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# Development and Prospects of the Greek Cooperative Credit System

by

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## Abstract

The credit cooperative system was established in Greece in 1993, following the creation of the appropriate legislative framework. The Greek system distinguishes two types of institutions: the cooperative bank that functions as a bank and the credit cooperative that cannot provide banking services. The Greek cooperative system is characterized by the autonomous and non-homogenous development of the cooperative banks and credit cooperatives. Moreover, in 2001 the cooperative banks created a central nation-wide bank that has since helped the further development of the credit cooperative system. However and despite the large number of geographic departments involved in the credit cooperative system, the expansion of cooperative banks in the Greek bank market is limited, principally due to legislative restrictions and the lack of dynamism these restrictions create to the credit cooperative system, while operating in a very competitive market environment.

**Key-words:** cooperative bank, credit union, credit cooperative, cooperative credit system, Greece.

## Introduction

The Greek cooperative credit system was initiated at the beginning of the 1990s under the new legislative frame which describes the creation and function of cooperative credit institutions. Until 1992, three credit cooperatives were created under the law on civil cooperatives without having the status of credit institutions. According to the new legislation, cooperative credit institutions are divided into two categories:

- Credit cooperatives which are not banking institutions and can not offer banking services (only limited economic help to their members). Their aim is to collect the requested capital in order to become cooperative banks;
- Cooperative banks which can offer all banking services. Their creation results after the accomplishment of the principal request, the collection of a minimum capital.

By the end of 2004, the credit cooperative system included 16 cooperative banks and 16 credit cooperatives. Despite their big number, these institutions constitute a very limited part of the Greek banking system because of endogenous difficulties of development of the system and the increasing competitiveness of the Greek banking market. The development of the Greek cooperative credit system is characterized by the autonomy of institutions and a non homogenous development influenced by the policy of these institutions. Prospects of the system are limited due to its capacities of development.

Creation, development and prospects of the Greek cooperative system are examined in the following sections: legislation in section 2, reasons for the creation in section 3, characteristics of the development in section 4, prospects of the development in section 5, and conclusions in section 6.

## **The legislation**

The legislative framework that permitted the creation of the Greek credit cooperative system is provided by the Law 2076/1992 (Journal of the Government, 1992) and the Act 2258/1993 of the Governor of the Bank of Greece (Governor of the Bank of Greece, 1993). The Law 2076/1992 acknowledged for the first time the possibility of creation and function of banking institutions under the cooperative form. The Act 2258/1993 of the Governor of the Bank of Greece defined the operations these institutions can exercise. The main characteristics of the creation and function of cooperative banks are:

- Cooperative banks can perform all banking services except the underwriting ones;
- They can transact exclusively with their members, other credit institutions and the Greek State. Transactions with non members are permitted only under the participation of a member in them. These transactions are referred essentially to deposits in which a member can have a common deposit account with a non member;
- Cooperative banks are subject to the same supervision and regulation imposed by the Bank of Greece, as any other bank. On the other hand, the credit cooperatives are subject to the supervision of the Ministry of National Economy and Finance;
- The share capital requested for the foundation of a cooperative bank depends on the bank's geographical expansion; according to the Act 2471/10.4.2001 of the Governor of the Bank of Greece (Governor of the Bank of Greece, 2001), this capital is:
  1. 6 million euros for a cooperative bank having members and branches in only one prefecture (Greece is divided into 13 administrative regions and 52 prefectures), except the prefectures of Attiki and Thessalonica.

2. 10 million euros for a cooperative bank with members and branches in the bordering prefectures as well as in the same administrative region.
3. 18 million euros for a cooperative bank expanded all over Greece or having the head office in the prefecture of Attiki or Thessalonica.

### **The reasons for the creation of the credit cooperative system in Greece**

The creation of the credit cooperative system in Greece resulted from some reasons, common to all Greek regions. Emphasis was given to the need for regional development and the difficulty for small depositors and loan demanders in having access to the national banks without sufficient resources and loan guaranties. The principal reasons for the creation of the credit cooperative system are the following:

- Development of the local economy and society;
- Concentration of the local income and its local use;
- Assistance to the members through the offer of services under better terms in comparison to other banks, such as a lower interest rate on loans and a higher one on deposits;
- Economic rallying between the inhabitants and emigrants of the same district;
- Offer of economic advices and information to the members and local companies;
- Effort to eliminate the usury;
- Supplementary role in connection with the other banking institutions.

Initiatives were taken principally by local organizations and particularly the local chambers of commerce and small industry. In many cases they hosted the head offices of the credit cooperatives in their first steps. Members of credit cooperative institutions are mainly merchants, freelancers and owners of small industries. The participation of farmers is very limited because of the involvement of the Agricultural Bank of Greece in agricultural businesses (Karafolas, 1997).

### **An autonomous and non homogenous development**

#### ***Concentration of development***

The Greek credit cooperative system is characterized by an autonomous development of its institutions based on local credit institutions. At its first stage the system was constituted only by credit cooperatives. Since 1993 the strong interest in the creation of a credit cooperative has resulted to the creation of 31 credit cooperatives in 30 towns; these institutions were added to the three credit cooperatives that had already existed under the Law 1667/1986 on “Urban Cooperatives” (Karafolas, 1997). Dur-

ing the decade that followed, 16 credit cooperatives succeeded in their transformation to cooperative banks, collecting the requested capital for a cooperative bank, two of them ceased their function and 16 continue their function as credit cooperatives.

Two elements have been considered to assess the development of cooperative banks:

- The banks' activities, including balance sheet elements and the geographic expansion;
- The interest shown by the local population towards the cooperative credit institution.

Table 1 presents elements of balance sheets of the 16 cooperative banks, while on Table 2 elements connected to the expansion of the bank are presented.

**Table 1: Cooperative banks: Balance Sheet elements, end of 2003  
(million euros)**

Cooperative bank	Assets	Deposits	Loans	Equity Capital	Profits (*)
Pagritia Cooperative Bank	545.1	450.3	436.2	83.2	11.4
Cooperative Bank of Chania	146.7	109.0	107.8	30.7	1.8
Cooperative Bank of Dodekanese	132.2	110.6	98.8	18.5	1.6
Ahaiki Cooperative Bank	78.1	48.9	62.1	26.4	2.1
Cooperative Bank of Lamia	66.3	47.7	65.9	16.6	1.9
Cooperative Bank of Trikala	42.4	32.7	28.7	7.9	1.3
Cooperative Bank of Evvoia	38.8	30.8	29.6	6.7	1.3
Cooperative Bank of Ioannina	36.1	26.2	27.9	7.0	0.3
Cooperative Bank of Lesvos-Limnos	35.8	28.4	23.5	6.8	0.7
Cooperative Bank of Evros	34.6	28.6	24.5	5.7	0.5
Cooperative Bank of Karditsa	34.2	17.1	14.0	6.3	0.6
Cooperative Bank of Drama	18.9	13.6	11.1	5.0	0.3
Cooperative Bank of Pieria	16.9	12.4	7.8	4.1	0.5
Cooperative Bank of Kozani	16.2	12.0	10.0	4.1	-0.5
Cooperative Bank of Korinthia	12.5	7.7	9.0	4.7	0.4
Cooperative Bank of Serres	9.3	0.0	5.3	9.2	0.1
<b>Total</b>	<b>1,254.0</b>	<b>975.8</b>	<b>962.2</b>	<b>242.7</b>	<b>24.2</b>

Sources: – Cooperative banks, balance sheet and income statement of 2003.

– Association of Greek Cooperative Banks, 2004.

(\*) Profits before taxes.

**Table 2: Indicators on function and expansion of cooperative banks, end of 2003**

Cooperative bank	Members	Years of function	Branches	Number of departments with bank's branch
Pagritia Cooperative Bank	27,934	10	30	5
Cooperative Bank of Lamia	15,200	10	3	1
Cooperative Bank of Chania	8,792	9	12	4
Cooperative Bank of Dodekanese	8,456	9	11	1
Ahaiki Cooperative Bank	5,179	10	4	1
Cooperative Bank of Ioannina	4,512	10	2	1
Cooperative Bank of Trikala	2,851	6	2	1
Cooperative Bank of Karditsa	2,370	6	1	1
Cooperative Bank of Evros	2,310	7	2	1
Cooperative Bank of Evvoia	2,295	5	2	1
Cooperative Bank of Drama	2,225	5	1	1
Cooperative Bank of Lesvos-Limnos	2,000	5	6	1
Cooperative Bank of Pieria	1,549	5	1	1
Cooperative Bank of Korinthia	1,455	6	2	1
Cooperative Bank of Kozani	1,347	4	1	1
Cooperative Bank of Serres	1,300	1	1	1
<b>Total</b>	<b>88,475</b>		<b>81</b>	

Source: *Idem. Table 1.*

On both Tables the non homogenous development appears clearly. Activities and branches are concentrated on three cooperative banks. Pagritia Cooperative Bank (mainly), Cooperative Bank of Chania and Cooperative Bank of Dodekanese in 2003 held 65.7 percent of assets of cooperative banks, 68.7 percent of deposits, 66.8 percent of loans, 54.6 percent of equity capital and 65.4 percent of branches.

The Cooperative Bank of Lamia presents a particularity. This institution was the pioneer of the system as it is the oldest cooperative credit institution in Greece. It was established in 1911 as a cooperative of technicians and workers of Lamia. Various problems with the bank's activities appeared after the intervention of the Bank of Greece (Palamiotis 2000); the consequence was the loss of confidence towards the bank and therefore decline of activities. The Cooperative Bank of Lamia, despite its problems, remains the second numerous cooperative bank, having more than 15,000 members.

Beyond the bank's activities, Pagritia Cooperative Bank has the largest number of branches and it is one of the two cooperative banks, with the Cooperative Bank of Chania, having branches in more than one prefecture (Table 2).

Three main reasons can explain the predominance of Pagritia Cooperative Bank,

Cooperative Bank of Chania and Cooperative Bank of Dodekanese:

1. A strong spirit of cooperation due to a healthy cooperative development, on the islands of Crete and Dodekanese. Pagritia Cooperative Bank and Cooperative Bank of Chania have their head offices in Herakleion and Chania, respectively, both towns of the island of Crete. The Greek cooperative movement, mainly related to the agricultural area, was often criticized for inefficiency because of political interventions (Kamenidis, 1991; Klimis, 1991). These problems provoked the loss of confidence on the part of the population towards the cooperative movement. In the cases of Crete and Dodekanese a healthy cooperative organization in navigation along with the creation of shipment cooperatives led to the success of the cooperative banks as well;

2. The confidence in the pioneers who had the initiative to the creation of a credit cooperative institution. The confidence towards the board of directors and moreover the president, led an important part of the population to participate in the creation of the credit cooperative;

3. The expansion policy followed, especially by the Pagritia Cooperative Bank and at a lower level by the Cooperative Bank of Chania and the Cooperative Bank of Dodekanese. Other cooperatives had a conservative expansion policy. In the case of Pagritia Cooperative Bank the expansion policy was related to the creation of peripheral councils which had the role of motivating the local population; the council could suggest the creation of a branch as well.

The influence of the local economic development on the extension of the banking network has been examined by comparing the aggregate “Deposits per habitant” (Table 3) to the banking network for 15 cooperative banks in the year 2003. In some cases, as the Cooperative Bank of Dodekanese and the Cooperative Bank of Lesvos-Limnos (that has a network of 6 branches), a positive influence is observed. In these cases it appears that cooperative banks with an extensive banking network are in prefectures with higher level of savings. In other cases, such as in the prefecture of Ioannina with high level of deposits per habitant, the cooperative bank does not follow an extensive policy. Therefore, a positive influence of the local economic situation on the extension of the banking network can not be generalized.

**Table 3: Deposits per habitant in 15 prefectures with a cooperative bank, end of 2002 (in euros)**

<b>Prefecture</b>	<b>Deposits</b>
Dodekanese	10,730
Lesvos-Limnos	8,150
Ioannina	7,354
Chania	7,191
Irakleion (1)	7,151
Evros	7,004
Drama	6,976
Ahaia (2)	6,736
<i>Average of the 15 prefectures</i>	<i>6,702</i>
Evvoia	6,661
Korinthia	6,429
Kozani	5,975
Viotias (3)	5,773
Pieria	5,228
Trikala	5,182
Karditsa	3,646

Source: *Bank of Greece, Department of Economic Studies, 2003.*

Notes: (1) Prefecture of Pagritia Cooperative Bank.  
 (2) Prefecture of Ahaiki Cooperative Bank.  
 (3) Prefecture of Cooperative Bank of Lamia.

The participation of the local community can give a clear view on the development of a cooperative bank and how strong is the bank's involvement in the local society and economy. Table 4 refers to the participation of the local population in the bank by using three indicators:

- Deposits in the cooperative bank as part of total deposits at the prefecture;
- Members of the bank as part of the total population of the prefecture;
- Capital shares held per member of the cooperative bank.

**Table 4: Local population's interest in the cooperative bank**

<b>Cooperative Bank</b>	<b>Bank's deposits / deposits at the prefecture %</b>	<b>Bank's members / prefecture's population %</b>	<b>Capital shares held per member</b>
Pagritia Cooperative Bank	15.3	10.1	22.6
Cooperative Bank of Chania	8.1	6.1	12.3
Cooperative Bank of Lamia	5.3	12.1	8.4
Cooperative Bank of Dodekanese	4.4	5.2	2.3
Cooperative Bank of Lesvos-Limnos	2.4	0.8	9.5
Cooperative Bank of Trikala	2.3	1.8	6.3
Cooperative Bank of Karditsa	2.2	1.5	8.1
Cooperative Bank of Evvoia	1.9	1.1	9.9
Cooperative Bank of Evros	1.7	1.5	8.4
Ahaiki Cooperative Bank	1.6	1.7	17.5
Cooperative Bank of Ioannina	1.4	2.5	4.4
Cooperative Bank of Pieria	1.2	1.2	5.2
Cooperative Bank of Drama	1.0	1.9	8.4
Cooperative Bank of Kozani	0.8	0.8	17.8
Cooperative Bank of Korinthia	0.5	1.0	9.4

Sources: – *Cooperative banks, balance sheet and income statement of 2003.*

– *Association of Greek Cooperative Banks, 2004.*

– *Bank of Greece, Department of Economic Studies, 2003.*

Observation on local population interest, considering members as part of the population and capital shares held by these members, show a strong interest of the local population in the Pagritia Cooperative Bank. Three other banks can be distinguished, the Cooperative Bank of Chania, the Cooperative Bank of Dodekanese and the Cooperative Bank of Lamia in which local population have historically shown a strong interest.

The bank's involvement in the local economy, measured by deposits in the bank as part of the total local deposits in the prefecture, and members as part of the population, shows the same predominance of the Pagritia Cooperative Bank, followed by the three other banks: The Cooperative Banks of Lamia, Chania and Dodekanese.

The interest in the other cooperative banks (by bank's deposits and bank's members) is very limited (Table 4), and shows the difficulties that cooperative banks face in the local economy.

### ***Different stages of growth***

Ferguson and McKillop (1997) identified three stages of growth for credit unions which they attribute to a nascent industry, a transition industry and a mature industry. A summary table of the described stages is given in Ferguson, McKillop and Sibbald

(2002). At every stage some characteristics are related to the bank's size, organization, services and targets.

We can have a classification of the Greek cooperative credit system by examining a number of characteristics. In this examination we distinguish cooperative banks from credit cooperatives that can not offer banking services. Furthermore, we introduce the Panellinia Bank, a banking institution created by cooperative banks and credit cooperatives in order to help the credit cooperative system. Data are provided by cooperative banks, the Panellinia Bank and the Association of Greek Cooperative Banks.

**Table 5: Stage of growth of Greek cooperative banks and credit cooperatives**

Component of the stage	Cooperative bank	Credit cooperative
Asset size	Large: Pagritia Medium: Chania, Dodekanese Small: all others	Small: all credit cooperatives
Management	Professionalization	Voluntarism
Product	Shift towards product diversification	Single collect of capital and informal loans to members
Central services	Under development with the help of Panellinia Bank	Non authorized for banking services
Help from the Credit Union movement	Only under the specific help of Panellinia Bank	Important for the offer of services and the collection of capital
Computerized system	Yes	Exists but limited
Economic targets	Yes	Main target: collecting the demanded capital
Common bond	Exists	Exists

Sources: – *Cooperative banks, annual reports, several years.*  
– *Panellinia Bank, 2003.*  
– *Association of Greek Cooperative Banks, 2001 and 2004.*

**Some comments on the findings:**

- The size of assets is small in comparison to nation wide banks. The Pagritia Cooperative Bank, mainly, can be an exception. Limitations due to offer of services only to members and limitations on the geographic expansion are the main reasons for the stage of growth;
- Cooperative banks now use professionals for the management of the bank. The participation of the bank's members in the Board of Directors does not

prevent the professional management of the bank. Problems arisen in the bank's management (as in the case of the Cooperative Bank of Lamia), and the need for growth of the bank resulted in the acceleration of professionalism and the limitation of voluntarism (which is still important to credit cooperatives);

- Even if loans and deposits remain the strongest part of banking activities, diversification of products, as money transfer, credit cards, stock market services, constitute the targets of all cooperative banks. The support of a central wide cooperative bank seems imperative for most of the banks to develop central services that, otherwise, could not be offered or would be very expensive for the clients;
- The credit union movement has an important involvement in credit cooperatives. However, the union's involvement in cooperative banks is only limited to actions related to training programs for the staff and representation at the level of national authorities, such as the Bank of Greece and related ministries;
- One characteristic of the Greek cooperative credit system was the involvement of the State and the European Union in financing projects related to the creation and development of credit cooperatives; in the years 1994-1999, 23 credit cooperatives had been financed (for 50 percent of the proposed budget) for activities related to computerization, diffusion of the cooperative idea, equipment, building transformations and preparation of business plans (Karafolas, 2002).

According to the Ferguson and McKillop's classification, we can conclude that Greek cooperative banks are at a stage of transition, whereas the credit cooperatives are at a stage of a nascent industry.

## **Prospects of development**

### *Cooperative banks in the Greek banking market*

In spite of the big number of cooperative banks, 16 cooperative banks against 23 nation wide credit institutions, cooperative banks have a limited part in the Greek banking market with regard to banking network, personnel and balance sheet data.

By the end of 2003, cooperative banks had a network of 97 branches and outlets while non cooperative credit institutions had a total of 3,177 branches and outlets (Table 6), which is about 138 branches and outlets per bank against 6 branches and outlets per cooperative bank. An analogous result appears for the personnel since cooperative banks had 677 employees against 59,854 of the other banks.

**Table 6. Credit institutions in Greece: Network and personnel, end of 2003**

<b>Institutions</b>	<b>Branches</b>	<b>Outlets</b>	<b>Total</b>	<b>Personnel</b>
Total	3,266	36	3,302	63,611
Credit Institutions	3,157	20	3,177	59,854
Cooperative banks	81	16	97	677
Bank of Greece	28		28	3,080

Sources: – *Hellenic Bank Association, 2004.*

– *Association of Greek Cooperative banks, 2004.*

An analogous image results from balance sheet data (Table 7). Cooperative banks have a very limited share of the market which does not correspond to the number of institutions. The share of assets and deposits of cooperative banks of the total assets and deposits are only 0.5 percent; for loans this share is only 0.8 percent.

**Table 7: Balance sheet data of credit institutions in Greece, end of 2002 (million euros)**

<b>Institutions</b>	<b>Assets</b>	<b>Deposits</b>	<b>Loans</b>
Total	178,837	141,377	88,256
Credit Institutions	142,606	112,603	70,666
Cooperative banks	906	669	675
Specialized banks	35,325	28,105	16,915
Coop. banks / Total	0.5%	0.5%	0.8%

Source: *Hellenic Bank Association, 2004.*

Three main reasons can be mentioned to explain the limited share of cooperative banks in the Greek banking market: restrictions on capital, restrictions on areas and clients, restrictions on services:

- *Restrictions on capital.* Credit cooperatives (and cooperative banks) were created with a strong sense of democracy regarding the management and cooperative capital possession. Independently of capital possession, at the General Assembly each member has one vote. Furthermore, the possession of cooperative capital can not exceed a limit defined by each credit cooperative. The main reason is to avoid the control over the credit cooperative institution by one person or a small group of members. Such a philosophy prevents investors from investing significant amounts. Consequently, people of the same prefecture participate with a small amount covering a minimum of the cooperative capital. The result is the rather limited amount of shares held by every member and therefore the limited capital of the bank;
- *Restrictions on areas.* According to the legislation, a cooperative bank can have members and a network in one prefecture or in bordering prefectures, or it can be a nation wide bank. In every case the requested capital differs.

Within 16 cooperative banks, 14 have banking networks and members-clients exclusively in one prefecture (Table 2). Consequently, the bank's clientele is limited to the prefecture, which implies the limited growth of the bank. The Pagritia Cooperative Bank and the Cooperative Bank of Chania present a departure from the general rule; however, their network is expanded only on the Island of Crete (divided into 4 prefectures) and Athens;

- The limited network results to a higher cost of transactions for services to other departments, in comparison to banks with national and international banking networks. Consequently, the cooperative bank is obliged to limit the services offered to the clientele mostly to deposits and loans. Even so, these two services are limited too. Because of the limited clientele, deposits are limited and therefore loans are also limited, despite the fact that some Greek cooperative banks use the cooperative capital for granting loans (Table 1). The inability to offer services or to offer them with higher cost, such as management of available funds, capital transfer abroad, clearing of checks and underwriting, create unfavorable conditions for the growth of cooperative banks.

### *The creation of a nation wide organization*

The Greek system did not consider the existence of regional cooperative banks, as in the case of France (Guichon, 1988; Palomo Zurdo, 1997) or Germany (Aschhoff and Henningsen, 1996; Palomo Zurdo, 1997). The legislation does not presuppose the existence of a central cooperative bank as is the case of numerous credit cooperative systems in Europe (Palomo Zurdo, 1997; Côté *et al.*, 1998). The idea of a central cooperative bank has been discussed because of the weaknesses in the development of the system, and especially for most of the participant institutions (Association of Greek Cooperative Banks, 2001). The creation of this bank aimed at the development of those services which can not be offered or are very costly for the bank's clients. Its intervention could be in several levels with the offer of:

- a nation wide network
- central services with an acceptable cost
- sufficient capital to satisfy the loan demand.

Efforts undertaken by the Association of Greek Cooperative Banks to have a Central Cooperative Bank that could function under a cooperative form did not succeed, mainly because of disaccords among the members of the Association, cooperative banks and the credit cooperatives (Association of Greek Cooperative Banks, 2001). A response to this necessity was given in 2001 with the creation of the Panellinia Bank. This bank has been created by 14 cooperative banks (with the exception of the Cooperative Bank of Ioannina) and 15 credit cooperatives (Panellinia Bank, 2003 and the Association of Greek Cooperative Banks, 2001). In fact, this bank was mainly created by the Pagritia Cooperative Bank (with 49 percent of the stock capi-

tal) and three others which are the Cooperative Bank of Chania (with 15.9 percent of the capital), the Ahaiki Cooperative Bank and the Cooperative Bank of Dodekanese, each with 8 percent of the capital (Panellinia Bank, 2003).

The Panellinia Bank is a stock company, “Société Anonyme”, according to the Laws 2076/92 and 2396/96 and the relative Acts of the Governor of the Bank of Greece. It is not a cooperative bank.

The bank can exercise all banking services. Nevertheless, one of the major purposes of the bank is to support, improve and expand the transactions of local cooperative banks and help in the development and proliferation of the cooperative credit in Greece. The status of the bank anticipates the following activities to realize these targets (Journal of the Government, 2001):

- The exercise of internal audit to cooperative banks, if they wish to, and after the authorization of the Bank of Greece;
- The transfer of know how to cooperative banks;
- The functioning of branches in all towns where a credit cooperative exists, further to an agreement between the Panellinia Bank and the credit cooperative;
- The support and provision of any appropriate help to credit cooperatives in order to become cooperative banks;
- The development and support of computerization systems for cooperative banks;
- The application of training programs for the employees of cooperative banks and credit cooperatives;
- The management of the available funds of cooperative banks and credit cooperatives;
- The development of new banking products for the cooperative banks;
- The exercise of import-export related banking services and other services related to foreign activities for the benefit of clients of cooperative banks.

The creation and function of the Panellinia Bank corresponds to the nature and function of the central cooperative banks of the European cooperative banking systems described by Palomo Zurdo (1997). The latter concluded with the following characteristics regarding the central cooperative banks:

- The central cooperative bank appears to be the achievement inherent in the development process of the system;
- Central cooperative banks are not credit cooperative institutions but stock societies (usually limited companies) whose share holders are, mainly, the credit cooperative societies which make up every respective cooperative banking system. Among their shareholders, there are usually cooperatives from other sectors of activity;
- Central cooperative banks can resolve needs of local cooperative banks related to certain activities for which a central operation and the achievement

of a critical mass to operate (with enough profit margins in the financial markets) are necessary. Such activities are those concerning clearing and means of payment, activities within national and international financial markets, institutional and corporate banking, specialized and advising services (such as international trade operations, stock in companies, etc.);

- The guideline for the functioning of this institution is the principle of subsidiarity to meet certain operational needs;
- The existence of the central cooperative bank allows an access to companies and markets which local cooperative banks could not easily reach by themselves;
- The central cooperative bank does not harm the operating and decision making independence of local cooperative banks.

### *The insufficiency of the nation-wide effort and the changes in the Greek banking market*

The involvement of the Panellinia Bank in services offered by credit cooperative institutions may help them improve their function; nevertheless, the positive influence will be limited because of the formation of the cooperative credit system itself and the changes that took place in the Greek banking system and the Greek economy during the last decade.

The character of the credit cooperative system, which is based on the participation of local communities, presents an important obstacle to its development even with the collaboration of the Panellinia Bank. Every cooperative bank has its own Board of Directors and General Assembly who decide on the bank's policy. Independently of the professionalization of the bank's management, this character favors rather a conservative than an extensive policy. Due to capital restrictions, loans or investments of big amounts can not be considered. Such amounts can easily be offered by nation-wide banks. Risks can not be undertaken by the manager of the cooperative bank because a failure could have disastrous results for the bank, given its small size. Therefore, these banks remain small with a limited part in the Greek banking market.

The Greek banking market faced main changes in the 1990s, characterized by a strong concentration based on some private and state controlled banks and a strong competitiveness (Karatzas, 2003). The competitiveness of the market forced banks to approach small and medium enterprises including merchants and freelancers for whom they hadn't shown a strong interest in previous years. After a long discussion in the 1990s on the form of loan guarantee system in Greece (Karafolas, 1999), in 2003 the Greek State established the Credit Guarantee Fund for Small and Very Small Enterprises. The objective of this Fund, which began its function in 2004 and was financed by the Greek State and the European Union, was to facilitate the access of small and very small enterprises to banking loans (Credit Guarantee Fund for Small and Very Small Enterprises, 2004).

During the second half of the 1990s, the Greek economy was characterized by a strong decline of inflation, from 20 percent at the beginning of the 1990s to an average of 3.5 percent for the past 3 years. The consequence was the analogous fall of interest rates.

But, difficulties in the access to the banking system and high interest rates on loans had been the main reasons for the creation of cooperative banks. Small enterprises, mainly commercial, had great difficulties in this access as well as in suffering such expensive loans. The creation of cooperative credit institutions, that could facilitate the access to less expensive loans, seemed an alternative solution. These main problems do not have the same significance any longer and will probably not have it for the next years either, because of the changes in the banking market and the participation of Greece in the Economic and Monetary Union, which demands a strict monetary policy.

Consequently, this environment is rather hostile towards the considerable growth of the credit cooperative system, contrary to that of the beginning of the 1990s.

## **Conclusion**

The Greek cooperative credit system, established at the beginning of the 1990s, is characterized by an autonomous and non homogenous development. Three categories can be distinguished: banks with an extension to several prefectures having the biggest growth, other cooperative banks limited to one prefecture, and credit cooperatives that are not banking institutions and must collect the demanded capital in order to become a bank. The formation of the system is based on local credit institutions with no regional cooperative organizations. Since 2001, a banking institution, formed by cooperative banks and credit cooperatives, has had the role of a central cooperative bank without being a cooperative credit institution; the main aim of the bank is to help cooperative banks and credit cooperatives by offering them appropriate services. Cooperative banks in Greece, being at a stage of a transitory industry, introduced the professionalization of the management and tried to include more banking services besides loans and deposits. The local character of the cooperative credit institutions and the ensuing constraints, such as capital and clients restrictions, prevent the banks' growth. The changes of the banking market, characterized by concentration and competitiveness, and the economic changes, especially the considerable fall of interest rates, set further limits on this growth. The above reasons are expected to limit cooperative credit institutions in their attempts to penetrate the banking system.

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## Appendix

### Greek credit cooperatives (end 2004)

Credit cooperatives	
1	Credit Cooperative of Argyproupoli
2	Credit Cooperative of Arkadia
3	Credit Cooperative of Arta
4	Credit Cooperative of Etoloakarnania
5	Hermes Credit Cooperative
6	Credit Cooperative of Kilkis
7	Credit Cooperative of Lakonia
8	Credit Cooperative of Larisa
9	Credit Cooperative of Magnisia
10	Credit Cooperative of Megara
11	Credit Cooperative of Preveza
12	Credit Cooperative of Thesprotia
13	Credit Cooperative of Thessaloniki
14	Credit Cooperative of Viotia
15	Credit Cooperative of Xanthi
16	Credit Cooperative of Zakynthe

Sources: – *Communication of the author with credit cooperatives.*  
 – *Panellinia Bank.*