organizations that anchor capital locally through the development of both residential and commercial property, ranging from affordable housing to shopping centers and businesses. One type of CDC is a bank CDC, which in turn can be divided up into bank-owned CDCs and multibank CDCs.

Bank-owned CDCs

Bank-owned community development corporations (CDC) provide services that help to increase access to capital in underserved urban and rural areas. Many banks use CDCs to supplement their regular loans and services, because it helps to enhance their client base and allows for businesses and individuals to engage in more traditional banking relationships (OCC 2011a, b).

Examples: Key Community Development Corporation, Bank of America's Community Development Corporation

Multibank CDCs

Multibank CDCs come into place when several banks pool their resources to finance community development activities. Together, they may form nonprofit and for-profit multibank CDCs, limited liability companies, loan pools, and loan consortia with other local financial institutions to provide capital for affordable housing. Resources may also be provided by local partners, such as government entities and community-based organizations (ibid.).

Example: Arizona Multibank Community Development Corporation.

Impact Assessment

The Urban Institute has conducted econometric analysis to measure the impact of CDCs on neighborhood quality in five urban neighborhoods. Its results show that CDCs generated higher property values in two of the five studied neighborhoods. In Portland, Oregon, values increased by 60 percent more than they would have otherwise, and in Denver, values increased by 50 percent more than they would have in absence of the CDCs (Temkin et al. 2005).

COMMUNITY DEVELOPMENT BANKING INSTITUTIONS (CDBIs)

Community development banking institutions (CDBIs) are institutions with proven track records of directing their products and services to economically vulnerable communities. The most recognizable CDBIs are certified as Community Development Financial Institutions (CDFIs) by the CDFI Fund. The CDFI Fund is a division within the US Department of the Treasury that invests in and assists financial institutions that are committed to community development. While the application for certification does not require proof of impact, it does require clear indications of the institution's orientation toward community development. As of July 1, 2009, 63 of the 8,255 active banks in the United States were certified as CDFIs (Narain and Schmidt 2009).

Impact Assessment

For those CDBIs that are certified by the CDFI Fund, the National Community Investment Fund (NCIF) created a performance metric methodology that yields quantitative as well as qualitative impact assessments. The framework provides potential investors with information on an institution's operation to help ascertain whether an institution has a community development orientation (ibid.). The following quantitative measures are used to map each domestic bank into a two-by-two matrix, as detailed in Figure 1.

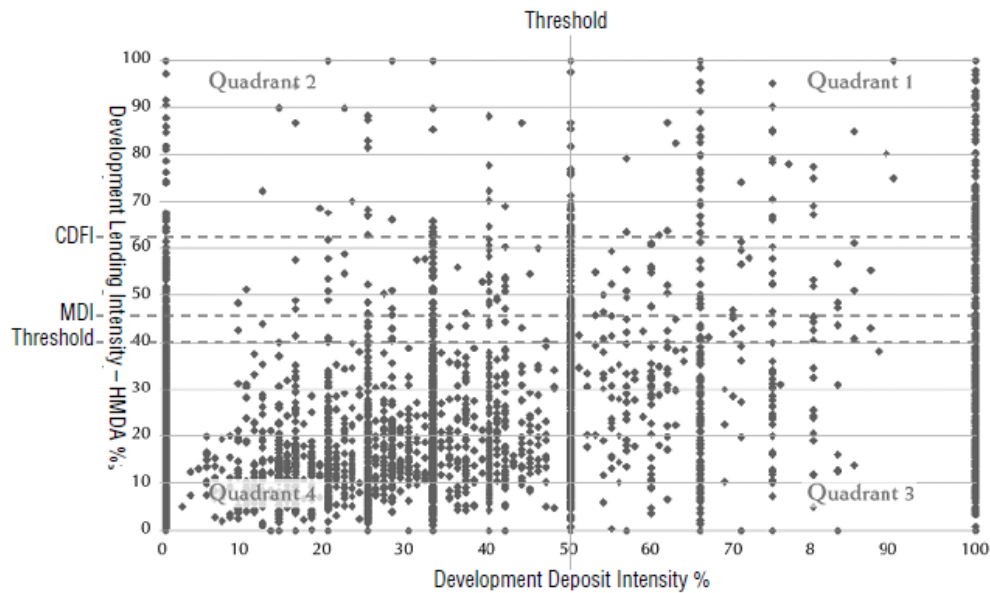
- 1. Development Lending Intensity (DLI)**

Calculated using an institution's Home Mortgage Disclosure Act (HMDA) data. This metric assesses the percentage of an institution's home loan originations and purchases, in dollars, that are located in low-to-moderate-income (LMI) census tracts.

- 2. Development Deposit Intensity (DDI)**

The percentage of physical branch locations located in LMI census tracts.

Figure 1. Development Lending Intensity and Development Deposit Intensity of HMDA Reporting Banks



*Quadrant 1 is composed of institutions that score above the threshold value for both DLI and DDI. The lending activity of these institutions displays a high level of activity within low-income communities, which is a likely sign of a community development mission. However, scoring below the threshold value does not necessarily indicate that these institutions are not committed to community development. Their community development work may not be captured by these metrics (Narain 2009). To determine if a bank is truly mission focused, it is essential to combine quantitative analysis with qualitative analysis. Questions to guide such analysis would be:

1. Is the bank located in a community with a high poverty or unemployment rate?
2. Is the bank serving an area with a low median family income?
3. What are the various products and services the bank offers?
4. Does the bank provide innovative products that are tailored to the needs of their community?
5. Are they providing financial literacy and counseling to their customer base?

Other players in the community development banking network that have erupted in recent years are those organizations that concern themselves with impact investing. They may come in the form of traditional financial institutions, foundations, and government agencies, and aim to generate profits as well as social benefit through investment. They are distinct from microfinance institutions (MFIs), which work with much smaller assets, typically on a nonprofit basis. Microfinance investment funds have erupted to provide funding to MFIs.

MICROFINANCE INSTITUTIONS (MFIs)

Microfinance institutions (MFIs) seek to empower low-income communities by making small and affordable loans available to them and are found outside as well as within the United States. Although they share a common goal, US MFIs often issue larger loans than their foreign counterparts and use individual rather than group lending methods. Because US financial institutions place great significance on their borrowers' credit scores, many US MFIs work to help their clients achieve better scores. Some employ financial coaching to ensure that customers are aware of the ways in which they can make use of their loans most strategically. Due to high operating costs, it is often difficult for US microfinance institutions to become self-sustaining or profitable. They typically operate on a mix of government, foundations, and private funding (Accion 2013). Examples of US MFIs are:

1. Accion USA (www.accionusa.org/)
2. Opportunity Fund (www.opportunityfund.org/)
3. The Capital Good Fund (www.capitalgoodfund.org/)

From the MFIs' need for funding, microfinance investment funds have erupted. Based on the MFIs those funds target, the products they propose, their shareholder structure, the role of the fund in the MFI's governance, and the fund's objectives, these funds may be classified into the following categories (Matthäus-Maier and Pischke 2008):

1. Microfinance Development Funds (e.g., Accion Gateway Fund)
2. Quasi-Commercial Microfinance Investment Funds (e.g., Accion Investments in Micro Finance)
3. Commercial Microfinance Investment Funds. (e.g., MicroVest, Impulse)

Impact Assessment

The determination of the social impact of microfinance is contentious and methodologically complex. The literature suggests that the main problem has been selecting an appropriate control group, as this is difficult to do in practice. The impact assessment studies that mimic experimental settings suggest that the impact of microfinance is small or even on occasion negative (Giné and Karlan, 2007; Coleman 1999), while those who apply less rigorous methodologies obtain significant positive results more often (GHK Holdings Limited 2010).

As the microfinance investment funds are also interested in the performance of the microfinance institutions to which they may provide financial assistance, MicroRate (2013) has offered a tier structure through which to analyze the performance of MFIs, using the following indicators together:

- 1. Sustainability:** Return on assets (RoA), calculated as the net operating costs as a percentage of average total assets, serves as an indicator for profitability, sustainability, and efficient use of capital.

2. Size: Size is an objective proxy for maturity. Smaller MFIs (below \$5 million) are usually either young, operate in a small market, or have not been able to grow organically. Larger institutions are typically stable and consistent.

3. Transparency: Transparency serves as a proxy for maturity by reflecting both the MFI's willingness and its ability to be accountable to the public. Regulated financial institutions represent the highest level of transparency because of the standards imposed by most local banking authorities.

Using these indicators, MicroRate distinguishes between three tiers in the following way:

MFI Tier Structure

	Tier 1	Tier 2	Tier 3
Description	Mature, financially sustainable and large MFIs that are highly transparent.	Small- or medium-size, slightly less mature MFIs that are, or are approaching, profitability	Start-up MFIs or small NGOs that are immature and unsustainable
Sustainability	(i) Positive RoA for at least 2 of the last 3 years AND (ii) No RoA <-5% in the last 3 years	(i) Positive RoA for at least 1 of the last 3 years and other years >-5% OR (ii) Positive trend in RoA in last 2 years and >-5%	The rest
Size	>\$50 million	\$5–\$50 million	< \$5 million
Transparency	i) Regulated financial institution OR (ii) Rated at least once in the last 2 years	Audited financial statements for at least the last 3 years	The rest

Source: MicroRate 2013

APPENDIX B: CO-OPERATIVE BANKS IN EUROPE

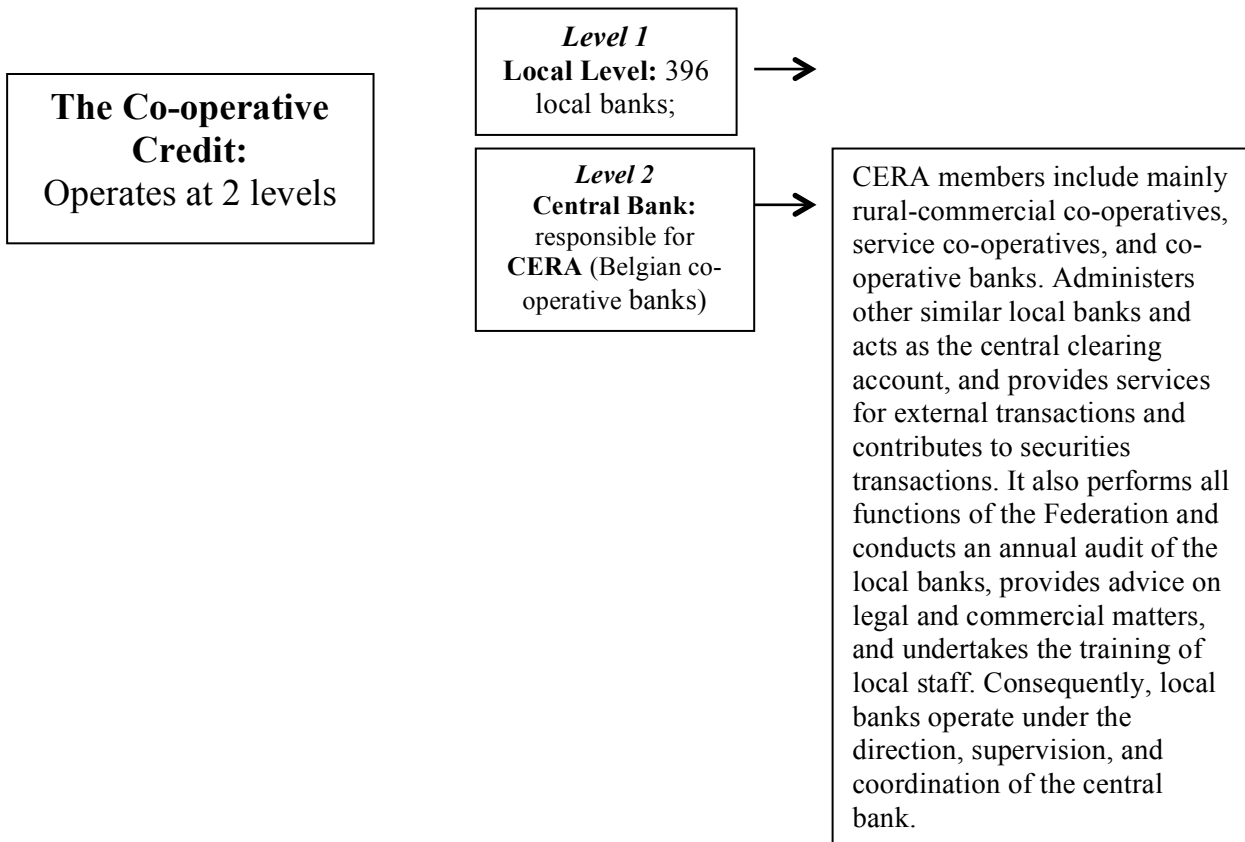
The adoption of Regulation (EC) No. 1435/2003 establishing a truly unified legal regime for the European Co-operative Society (SCE) actually makes possible the establishment of an association of persons or legal entities resident or domiciled, respectively, in different member states.

These new co-operatives, with a minimum capital of 30,000 euros, will be able to pursue their activities throughout the single market with a single legal personality, rule set, and structure. This will enable them to expand and restructure their cross-border transactions without having to create an affiliate network, and venture too costly in terms of money and time.

Moreover, the co-operatives of several countries can now be merged with the formation of a European Co-operative Society. Finally, an association of a member state that has activities in a member state other than the one in which it is situated can be converted into a European co-operative without dissolving. In order to promote corporate objectives of the community, special provisions were also issued by the directive, particularly regarding the role of workers in the European Partnership, to ensure that the creation of a new system will not cause the disappearance or weakening of the system of employee participation that existed prior to the involvement of corporate entities in the new partnership (OTOE 2013).

THE BELGIAN MODEL

- Raiffeissen Raiffeissenbank (banks in the system)
- Caisses Rurales (rural funds that act like banks)



THE CYPRIOT MODEL

The Cypriot co-operative banking sector is a key contributor to the financing with a robust network that rivalled private commercial banks in many respects prior to the eurozone crisis. Prior to the collapse in Cypriot banking, there were nearly one hundred co-operative credit institutions, which were not controlled by the co-operative central bank to which they were affiliated. The EC (2014) cites this lack of member control as a shortcoming of the system, stating “this decentralised structure and closeness with borrowers led to careless lending, with no serious verification of the ability of the borrowers to repay their loans, and to a culture of nonrepayment. As a consequence and due to the deep current recession, over 40 percent of the loan book is now nonperforming, i.e., not repaid by borrowers, and this percentage is increasing.”

Currently, nearly €1.5 billion is needed to cover these loan losses, which has prompted intervention by the ECB and IMF. The EC (2014) outlines the broad aspects of the intervention:

The restructuring plan approved today represents a major overhaul of the structure and commercial practices of the group. The number of co-operative credit institutions will be reduced to 18 via mergers. They will be owned and controlled by the co-operative central body, which will in turn be owned by its new 99% shareholder, the State. Adequate risk management, loan underwriting and claim management policies will be developed. Managing actively the large amount of non-performing loans through a newly established specialised division is a key component of the plan. New management teams are in the process of being appointed, both at central and at credit institutions level.

One of the shortcomings of the system was the lack of real regulatory oversight from the Co-operative Central Bank Ltd. in Cyprus. Established in 1937 under the Co-operative Societies Laws and Rules, the bank was charged with a main purpose of providing banking and other ancillary services to member co-operative societies (which form the backbone of the agricultural community of Cyprus). With time, however, the central bank expanded into all banking services, and was less concerned with its network that was not legally bound under it and more concerned with its own balance sheet. There are some clear parallels to draw here with Greece, both in terms of its lack of a central co-operative bank with real regulatory and oversight powers, as well as nonperforming loans that can flourish in such a decentralized system.

THE DUTCH MODEL

The Dutch Banking Sector

The Dutch banking sector consists of three major banks: ABN Amro, ING Group, and Rabobank. The latter has come to be an important player in Dutch co-operative banking.

The Origins of Dutch Co-operative Banks

Co-operative banks in the Netherlands were first formed toward the end of the 19th century and were modeled on the co-operative banks in Germany. In 1898, the first two Dutch co-operative banks were established, and by 1950 there were over 1,300. When two co-operative central banks merged in 1972, they formed Rabobank. While Rabobank was initially an agricultural sector bank, it has developed into a full-range financial services provider that is of significance in the urban sector, too (Ayadi et al. 2010).

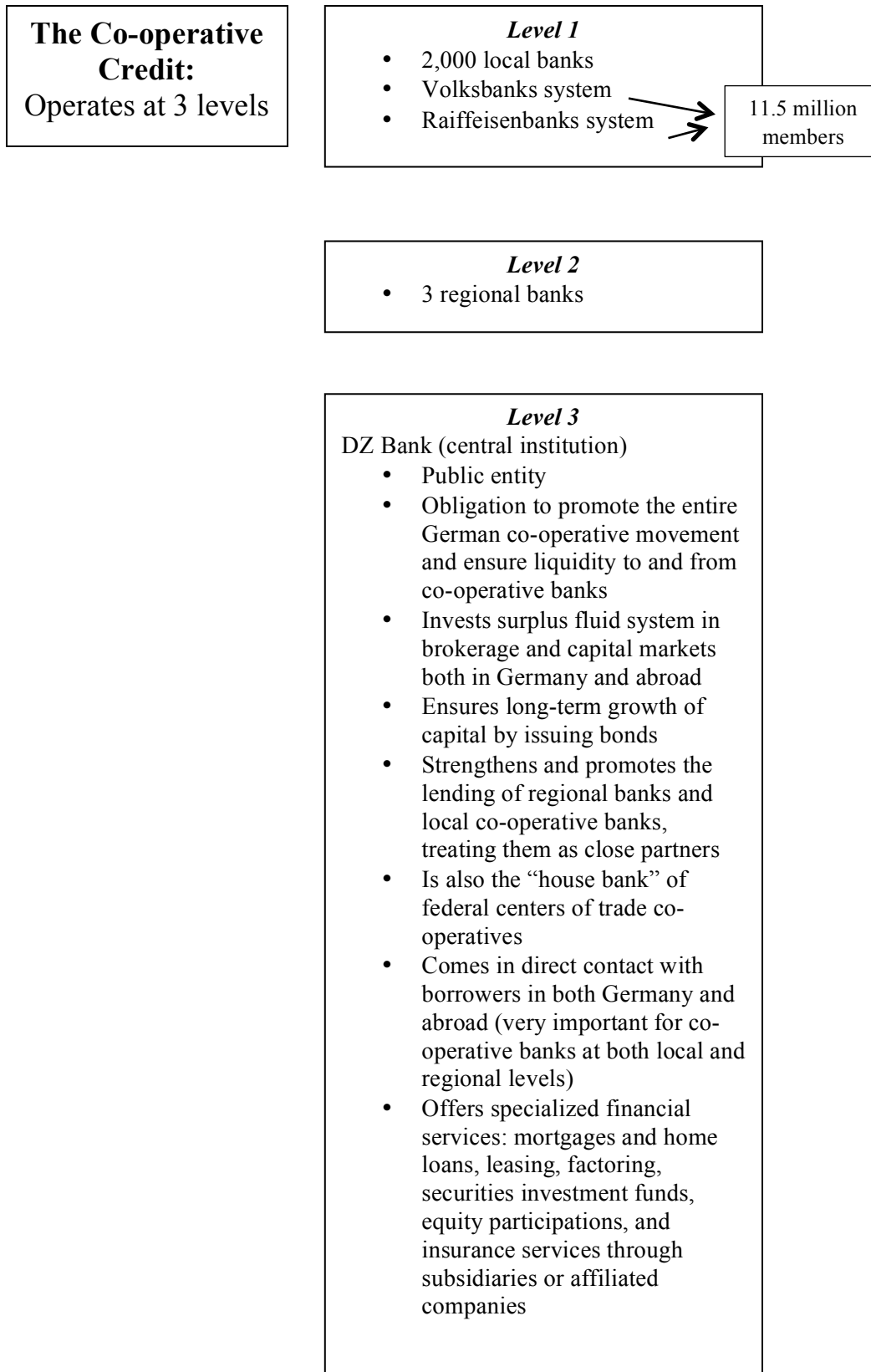
The Dutch Co-operative Banking Structure

The Rabobank Group consists of Rabobank Nederland (the network's central bank), the various subsidiaries of Rabobank Nederland, and Rabobank Nederland's 153 local member banks. Rabobank Nederland is a bank in itself, acts as a central bank to member banks and helps them meet liquidity requirements, has a supervisory role, and is an outsourcing partner for its member banks. The local member banks are individual legal entities that together own Rabobank. The local member banks also have their own members in their locality. Although all member banks are legally independent entities, each is liable for the obligations of all other members and the group itself. The structure allows Dutch co-operative banks to have a local focus (since they are geographically close to their members and customers) but also the resources made available by national facilities. This structure allows for a two-way relationship between the central institution and the local banks: the member banks own and influence Rabobank Nederland, which in turn has supervisory and regulatory powers over the member banks. Governance structures exist both at the local member bank and at the central bank. In the Rabobank model, all local co-operative bank members have a supervisory board. This is designed to embed member influence and control. The Dutch model for co-operative banking and its governance structure is unique in that it combines the roles of bank, central bank, and supervisory agency.

Efficiency

Rabobank Nederland acknowledges the varying opinions on the effectiveness of co-operatives. They claim that there are several key factors that must be met for the introduction or development of co-operative enterprises to be successful. They stress the importance of the policy, legal, and institutional environment as highly influential on the success of co-operative enterprises. In the absence of elementary co-operative legislation, they note, co-operatives cannot develop into sustainable organizations. But Rabobank does not consider there to be a one-size-fits-all prescription, because of differences in stage of development, cultural and historical background, and market conditions in each country or continent, all of which are also undergoing constant change (Groeneveld 2012).

THE GERMAN MODEL



The German Banking Sector

As Germany does not have restrictions on banks conducting both commercial and investment banking activities, most German banks are universal banks. These universal banks include private banks (38 percent of banking assets in 2012), publically owned savings banks (29.4 percent of banking assets), and co-operative banks (11.8 percent of banking assets) (Detzer et al. 2013).

The Origins of German Co-operative Banks

Co-operative banks in Germany date back to the ideas of Hermann Schulze-Delitzsch and Friedrich Wilhelm Raiffeisen. At the beginning of the 19th century, the German economy was characterized by economic hardship and a lack of capital. There were only a few urban banks that provided financial services to Germany's rural population. Schulze-Delitzsch and Raiffeisen addressed this problem by creating co-operative associations that drew on local information to provide financial services in the rural sector. As this strategy limited the co-operatives geographically, making it difficult for them to deal with larger banks and hence to ensure liquidity, they formed a coalition and established a regional central bank of their own. In this way, a three-tier co-operative banking group was established that consists of local co-operative banks, regional central banks, and a nationwide top institution (Greve 2012).

The German Co-operative Banking Structure

The number of co-operative banks, as well as their share in Germany's banking sector, has declined over recent decades, from 2,304 institutions in 1980 to only 1,121 in 2012 (Dezter et al. 2013). Nevertheless, they continue to play an important role in the German banking system. There used to be an exhaustive net of regional "central banks" that formed the second tier, but this disappeared over the years. Today, the financial structure consists only of local co-operative banks and two central institutions. The larger of these is Deutsche Zentral-Genossenschaftsbank, or DZ Bank, Frankfurt, which serves as the central bank for most primary or local co-operative banks. Its smaller counterpart is WGZ-Bank, Düsseldorf (Ayadi et al. 2010).

The local co-operative banks are registered co-operatives according to German co-operative law. The co-operative banking group has around 30 million customers in total, of which approximately half are also members, making them owners of the co-operation. Those members elect the supervisory board of the bank, which in turn appoints the management board and determines the banks' strategies. Members of co-operatives have equal voting rights regardless of their capital investment. They cannot sell their membership, and are not liable for all obligations of the co-operative (Greve 2012).

Efficiency

Ayadi et al. (2010) point out that the challenge of the membership structure of co-operative banking is that there is no financial motivation for the members to induce the management needed to increase the value of the co-operative. Correspondingly, the incentives of management to increase this value

are also weak, which could lead the co-operative banking sector to be less efficient than the commercial banking sector. While this has been the case for many co-operative banks in developing countries in the past 50 years, Ayadi et al. find that such problems have been very rare or even nonexistent in Germany. In part, this can be attributed to the high level of competition to which co-operative banks are exposed in Germany. In addition, the German co-operatives must be members of a regional co-operative auditing association, which then performs the compulsory audits. This efficiency is confirmed by many others. Most studies find that, regarding profit and cost efficiency, public and co-operative banks do not perform worse than private banks, and in some cases even perform better (Detzer et al. 2013). Altunbas (2001), for example, finds that the mutual and public banks are slightly more cost- and profit-efficient than their private counterparts.

German Regulation

From 1995, Germany initiated regulatory changes aimed at strengthening the power of shareholders while limiting the influence of banks. This has led to a decline in banks' direct involvement in corporate governance. The regulatory changes promoted by German governments were an attempt to strengthen the position of Germany as a host for international financial markets (Detzer et al. 2013). As licensed banks, the German co-operative banks now have to conform to the general banking regulation and are subject to normal banking supervision, which is exercised by the Federal Financial Services Authority (BaFin) in co-operation with the Bundesbank. Apart from slight differences, they have to have the same level of equity and follow the same structural and prudential rules as other banks (Ayadi et al. 2010). Nevertheless, the banks' decentralization has led to criticism that they lack a harmonized risk management system, and that it increases the complexity of managing larger members' exposures (Semder and von Steinaecker 2013).

THE FINNISH MODEL

The Finnish Banking Sector

The Finnish financial market has become more international and increasingly integrated over the last few years. The core of the financial industry is formed by financial conglomerates, or groups, which provide the full range of services in investment, financing, and insurance. As of October 2013, there were 308 banks operating in Finland. These included domestic deposit banks, investment banks, and branches and subsidiaries of foreign credit institutions (Federation of Finnish Financial Services 2013).

The Origins of Finnish Co-operative Banks

The first co-operative bank in Finland was founded by Hannes Gebhard in the beginning of the 20th century, and was based on the Raiffeisen model. More institutions were organized, and in the 1920s the Guarantee Fund for Cooperative Banks was formed to bear risks mutually. The sector expanded strongly between 1945 and 1950, as the Finnish government issued a mandate to use the co-operative banking sector as an intermediary to distribute loans to those resettling out of the territories ceded to the Soviet Union. By the 1960s, the credit co-operatives began to undertake operations in urban areas. By the end of the 1980s, domestic and foreign indebtedness, together with peaking housing prices and the collapse of the Soviet Union, overheated the economy and weakened the banking sector. The crisis led to a major restructuring of the banking sector. Many smaller co-operative banks were reorganized and formed into a new confederation (Ayadi et al. 2010).

The Finnish Co-operative Banking Structure

As of the end of 2009, the total assets of the top three banks (Nordea Bank, OP-Pohjola Cooperative Group, and Pohjola Bank) represented more than three-quarters of the entire banking sector. The reforms that were enacted both as a response to the crisis and to implement the European directives paved the way for consolidation in the banking sector. In 1997, OP Bank Group was formed as the group's central institution, while many local banks engaged in mergers and acquisitions.

After starting from a dispersed structure, OP-Pohjola Group has become the second-largest bank in the highly concentrated Finnish market. Much like in other countries, the group has also widened the spectrum of its services and its structure. The institution has, however, maintained its lead in loans to farmers, while housing loans make up a major part of the credit portfolio. OP-Pohjola's market share in lending to enterprises remained at 26 percent in 2007 (ibid.).

Finnish Regulation

For the Finnish OP-Pohjola Group and the Dutch Rabobank Group, the central institution has an important supervisory role over its local bank members. The supervisors have delegated to the respective apex organizations [second-tier or wholesale organizations that channel grants, loans, and guarantees to multiple financial institutions within a given region or country] formal supervisory powers over its member banks. These central institutions themselves are supervised by the national supervisors (Groeneveld 2013, 6).

In 2001, a reform took place with the adoption of a law on co-operative banks and other credit institutions established as co-operatives. Under the new rules, the OP-Pohjola Group Central Cooperative took on the role of supervising and monitoring local banks' liquidity, solvency, and risk management practices. The central institution and the local banks form a consolidated group that is jointly responsible for one another's debt. Today, the OP-Pohjola Group's banking and investment arms are owned by its 1.3 million members, who exercise their power directly by voting in the general assembly or through their representatives (Ayadi et al. 2010).

THE FRENCH MODEL

French Banking Sector:
Dominated by 5 large banking groups

Major Banking Groups:

- BNP Paribas
- Crédit Agricole
- Société Générale: BPCE
- Crédit Mutuel
- BP Group (merged with Caisse d'Epargne in 2006)

* Total assets of the system amounted to €10 trillion at the end of 2011 (IMF 2012). However, the financial crisis affected the French financial sector significantly and led to a set of reforms, separating speculative activities from core banking activities (Baker & McKenzie, 2013).

The Origins of French Co-operative Banks

The first co-operative in France, Banque Populaire (BP), arose in the 1870s, before multiplying rapidly in the early 20th century. The co-operative banks have grown further in importance over the past two decades, primarily due to their growing scope of services and geographical reach through mergers and acquisitions.

The French Co-operative Banking Structure

Today, the biggest three French co-operative banks are the Crédit Agricole (CA), the BP group (which merged with Caisse d'Epargne in 2006), and Credit Mutuel (CM). Table 1 shows their respective market shares (Ayadi et al. 2010). As a consequence of their growth, the French co-operative banking sector has become more predominant than in most other countries in Europe. Despite their expansions, the governance of co-operative banks continues to be member-centric, with the "one member, one vote" principal applicable to the members of all three. In operative structure, CA, CM, and BP differ. While both CA and CM incorporate a three-tier structure, with local, regional and national layers, BP has a two-layer structure instead (national and regional).

Table 1: Market Share of French Co-operative Banks

	Assets				Private loans				Private deposits			
	BP	CA	CM	Total	BP	CA	CM	Total	BP	CA	CM	Total
1998	5.5%	12.6%	7.8%	25.9%	7.5%	19.4%	8.7%	35.6%	6.4%	25.7%	10.9%	42.9%
2003	5.9%	21.9%	8.9%	36.7%	8.6%	28.9%	10.5%	48.1%	8.3%	30.6%	11.2%	50.1%
2008	5.6%	24.7%	8.1%	38.3%	8.2%	31.3%	13.2%	52.7%	7.6%	36.4%	11.8%	55.7%

Sources: Banque Populaire, Crédit Agricole and Crédit Mutuel.

Note: Figures correspond to consolidated groups.

CA's network structure comprises over 2,500 local banks, 39 regional banks, and the central body. CA's ownership structure can be distinguished from other co-operative groups in that the central and 13 regional banks are listed on the stock exchange. In terms of ownership, the regional banks have a majority ownership of the national body, while, at the same time, they provide financing for the local banks (Ayadi et al. 2010).

CM's network structure is organized according to a three-level bottom-up approach. The local institutions are owned by their members and provide banking services, collect deposits, and grant loans. The regional institutions engage in training for the local administrators, business development and representation, and control of local institutions. Some of these regional centrals have formed alliances among themselves.

Unlike the other two co-operative institutions, BP's network collaboration is composed of two levels, with no local division. The group's national central institution is fully owned by the regional institutions. Apart from the centralized functions of treasury and risk management, the national central institution also serves as a legally binding mutual support system (ibid.).

Efficiency

Supervision of the co-operative banks in France is often conducted by apex organizations, alongside supervision by the Commission Bancaire. Brunner et al. (2004) find no compelling evidence that co-operative banks in France are less effective at managing revenues and costs than commercial banks. French co-operative banks also appear to have suffered less than commercial banks during times of banking stress in the 1980s and 1990s. Detzer et al. (2013) cite Gurtner, Jaeger, and Ory (2002), who note that French co-operative banks, with the exception of the former savings banks, have better efficiency ratios than their commercial peers, although the latter have cut their costs more significantly in the course of the 1990s.

Like in other European countries, some of France's growing co-operatives still face capital shortages, which has driven them to find new ways to raise capital. Many French co-operatives have issued nonvoting equity, and some co-operatives have experimented with equity-like debt instruments and hybrid types of securities (Fonteyne 2007).

Co-operative Banks and Regulation: The French Case

In France, the co-operative banking model has taken on a hybrid form. Besides being part of the co-operative network itself, banks are part of large universal banking groups. This has led the co-operative groups themselves to adopt some of the characteristics and standards of their joint-stock subsidiaries (Ory, Gurtner, and Jaeger 2009).

De Serres et al. (2010) note that French co-operative groups play a double role: to centralize the information, and to impose the new standards and rules over the local/regional banks; although the latter are supposed to be the ones to hold the power of control.

The consequence is also a standardization of the banking product offering. This trend is especially noticeable in France. Whatever the legal status of the banks (nowadays, two “joint-stock” banking groups, three banking groups “under cooperative control,” and Banque Postale), all of them provide their customers with the same range of banking products, although these products appear different thanks to an appropriate “brand name” (De Serres et al. 2010).

This similarity is the combined result of a protest movement on the part of the joint-stock banks, and of some regulatory changes (i.e., the French Banking Law of 1984), but it also responds to the wishes of the co-operative banks to let their customers benefit from advantageous legal tax arrangements. Thus, from the beginning of the 1980s, all the joint-stock banks and two of the co-operative banking networks have been asking the French state to extend the privilege of offering tax-exempt savings products. In short, the bottom-up structure of a co-operative is increasingly clashing against the top-down authoritative model of joint-stock banks and regulatory policy standards. Accounting and regulatory changes form a strong incentive combination to move toward a more hybrid model, close to the dominant “shareholder” model (ibid.).

French Regulation

Supervision of the co-operative banks in France is often conducted by apex organizations (second-tier or wholesale organizations that channel grants, loans, and guarantees to multiple financial institutions within a given region or country), alongside supervision by the Commission Bancaire (Ayadi et al. 2010).

THE ITALIAN MODEL

In Italy, rural areas operate 728 local banks, with 300,000 members, and two regional banks. The central institution is the Istituto di Credito delle Casse Rurali ed Artigiane (ICCREA), based in Rome and founded in 1963. It works first and foremost as a refinancing agent and consignee on behalf of those banks, manages securities to a limited extent, and provides advice and technical support to local banks. Additionally, the ICCREA represents all local banks in international interbank matters, adds data processing services, and manages the central guarantee fund.

In addition, there is the Central Institute of Italian Popular Banks (Istituto Centrale delle Banche Popolari Italiane), based in Rome and Milan and founded in 1939. Its shareholders are urban co-operative banks. The importance of a central institution is exercising control and clearing services to systemically important banks under its jurisdiction. For smaller co-operative banks, it functions as regulator and manager of banks' liquidity transactions and is engaged in lending to nonbank customers.

THE SPANISH MODEL

There are three entities that make up the finance system in Spain: (1) banks, legally established as limited companies; (2) savings banks, which are foundations; and (3) credit co-operatives, legally established as co-operative companies. Within the credit co-operatives, there are (1) rural savings banks, (2) popular savings banks, and (3) professional savings banks. Rural savings banks have been closely linked to the agricultural sector, although they are expanding their activities to other sectors.

The finance group Caja Rural (Rural Savings Bank Group) was created in Spain in 1989 by 24 rural savings banks. The aim was to establish strong links between credit co-operatives, allowing for an improvement in the structure, as well as the operation and organization, of the banking system. Entities work through mixed organizational formulas, keeping individual structures for traditional business and developing the federal banking model at a group level. The Group Caja Rural includes 96 percent of the Spanish rural savings banks (74 of 77). Only three entities (rural savings banks) have not joined the group. The institutional framework of the group is as follows:

1. The Asociación Española de Cajas Rurales (AECR) constitutes the instrument for coordinating and representing the members of the group.
2. Banco Cooperativo Español, SA (BCE), the Spanish Co-operative Bank, is the banking center for rural savings banks. It co-ordinates the financial policies of the rural savings banks and supplies specific financial services.
3. Rural Servicios Informáticos (RSI) is the company in charge of defining and establishing an automated system for dealing with information.
4. Seguros RGA is the insurance entity for all the rural savings banks, created to expand the range of products offered by these entities.

Credit co-operative partnerships participate in the decision making of central co-operative banks through their representatives. In Spain, rural savings banks own 85 percent of the share capital of the Spanish Co-operative Bank, in proportion to its assets. The remaining 15 percent belongs to the Deutsche Zentral-Genossenschaftsbank (DZ Bank), the German central co-operative bank (Melián Navarro 2005).

The Spanish Co-operative Bank joined the UNICO Banking Group in 1998. This group was created in 1977 and is made up of the central entities of the most important European banking groups. The members of this group, which is legally categorized as a Group of Economic Interests, are the DZ Bank (Germany), the Raiffeisen Zentralbank (RZB; Austria), the Group KBC for banking and insurance (Belgium), the OKOBANK (Finland), the Caisse Nationale de Crédit Agricole (CNCA; France), the Rabobank (Holland), the Unión Suiza de Bancos Raiffesisen (Switzerland), and the Istituto di Credito

delle Banche di Crédito Cooperativo (Italy). Its aim is to achieve international co-operation of the European co-operative banks (ibid.).

Crespi et al. (2004) examine Spain's approach to co-operative banking regulation. They note that commercial banks, savings banks, and credit co-operatives compete under equal conditions in the loan, deposit, and financial services markets. Some of the commercial banks are subsidiaries of foreign banks or subsidiaries of other Spanish banks. Regulation, accounting practices, and credit-risk management is practically the same for all three types (Crespi et al. 2004).

Table 2 gives a detailed evolution of the principal magnitudes of Group Caja Rural in the last six years, as well as its relative importance in all credit co-operatives. The decrease in entities belonging to the group is due to merging processes and absorption, which the sector experienced during this period. However, the volume of business has grown, and the group's balance of total assets on December 31, 2003, was 41,639 million euros, 78 percent higher than at the start of the period studied (Melián Navarro 2005).

Table 2. Evolution of "Group Caja Rural". Relative importance in credit co-op movement in Spain

	1998	Δ	1999	Δ	2000	Δ	2001	Δ	2002	Δ	2003
Nº entities	83		81		79		77		75		74
Total assets	23,364,448	10.8	25,890,132	11.6	28,901,479	15.4	33,340,484	10.9	36,986,187	12.6	41,638,772
% s/Rural Savings Banks	95.6		96.3		96.1		95.4		96.2		96
% s/Credit Co-operatives	75.6		74.1		74.4		73.8		74.8		76
Total Credits	14,119,018	21.6	17,173,885	17.7	20,210,698	15.5	23,343,037	17.2	27,365,825	16.1	31,781,292
% s/Rural Savings Banks	95.5		97.0		97.1		96.6		96.9		97
% s/Credit Co-operatives	76.4		77.8		77.8		77.0		77.4		77
Total Deposits	19,286,382	11.8	21,560,281	11.9	24,121,018	14.8	27,692,418	12.0	31,028,267	11.1	34,485,805
% s/Rural Savings Banks	95.8		96.5		96.2		94.9		95.9		96
% s/Credit Co-operatives	76.5		76.7		74.8		73.7		74.9		75
Subscribed Capital	341,735	13.9	389,126	23.4	480,263	9.1	524,046	29.1	676,606	32.8	898,783
% s/Rural Savings Banks	96.0		97.8		98.1		94.3		98.5		99
% s/Credit Co-operatives	62.0		62.6		64.9		62.6		66.7		71
Reserves	1,288,173	16.1	1,496,175	14.7	1,715,835	12.8	1,929,080	11.4	2,148,892	10.6	2,376,862
% s/Rural Savings Banks	90.6		91.4		92.2		92.6		91.9		92
% s/Credit Co-operatives	67.9		68.9		69.9		70.4		70.4		71
Profits	249,660	5.9	264,416	0.0	264,553	4.8	277,194	4.4	289,527	8.9	315,160
% s/Rural Savings Banks			96.2		95.8		95.8		95.3		96
% s/Credit Co-operatives	69.0		68.4		67.1		68.5		70.9		72

Source: UNACC, several years and drawn up by author. Data in thousands of euros

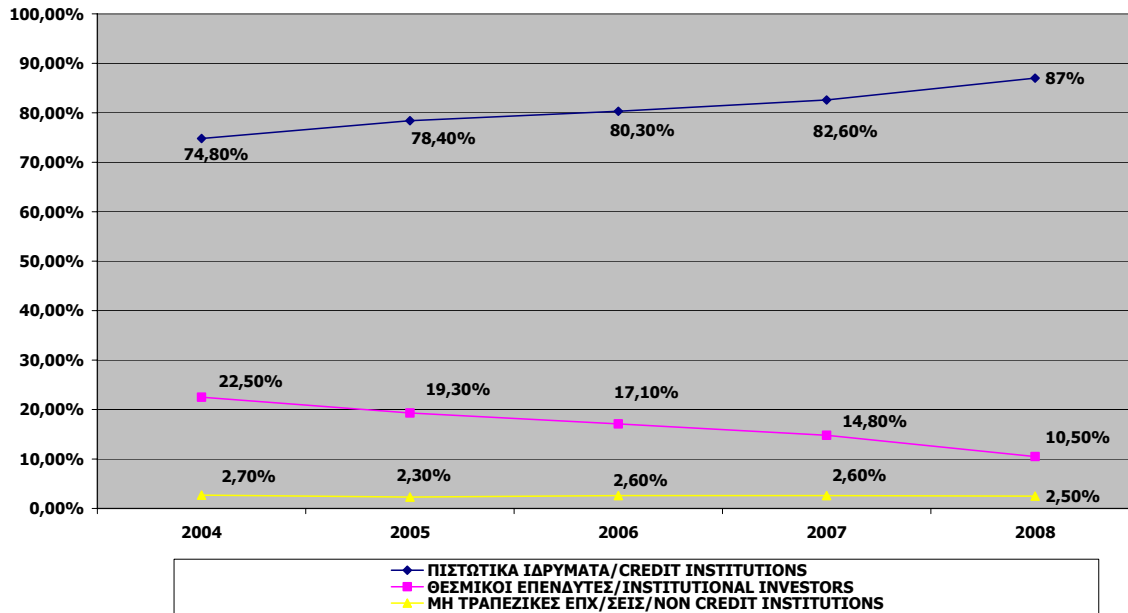
APPENDIX C: TIME SERIES DEVELOPMENTS IN GREEK CO-OPERATIVE BANKS: 2004–08

(Association of Co-operative Banks in Greece, este.gr)

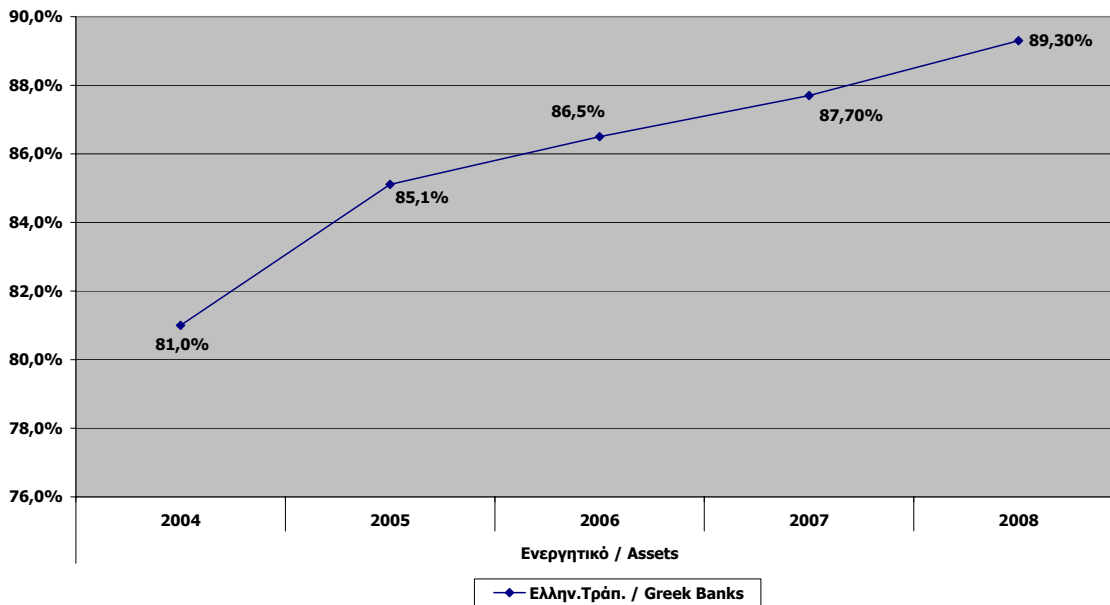
In relation to the previous financial years, total assets were higher by 14.4 percent in 2007 (€464 billion), 18.2 percent in 2006 (€392 billion), 9.4 percent in 2005 (€359 billion), and 16.5 percent in 2004 (€308 billion), thus resulting in an average increase of 14.5 percent from 2004 to 2008 (Poli-Karadouka 2009). A further analysis of the aforementioned figures indicated that credit institutions had the highest participation percentage, followed by institutional investors and nonbanking enterprises, with an average participation over the five-year period of 80.7 percent, 16.8 percent, and 2.6 percent, respectively. However, it is worth mentioning that credit institutions' participation showed an upward trend, contrary to institutional investors, the participation of which recorded a downward trend, while nonbanking enterprises showed a stable participation rate of 2.5 percent during the same period.

In the buildup to the eurozone crisis, Greece witnessed significant growth in financial institutions and domestic lending. While the period prior to 2004 was characterized by a large increase in foreign banking within Greece, the 2004–08 story was more domestically driven. Throughout this period, co-operative financial institutions either grew or remained flat across all regions in Greece. Furthermore, co-operatives increased lending despite not gaining a noticeably different level of market share. While co-operatives were capturing more deposits and lending out against these reserves, they were doing so at a pace that neither trailed nor outpaced the rest of the financial sector in Greece. The importance of this discussion is in that we know co-operative financial institutions are, historically, better safe havens during downturns than traditional banks. The scale of the downturn in Greece has not allowed CFIs to be immune from the crisis. On the contrary, the large portfolios of nonperforming loans smacks of corruption and echoes the error of Cyprus's co-operative structure. Nonetheless, with the proper reforms, the co-operative banks within Greece could increase their market share and relevance during a largely stagnant time in banking within Greece. The following section presents detailed time-series of the Greek financial system during the buildup to the eurozone crisis for those interested in a disaggregated view of the period.

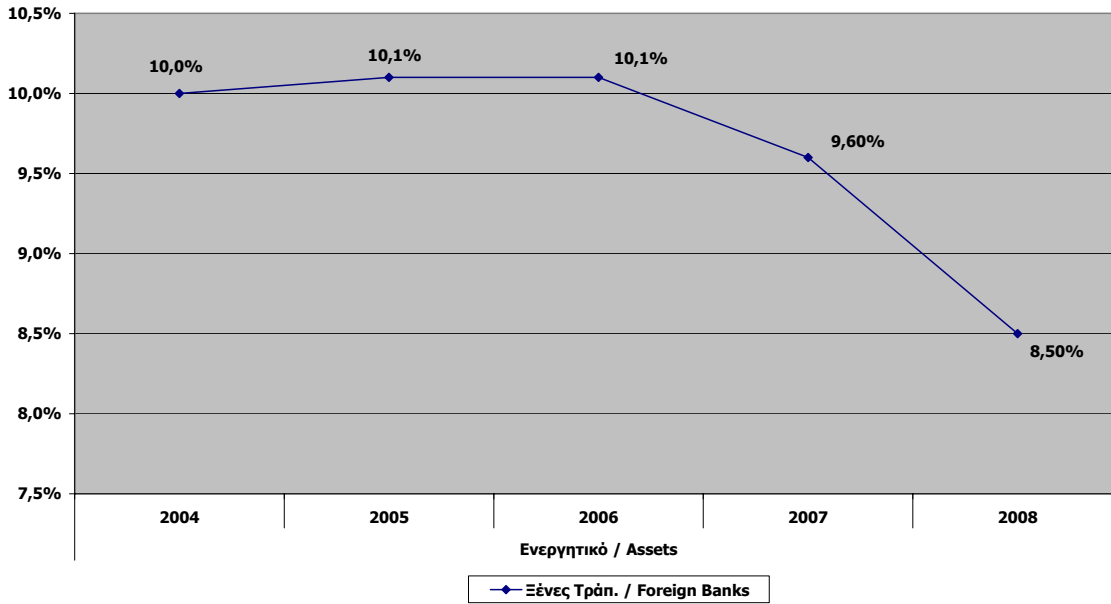
PERCENTAGE STRUCTURE OF ASSETS OF THE GREEK FINANCIAL SYSTEM



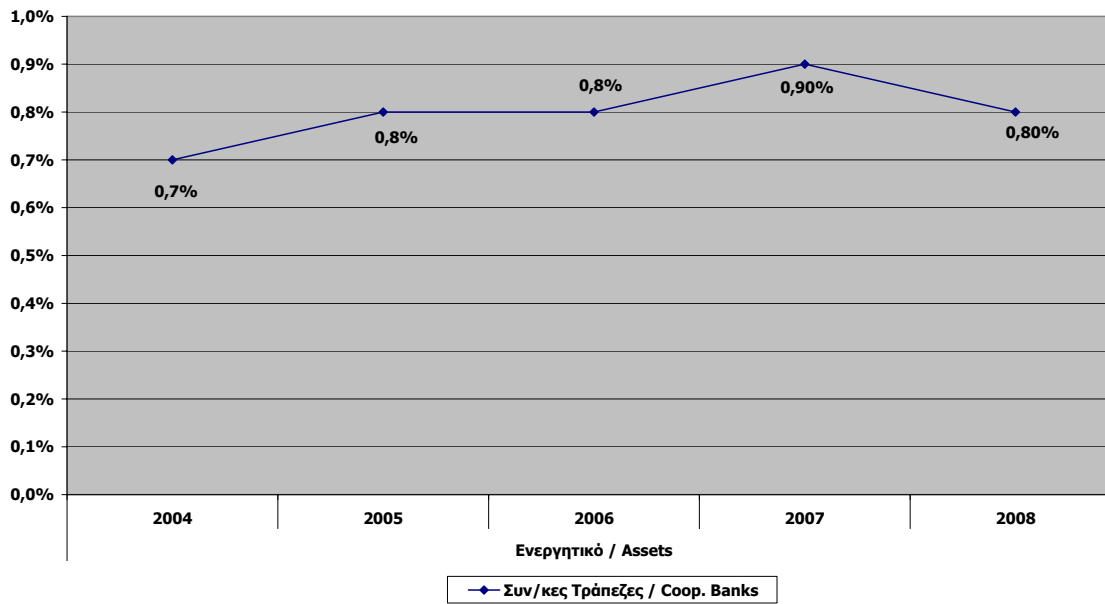
ΔΙΑΘΡΩΣΗ ΕΛΛΗΝΙΚΟΥ ΤΡΑΠΕΖΙΚΟΥ ΣΥΣΤΗΜΑΤΟΣ STRUCTURE OF GREEK BANKING SYSTEM
(μερίδιο αγοράς - market share)



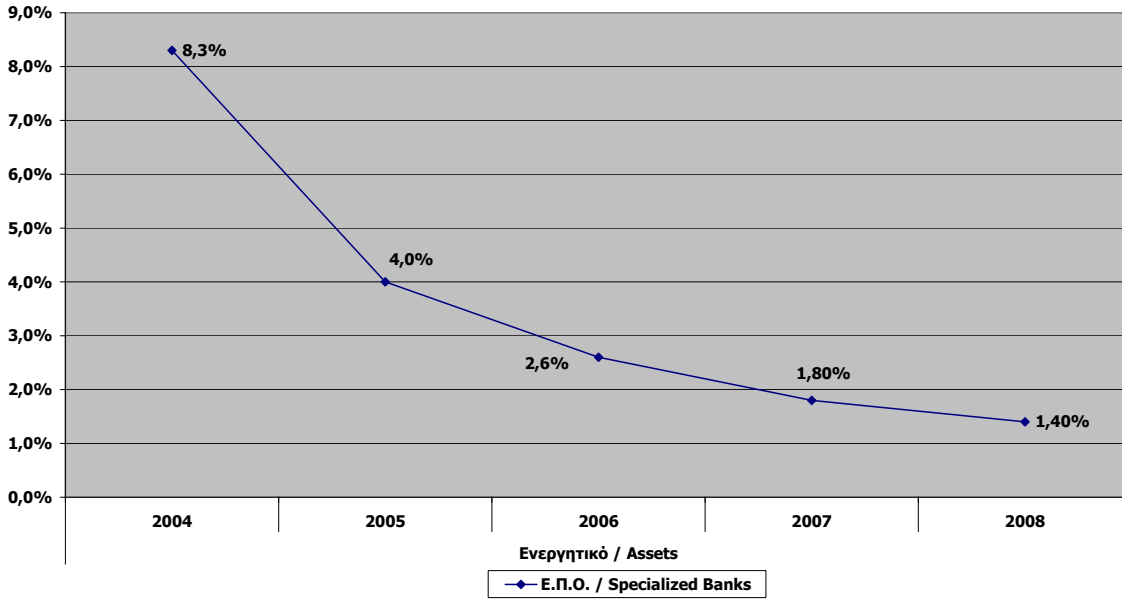
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(μερίδιο αγοράς - market share)



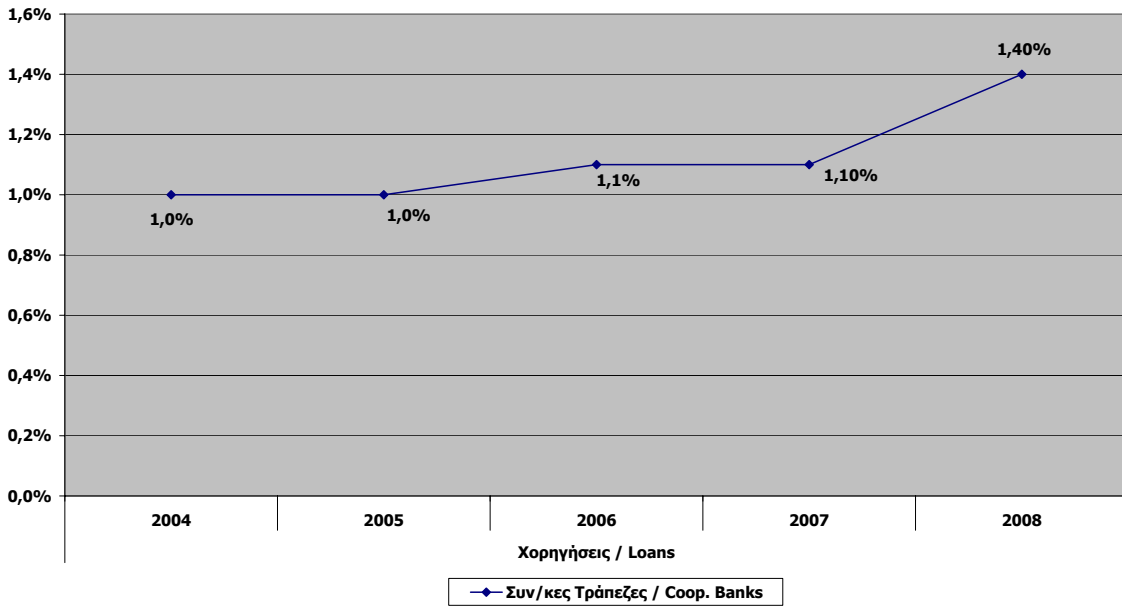
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(μερίδιο αγοράς - market share)



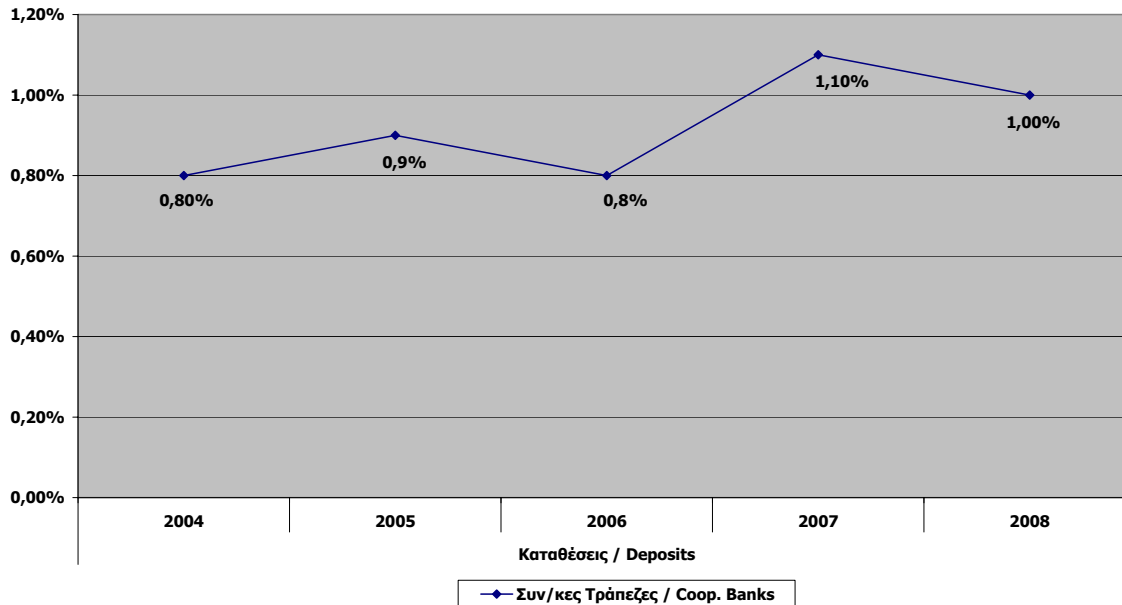
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(μερίδιο αγοράς - market share)



ΔΙΑΘΡΩΣΗ ΕΛΛΗΝΙΚΟΥ ΤΡΑΠΕΖΙΚΟΥ ΣΥΣΤΗΜΑΤΟΣ - STRUCTURE OF GREEK BANKING SYSTEM
(μερίδιο αγοράς - market share)



ΔΙΑΘΡΩΣΗ ΕΛΛΗΝΙΚΟΥ ΤΡΑΠΕΖΙΚΟΥ ΣΥΣΤΗΜΑΤΟΣ - STRUCTURE OF GREEK BANKING SYSTEM
(μερίδιο αγοράς - market share)



ΔΙΑΧΡΟΝΙΚΗ ΕΞΕΛΙΞΗ ΣΥΓΚΕΝΤΡΩΤΙΚΩΝ ΟΙΚΟΝΟΜΙΚΩΝ ΚΑΙ ΛΟΙΠΩΝ ΜΕΓΕΘΩΝ ΤΩΝ ΣΥΝΕΤΑΙΡΙΣΤΙΚΩΝ ΤΡΑΠΕΖΩΝ ΚΑΤΑ ΤΗΝ ΣΕΤΙΑ 2004 - 2008
(ποσά σε εκατ. €)
TIME SERIES OF CONSOLIDATED FINANCIAL AND OTHER DATA OF THE CO-OPERATIVE BANKS OF GREECE FOR THE PERIOD 2004 - 2008
(figures in mil. €)

	2004	2005	% ΑΥΞΗΣΗ / INCREASE 2004-05	2006	% ΑΥΞΗΣΗ / INCREASE 2005-06	2007	% ΑΥΞΗΣΗ / INCREASE 2006-07	2008	% ΑΥΞΗΣΗ / INCREASE 2007-08	M.O. ΑΥΞΗΣΗΣ / AVERAGE INCREASE 2004-08
ΕΝΕΡΓΗΤΙΚΟ / ASSETS	1.593,49	2.041,84	28,14%	2.567,52	25,75%	3.290,56	28,16%	3.751,83	14,02%	24,02%
ΧΟΡΗΓΗΣΕΙΣ / LOANS	1.270,08	1.598,26	25,84%	1.934,57	21,04%	2.543,74	31,49%	3.063,61	20,44%	24,70%
ΚΑΤΑΘΕΣΕΙΣ / DEPOSITS	1.272,41	1.677,20	31,81%	2.134,23	27,25%	2.614,60	22,51%	2.927,06	11,95%	23,38%
ΙΔΙΑ ΚΕΦΑΛΑΙΑ / EQUITY CAPITAL	263,6	285,40	8,27%	347,35	21,71%	489,24	40,85%	512,67	4,79%	18,90%
ΣΥΝΕΤΑΙΡΙΣΤΙΚΟ ΚΕΦΑΛΑΙΟ / CO-OPERATIVE CAPITAL	165,68	170,32	2,80%	188,63	10,75%	235,96	25,09%	241,67	2,42%	10,27%
ΚΕΡΔΗ ΠΡΟ ΦΟΡΩΝ / NET PROFIT BEFORE TAXES	28,82	35,86	24,41%	43,31	20,79%	56,07	29,46%	50,62	-9,72%	16,24%
ΚΑΤΑΣΤΗΜΑΤΑ / BRANCHES	112	128	14,29%	145	13,28%	157	8,28%	177	12,74%	12,15%
ΠΡΟΣΩΠΙΚΟ / PERSONNEL	762	892	17,06%	974	9,19%	1.086	11,50%	1.238	14,00%	12,94%
ΜΕΛΗ / MEMBERS	144.176	160.136	11,07%	175.541	9,62%	187.347	6,73%	196.179	4,71%	8,03%

PERCENTAGE PARTICIPATION OF EACH CO-OPERATIVE BANK ON THE TOTAL ECONOMIC SIZES OF CO-OPERATIVE BANKS FOR 2008

ΣΥΝΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / CO-OPERATIVE BANK OF	ΕΝΕΡΓΗΤΙΚΟ / ASSETS		ΚΑΤΑΘΕΣΕΙΣ / DEPOSITS		ΧΟΡΗΓΗΣΕΙΣ / LOANS		ΙΔΙΑ ΚΕΦΑΛΑΙΑ / EQUITY CAPITAL		ΚΕΡΔΗ ΠΡΟ ΦΟΡΩΝ / NET PROFIT BEFORE TAXES	
	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage
ΑΧΑΪΚΗ / ACHAIA	248.173	6,61%	183.169	6,26%	195.298	6,37%	33.557	6,56%	3.417	6,75%
ΔΡΑΜΑΣ / DRAMA	41.403	1,10%	28.987	0,99%	32.924	1,07%	10.149	1,98%	604	1,19%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/Υ.ΜΑΚΕΔΟΝΙΑ	53.441	1,42%	41.754	1,43%	42.741	1,40%	9.715	1,90%	220	0,43%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	297.750	7,94%	252.850	8,64%	266.894	8,71%	37.987	7,42%	2.303	4,55%
ΕΒΡΟΥ / EVROS	51.746	1,38%	40.928	1,40%	38.882	1,27%	10.432	2,04%	180	0,36%
ΕΥΒΟΙΑΣ / EVIA	102.275	2,73%	83.468	2,85%	87.057	2,84%	15.936	3,11%	1.102	2,18%
ΗΠΕΙΡΟΥ / EPIRUS	98.705	2,63%	83.226	2,84%	77.568	2,53%	12.807	2,50%	1.397	2,76%
ΘΕΣΣΑΛΙΑΣ / THESSALI	137.381	3,66%	107.668	3,68%	103.492	3,38%	23.459	4,58%	3.021	5,97%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	51.410	1,37%	33.850	1,16%	39.585	1,29%	15.327	3,00%	1.827	3,61%
ΛΑΜΙΑΣ / LAMIA	68.681	1,83%	51.250	1,75%	58.646	1,91%	15.189	2,97%	-918	-1,81%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ/LESVOS-LIMNOS	77.614	2,07%	62.851	2,15%	60.881	1,99%	10.502	2,05%	68	0,13%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	1.896.030	50,54%	1.496.390	51,12%	1.574.572	51,40%	19.916	3,89%	31.103	61,45%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELORONNESUS	62.051	1,65%	45.107	1,54%	50.502	1,65%	15.386	3,01%	497	0,98%
ΠΙΕΡΙΑΣ / PIERIA	41.278	1,10%	28.536	0,97%	23.793	0,78%	8.340	1,63%	607	1,20%
ΣΕΡΡΩΝ / SERRES	55.309	1,47%	40.409	1,38%	42.748	1,40%	13.814	2,70%	640	1,26%
ΧΑΝΙΩΝ / CHANIA	468.516	12,49%	346.616	11,84%	368.034	12,01%	80.037	15,64%	4.551	8,99%
ΣΥΝΟΛΟ / TOTAL	3.751.763	100,00%	2.927.060	100,00%	3.063.617	100,00%	511.653	100,00%	50.616	100,00%

PERCENTAGE PARTICIPATION OF EACH CO-OPERATIVE BANK ON THE TOTAL ECONOMIC SIZES OF CO-OPERATIVE BANKS FOR 2007

ΣΥΝΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / CO-OPERATIVE BANK OF	ΕΝΕΡΓΗΤΙΚΟ / ASSETS		ΚΑΤΑΘΕΣΕΙΣ / DEPOSITS		ΧΟΡΗΓΗΣΕΙΣ / LOANS		ΙΔΙΑ ΚΕΦΑΛΑΙΑ / EQUITY CAPITAL		ΚΕΡΔΗ ΠΡΟ ΦΟΡΩΝ / NET PROFIT BEFORE TAXES	
	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage	Σε εκατ. / in mil. €	Ποσοστά / Percentage
ΑΧΑΪΚΗ / ACHAIA	214.581	6,52%	164.680	6,30%	166.984	6,56%	33.556	6,86%	4.511	8,04%
ΔΡΑΜΑΣ / DRAMA	36.468	1,11%	26.827	1,03%	28.192	1,11%	8.225	1,68%	1.681	3,00%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/Υ.ΜΑΚΕΔΟΝΙΑ	41.367	1,26%	29.864	1,14%	32.094	1,26%	10.488	2,14%	212	0,38%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	257.168	7,82%	227.108	8,69%	215.024	8,45%	25.105	5,13%	2.213	3,95%
ΕΒΡΟΥ / EVROS	50.376	1,53%	41.684	1,59%	36.858	1,45%	7.789	1,59%	705	1,26%
ΕΥΒΟΙΑΣ / EVIA	88.638	2,69%	71.560	2,74%	70.303	2,76%	15.050	3,08%	1.531	2,73%
ΗΠΕΙΡΟΥ / EPIRUS	73.334	2,23%	58.528	2,24%	57.303	2,25%	12.352	2,52%	1.052	1,88%
ΘΕΣΣΑΛΙΑΣ / THESSALI	119.476	3,63%	93.327	3,57%	94.434	3,71%	21.712	4,44%	2.516	4,49%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	45.552	1,38%	29.335	1,12%	32.727	1,29%	14.082	2,88%	1.714	3,06%
ΛΑΜΙΑΣ / LAMIA	73.034	2,22%	53.759	2,06%	61.615	2,42%	16.137	3,30%	906	1,62%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ/ LESVOS-LIMNOS	70.321	2,14%	51.795	1,98%	55.497	2,18%	10.003	2,04%	1.317	2,35%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	1.673.759	50,87%	1.369.931	52,40%	1.312.795	51,61%	184.715	37,76%	30.113	53,71%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELORONNESUS	47.064	1,43%	31.604	1,21%	35.599	1,40%	14.921	3,05%	960	1,71%
ΠΙΕΡΙΑΣ / PIERIA	44.378	1,35%	35.443	1,36%	22.544	0,89%	8.073	1,65%	982	1,75%
ΣΕΡΡΩΝ / SERRES	51.969	1,58%	38.483	1,47%	40.465	1,59%	12.603	2,58%	610	1,09%
ΧΑΝΙΩΝ / CHANIA	403.075	12,25%	290.677	11,12%	281.305	11,06%	94.434	19,30%	5.047	9,00%
ΣΥΝΟΛΟ / TOTAL	3.290.561	100,00%	2.614.604	100,00%	2.543.739	100,00%	489.244	100,00%	56.070	100,00%

PERCENTAGE PARTICIPATION OF EACH CO-OPERATIVE BANK ON THE TOTAL ECONOMIC SIZES OF CO-OPERATIVE BANKS FOR 2006

ΣΥΝΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / CO-OPERATIVE BANK OF	ΕΝΕΡΓΗΤΙΚΟ / ASSETS		ΚΑΤΑΘΕΣΕΙΣ / DEPOSITS		ΧΟΡΗΓΗΣΕΙΣ / LOANS		ΙΔΙΑ ΚΕΦΑΛΑΙΑ / EQUITY CAPITAL		ΚΕΡΔΗ ΠΡΟ ΦΟΡΩΝ / NET PROFIT BEFORE TAXES	
	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage
ΑΧΑΪΚΗ / ACHAIA	156.676	6,10%	120.391	5,64%	125.353	6,48%	31.499	9,07%	3.901	9,01%
ΔΡΑΜΑΣ / DRAMA	31.175	1,21%	23.758	1,11%	22.737	1,18%	6.848	1,97%	342	0,79%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/W.MACEDONIA	27.578	1,07%	16.831	0,79%	22.349	1,16%	9.548	2,75%	370	0,85%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	205.872	8,02%	178.952	8,38%	164.027	8,48%	23.085	6,65%	2.176	5,02%
ΕΒΡΟΥ / EVROS	48.275	1,88%	40.047	1,88%	30.248	1,56%	7.508	2,16%	592	1,37%
ΕΥΒΟΙΑΣ / EVIA	75.310	2,93%	63.122	2,96%	57.201	2,96%	10.290	2,96%	1.807	4,17%
ΗΠΕΙΡΟΥ / EPIRUS	51.399	2,00%	42.085	1,97%	39.382	2,04%	8.121	2,34%	439	1,01%
ΘΕΣΣΑΛΙΑΣ / THESSALI	90.114	3,51%	70.785	3,32%	71.368	3,69%	16.904	4,87%	2.705	6,25%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	41.137	1,60%	27.352	1,28%	27.294	1,41%	12.079	3,48%	1.589	3,67%
ΛΑΜΙΑΣ / LAMIA	76.533	2,98%	57.803	2,71%	63.841	3,30%	16.571	4,77%	1.107	2,56%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ / LESVOS-LIMNOS	59.008	2,30%	46.217	2,17%	46.044	2,38%	8.607	2,48%	807	1,86%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	1.285.529	50,07%	1.120.622	52,51%	961.765	49,71%	113.963	32,81%	22.136	51,12%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELOPONNESUS	34.265	1,33%	23.565	1,10%	25.281	1,31%	10.311	2,97%	556	1,28%
ΠΙΕΡΙΑΣ / PIERIA	36.864	1,44%	28.959	1,36%	18.955	0,98%	7.349	2,12%	874	2,02%
ΣΕΡΡΩΝ / SERRRES	44.046	1,72%	33.840	1,59%	33.601	1,74%	9.789	2,82%	263	0,61%
ΧΑΝΙΩΝ / CHANIA	303.643	11,83%	239.896	11,24%	225.123	11,64%	54.882	15,80%	3.641	8,41%
ΣΥΝΟΛΟ / TOTAL	2.567.424	100,00%	2.134.225	100,00%	1.934.569	100,00%	347.354	100,00%	43.305	100,00%

PERCENTAGE PARTICIPATION OF EACH CO-OPERATIVE BANK ON THE TOTAL ECONOMIC SIZES OF CO-OPERATIVE BANKS FOR 2005

ΣΥΝΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / CO-OPERATIVE BANK OF	ΕΝΕΡΓΗΤΙΚΟ / ASSETS		ΚΑΤΑΘΕΣΕΙΣ / DEPOSITS		ΧΟΡΗΓΗΣΕΙΣ / LOANS		ΙΔΙΑ ΚΕΦΑΛΑΙΑ / EQUITY CAPITAL		ΚΕΡΔΗ ΠΡΟ ΦΟΡΩΝ / NET PROFIT BEFORE TAXES	
	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage
ΑΧΑΪΚΗ / ACHAIA	122.473	6,00%	88.860	5,30%	99.608	6,23%	22.249	8,02%	3.181	8,74%
ΔΡΑΜΑΣ / DRAMA	31.609	1,55%	24.691	1,47%	17.966	1,12%	6.667	2,40%	134	0,37%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/W.MACEDONIA	22.161	1,09%	13.722	0,82%	17.292	1,08%	8.289	2,99%	328	0,90%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	181.370	8,88%	157.258	9,38%	141.582	8,86%	21.135	7,62%	1.899	5,22%
ΕΒΡΟΥ / EVROS	43.183	2,11%	35.808	2,14%	30.424	1,90%	7.225	2,60%	144	0,40%
ΕΥΒΟΙΑΣ / EVIA	64.168	3,14%	53.381	3,18%	47.535	2,97%	9.127	3,29%	1.591	4,37%
ΗΠΕΙΡΟΥ / EPIRUS	35.738	1,75%	28.003	1,67%	27.928	1,75%	7.139	2,57%	413	1,13%
ΘΕΣΣΑΛΙΑΣ / THESSALI	74.303	3,64%	59.620	3,55%	57.646	3,61%	12.295	4,43%	2.279	6,26%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	36.875	1,81%	26.826	1,60%	23.208	1,45%	8.451	3,04%	1.236	3,40%
ΛΑΜΙΑΣ / LAMIA	78.506	3,84%	60.902	3,63%	70.186	4,39%	16.413	5,91%	931	2,56%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ / LESVOS-LIMNOS	47.703	2,34%	36.296	2,16%	37.303	2,33%	8.379	3,02%	1.091	3,00%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	970.583	47,53%	824.119	49,14%	772.488	48,33%	97.999	35,31%	19.005	52,21%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELOPONNESUS	25.254	1,24%	17.584	1,05%	17.795	1,11%	7.497	2,70%	410	1,13%
ΠΙΕΡΙΑΣ / PIERIA	29.821	1,46%	23.134	1,38%	15.081	0,94%	5.437	1,96%	876	2,41%
ΣΕΡΡΩΝ / SERRRES	33.769	1,65%	24.345	1,45%	28.752	1,80%	9.142	3,29%	182	0,50%
ΧΑΝΙΩΝ / CHANIA	244.368	11,97%	202.549	12,08%	193.471	12,11%	30.099	10,84%	2.701	7,42%
ΣΥΝΟΛΟ / TOTAL	2.041.884	100,00%	1.677.098	100,00%	1.598.265	100,00%	277.543	100,00%	36.401	100,00%

PERCENTAGE PARTICIPATION OF EACH CO-OPERATIVE BANK ON THE TOTAL ECONOMIC SIZES OF CO-OPERATIVE BANKS FOR 2004

ΣΥΝΕΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / CO-OPERATIVE BANK OF	ΕΝΕΡΓΗΤΙΚΟ / ASSETS		ΚΑΤΑΘΕΣΕΙΣ / DEPOSITS		ΧΟΡΗΓΗΣΕΙΣ / LOANS		ΙΔΙΑ ΚΕΦΑΛΑΙΑ / EQUITY CAPITAL		ΚΕΡΑΤΑ ΠΡΟ ΦΟΡΩΝ / NET PROFIT BEFORE TAXES	
	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage	Σε εκατ. / in mil. €	Ποσοστό / Percentage
ΑΧΑΪΚΗ / ACHAIA	98.089	6,17%	62.674	4,91%	80.169	6,32%	27.833	10,79%	2.500	8,01%
ΔΡΑΜΑΣ / DRAMA	27.650	1,74%	20.343	1,59%	18.047	1,42%	6.218	2,41%	590	1,89%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/W.MACEDONIA	18.628	1,17%	11.162	0,87%	13.514	1,07%	7.356	2,85%	263	0,84%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	162.806	10,24%	136.499	10,70%	117.950	9,30%	19.740	7,65%	1.613	5,17%
ΕΒΡΟΥ / EVROS	42.233	2,66%	33.596	2,63%	29.819	2,35%	6.509	2,52%	1.000	3,20%
ΕΥΒΟΙΑΣ / EVIA	48.477	3,05%	39.653	3,11%	38.145	3,01%	7.179	2,78%	1.316	4,22%
ΗΠΕΙΡΟΥ / EPIRUS	35.074	2,21%	25.954	2,03%	27.315	2,15%	7.111	2,76%	290	0,93%
ΘΕΣΣΑΛΙΑΣ / THESSALI	54.005	3,40%	41.547	3,26%	39.911	3,15%	9.164	3,55%	1.800	5,77%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	32.405	2,04%	22.933	1,80%	20.065	1,58%	8.558	3,32%	1.071	3,43%
ΛΑΜΙΑΣ / LAMIA	70.452	4,43%	52.935	4,15%	65.066	5,13%	15.477	6,00%	1.348	4,32%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ/ LESVOS-LIMNOS	47.700	3,00%	38.865	3,05%	36.860	2,91%	7.700	2,99%	1.000	3,20%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	710.867	44,70%	608.585	47,69%	596.216	47,00%	83.265	32,29%	15.262	48,89%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELOPONNESUS	17.903	1,13%	9.053	0,71%	12.886	1,02%	6.106	2,37%	567	1,82%
ΠΙΕΡΙΑΣ / PIERIA	23.900	1,50%	16.300	1,28%	12.700	1,00%	6.100	2,37%	860	2,75%
ΣΕΡΡΩΝ / SERRES	18.433	1,16%	10.311	0,81%	15.267	1,20%	8.078	3,13%	0	0,00%
ΧΑΝΙΩΝ / CHANIA	181.837	11,43%	145.709	11,42%	144.525	11,39%	31.510	12,22%	1.740	5,57%
ΣΥΝΟΛΟ / TOTAL	1.590.459	100,00%	1.276.119	100,00%	1.268.455	100,00%	257.904	100,00%	31.220	100,00%

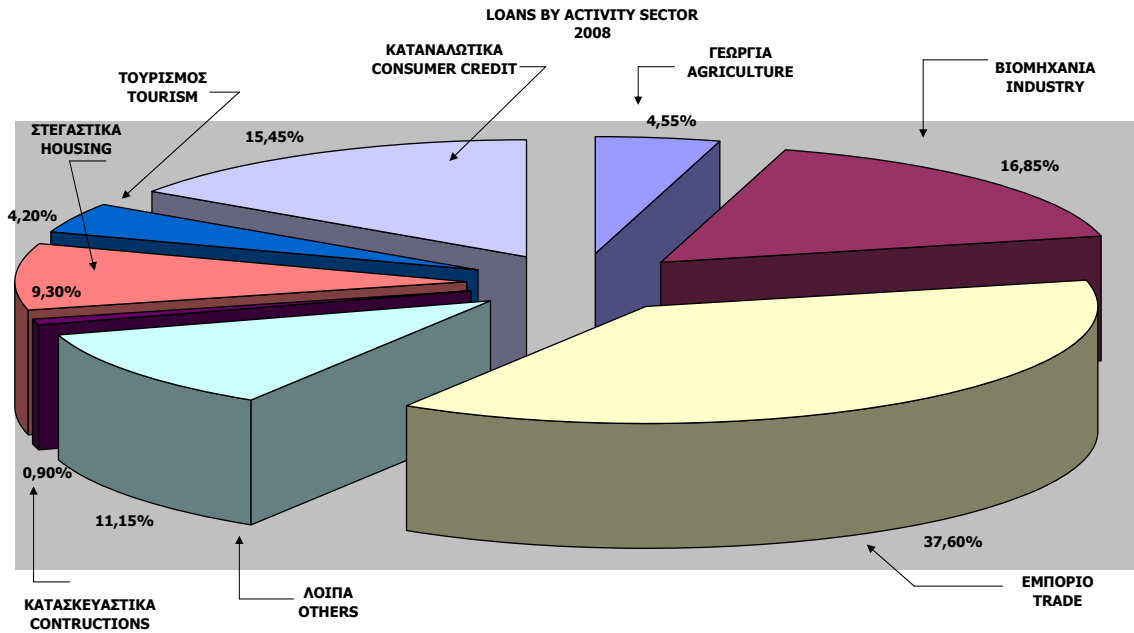


CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-BANKS' NET WORK IN THE ISLAND OF CRETE
2004-2008

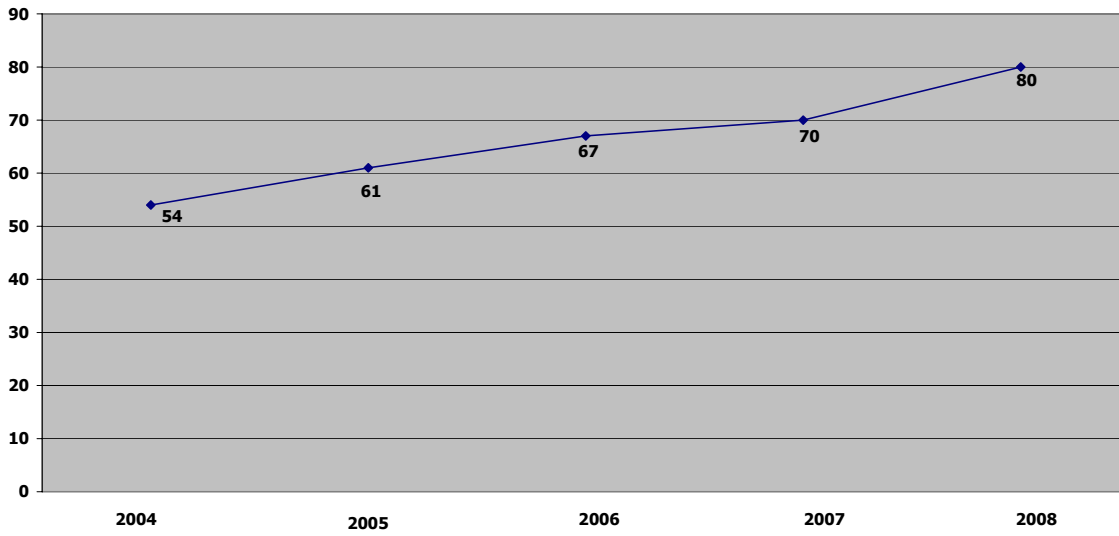
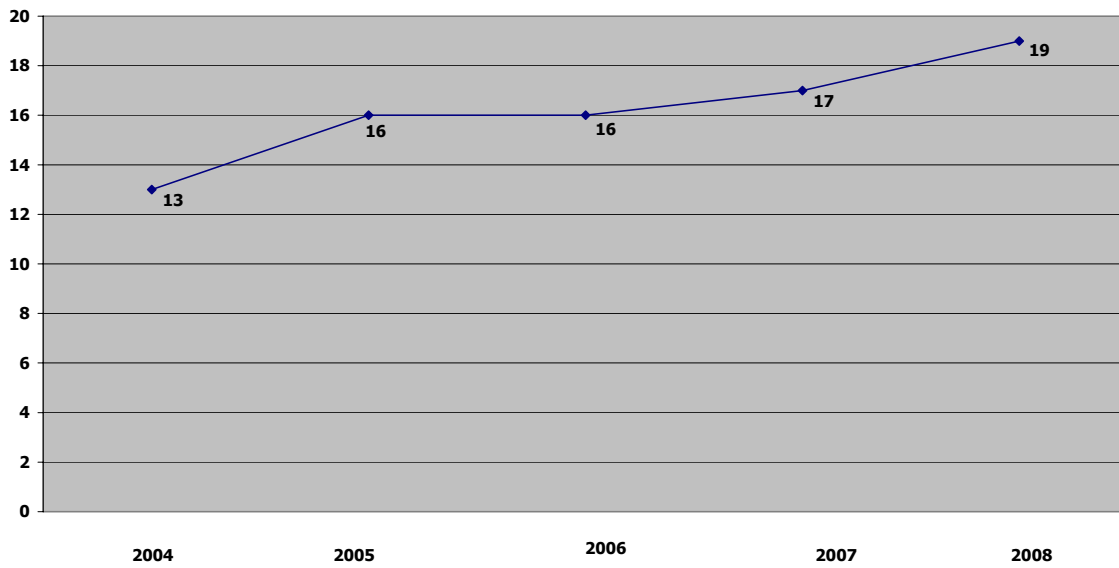
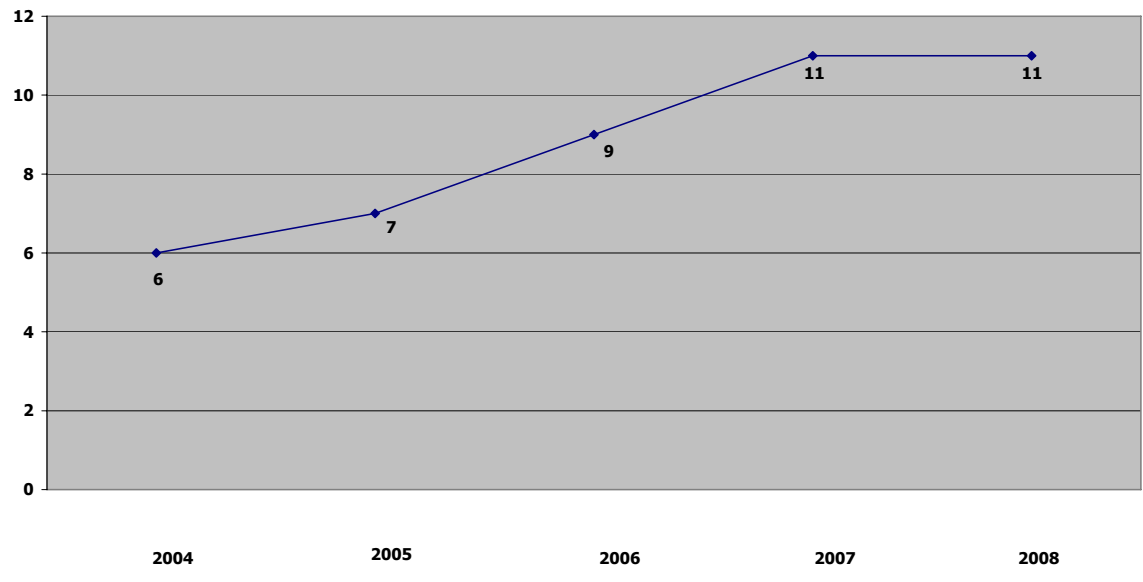


CHART OF GEPGRAPHICAL DISTRIBUTION OF CO-OP BANKS' NETWORK IN S.EAGEAN
2004-2008



**CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' NET WORK IN N. AEGEAN
2004-2008**



**CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' IN PELOPONNESE
2004-2008**

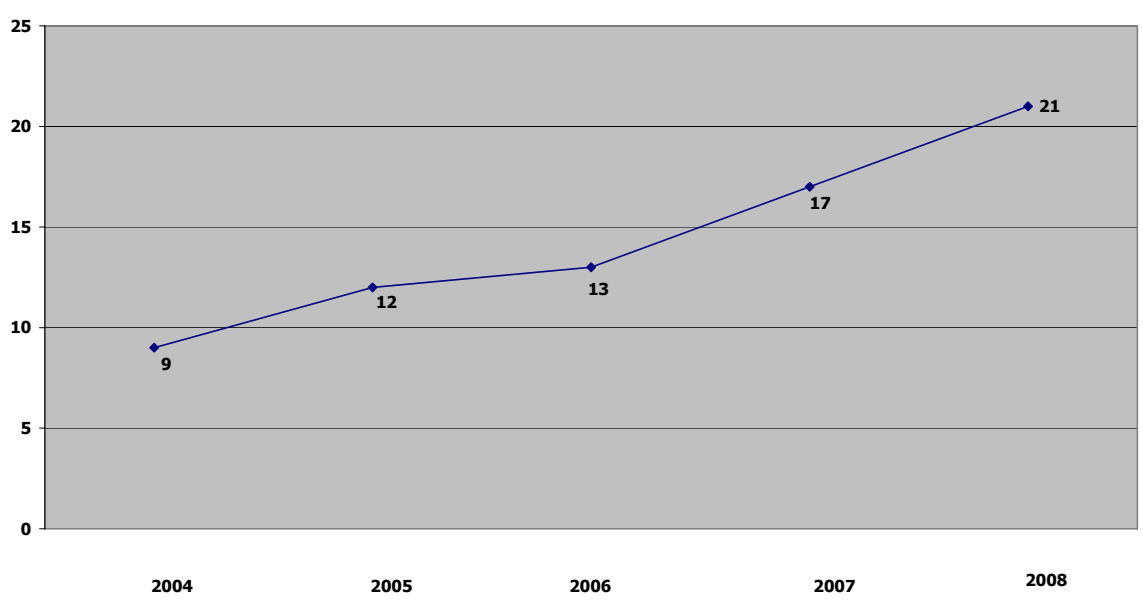


CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' NET WORK IN EPIRUS

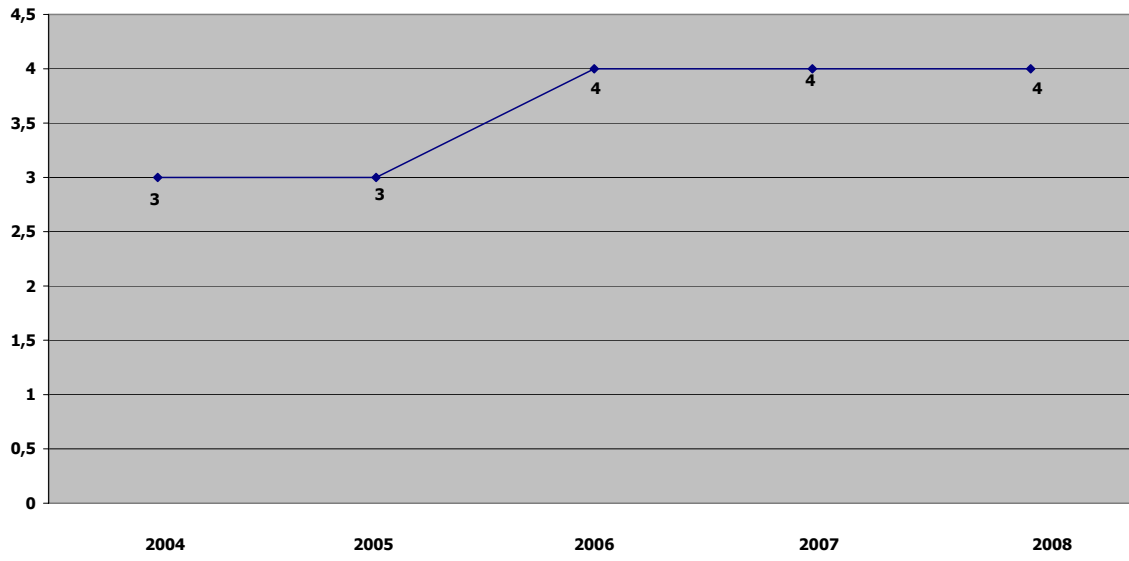


CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' NET WORK IN THESSALY
2004-2008

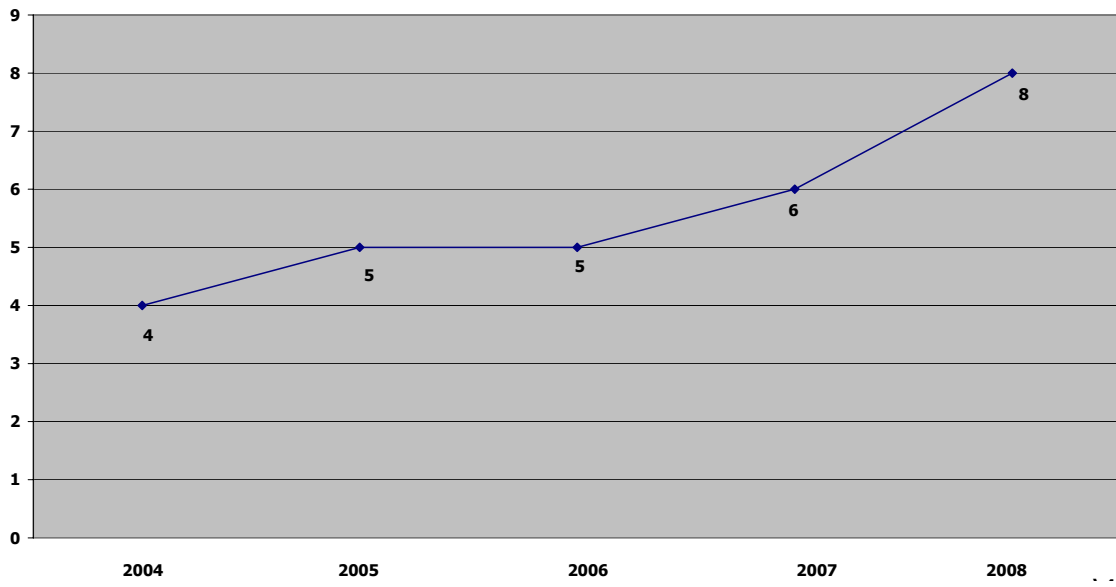


CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' IN MACEDONIA
2004-2008

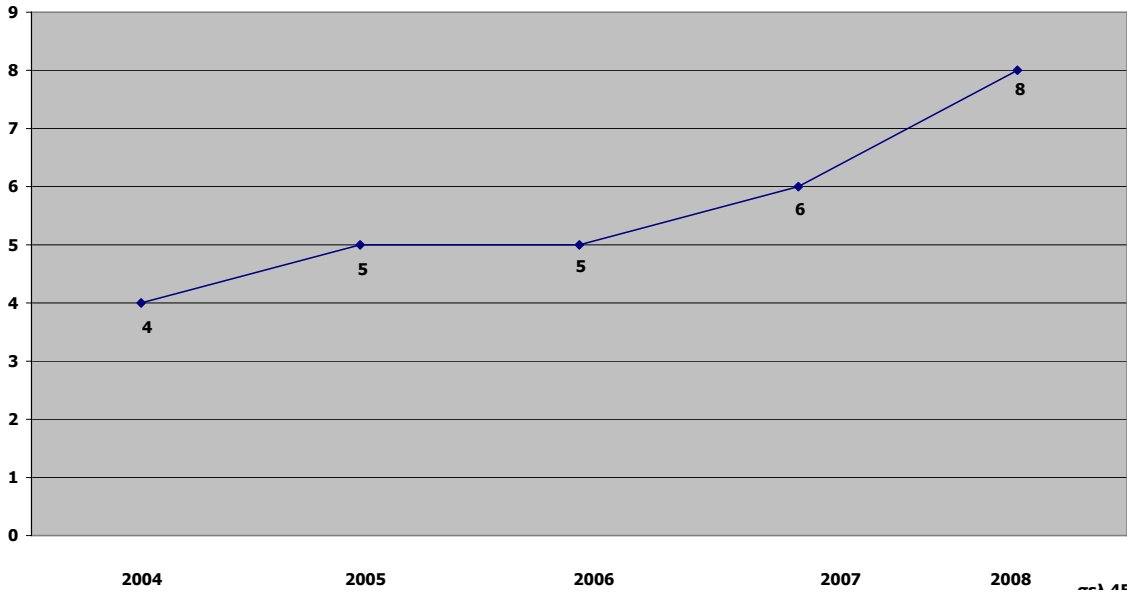
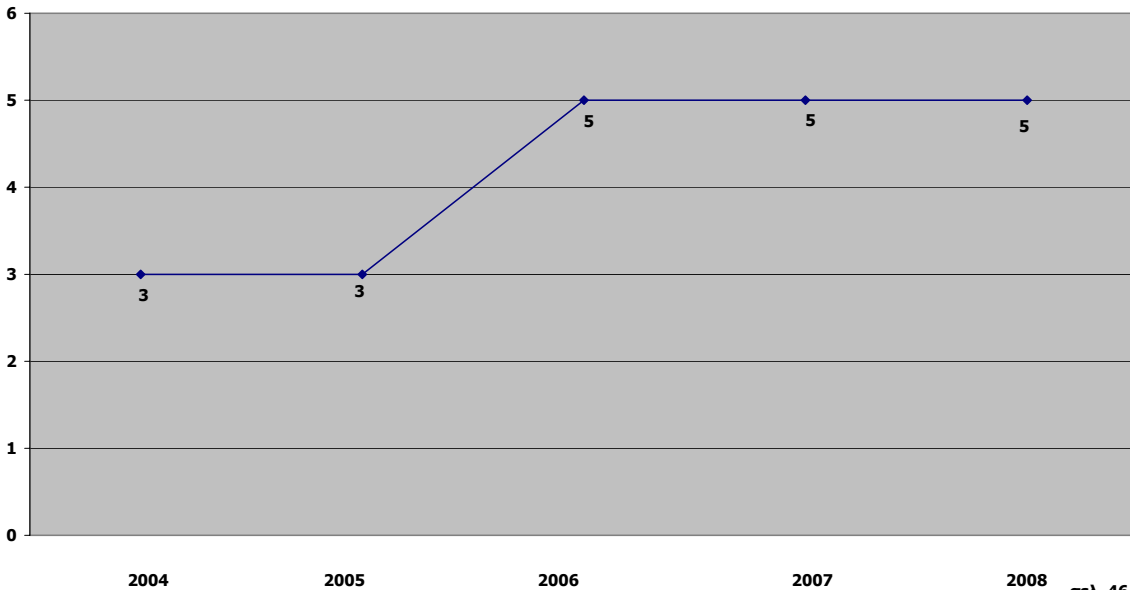
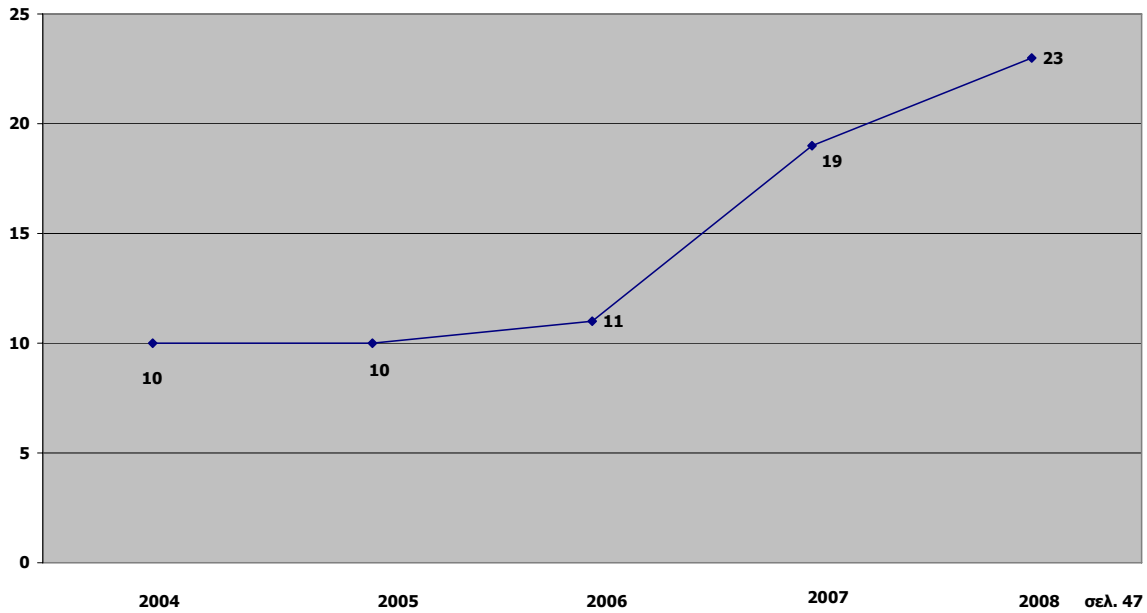


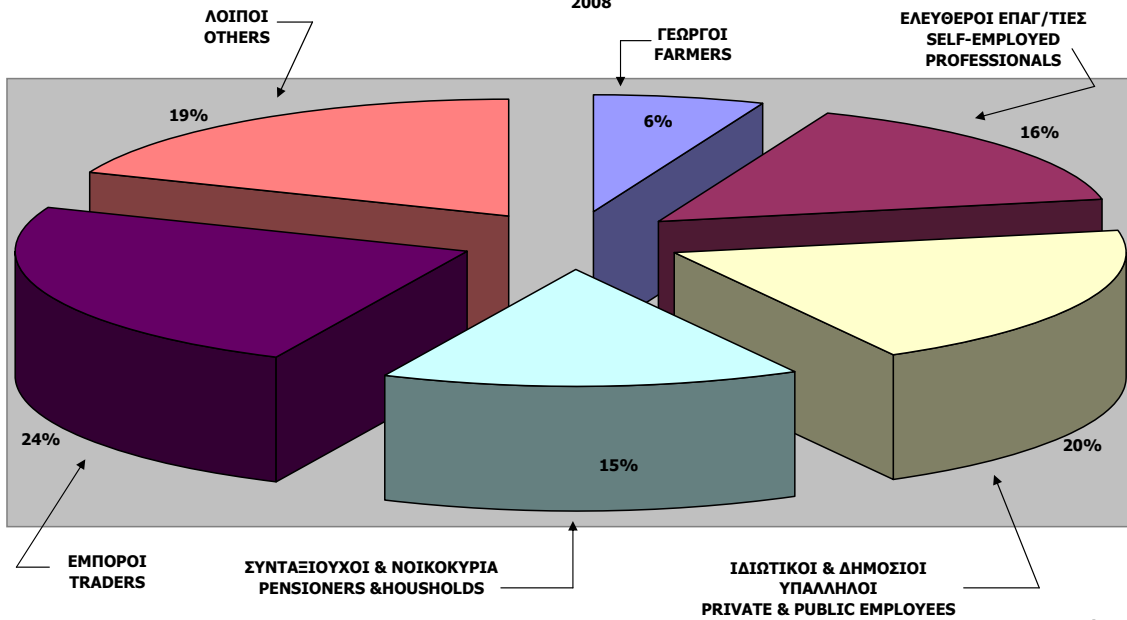
CHART OF GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' IN THRACE
2004-2008



GEOGRAPHICAL DISTRIBUTION OF CO-OP BANKS' NET WORK IN MAIN LAND
2004-2008



DISTRIBUTION OF MEMBERS BY ACTIVITY SECTOR
2008



PROFIT BEFORE TAXES TO TOTAL ASSETS OF COOPERATIVE BANKS FOR THE LAST FIVE CALENDAR YEARS 2004-2008

ΣΥΝΕΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / CO-OPERATIVE BANK OF	ΔΕΙΚΤΗΣ/RATIO 2004	ΔΕΙΚΤΗΣ/RATIO 2005	ΔΕΙΚΤΗΣ/RATIO 2006	ΔΕΙΚΤΗΣ/RATIO 2006	ΔΕΙΚΤΗΣ/RATIO 2008	M.O./AVERAGE 2003-2007
ΑΧΑΪΚΗ / ΑΧΑΪΑ	2,65%	2,50%	2,49%	2,10%	1,38%	2,22%
ΔΡΑΜΑΣ / DRAMA	1,87%	0,04%	1,10%	4,61%	1,46%	1,82%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/W.MACEDONIA	0,50%	1,50%	3,86%	0,51%	0,04%	1,60%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	1,10%	1,00%	1,06%	0,86%	0,07%	0,82%
ΕΒΡΟΥ / EVROS	2,36%	0,03%	1,23%	1,40%	0,03%	1,01%
ΕΥΒΟΙΑΣ / EVIA	2,71%	2,50%	2,40%	1,73%	1,07%	2,08%
ΘΕΣΣΑΛΙΑΣ / THESSALI	3,41%	3,00%	0,60%	2,11%	2,20%	2,26%
ΗΠΕΙΡΟΥ/EPIRUS	0,82%	0,09%	3,00%	1,43%	1,41%	1,35%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	2,68%	3,40%	0,85%	3,76%	3,55%	2,85%
ΛΑΜΙΑΣ / LAMIA	1,52%	0,01%	1,62%	1,24%	0,00%	0,88%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ / LESVOS - LIMNOS	0,65%	1,60%	1,45%	1,87%	0,01%	1,12%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	2,14%	2,00%	1,37%	1,80%	1,64%	1,79%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELOPONNESUS	2,44%	1,60%	1,34%	2,04%	0,08%	1,50%
ΠΙΕΡΙΑΣ / PIERIA	2,20%	2,60%	1,72%	2,21%	1,47%	2,04%
ΣΕΡΡΕΣ / SERRES *	(-)	0,05%	2,37%	1,17%	1,16%	2,38%
ΧΑΝΙΩΝ / CHANIA	0,97%	1,10%	1,20%	1,25%	0,10%	0,92%
ΣΤΑΘΜΙΚΟΣ ΔΕΙΚΤΗΣ / WEIGHTED INDEX	1,87%	1,44%	1,73%	1,88%	0,30%	1,44%

* Έναρξη εργασιών / Date of commencement of business 5/6/04

PROFIT BEFORE TAXES TO EQUITY CAPITAL OF COOPERATIVE BANKS FOR THE LAST FIVE CALENDAR YEARS 2004-2008

ΣΥΝΕΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ CO-OPERATIVE BANK	ΔΕΙΚΤΗΣ/RATIO 2004	ΔΕΙΚΤΗΣ/RATIO 2005	ΔΕΙΚΤΗΣ/RATIO 2006	ΔΕΙΚΤΗΣ/RATIO 2007	ΔΕΙΚΤΗΣ/RATIO 2008	M.O./AVERAGE 2003-2007
ΑΧΑΪΚΗ / ΑΧΑΪΑ	8,79%	10,60%	12,38%	13,44%	10,18%	11,08%
ΔΡΑΜΑΣ / DRAMA	8,14%	2,00%	4,99%	20,44%	5,95%	8,30%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/W.MACEDONIA	1,32%	4,00%	13,16%	2,02%	2,26%	4,55%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE	8,35%	9,00%	9,43%	8,82%	6,06%	8,33%
ΕΒΡΟΥ / EVROS	14,36%	2,00%	7,89%	9,05%	1,73%	7,01%
ΕΥΒΟΙΑΣ / EVIA	17,16%	17,40%	17,56%	10,18%	6,92%	13,84%
ΗΠΕΙΡΟΥ/EPIRUS	3,92%	4,40%	16,00%	8,52%	10,91%	8,75%
ΘΕΣΣΑΛΙΑΣ / THESSALI	19,83%	18,50%	2,68%	11,59%	12,88%	13,10%
ΚΑΡΔΙΤΣΑΣ / KARDITSA	10,54%	14,60%	5,41%	12,17%	11,92%	10,93%
ΛΑΜΙΑΣ / LAMIA	6,65%	5,70%	5,40%	5,61%	(-)	4,67%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ / LESVOS - LIMNOS	4,19%	9,00%	6,68%	13,17%	0,05%	6,62%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN	17,16%	19,40%	9,37%	16,30%	15,73%	15,59%
ΠΕΛΟΠΟΝΝΗΣΟΥ/PELOPONNESUS	6,91%	5,50%	3,87%	6,44%	3,23%	5,19%
ΠΙΕΡΙΑΣ / PIERIA	8,21%	13,40%	19,42%	12,17%	7,28%	12,10%
ΣΕΡΡΕΣ / SERRES *	(-)	2,00%	11,90%	4,84%	4,63%	4,67%
ΧΑΝΙΩΝ / CHANIA	5,83%	9,00%	6,63%	5,34%	5,69%	6,50%
ΣΤΑΘΜΙΚΟΣ ΔΕΙΚΤΗΣ / WEIGHTED INDEX	9,42%	9,16%	9,55%	10,01%	7,03%	9,03%

* Έναρξη εργασιών / Date of commencement of business 23/12/03

RESERVED PROFITS TO NET PROFITS OF THE LAST 5 CALENDAR YEARS 2004-2008

ΣΥΝΕΤΑΙΡΙΣΤΙΚΗ ΤΡΑΠΕΖΑ / OPERATIVE BANK OF	CO	ΔΕΙΚΤΗΣ/RATIO 2004	ΔΕΙΚΤΗΣ/RATIO 2005	ΔΕΙΚΤΗΣ/RATIO 2006	ΔΕΙΚΤΗΣ/RATIO 2007	ΔΕΙΚΤΗΣ/RATIO 2008	M.O./AVERAGE 2003-2007
ΑΧΑΪΚΗ / ΑΧΑΪΑ		46,95%	48,50%	55,30%	58,89%	56,56%	53,24%
ΔΡΑΜΑΣ / DRAMA		64,04%	15,25%	33,90%	84,45%	52,19%	49,97%
ΔΥΤ.ΜΑΚΕΔΟΝΙΑΣ/W. MACEDONIA		0,00%	0,00%	100,00%	100%	100,00%	60,00%
ΔΩΔΕΚΑΝΗΣΟΥ / DODECANESE		50,61%	42,50%	61,59%	62,21%	39,62%	51,31%
ΕΒΡΟΥ / EVROS		58,54%	100%	26,83%	100%	100,00%	77,07%
ΕΥΒΟΙΑΣ / EVIA		68,31%	60,60%	62,14%	61,92%	27,20%	56,03%
ΗΠΕΙΡΟΥ/ΕΠΙΡΟΣ		29,59%	66,92%	25,54%	40,10%	39,92%	40,41%
ΘΕΣΣΑΛΙΑΣ / THESSALI		81,04%	96,09%	80,66%	80,25%	78,62%	83,33%
ΚΑΡΔΙΤΣΑΣ / KARDITSA		61,65%	49,80%	42,71%	31,39%	30,36%	43,18%
ΛΑΜΙΑΣ / LAMIA		53,37%	100%	62,27%	0,00%	0,00%	43,13%
ΛΕΣΒΟΥ-ΛΗΜΝΟΥ/ LESVOS-LIMNOS		64,86%	72,21%	56,34%	97,89%	100,00%	78,26%
ΠΑΓΚΡΗΤΙΑ / PANCRETAN		63,20%	73,13%	74,68%	81,40%	74,19%	73,32%
ΠΕΛΟΠΟΝΝΗΣΟΥ/ΠΟΛΟΠΟΝΝΕΣΕ		100,00%	100%	100,00%	100%	100,00%	100,00%
ΠΙΕΡΙΑΣ / PIERIA		53,18%	65,65%	69,39%	90,64%	90,32%	73,84%
ΣΕΡΡΕΣ / SERRES *		0,00%	0,00%	0,00%	10,39%	40,14%	12,63%
ΧΑΝΙΩΝ / CHANIA		56,00%	56,40%	49,46%	45,16%	42,73%	49,95%
ΣΤΑΘΜΙΚΟΣ.ΔΕΙΚΤΗΣ / WEIGHTED INDEX		60,81%	59,19%	56,30%	65,29%	60,74%	60,47%

* Έναρξη εργασιών / Date of commencement of business 23/12/03

APPENDIX D: RURAL REINVESTMENT AND URBAN ENTREPRENEURSHIP

The contribution of the co-operative bank movement in regional development is of great importance, as it fills a void in the private market. Being member-owned, co-operative banks offer to extend access to even remote regions. Inherently local, co-operative banks are not as prone to the industry risk that has come to characterize much of modern banking. Specifically, in rural regions, agricultural tourism (or agrotourism) could capitalize on Greece's reputation as a desirable destination, while breathing life into the countryside. This section will look at the socioeconomic effects of agrotourism on the rural regions of a selection of countries with some commonality to Greece.

Greece, in particular, is an area with a large possibility of growth, since it holds significant comparative advantages due to the great regional biodiversity. The quality and nutritional value of Greek agricultural products have been widely recognized both in domestic and in foreign markets—for example, the export of fish directly from the fishermen of Kalymnos to consumers in Germany, following the so-called “sea to table” trend emerging in many high-end restaurants. Finally, there are examples of successfully organized agricultural enterprises and farms in other European countries with less comparative advantages for the development of the agricultural sector than in Greece (Germany being the most successful among them with its “biological” co-operatives and markets).

It should not be surprising that the contribution of the primary sector to the gross domestic product (GDP) has rapidly declined, from 9.9 percent in 1995 to 3.3 percent in 2008. The share of the primary sector in domestic production fell by 6.6 percent in 1995 and by another 3.3 percent of GDP by 2000 (OTOE 2013). It is evident that the production share of the agricultural sector is declining in Greece at a much higher rate than in any other country. Some estimates indicate that the multiplier of the agriculture sector to GDP is nearly 5, meaning that one unit of growth in this sector can reverberate fivefold (Alpha Bank 2009; OTOE 2013).

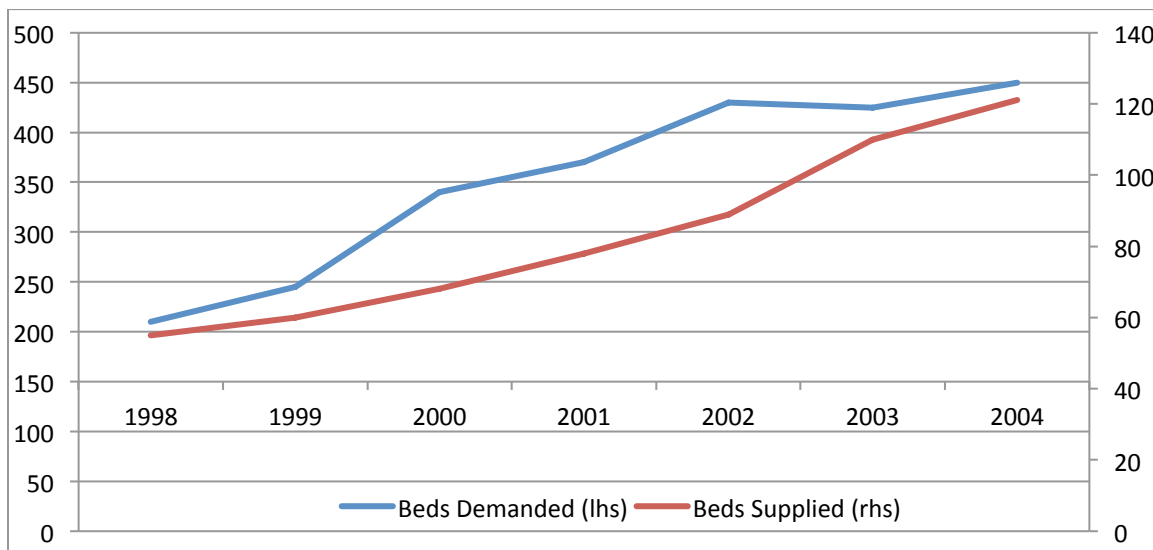
The decline of the contribution of the agricultural sector in the economies of many countries is certainly due to the higher growth rate of the services sector. Despite its large decline, the agricultural sector continues to be one of the key sectors of the Greek economy. While traditional growth theory would welcome the shift from agriculture to manufacturing and services as a share of GDP, modern and evolving tastes offer great value-added in specialized primary goods. Furthermore, agriculture is less prone to the dramatic swings in tourism, which has been the bulk of services expansion in Greece.

There is now widespread demand in the domestic and foreign markets for primary products of high-end and certified quality. However, most Greek agricultural products are not certified. These include Greek olive oil, wine, and vegetables. In the case of vegetables, community regulations requiring mandatory standardization do not usually apply, while in the case of olive oil, standardization and certification of quality is still very low, as evidenced by domestic sales and exports. In Greece, 6,350 agricultural co-operatives operate under the Panhellenic Confederation of Unions of Agricultural Co-

operatives (PASEGES). This sort of agricultural co-operative could form strong business groups for the creation of financial co-operatives (OTOE 2013).

By way of example, the Italian agrotourism industry has been growing rapidly; between 1998 and 2004, the number of people wanting to visit agrotourism areas was far higher than the number of beds available (Figure 1d). This clearly shows a high level of demand, with which Italian suppliers are having difficulty keeping up (Santeramo et al. 2008). According to these authors, both tourism and agrotourism are luxury services, and therefore income-elastic. Their recommendation for the agrotourism sector was to step up the marketing campaigns in the countries with high-income growth rates while at the same time continuing to market in countries with moderate growth, but focusing on high-income citizens to maintain market share. During the financial crisis of 2007–08, Italian, Greek, Spanish, Irish, and Portuguese tourism suffered considerably amidst falling global spending power (Kim 2012). However, by continuously reinvesting in marketing campaigns across the globe, Italy, which is the fifth-largest tourist destination in the world, slowly made a comeback (Xinhua 2012). Following along the lines of what Santeramo et al. suggested in their precrisis paper, Italy increased marketing efforts globally, and this has resulted in increased tourist inflows from high-income growth countries.

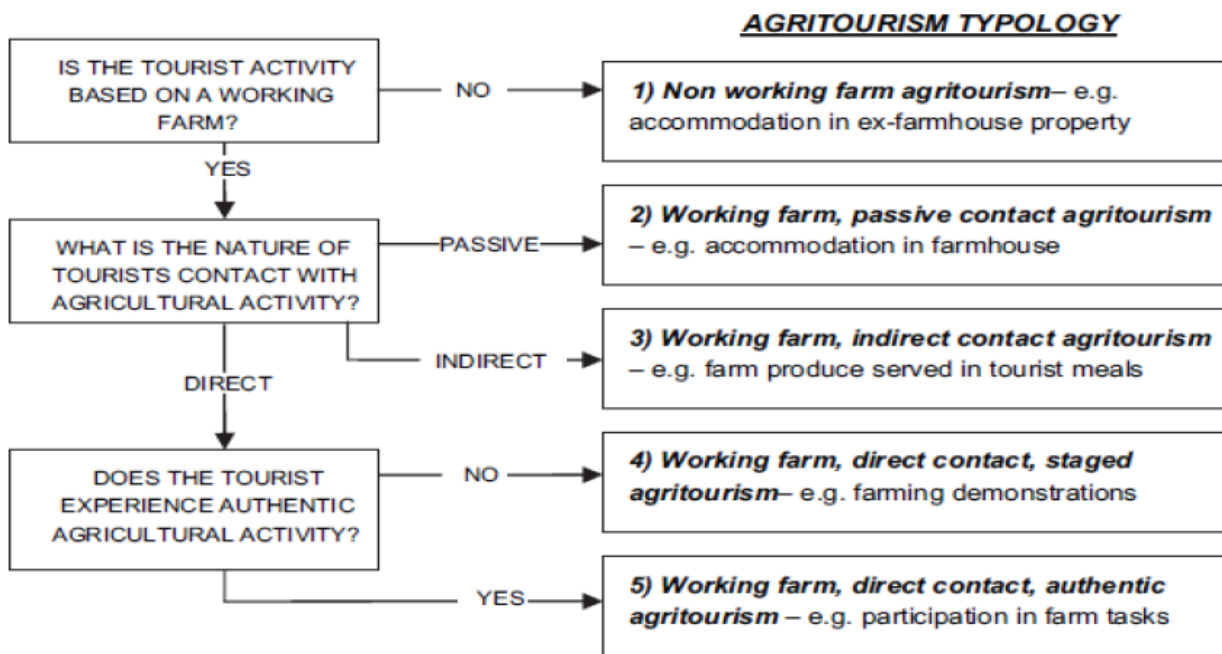
Figure 1d: Trend of Foreign Agrotourists to Italy and Total Number of Beds (in thousands)



Source: Santeramo et al. 2008

Localized financial co-operatives could serve as means to better organize local agricultural co-operatives so that they can respond to changing economic conditions in the international markets for agricultural products and services. The agricultural and agrotourism sectors can still be the key growth drivers of the Greek economy if proper attention is given in observing high quality standards, as is the case in other European countries. Both Figure 2d and the accompanied Table 1d provide the landscape of agrotourism types and the global growth of such industries.

Figure 2d: Typology Flow Chart for Defining Agrotourism



Source: Philip, Hunter, and Blackstock 2010, 756

Table 1d: Agrotourism Growth Globally

<u>Countries</u>	<u>Arrivals*</u>	<u>Share*</u>	<u>AGR**</u>	<u>Countries</u>	<u>Arrivals*</u>	<u>Share*</u>	<u>AGR**</u>
Germany	211,651	48.3%	-4.5%	Ireland	2,152	0.5%	36.2%
United Kingdom	31,208	7.1%	16.1%	Japan	1,546	0.4%	27.3%
USA	29,417	6.7%	41.6%	Czech Republic	1,270	0.3%	110.1%
Netherlands	26,635	6.1%	5.8%	Hungary	1,197	0.3%	81.9%
France	23,398	5.3%	40.5%	New Zealand	991	0.2%	14.5%
Switzerland	20,764	4.7%	36.4%	Finland	964	0.2%	37.1%
Austria	18,356	4.2%	6.4%	Greece	700	0.2%	7.4%
Belgium-Lux	17,141	3.9%	10.9%	Russian Fed	629	0.1%	35.2%
Denmark	5,228	1.2%	24.5%	Brazil	491	0.1%	64.9%
Sweden	4,490	1.0%	27.7%	South Africa	472	0.1%	74.6%
Canada	4,476	1.0%	46.8%	Slovak Republic	446	0.1%	41.3%
Spain	3,721	0.8%	54.9%	Portugal	428	0.1%	3.3%
Australia	3,558	0.8%	37.9%	Argentina	340	0.1%	26.1%
Israel	3,100	0.7%	-8.4%	Venezuela	311	0.1%	7.4%
Slovenia	2,634	0.6%	28.0%	Mexico	218	0.05%	35.5%
Norway	2,448	0.6%	75.2%	China	208	0.05%	130.6%
Poland	2,229	0.5%	67.1%	World	438,294	100.0%	5.8%

(*) Mean from 2002 to 2004

(**) Average growth rate from 2002 to 2004

Source: Santeramo et al. 2008

Turkey is another good example that can serve as a comparison with Greece. Not only do the two countries have a shared history and geography, but also, tourism is a major economic growth engine in each country (Turkey receives more than double the tourist inflows of Greece). While agrotourism is not new in Turkey, it is not by any means widespread, and studies have been conducted focusing on future expectations, long-term benefits, and the perception of Turkish agrotourism. While Turkey receives far more tourists than Greece, the agrotourism industry is only in its initial phase (Karabati, Dogan, Pinar, and Celic 2009). While the government is not involved in the development of agrotourism in Turkey, many NGOs, particularly the Buğday Association, have been promoting agrotourism in Turkey. Programs such as TaTuTa (Eco-Agricultural Tourism and Voluntary Exchange) were implemented as a method for volunteers to come and stay on farms in exchange for their labor. This is, of course, very similar to a program that is globally known as WWOOF (World Wide Opportunities on Organic Farms), but with TaTuTa, people can even go and stay with a rural host family, and observe daily life in exchange for direct monetary compensation.

Greece is often known for its many scenic islands and identified as a “sun-sea-sand” tourist destination. The recent rebound in seasonal tourism is an encouraging sign for further development (Table 2d). An analogous country on the Mediterranean Sea is Cyprus. While Cyprus does well in its role as a sun-sea-sand destination, this form of tourism is highly seasonal and concentrated in the coastal areas, where it has burgeoned (Sharpley 2002).

To ease the burden of coastal tourism, refocus tourism back to where it began, and enhance rural development, Cyprus has initiated the development of agrotourism destinations, many of which are typically hill resorts. This policy was initiated with the mindset that it will be a source of supplementary income for the rural providers. To this end, the Cyprus Tourism Organization (CTO) financed incentive schemes to subsidize loans for those farms/rural firms restoring and converting their facilities for rural tourism. Financial co-operatives can fulfill the role of development through specialized lending structures. Efforts were also made to encourage Cypriot sociocultural practices, such as culinary skills, folk music, and traditional crafts. It was also recognized that the success of agrotourism would depend on effective marketing, creation of professional associations, and networking.

This is by no means to suggest agrotourism as a panacea to the plight of Greece's rural areas. Solutions in Greece will need to be multipronged and dependent on various levels of support—local, regional, national, and international. Some of the shortcomings of agrotourism should be addressed head on in hopes of improving on previous experiences. Writing about a study in Cyprus that is applicable to Greece, Sharpley (2002) notes that while restoring traditional village properties and reestablishing traditional cultural practices as a means of developing the agrotourism sector can be successful, there can still be a significant discrepancy between what the aim of these activities is and what is actually achieved. Though the original intention for agrotourism in Cyprus was to provide supplementary income, the return was not enough to cover even the initial investment. This was partly due to the small nature of the firms themselves and partly due to low occupancies, as higher-spending tourists from newer markets had not yet been attracted and high prices proved to be a disincentive for both domestic and international guests. Furthermore, most of the villages still lacked the facilities and other amenities adequate to meeting tourists' needs, and a majority of the agrotourism firms were not very knowledgeable, lacking the requisite skills to provide effective and quality service. Marketing the agrotourism sector was also a problem, as the majority of tour operators focused on mass-market summer tourists. The low return compared to unrealistically high expectations and high initial investments provided no incentive for continuing technical and financial investment. Lower levels of continuing capital flow adversely impact smaller firms, which may be absorbed by larger firms, thus causing the agrotourism industry to lose its unique charm.

One idea is to highlight to potential marriage of co-operative banking with local redevelopment. This could take the form of not just agrotourism, but also religious tourism, archeological tourism, or any one of a myriad of entrepreneurial efforts that tap into the uniqueness of regions and cities within Greece. We need not restrict the conversation to tourism, either, but can think in terms of organic farming and other high-value-added industries as well. Whatever the industry, it may present an important area for business development among co-operative financial institutions, many of which offer training in small-business planning and operation best practices.

Table 2d: Tourist Activities Rebounding (Bank of Greece)

Περίοδος Period	Αφίξεις τουριστών (1),(2) / Tourist arrivals (1),(2)				Ταξιδιωτικές εισπράξεις σε τιμές 2009 (1),(2),(3) Travel receipts in 2009 prices (1),(2),(3)			
	Χιλιάδες άτομα Thousands	(% Μεταβολή/ Change			Εκατ. ευρώ Million euros	(% Μεταβολή/ Change		
		Προηγούμενου έτους Previous year	Σωρευτικής περιόδου Cumulative period	Κινητού μέσου 12 μηνών 12-month moving average		Προηγούμενου έτους Previous year	Σωρευτικής περιόδου Cumulative period	Κινητού μέσου 12 μηνών 12-month moving average
2008	15939	-1,4	-	-	11751,4	-1,7	-	-
2009	14915	-6,4	-	-	10417,1	-11,4	-	-
2010	15007	0,6	-	-	9144,5	-12,2	-	-
2011	16427	9,5	-	-	9729,2	6,4	-	-
2012	15518	-5,5	-	-	9157,1	-5,9	-	-
2012 II	3849	-8,3	-9,0	1,9	2182,7	-9,2	-10,0	1,9
III	8655	-3,0	-5,3	-4,1	5705,4	-2,0	-4,6	-3,8
IV	2035	-7,4	-5,5	-5,5	894,7	-16,2	-5,9	-5,9
2013 I	1023	4,6	4,6	-4,5	357,9	-4,4	-4,4	-5,4
II	4397	14,2	12,3	1,0	2677,7	22,7	18,7	2,0
III	10113	16,8	15,2	12,0	6693,1	17,3	17,7	13,9
2012 Μάιος/May	1180	-12,2	-10,8	4,9	687,1	-14,1	-12,8	4,1
Ιούν./Jun.	2044	-6,4	-9,0	1,9	1195,4	-6,6	-10,0	1,9
Ιούλ./Jul.	2863	-4,1	-7,2	-0,2	1929,3	-6,1	-8,4	-1,7
Αύγ./Aug.	3269	-2,5	-5,9	-1,9	2285,6	-0,3	-5,8	-3,3
Σεπτ./Sept.	2523	-2,5	-5,3	-4,1	1490,4	1,3	-4,6	-3,8
Οκτ./Oct.	1311	-8,3	-5,5	-5,4	612,2	-20,6	-5,9	-6,2
Νοέμ./Nov.	393	-7,2	-5,6	-5,4	152,8	-7,2	-5,9	-6,0
Δεκ./Dec.	331	-4,2	-5,5	-5,5	129,7	-1,8	-5,9	-5,9
2013 Ιαν./Jan.	366	3,8	3,8	-5,4	117,0	-6,2	-6,2	-5,8
Φεβρ./Feb.	296	11,1	6,9	-4,8	111,6	6,0	-0,6	-5,5
Μάρτ./Mar.	362	0,5	4,6	-4,5	129,3	-10,3	-4,4	-5,4
Απρ./Apr.	557	-10,9	-1,5	-4,7	251,4	-16,3	-9,7	-5,7
Μάιος/May	1467	24,4	9,5	-1,9	919,8	33,9	12,3	-2,2
Ιούν./Jun.	2373	16,1	12,3	1,0	1506,6	26,0	18,7	2,0
Ιούλ./Jul.	3264	14,0	12,9	4,3	2181,8	13,1	16,3	6,1
Αύγ./Aug.	3886	18,9	14,7	8,8	2673,8	17,0	16,5	10,4
Σεπτ./Sept.	2963	17,5	15,2	12,0	1837,5	23,3	17,7	13,9

Πηγή: Τράπεζα της Ελλάδος / Source: Bank of Greece.

(1) Τα στοιχεία προέρχονται από την Έρευνα Συνόρων της Τράπεζας της Ελλάδος. Δεδομέριες σχετικά με την Έρευνα Συνόρων περιλαμβάνονται στην ιστοσελίδα της Τράπεζας της Ελλάδος <http://www.bankofgreece.gr/Pages/el/Statistics/externalsector/balance/travelling.aspx>. / Data derived from the Frontier Survey of the Bank of Greece. More information on the Frontier Survey can be found at <http://www.bankofgreece.gr/Pages/en/Statistics/externalsector/balance/travelling.aspx>.

(2) Η Έρευνα Συνόρων της Τράπεζας της Ελλάδος δεν καλύπτει το σύνολο των αφίξεων τουριστών και των ταξιδιωτικών εισπράξεων καθώς δεν περιλαμβάνει ταξιδιώτες κρουαζιέρας που δεν αναχωρούν από κάποια πύλη εξόδου της χώρας. Εκτίμηση των εσόδων από την κρουαζιέρα για το διάστημα από το 2012 και μετά παρουσιάζονται στον Πίνακα VI. 16. / The Frontier Survey of the Bank of Greece does not fully cover all tourist arrivals and receipts since it does not include cruise tourists not leaving from one of the country's gateways. Table VI.16 includes estimates of cruise receipts for the period from 2012 onwards.

(3) Αποπληθωρισμένα στοιχεία με τον Δείκτη Τιμών Καταναλωτή (ΕΛΣΤΑΤ). / Data deflated with CPI (ELSTAT).

