

# Cooperative Banks inside and outside the financial and social crisis

“low income, low saving & low investment”,  
(=vicious circle)



“low income, injection of credit, investment, more income, more savings, more investment, more income”.





# GRAMEEN

*Banking for the poor*

## Grameen Bank Model

### INVESTMENT

Poor Women are given a loan to start an income generating activity



Grameen Bank

### REFUND

From profits earned, the women pay back the loan with a small interest.



### REINVESTMENT

With the interest earned on the loan, the bank can give loans to more people.

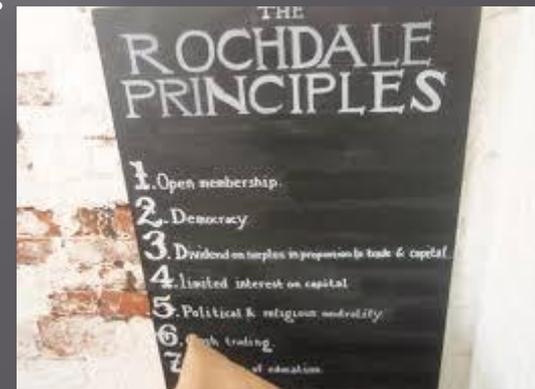
### LOCAL DEVELOPMENT

- Loans, saving accounts, pension
- Education
- Empowerment of women
- Distribution of dividends to the poor (as shareholders)

Provide Micro Loans & Banking Services to the Poor

Introductory remarks. Historical and social elements of the cooperative in general which distinguish this specific company

- ▣ The cooperative is not a simple company or an economic entity, but it is considered as a coexistence of socio-economic elements whose approach is not possible by using the pure doctrinal knowledge but it is absolutely necessary to have a profound knowledge of the peculiarities, the function, the scope, the principles of the cooperatives.



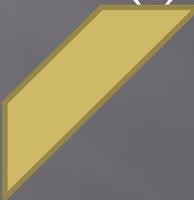
- ▣ Draft PECOL (=Principles of European Cooperative Law)
- ▣ (1) Cooperatives are legal persons governed by private law that carry on **any economic activity** without profit as the ultimate purpose



- ❑ Cooperative banks are credit institutions, but at the same time they are cooperatives, and this strange, and somehow inconvenient coexistence of the respective targets makes it difficult to join them “under the same roof” with the commercial banks.



The cooperative bank seems to be for some legal and banking circles, an unknown or even more a peculiar corporate structure, which is probably has been entered by mistake (!) into a purely profit-making sector



Co-operatives today thrive in competitive markets and although they do not seek to maximize profits on capital they have achieved significant market shares in areas where capitalized companies are very strong such as banking, insurance, food retail, pharmacy and agriculture · *see Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions COM / 2004/18 final.*

- ▣ The cooperative banks in order to be competitive entities in the banking sector they had to renew their cooperative mission, which means the priority of people and labor instead of capital.
- ▣ The most of the cooperatives nowadays including and especially the cooperative banks “**work with capital but not for capital**” ( see F. Relano/El. Paulet, *Corporate responsibility in the banking sector a proposed typology for the German case*, *Int. J.L.M.* 2012, p. 379-393.)

- ▣ II. The presence of cooperative banks, in particular in the European Union area and indicatively in some member states is real strong which allow us to say that the presence of the cooperatives in the banking sector is necessary, but this presence and function demand an effort, coming from the law and the practice, focus on the compromise between the profit maximization and the whole banking system on the one hand and the principles of the cooperative law on the other.



- ▣ The basic seven cooperative principles such as the principles of voluntary and free participation, self-government, membership, autonomy and independence, education, cooperation between cooperatives, common interest as have been declared by the International Cooperative Alliance and formed by the international cooperative theory, law and practice, at the first sight, seem to be incompatible with the well-known characteristics of the banking system, the nature and the scope of financial - banking activities.

- ▣ By second and much deeper approach we could reach some very interesting remarks.
- ▣ From 1990s onwards the globalization and the whole socioeconomic situation have forced the banks all over the world to proceed in some institutional remarkable changes and to adopt the so called corporate social responsibility, which is so closed to the content of the cooperative principles.
- ▣ That means instead of the cooperative banks all the other commercial banks faced the necessity to be more “social” more “ethical” (see the example of the Gemeinschaftsbank in Germany (GLS))

- ▣ The cooperative banks, also, had to adopt certain elements and changes especially in the management and the acceptance of the capital, such as the investments, but without losing the basic structural and sociological aspects of their main character as cooperative banks.
- ▣ Fast all of them in order to be competitive with the commercial banks tried to adopt the spirit of the so called “demutualization” and focus on the modern banking activities, such as participation in the international capital market.
- ▣ The dilemma was to choose between cooperative values and economic efficiency

- ▣ In Greece, the cooperative banks have been adopted for the first time by the L. 2076/1992 (Art. 5 § 1)
- ▣ Nowadays nine cooperative banks are operating: the cooperative banks of Drama, Evros, Epirus, Thessaly, Karditsa, the Pancretian Cooperative Bank based in Heraklion, Pieria, Serres and Chania. The five credit cooperatives are those of Aitolokarnania, Arta, Boeotia, Magnesia and Megaridos.



- Unfortunately the cooperative banks and their members have been left alone to face the amazing economic and social crisis in Greece by keeping them away from the recapitalization efforts coming from the EFSF, ESM and the other banking mechanisms.
- The solution of the recapitalization which has been introduced by the L. 4340/2015 (Art. 5) and L. 4261/2017 (=Banking Law, Art. 167) is one “fast track” and “in concreto” decision of the Bank of Greece, supported by the general meetings of the banks based on the increase of the capital by issuing unlimited number of shares, the increase of the independence of the managers (=executive members of board, chosen also by members with more shares) and other measures coming from the internal environment of the cooperative banks or by new stakeholders.

□

- ▣ In Greece and in many other countries it is allowed the cooperatives to issue, beyond the mandatory cooperative share, one or more optional, but always with a quantitative limit, low enough, in order to be kept the character of the cooperative as the main entity representing the social economy.
- ▣ In contrary, in Greece, in the sector of cooperative banks, there is no a limit, according to the new provisions and also there isn't anymore in force the rule of “one person (one share)  one vote”.

- ▣ In general, according to the latest Greek legislation, we are in front of some "dangerous" interventions of the banking lawmaker in the basic cooperative law 1667/1986, which, despite the modifications, is the main law regarding the function of the cooperative banks and the other cooperatives, except the agricultural and building ones, which at last, they don't have something in common with the cooperative banks, except some basic cooperative elements, or some remains from the cooperative principles.

# Proposals for the cooperative banks

- ▣ I. Extending the circle of the customers is not only a realistic necessity in order to grow the financial status of the cooperative banks but it helps also to emphasize the ethical character of them, by making strong the rights of the stakeholders instead of the rights of the members (=“shareholders”).
- ▣ An approach to the rules of the modern banking system is necessary, such as, a severe external audit, an independent special management, a cooperation between cooperative banks, (mergers or joint ventures, or by incorporation of an ECS)

▣ But the cooperative banks should remain as

▣ Cooperatives



# European Cooperative Society could be a solution?

- ▣ Regulation 1435/2003 (L 207 of 18.8.2003, p. 1) on the statute for a European cooperative society introduces into the Union legal order a supranational corporate scheme in line with the previous European Company (SE) of Regulation 2157/2001 (L 294, 10.11.2001, p. 1).
- ▣ Regulation 1435/2003 was supplemented in the Greek legal order by Law 4099/2012 (Articles 136-155 thereof), while Directive 2003/72, which accompanied the Regulation and related to the completion of the Statute, on the role of workers, was transposed into Greek law with 44/2008.
- ▣ Until today in all of the sectors, including the banking one, the constitution of an ECS is quite poor, due probably to the “nationalization” of these entities, despite the European character of them.

# Final thoughts.....

- ▣ Cooperative banks are not a panacea for resolving economic problems, but definitely are able, cause to their character, to finance, on favorable terms, small and medium-sized enterprises and generally less privileged economic units, to promote the local economy by using fair and ethical motives .

- ▣ But it is necessary the cooperatives banks and their members to overcome the obstacles of an unsuitable and opportunistic legislation, the “pathogenicity” of the cooperative system and more generally the well-known “incomprehension ” of a large percentage of the population and at last but not least to adjust the cooperative principles to the modern banking environment.

- *“Although laws governing cooperatives are diverse in approach and based on different traditions, they generally respect the co-operative definition, values and principles set out in the "Statement on the Co-operative Identity" .....Consequently national legislators should be based on the co-operative definition, values and principles when drafting new laws governing co-operatives. In this context however Member States are required also to be sufficiently flexible in order to enable co-operatives to compete effectively in their markets and on equal terms with other forms of enterprise.....”* see Communication of the Commission on the promotion of cooperative societies in Europe, COM/2004/18 final.

▣ *Thank you for your attention!*

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