Polish cooperative banking sector in the face of systemic transformation and European integration in agriculture

Sektor bankovních družstev v Polsku z pohledu jeho systematické transformace a evropské integrace v zemědělství

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Abstract: In this study the principal changes in Polish cooperative banking sector over the past two decades were presented. The primary data obtained from a survey of bank presidents, performed in 2007 on a nation-wide sample of 100 cooperative banks, were supplemented by the banking statistics from the Central Statistical Office and the Polish Financial Supervision. Research provides the evidence that cooperative banks, in general, took advantages from the consolidation process. While the number of the banks was declining, own funds per bank, bank offices and staff were expanding. The banks managed to adjust to the EU requirements by having implemented limits on loan concentration, procedures for counteracting money laundering and meeting minimum capital requirements. They introduced system of the deposit guarantee, monitoring and control of credit risk and adapted new regulations. The cooperative banks for the most part retained their original characteristics. The sector still plays the prominent role in serving and financing of agriculture and rural development.

Key words: cooperative banking, agricultural banks, restructuring, transition, Poland

Abstrakt: Studie prezentuje nejvýznamnější změny v sektoru družstevního bankovnictví v Polsku (restrukturalizaci, konsolidaci, státní regulaci apod.) v posledních dvou desetiletích. Primární data byla získána z výzkumu provedeného mezi prezidenty bank v roce 2006 na vzorku 100 družstevních bank rozmístěných po celém území Polska. Tyto údaje byly doplněny bankovní statistikou Ústředního statistického úřadu a Polské finanční kontroly. Výzkum potvrzuje, že družstevní banky obecně využily konsolidačního procesu v pozitivním smyslu. Zatímco se počet bank snížil, vlastní zdroje v přepočtu na jednu banku, počet bankovních poboček a personálu se zvýšil. Banky se dokázaly přizpůsobit požadavkům Evropské unie zavedením limitů na koncentraci úvěrů, opatřeními proti praní špinavých peněz a dodržením minimálních kapitálových požadavků. Navíc zavedly systém depozitních garancí, monitorování a kontroly úvěrových rizik a přizpůsobily nové regulace. Družstevní banky si v Polsku převážně zachovaly své specifické charakteristiky. Tento sektor stále hraje významnou roli v poskytování finančních služeb a financování zemědělství a rozvoje venkova.

Klíčová slova: bankovní družstva, zemědělské banky, restrukturalizace, transformace, Polsko

Cooperative banks constitute small but important part of the financial industry in Poland. In 2009, cooperative banking sector comprised of 577 cooperative banks associated in three associating banks. Cooperative banks have 2.5 million members, with member-to-population ratio at 8.9%. For six European countries (EU 6) with a relatively large cooperative banking sector (Austria, Finland, France, Germany, Italy and the Netherlands) this ratio in 2007 was on average at 17%, with the highest levels in Austria (28.5), followed by France (25.5) and Finland (23) (Groeneveld and Sjauw-Koen-Fa 2009).

In 2009, cooperative banks served a total number of 10.5 million customers through a countrywide network of 4000 branches (nearly 28% of the total number of bank branches in Poland), providing cooperatives with an important comparative advantage in retail markets, especially in rural areas.

In the middle of 2009 the balance sum of cooperative banks was PLN 57.8 billion representing 5.5% of total assets in the whole banking sector. Cooperative banks' funds amounted PLN 6 billion (6.5% of the total banking sector), loans to non-financial entities – PLN 33.482 million (5.6%) and savings of non-financial sector – PLN 36.13 billion (9.98%). The sector earned PLN 0.36 billion (6.7%) in net profit. It employed about 30 thousand persons, i.e. 17.6% of the total banking sector employees.

The main areas of cooperative banks' activities are small and medium towns as well as villages. The prominent role of this sector is reflected in the financing of agriculture and rural development. The existence of rural cooperative banks has always been beneficial for promoting the development of farms, processing industry and non-farm economic activities. The special role of the cooperative banking sector in the development of Polish rural communities arises mainly from the providing loans to farmers, other businesses and public institutions to finance various investment projects. Cooperative banks are the main external source of capital required to finance the modernization projects in agriculture, the economic activities and jobs which promote multifunctional development as well as progress in technical and social infrastructure in rural areas. Those banks help to overcome credit rationing in agricultural loan market, the phenomenon that significantly determines both the capital accumulation and investment decisions of farmers and as a result their supply functions (Čechura 2009).

Since Poland's accession to the European Union (EU), the cooperative banks have become an important element of the channel through which money from the common budget to national farmers (ex. direct payments) and local self-governments (ex. structural measures) are sent. Thus, they are active contributors to agricultural and regional policy delivery in Poland. In the face of changing national economic and social policy, the cooperative banking sector, traditionally operating in the rural areas, has remained attached to the rural communities and actively participated in the processes of agriculture transformation. In Poland, cooperative banks are recognized as national banks with domestic capital. They maintain a large office network to offer a nearly full range of banking services but they are under strong competition pressure from the commercial banks which are predominantly fuelled with foreign capital.

Over the past two decades of systemic transformation (since 1989), the cooperative banks have gradually undergone restructuring processes in order to adapt to market economy rules, and afterwards to adjust to the EU requirements. This article is intended to present those changes and to supplement previous domestic literature on the subject. An overview of that literature suggests that the most essential writings concerning the transformation of cooperative banking in Poland after 1989 were contributed by the following authors: Kulawik (1994, 1996, 2000), Orzeszko (1996), Szambelańczyk (1996, 1997), Alińska (1999), Alińska and Kulawik (1994) and Siudek (2006).

The main aim of this study was to review the chronology of changes that occurred in the cooperative banking sector in Poland after 1989 as well as to investigate reactions to those changes by the cooperative banks' leaders.

From the wide range of the issues raised both by the economic transformation and EU integration, only those questions that were perceived as the most influential in the sense that they effectively and permanently impacted the face of cooperative banking, were investigated. They are as follows: altered organizational and legal framework for the cooperative banks' operation; restructuring process in the sector, the adapting process to regulations of the EU, and surging competition faced by the cooperatives. In the context of the latter, the main differences between the cooperative and commercial banks and the position of the cooperative banks in the Polish financial market were analyzed.

The remainder of this paper is organized as follows. The second section looks at changes in organization and regulation of the Polish cooperative banking sector. The third section presents research aim, scope and methods. The fourth section focuses on the position the cooperative banks gained in the whole banking sector. The next two sections present results of the survey of the bank' managers with focus on the most important outcomes and costs caused by the sector restructuring, the effects of reorganization of the bank's structure as well as the progress in banks' adapting to the regulations of the EU. Then, author's views on the future of the cooperative banks in Poland are presented. The paper ends with conclusion and further research suggestions.

RE-ORGANIZATION AND RE-REGULATION OF THE POLISH COOPERATIVE BANKING SECTOR DURING THE TRANSITION

In the post-war period, the banking system in Poland underwent two important system transitions: after 1946 and after 1989. The third transformation began after Poland's accession to the EU but it was not of a systemic character (Stefański 2005). So, what is then meant by the "systemic bank restructuring"? According to Dziobek and Pazarbasioglu (1997), systemic bank restructuring' objective is to improve bank performance, that is, to restore solvency (financial restructuring) and profitability (affected by operational restructuring), to improve the banking system's capacity to provide financial intermediation between savers and borrowers, and to rebuild public confidence.

We devoted the first part of this section to the problems of the cooperative banks' transformations after 1989 to 2000, and then to the years 2001–2007.

Changes over the period 1989–2000

A highly concentrated state banking monopoly was a typical feature of Poland's economy in the communist period. Till 1988, the monopolistic banking system generally consisted of: (1) the National Bank of Poland (NBP), which undertook a wide range of commercial banking functions and played a dominant role with more than 65% of business and household transactions, (2) the Foreign Trade Bank (BH), (3) the Polish Savings Bank (Pekao SA), which operated as the only foreign currency deposit bank, and (4) the Export Development Bank (BRE). Moreover, the banking services were provided by about 1660 small cooperative banks anchored locally, predominantly in the rural areas. They were supervised by the Bank for Food Economy (BFE) that serviced mainly agricultural sector but in accordance with the goals of the central authorities. In practice, agricultural banks were part of the centralized monobank structure.

With the emergence of a market economy in Poland, all economic entitles, including banks, had to adapt to new rules and in consequence focused on creating an efficient, market-driven financial sector. The transition from centrally planned mechanism to domestic and external liberalization (i.e. business deregulation, breaking up the "monobank" system, opening the door for private banks and foreign investment, abolishment of interest rate control) was accompanied by a great challenge facing the cooperative banking sector, which in turn posed a potential threat to the commercial banks.

At the beginning of the nineties the situation of the cooperative banking sector was very difficult. A lot of borrowers from agriculture and food industry lost their credit standing. As a result, around 100 cooperative banks went on bankruptcy due to unpaid debts with their creditors. The poor economic and financial situation of the sector and the Bank for Food Economy resulted in the law on their restructuring passed by the Polish parliament (Act on the restructuring of cooperative banks and of Bank of Food Economy) being effective as of July 24, 1994. This act established a legal framework for the three-tier structure of the cooperative banking sector with the national bank (BGŻ SA[1]) at the top level, nine regional banks established in 1997[2] at the middle level and the cooperative banks (obligated to affiliate with one, geographically appropriate regional bank) constituting the bottom-level structure.

Stakes in BFE (BGŻ SA) were owned by the State Treasury and regional banks, whereas the cooperative banks were the stockholders in the regional banks to which they were affiliated. BFE operated under commercial code and banking law, while regional banks were regulated by commercial code, banking law and cooperative law. The cooperative banks belonged to their members (mainly farmers, craftsmen and retailers). They operated under banking law and cooperative law.

The cooperative banks had limited geographical territory of their activities. They were allowed to provide services solely on the area of the commune of the bank office/headquarters location. In exclusive cases, the activity was extended on area of the respective regional bank's operation but under permission of the former. As well, the scope of the activities of cooperative banks was restricted, to such as: keeping bank accounts, deposit taking, credit and cash loans granting, performing financial settlements, accepting guarantees, keeping securities as well as accepting and making term deposits in the affiliating regional bank.

In short, the tasks of the regional banks were as follows: representing associated cooperative banks, keeping both current and required reserves accounts of the cooperative banks, performing inter-bank settlements and other transactions on account of the cooperatives, managing the liquidity of the former banks and providing them with credits and loans, formal monitoring of the cooperative banks for their activities' compliance with the law, statutes, and affiliation agreements. Bank for Food Economy (BFE) was responsible for ensuring financial stability and liquidity of the regional- and cooperative banks,

[1]In 1994 Bank for Food Economy (BGŻ) was transformed into a joint-stock company: SA.

[2]Bałtycki Bank Regionalny SA, Dolnośląski Bank Regionalny SA, Lubelski Bank Regionalny SA., Małopolski Bank Regionalny SA, Mazowiecki Bank Regionalny SA, Pomorsko-Kujawski Bank Regionalny SA, Rzeszowski Bank Regionalny SA and Warmińsko-Mazurski Bank Regionalny SA.

representing them before Polish authorities and international financial institutions, and for regional banks financial performance controlling. Interestingly, BFE promoted also business activities of the affiliation through indicating preferred bank products, advertisement, marketing and market analyses. At the same time, three BFE independent banks of affiliation[3] were functioning. Those, together with the affiliated cooperative banks, created two-tier structure. Banks of affiliation were executing similar to BFE functions with respect to cooperative banks. Finally, in 1995 one of three banks (GBW S.A.) adopted the status of the regional bank.

The restructuring act of 1994 put on the cooperative banks obligations to mutual guarantees, whereas on the state to provide financial assistance for the BFE and cooperative banks (for instance through low-interest loans from the central bank aiming at supporting the amalgamation of cooperative banks). However, the cooperative banks affiliated with GBPZ SA and BUG SA were excluded from this support.

Changes over the period 2001–2007

The act on the restructuring had limited effects on the organizational effectiveness and financial efficiency of the cooperative banking sector, among others due to not respecting some of its provisions. For example, larger and stronger banks avoided to take over the responsibilities for the liabilities of smaller and weaker banks. Moreover, in the face of changing external environment, especially of the processes of globalization and consolidation of the banking sector, the change of the strategy for the cooperative banking in Poland was needed (Szambelańczyk 1997).

In consequence, in January 2001 a new law regulating the cooperative banking (Act on the operations of cooperative banks, their affiliation, and affiliating banks) was implemented. This law allowed the cooperative banking sector consolidation, introduced capital rules and set up two-tier structure of the sector with eleven banks of affiliation. The cooperative banks had been obliged by the law to collect their own funds (capital) at the minimal level equal to EUR 1 million by the end of 2007. In 2002, due to introducing the minimum thresholds level of capital at amount equal to EUR 20 million, ten banks of affiliations were consolidated into the two banks: Bank Polskiej Spółdzielczości S.A. (comprising seven former banks) and Gospodarczy Bank Wielkopolski (comprising three banks). Furthermore, Mazowiecki Bank Regionalny S.A. remained on the scene as bank of affiliation. The BFE no longer was operated as national bank for the cooperative banking sector and no cooperative bank was affiliated with it. It functioned as universal commercial bank but with special focus on agriculture and agri-food businesses.

New legal framework permitted cooperative banks to choose the bank of affiliation, while the latter banks were permitted to merge in order to cut the affiliation-related costs borne by cooperative banks. An introduction of "shares voting" rule at the general meeting of stockholders of affiliating bank enabled the affiliated cooperative banks to exercise their ownership rights.

Generally speaking, the implementation of the provisions of the Act on the operations of cooperative banks, their affiliation, and affiliating banks of 2000 was expected to strengthen the position of the cooperative banking sector in Polish financial market and to establish a strong banking group specializing in providing services for agriculture and the rural communities. This orientation was of special importance in the face of agriculture transformation, rural economies' restructuring and future Poland's membership in the EU.

Cooperative banks with own funds below EUR 5 million were allowed to provide services on the territory of the province (voivodeship) where the bank office was located, whereas the larger banks were able to operate over the whole country. The scope of bank activities was widening for granting bank guarantees, offering payment cards, conducting payment card related transactions as well as foreign-exchange services but under permission from the bank of affiliation. The scope of activities of the banks of affiliation was extended by tasks designated to the national bank. They mainly performed regulatory and control functions for the cooperative banks.

Each cooperative bank affiliated with the bank of affiliation was required to reach its own funds at the minimum levels, being the equivalents of: EUR 300 thousand (up to the end of December 2001), EUR 500 thousand (up to the end of December 2005) and EUR 1 million (up to the end of December 2007). For banks of affiliations those requirements were as follows: EUR 10 million (up to the end of June 2001), EUR 15 million (up to the end of December 2003) and EUR 20 million (up to the end of December 2006). The boosting safety levels via minimum capital requirements were expected to reinforce Polish cooperative banking sector as a whole.

[3]Gospodarczy Bank Wielkopolski (GBW SA) in Poznań, Bank Unii Gospodarczej (BUG SA) in Warsaw and Gospodarczy Bank Poludniowo-Zachodni (GBPZ SA) in Wrocław.

DATA AND METHODOLOGY

The primary data were obtained from a questionnaire survey performed in 2007 on a stratified random sample of cooperative banks located across whole Poland. The sample was stratified by bank own funds size. Out of the 225 banks surveyed, 100 responded resulting in 40.4% response rate. The rural areas make up 32% of the sample, urban-rural – 34% and urban 32% respectively. A majority of banks (71%) reported they employed up to 50 persons. In sharp contrast to the commercial banks, the banks in the sample reported low equity capital. During the sample period, 50% of banks held own funds below EUR 0.5 million, 24% had EUR 0.5 to 1 million in equity and merely 16% of banks exceeded this level. The equity size for remaining 10% of banks was unidentified.

The survey was distinctively targeted towards presidents and members of the boards of cooperative banks. The questionnaire contained a total of 225 open- and close-ended questions covering a variety of topics on economic and organisational conditions for the functioning of the cooperative banks in the financial market in Poland. Mathematical and statistical analysis of the collected data was conducted with the use of the statistical software package Statgraphics.

Additionally, information publicly available from the Central Statistical Office of Poland and from the Polish Financial Supervision was used to determine the place earned by the cooperative banks within the overall baking sector with regard to financial position and performance (total assets, claims, liabilities and profit/loss). These data cover the years from 1995 to 2007.

The paper uses a descriptive approach. The results of the analysis (frequencies, rates of growth, etc.) were summarized in the tables and graphs. The chi-square test was used to determine whether there were significant differences between the expected frequencies and the observed frequencies in the investigated categories.

THE POSITION OF THE COOPERATIVE BANKS IN THE POLISH BANKING SECTOR

The specificity of cooperatives compared to commercial banks

The present banking sector in Poland comprises the central bank, commercial banks, banks of affiliation and cooperative banks. There are significant differences between cooperative banks and commercial banks, as summarized in Table 1.

Cooperative banks' mission is to support their customers as well as members of local communities. The main goal of cooperative banks' activities is the maximization of members' benefits – the idea is that members use banking products and services as much as possible for as little money as possible. Additional membership benefits include a dividend as well as intangible benefits, for example the use of services rendered by cooperative banks, such as financial advice and educational and cultural services. The mission of commercial banks is mainly to maximize profits, which means that the owners of commercial banks aim at maximizing the rate of return on capital.

Poland's cooperative banks have a limited scope of operations. They can run their activity in regions (voivodships), where they have their headquarters. On the other hand, commercial banks are not limited in this way. They can function throughout the whole Poland as well as in international markets. Cooperative banks have universal character; they serve mainly households, small and medium businesses, farmers and local governments, particularly in small towns and villages. Commercial banks have a more universal character, but they can also specialize. They can become mortgage, investment or car banks. Their focus is primary on wealthy individuals and large enterprises in urban areas. Cooperative banks' market shares for loans and deposits are very small at 6 and 8% respectively. For comparison, in the EU 6 cooperative banking sector market share of domestic deposits now amounts to almost 32%, whereas the market share of domestic loans lies at 28% (Groeneveld and Sjauw-Koen-Fa 2009). Commercial banks are the main financial intermediary institutions in Poland with share in loan and deposit markets above 90%.

Cooperative banks have been supported by the Polish authorities since 1989. The main forms of this support were: exemptions both from corporate income tax and paying the compulsory reserve, as well as low-interest loans granted by the central bank and the Bank Guarantee Fund for restructuring of cooperative banks. It should be emphasized that the support offered to cooperative banks in recent years has systematically decreased. Currently, the only support provided by the Polish authorities is subsidising the interest rate on loans for agricultural sector. Contrary, commercial banks have not been supported by the government, even during the recent economic crisis.

Cooperative banks run their activities in Poland pursuant to the regulations of the Banking Law (Journal of Laws 1989, No. 4, Item 21) and Cooperative Law (Journal of Laws 1982, No. 30, Item 210), whereas

Table 1. Some major distinctions between cooperative and commercial banks: the experience of Poland

No.	Characteristics	Cooperative banks	Commercial banks
1.	Statutory mission	To support their members and local community	To maximize profit for their owners (stockholders)
2.	Activity territory	Local markets	Domestic and international markets
3.	Type of bank	Universal	Universal and specialized
4.	Share of financial market	Small	Big
5.	State support	Significant	Small or none
6.	Bank regulations	Cooperative law, banking law	Commercial code, banking law
7.	Ownership form	Cooperative	Joint Stock Company
8.	Owners	Cooperative members	Stockholders
9.	Shares	Non-transferable, non-tradable, non-appreciable (refundable at face value)	Freely tradable in secondary equity capital market Market valuation
10.	Ownership concentration	Low, dispersed ownership	High, concentrated ownership
11.	Control rights	Voting right non-proportional, equal: 1 shareholder – 1 voice	Voting rights proportional to shareholdings
12.	Bank own capital (funds)	The common property of the cooperative	Individual shareholders' property
13.	The sources of own capital	Domestic	Foreign and domestic
14.	Goals of owners	Multiple goals of members	Primary goal: maximizing of profit or returns to investors
15.	Conflict of interest between owners	Large, due to conflicting goals. Dual status of members (as owners and customers), ex. members as lenders vs. members as depositors	Small, since non-diverging interests
16.	Owners' benefits	Share in profits (dividends), non pecuniary benefits (consulting, education, culture)	Share in profits (dividends), exercise of control via voting shares
17.	Owners' incentives to contribute to organization	Weak, the problem of "free riders"	Strong
18.	Owner's impact on decision-making process	Weak	Strong
19.	Stability of bank share capital	Owners (members) can withdraw their shares when they resign from membership of the cooperative	Shares cannot be redeemed, but are freely tradable in secondary market
20.	Agency relations	More diverging goals of cooperative managers (agents) and members (principals) Higher risk of hold-up behaviour	Less diverging goals of managers (agents) and stockholders (principals)
21.	Minimum capital requirements	≥ 1 million euro	≥ 5 million euro
22.	New capital attraction	Difficult due to equal voting rights	Easier due to share voting rights
23.	Main sources for increasing bank own capital	Profit earned by bank	Shares' issuing and profit earned by bank
24.	Bank size	Small	Medium and large
25.	Organizational structure	Simple	Complex
26.	Customers	SME, residents of small and medium towns, rural population, local governments	Big enterprises, urban population, government institutions (organizations)
27.	Relationship with customers	Banks remain close to and familiar with local customers	Close contact with customers became less and less important. Due to increasingly frequent remote access, customers are "anonymous"
28.	Transaction costs	High	Low
29.	Information asymmetry	Relatively low	Relatively high
30.	Range of banking services and products	Limited	Full

Continued Table 1

No.	Characteristics	Cooperative banks	Commercial banks
31.	Advance in information and communication technologies	Weak	Strong
32.	Importance for rural and agriculture financing	Significant	Small
33.	Consolidation processes in last years	At large scale	At small scale

Source: Own compilation

commercial banks operate pursuant to the Banking Law and The Code of Commercial Companies (Journal of Laws 2000, No. 94, item 1037). Cooperative banks are cooperatives, whereas commercial banks are joint-stock companies. The owners of cooperative banks are co-operators, whereas owners of commercial banks are shareholders. Rights to shares in cooperative banks are not alienable and they are not subject to trading in the secondary market. The fixed value of shares is calculated in accordance with the face value. In the case of commercial banks, shares which serve as rights to capital are alienable. They are allowed to be traded in secondary market. Value of shares is changeable in the given place and time. They are priced at market value. Member's shares in cooperative banks are very dispersed, whereas they are concentrated in commercial banks. In cooperative banks there exists a great heterogeneity of owners, whereas in commercial banks the heterogeneity is small. Also voting at general meeting differs, in cooperative bank the following rule exists: one shareholder – one vote, whereas in commercial banks the capital rule exists, i.e. the number of votes is dependent on the number of shares. Equity capital in cooperative banks is shared – it belongs to all members, whereas the equity capital in commercial banks has an individual character – it belongs to separate owners. Very important, especially in the context of recent turbulences in international capital flows, is that equity capital in Poland's cooperative banks can only be domestic, whereas in the case of commercial banks it can be both domestic and foreign. In practise, Poland's resident commercial banks are predominantly owned by foreign investors.

Cooperative banks' members can act as customers (borrowers and/or savers), managers and auditors (supervisors). As there are big discrepancies between the goals of managerial staff (agents) and members – co-operators (principals), the agency problem in cooperative banks is much stronger than in commercial banks. In commercial banks, shareholders are usually limited to perform supervisory activities over the banks' operations. In cooperative banks, as the shares are dispersed, the impact of members on the decision-making process is very weak, whereas in commercial banks the situation is reversed – such influence of shareholders is very big. The responsibility of cooperative banks' owners is also dispersed, whereas it is concentrated in commercial banks. The owners' control in cooperative banks is weak, whereas it is strong in commercial banks. Poor members' incentives to exert effective oversight over central management constitute a major challenge for the cooperative banks in Poland.

According to regulations, cooperative banks must hold minimum equity or own capital at the amount equivalent to EUR 1 million compared with EUR 5 million in commercial banks. In cooperative banks, it is more difficult to attract equity capital from potential investors due to one shareholder-one vote rule, whereas in commercial banks the ability to attract investors is better because shares voting rights. Generated profit is the main source of capital rise in cooperative banks, while in commercial banks this capital comes from issued shares and retained profit.

Cooperative banks in Poland are small entitles with a simple organisational structure, whereas commercial banks are usually classified either as medium or large banks with a complex organisational structure. Opposite to specialized employees of commercial banks, cooperative bank staff performs various functions and changes positions within bank several times depending on bank's needs.

Contrary to commercial banks, cooperative banks are perceived as ineffective entities. Transactional costs in cooperatives are high and the scope of products on offer is limited, information technology and telecommunications development is poor. Such banks form associations. In commercial banks transactional costs are low, the scope of products is not limited and information technology and telecommunications develop well. Banks run their activities separately on the market. There was a big increase of consolidation processes in cooperative banks in the country's systematic transformation, whereas in commercial banks it was small.

Cooperative banks in Poland serve a different clientele than commercial banks. Cooperatives play a major role in providing services and financing to rural areas, generally, and agricultural sector, particularly. The main competitors of cooperative banks in local markets are two long-established and the biggest Polish commercial banks: PKO BP and Bank Peako SA, in addition to cooperative savings and credit unions (SKOK). These entities have the most developed network of branches and outlets in the country. However, in rural areas, especially in villages, cooperative banks have a monopolist position due to the lack of branches of commercial banks.

An important question is: How has market position and performance of the cooperative banks in Poland developed in recent years? The data from Polish Financial Supervision Authority and Central Statistical Office of Poland for 1995–2007 were used to examine these issues in the subsequent subsections.

Number of banks and their employment

In the years 1995–2007, a steady fall in the number of banks operating in the financial market of Poland was observed. Their total number decreased from 1591 in 1995 to 631 in 2007, i.e. by 60% (Figure 1). In 2007, almost 92% of all Poland's banks belonged to the cooperative sector, compared to 95% in 1995. However, during period under investigation, population of the cooperative banks dropped sharply – by 62%. It was mainly caused by the consolidation process or bank mergers enforced by the capital requirements imposed on those banks by the Polish Financial Supervision.

In 2007, the cooperative banks were operating through a network of almost 4 thousand of branches, sub-branches and customer service offices (Figure 2). They ran one in five local bank outlets in the country. In the EU 6, co-operative banks currently own over 40% of all bank branches. As the cooperative banks were gradually allowed to expand their operations even throughout the whole country, they created additional offices. As a consequence, since 1996 the number of bank branches has increased by 56%, whereas the number of headquarters has diminished by more than half – from 1394 in 1996 to only 581 in 2007. The rising tendency of the cooperative banking outlets in Poland was similar to that observed in the EU countries in the years before the last financial crisis.

Mergers and other processes in Poland's banking sector caused serious concerns about employment. Bank employment in the commercial sector remained roughly constant over the 1996–2007 (Figure 3). Its drop by approximately 7% was rooted in the adopting of new technologies such as electronic banking, for example. Conversely, the cooperative banks increased their staff by 17% with positive impact on local labour markets. Those banks currently give works to 18% of people in banking industry. One of the main explanations for this phenomenon is that the cooperative banks did not manage to introduce advanced computer technologies as quickly as the commercial banks which increasingly distributed their products and services via virtual channels, like the internet or call centres. It is expected, however, that the falling employment trend in the cooperative banks will occur within a few years.

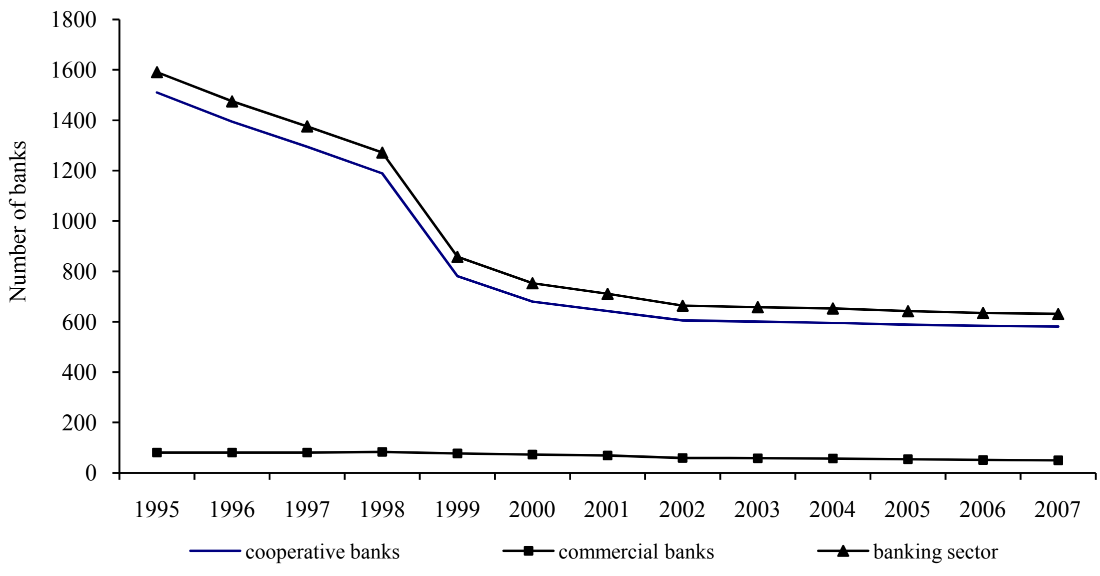

Figure 1. Number of banks in Poland in 1995–2007

Source: Own calculations based on the data from the Polish Financial Supervision Authority

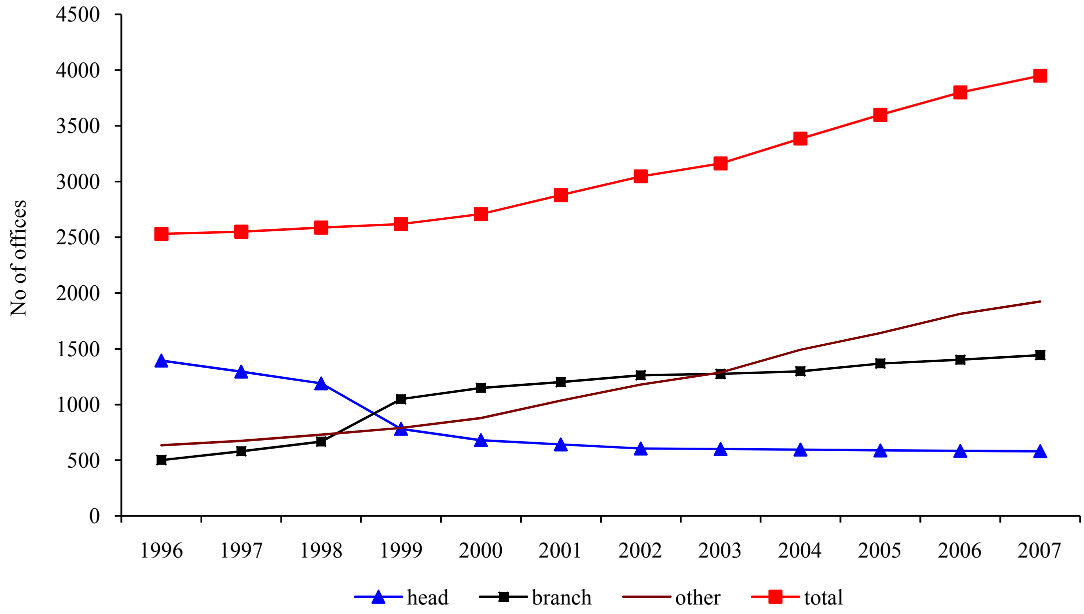

Figure 2. The number of the cooperative banks' offices in Poland in 1996–2007

Source: Own calculations based on the data from the Polish Financial Supervision Authority

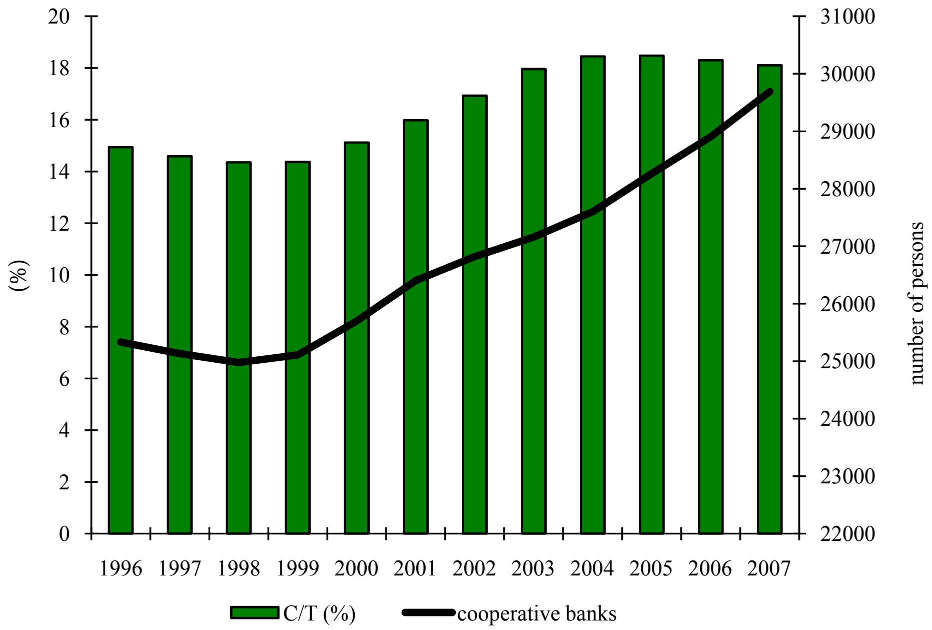

Figure 3. Employment in the cooperative banking sector in Poland in 1996–2007

Notes: C/T = employment in the cooperative banking sector in relation to total employment in the banking industry.
Source: Own calculations based on the data from the Polish Financial Supervision Authority

Assets and liabilities

An individual bank's assets and liabilities will affect its valuation in the market. The assets and liabilities of the cooperative banking sector determine its position both in the entire banking sector and in the financial market. As Figure 4 shows, over 1995–2007 the cooperative banks accounted merely for 4.2 to 6.2% of total assets of the banking sector in Poland with the lowest percentages in 1999–2000. Positively, since 2001 rising share has been observed. In 2007 those banks held 6.2% of all banks assets.

Banking sector assets comprise, among others, claims being financial assets. The cooperative banks' share of the total claims was relatively low ranging from 5.3 to 7.8% (Figure 4). Since 2001, the cooperative

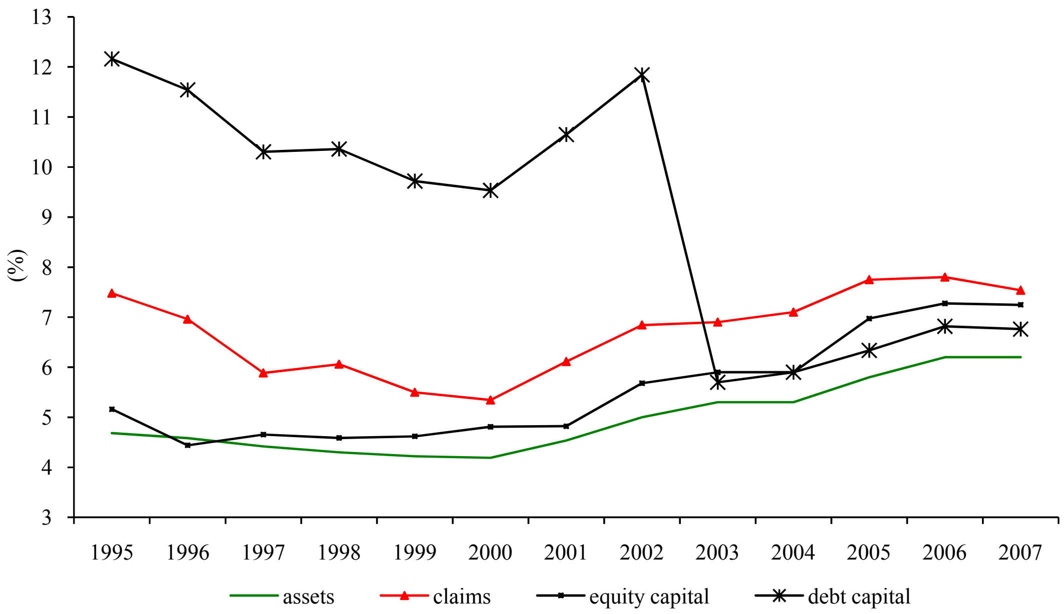

Figure 4. The cooperative banks against the entire banking sector according to the total assets, claims, equity capital and debt capital, 1995–2007

Source: Own calculations based on the data from the Polish Financial Supervision Authority

banks have systematically improved its position with this regard. Capital in the banks comes in two forms: equity and debt. Having sufficient equity and debt capital available to finance the business is essential if the cooperative banks are going to competitively serve their members and other customers. Equity capital is the ownership capital. It is traditionally provided by shares that are acquired by the members of those banks. In 1995–2007, equity capital (or own funds) of the cooperative banking sector accounted for 4.4 to 7.3% of ownership equity of the whole banking system (Figure 4). Optimistically, as from 2004, the cooperative banking sector bolstered their equity capital as the proportion of its total amounts in Poland's banking industry.

As concerns debt capital, with deposits as the most important liability category, during 1995–2007 the cooperative banks represented from 5.7 to 7.1% of the total banking sector as Figure 4 shows. Deposit market share of the cooperative banks has been lifted since 2003, but its level can be considered as small keeping in mind that savings generate lending and loans in turn determine investments, for example in the agricultural sector.

Financial results

European cooperative banks pursue their clearly stated, social and economic development objectives, so their performance might be expected to compare unfavourably with that of profit-oriented commercial banks. The evidence presented in the literature, however, has been uncertain (Evans et al. 2001; Williams 2004).

Given the special character of the Polish cooperative banks, the question is whether in the transformation period they were able to be more profitable than their competitors in the commercial sector. As concerns the return on assets (ROA), for example, the cooperative banks in Poland noted relatively higher ratios over the period 1998–2004, the similar levels in 2005, but afterwards the ratios for the commercial sector exceeded those of the cooperative one. In 2007, the average ROA for the cooperative banks (1.5%) was below of that for the commercial banks (1.8%). Comparable tendency was observed for return on equity (ROE). In 2007 this ratio was at 17% for the cooperative banks and 23% for the commercial banks (NBP 2007). Data in Figure 5 reveal that the net profit earned by the cooperative banks as a part of the results obtained by the whole banking sector has continuously fallen since 2003 to reach 5% in 2007. The extremely good situation of the net profits was observed in 2002 and 2003.

Taking into account loss-making banks and their losses, the accumulated losses of the cooperative banks in relation to the losses occurred in whole banking sector have decreased from 20% in 1995 to merely 0.05% in 2007 (Figure 5).

Summarizing, over the period of 1995–2007 the contribution of the cooperative profits and losses in total banking sector in Poland has generally been

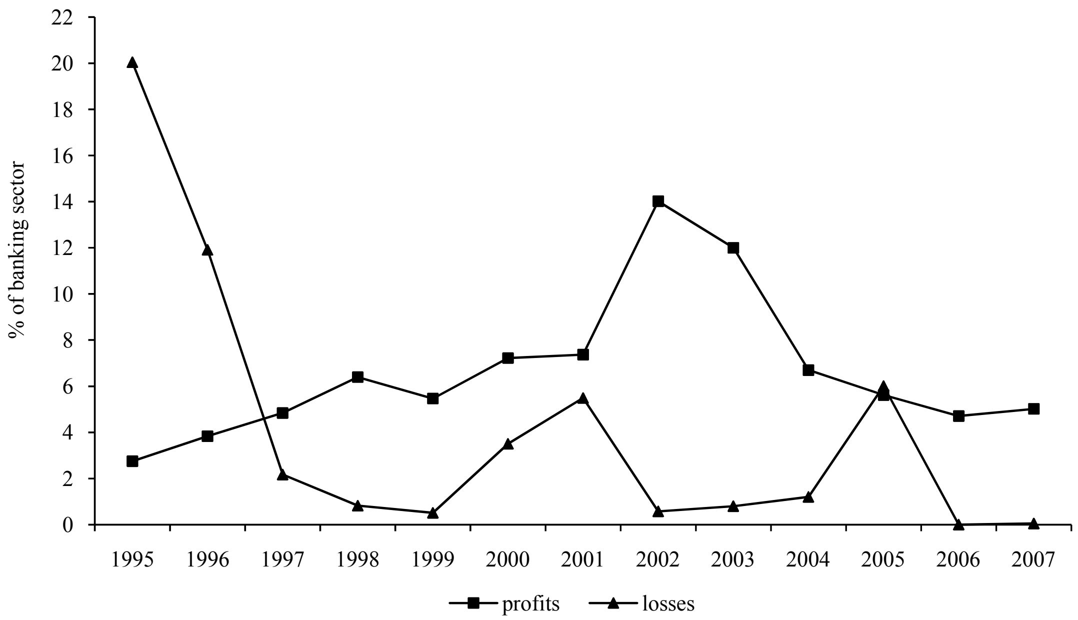

Figure 5. The contribution of the cooperative profits and losses in the total banking sector in Poland in 1995–2007

Source: Own compilation based on the data from the Central Statistical Office of Poland

improved. What has been disturbing, however, is somewhat worsened profit position over the last five years.

COOPERATIVE BANKING SECTOR RESTRUCTURING IN PERCEPTION OF BANK MANAGERS: THE SURVEY RESULTS AND DISCUSSION

This section gives an overview of opinions on restructuring processes in the sector of the cooperative banks that were collected through questionnaires answered by senior members of banks' staff (banks' presidents and members of boards) in 2007. Banks in the sample (N = 100) were located in all 16 regions (voivodships) of Poland. The results indicate that many steps towards modernizing the cooperative banking system have been adopted but not all restructuring efforts have succeeded at the time of the survey.

The most important effect of the restructuring process

The recent studies that examine the impacts of bank restructuring (privatization, consolidation etc.) over the world, including post-communist countries, are summarized in Table 2. However the related literature deals mainly with the commercial banks or overall banking system. Some exception was study of Huizinga and colleagues (2001) which included cooperative banks and savings banks.

Perhaps it is too early to assess final (long-term) results of the restructuring effort in Poland's cooperative banking sector. In our research we looked at restructuring efforts and perceived effects that apparently occurred in the surveyed banks.

Table 3 provides the distribution of bank leaders' answers concerning the effects of the sector restructuring in the banks involved in this process. The banks have responded to the changing environment predominantly by expanding the scope of banking products and services (87% of all responses), increasing their ownership equity (83%), and improving both customer services (69%) and professional qualifications of the bank personnel (67%).

Since the cooperative banks were undercapitalized, to meet the capital requirements they were enforced to generate growth internally or to merge. Due to the gradual liquidation of small banks and the increasing equity capital of active banks, in the period 1995–2007 the size of the average equity capital per bank (in the whole sector) has increased as much as 37 times in nominal terms and 19 times in real terms.

When returning to the survey, technological changes, proved to have an essential impact on banking (Berger 2003; EBC 2004), regrettably were indicated by only a small number of respondents as effects of restructuring. One-third of the bank managers said the banks introduced automated services and processes, and merely one of hundred banks introduced the computer networks. As well, the proportion of all surveyed cooperative banks that reduced staff numbers was relatively low (17%). Job reductions were more frequently pointed out by managers of the cooperative banks located in the rural communes (25%) than in the urban-rural and the urban communes (14% and 13% respectively).

Comparing with the urban banks, the rural banks more frequently indicated on bank product and service differentiation, own funds boosting, costs and staff reduction as well as computerization. However, the research did not find presence of a systematic relationship between variables.

The costs associated with the restructuring process

In the literature, the costs of Polish banking sector restructuring have been mainly analyzed in the

Table 2. Summary of international empirical studies on bank restructuring

Research area	Author(s)	State/territory	Principal outcomes of the study
Banks' privatization	Bonin et al. (2005)	Bulgaria, the Czech Republic, Croatia, Hungary, Poland, Romania	Foreign-owned banks are more efficient than government-owned banks
	Buch (2002); Hasan & Marton (2003); Drakos (2002); Fries & Taci (2005)	Post-communist countries	Foreign banks perform better than their domestic counterparts. The entry of foreign banks creates an environment in which the entire banking system is forced to become more efficient
	La Porta et al. (2002)	Emerging market countries	The financial performance of publicly owned banks is inferior to that of private banks
	Nikiel & Opiela (2002)	Poland	Foreign banks servicing foreign and business customers are more cost-efficient but less profit-efficient than other banks in Poland
	Verbrugge et al. (2000)	OECD countries	Privatization yields limited the bank performance improvements
	Williams & Nguyen (2005)	South East Asia countries	Improved efficiency after privatization. Banks that were privatized were generally more efficient than banks that remained state-owned
	Harada & Ito (2005)	Indonesia	Banks did not improve their efficiency after privatization
	Clarke & Cull (1999, 2000)	Argentina	The efficiency of the privatized banks is higher than that of other banks
Consolidation of banks (Mergers and acquisitions – M&As)	Amel et al. (2004); Berger et al. (1999)	Europe and the United States	Banking M&As do not significantly improve cost and profit efficiency
	Humphrey & Vale (2004)	Norway	Economy of scale occurring after M&As of 131 banks during 1987–1998 was suggested to reduce the average costs of a bank by 2–3%
	Akhavein et al. (1997)	The United States	A little change in cost efficiency but an improvement in profit efficiency of large banks after M&As, especially if both merger participants were relatively inefficient prior to the merger
	Vander Vennet (1996)	European countries	Domestic mergers have a positive impact on profitability, mainly driven by the improvements in operational efficiency
	Huizinga et al. (2001)	European countries	The cost efficiency of merging banks is positively affected by the merger but the effect on profitability is limited Commercial banks have a greater potential to realize the scale-related cost gains than cooperative banks. Cooperative banks exhibit a higher degree of cost efficiency than commercial banks (52 horizontal bank mergers over the period 1994–1998)
	Focarelli (1992)	Italy	Increased profitability of banks after the merger
	Resti (1998)	Italy	Significant cost efficiency gains following M&As

Source: Author's review of literature

macroeconomic context as overall fiscal outlays on recapitalizing the banking system (Dziobek and Pazarbasioglu 1997; Zoli 2001; Pawlikowski and Serwa 2007). According to Pawlikowski and Serwa, the total costs of banking sector restructuring during 1993–2006 in Poland were not high when compared to such costs in other transition countries. Nevertheless, the bank restructuring bill was also paid by bank customers (borrowers and depositors), shareholders and banks themselves. As well the cooperative banks under our study had obviously to bear the costs associated with the restructuring process.

The research asked bank managers to indicate the largest outlays attributable to the restructuring process. As numbers in Table 4 show, the most frequently indicated expenditure, both in rural (69%) and urban banks (72%) was investment in computer technology. Consolidation-related expenditures were the second in the rank according to the frequency of responses. As much as 21% of all respondents but 28% of them from the rural banks stated that the largest outlays the banks experienced were those resulting from the consolidation process. Only 6% of all banks were the most burdened by costs of launching of new bank products and services. Neither costs of personnel training nor costs of bank facilities' modernization seem to be crucial items of the restructuring costs.

The reorganization of the bank's structure

Consolidation dramatically altered the structure of the cooperative banking system in Poland essentially due to the disappearance of hundreds of the coopera-

Table 3. Outcomes of the cooperative banks restructuring in 1994–2006: distribution of the survey responses according to the bank location area

Outcomes		Type of commune			All banks
		rural	urban-rural	urban	
Expanded scope of banking products and services	frequency	29	31	27	87
	%	91	86	84	87
The raise in own funds	frequency	30	29	24	83
	%	94	81	75	83
Improved customer services	frequency	18	23	28	69
	%	56	64	88	69
Increased professional qualifications of employees	frequency	17	25	25	67
	%	53	69	78	67
Increased loan portfolio quality	frequency	16	17	17	50
	%	50	47	53	50
Automation of some processes	frequency	8	10	15	33
	%	25	28	47	33
Renewed bank strategy	frequency	4	10	13	27
	%	13	28	41	27
Improved or launched management system	frequency	3	9	15	27
	%	9	25	47	27
Reduced costs	frequency	10	4	7	21
	%	31	11	22	21
Reduced staff levels	frequency	8	5	4	17
	%	25	14	13	17
Branch network rationalization	frequency	1	8	3	12
	%	3	22	9	12
Bank computerisation and informatization	frequency	1	0	0	1
	%	3	0	0	1
No answer	frequency	0	1	0	1
	%	0	3	0	1
Total	frequency	32	36	32	100
	%	100	100	100	100

Notes: chi-square test = 31.94; p = 0.1284; if $p \leq 0.05$ there is a statistically significant relationship between variables under examination; numbers in the columns do not sum to 100% because each respondent was allowed to give multiple answers

Source: Author's own research

tive banks: their number plummeted from 1510 in 1995 to just 581 in 2007. This decline, together with relaxed restrictions on branching caused that the operating banks spanned ever wider geographic area.

The years of 1994–2007 were expected to be an important adjusting period of particular bank's organizational structure. So, how did changes in banking industry affect the restructuring by the cooperative banks' managers? In our sample only 28 banks were involved in a full reorganization procedure (Table 5). Urban banks more frequently experienced completed reorganization (50%) than their counterparts located in the rural areas (19%). The restructuring of the sector necessitated a partial reorganization of 55 banks. As much as 15% of all surveyed banks, 25% of rural banks and 6% of urban banks did not attempt to transform their organization.

Amongst perceived advantages of the reorganization (Table 6), the most frequently indicated by the bank managers were as follows: customers receive better services (67%), bank resources are used more effectively (45%), new banking products are offered (43%) and bank risk can be better managed (41%). Organizational reshaping only rarely caused an in-

Table 4. The biggest outlays due to restructuring of the cooperative banking sector in Poland: distribution of the survey responses according to the bank location area

Outlays on:		Type of commune			All banks
		rural	urban-rural	urban	
Introduction of computer network and software	frequency %	22 69	25 69	23 72	70 70
Consolidation of the cooperative banks	frequency %	9 28	7 19	5 16	21 21
Introduction of new banking products and services into market	frequency %	1 3	2 6	3 9	6 6
Training and retraining of bank personnel	frequency %	0 0	1 3	0 0	1 1
Modernization of bank buildings	frequency %	0 0	0 0	1 3	1 1
No answer	frequency %	0 0	1 3	0 0	1 1
Total	frequency %	32 100	36 100	32 100	100 100

Note: chi-square test = 8.02; p = 0.6268; if $p \leq 0.05$ there is a statistically significant relationship between variables under examination; only one answer was allowed

Source: Author's own research

Table 5. The reorganizing of the bank structure to improve governance and efficiency

Did reorganization take place?		Type of commune of bank location			All banks
		rural	urban-rural	urban	
Yes	frequency %	6 19	6 17	16 50	28 28
Partially	frequency %	17 53	24 67	14 44	55 55
No	frequency %	8 25	5 14	2 6	15 15
No answer	frequency %	1 3	1 3	0 0	2 2
Total	frequency %	32 100	36 100	32 100	100 100

Note: chi-square test = 14.56; p = 0.0240*; if $p \leq 0.05$ there is a statistically significant relationship between variables under examination

Source: Author's own research

Table 6. The effects of the reorganization of individual cooperative banks

Effects		Type of commune			All banks
		rural	urban-rural	urban	
Providing better customer service	frequency %	17 53	24 67	26 81	67 67
Improving the use of resources	frequency %	8 25	17 47	20 63	45 45
Launching new banking products and services	frequency %	11 34	18 50	14 44	43 43
Better bank risk management	frequency %	8 25	11 31	22 69	41 41
Greater decision-making autonomy of employees	frequency %	7 22	17 47	11 34	35 35
Increased labour productivity	frequency %	12 38	13 36	9 28	34 34
Reduction in operating costs	frequency %	11 34	6 17	15 47	32 32
Faster flow of information	frequency %	6 19	11 31	11 34	28 28
Easier bank's activities monitoring	frequency %	3 9	4 11	9 28	16 16
The rise of innovation	frequency %	2 6	1 3	2 6	5 5
Expansion of banking outlets	frequency %	0 0	1 3	0 0	1 1
No answer	frequency %	8 25	4 11	1 3	13 13
Total	frequency %	32 100	36 100	32 100	100 100

Notes: chi-square test = 30.21; p = 0.1133; if $p \leq 0.05$ there is a statistically significant relationship between variables under examination; numbers in the columns do not sum to 100% because each respondent was allowed to give multiple answers

Source: Author's own research

crease in number of outlets (1%), diffusion of innovation into banks (5%) as well as simplified internal control of bank's activities (16%). Labour productivity improvement and operating costs reduction was pointed out by about one third of all respondents. There were no statistically significant differences (p = 0.05) in the selected effects for the total sample of banks based on rurality or urbanicity.

THE ADAPTING TO THE REGULATIONS OF THE EUROPEAN UNION

In the adaptation processes to the EU, the cooperative banks in Poland were obliged to implement all recommendations included in the Banking directive of the EU. At the date of the survey, the regulations of the cooperative banking sector were almost fully compatible with the EU directives and regulations.

According to the responses of bank leaders, being presented in Table 7, the solvency ratios were maintained in the banks at the level no less than 8% (82% responses), credit concentration limits were introduced (74%), the systems of combating money laundering were implemented (67%), the minimum capital requirements were met (57%), deposit guarantee systems were established (55%) and procedures to control and manage credit risk have been in place (39%).

But there were less visible achievements as well, like adoption of bank products and services based on higher quality technology (7% of all banks) and comprehensive computerization (10%), requiring large expenditures. Those were major obstacles faced by some cooperative banks in the adaptation process to the requirements of the EU banking directive as well as factors determining their weak competitive position in the financial market. Results indicated that

Table 7. The progress in the implementation of the recommendations of the EU banking directives in the cooperative banking sector in Poland

Specification		Type of commune			All banks
		rural	urban-rural	urban	
The solvency ratio of 8%	frequency	26	28	28	82
	%	81	78	88	82
Credit concentration limits	frequency	22	25	27	74
	%	69	69	84	74
The system of combating money laundering	frequency	20	24	23	67
	%	63	67	72	67
Minimum required capital	frequency	15	23	19	57
	%	47	64	59	57
Deposit guarantee systems	frequency	18	16	21	55
	%	56	44	66	55
Credit risk control and management	frequency	13	14	12	39
	%	41	39	38	39
The new legislation adapted to the requirements of the European Union	frequency	7	4	6	17
	%	22	11	19	17
Comprehensive computerization	frequency	3	2	5	10
	%	9	6	16	10
Consolidated supervision of banks	frequency	3	3	2	8
	%	9	8	6	8
Modern technology-based bank products	frequency	0	5	2	7
	%	0	14	6	7
Consolidation process	frequency	0	2	3	5
	%	0	6	9	5
Consolidated financial statements for the affiliation	frequency	1	1	0	2
	%	3	3	0	2
None of selected recommendations were implemented	frequency	0	1	1	2
	%	0	3	3	2
No answer	frequency	1	0	1	2
	%	3	0	3	2
Total	frequency	32	36	32	100
	%	100	100	100	100

Notes: chi-square test = 15.5; p = 0.9474; if $p \leq 0.05$ there is a statistically significant relationship between variables under examination; numbers in the columns do not sum to 100% because each respondent was allowed to give multiple answers

Source: Author's own research

there were no statistically significant differences in the regulations' implementation experience for urban and rural bank managers in this sample.

Summing up, at present cooperative banks in Poland perform their activities pursuant to several national regulations, starting from the provisions of the Banking Law (Journal of Laws 1989, No. 4, Item 21), through Cooperative Law (Journal of Laws 1982, No. 30, Item 210) and finishing at Act on the Functioning of Cooperative Banks, Associations and Associating Banks (Journal of Laws 2000, No. 119, Item 1252). Moreover, they are committed to follow EU banking directives. Cooperative banks are supervised by the Polish Financial Supervision Authority. The results of the author's own research show that all cooperative banks comply with the current regulations.

FUTURE PROSPECTS FOR THE COOPERATIVE BANKS IN PROVIDING SERVICES AND FINANCE TO AGRICULTURE AND THE RURAL ECONOMY

Almost all current cooperative banking groups in Europe have started their activity with servicing agriculture and rural areas as well as small trade and craft activities. "The essence of the savings and credit cooperatives was the approach in which farmers who had surplus savings were prepared to lend these excess funds to farmers who needed credit. Subsequently, the local community ensured that the loans were repaid (Rabobank 2009).

The cooperative banks in Poland, similar to those in other European countries, have covered most rural areas and the majority of their customers have originated from the agricultural sector and rural communities. In the transition period, Poland's cooperative banking sector has been facing survival challenges as a result of growing competition from their commercial counterparts and changing situation in Polish agriculture. In the response to those challenges the cooperative banks had to review their competitive strategy and organizational structure.

At present, they operate as universal banks but with a distinct rural focus, still playing the role of the principal financial institutions of the rural sector. The important measure indicating the role of the cooperative banking sector for Polish agriculture is its contribution to the overall volume and value of bank agricultural loans. Over the period 1997–2007 this percentage averaged 86% and 74% for investment loans and 94% and 59% for current loans respectively. Additionally, since Poland's accession to the EU they have been widely involved in the EU funds' channelling to farmers. For example, in 2007 about 8.2 billion Polish zlotys (2.3 billion EUR) for direct payments were transferred on 1.5 million farmers' accounts at the cooperative banks.

What is the future for the cooperative banking sector? There are powerful assumptions that the Polish cooperative banks will be main financial intermediaries in the transfer of the EU 2007–2013 funds to agricultural holdings and local self-governments. So, they are expected to be an important stakeholder in the implementation of agricultural and regional policy in Poland and to contribute to the development of agriculture and rural areas. On the one side, transformation of Polish cooperative banking sector was comparable to the one in other countries with a long lasting history of the cooperative banking. Similarly, they have been consolidated through mergers and acquisitions (capital consolidation) forming the units which were supposed to improve their economic results and customer service, provide new services, introduce advanced technologies, and finally, build a sound and effective banking and cooperative groups established according to the principles of traditional cooperative activity. On the other side, opposite to the cooperative banking systems in some European countries (ex. Swiss Raiffeisen banking system), Polish cooperative banks and their groups, focusing on the market principles and own financial results, do not have a management policy that emphasizes the use of customer deposits within the economic area of origin to strengthen the economic independence of local communities, so they do not contribute, as they could, to regional and local financial balance.

CONCLUSIONS

Poland was a pioneer among transitional economies in systemic bank restructuring. This process was especially noticeable in the cooperative banking sector after 1994.

Bank consolidation in the cooperative sector resulted in sharp reduction in the number of banks (from 1510 in 1995 to 581 in 2007) but they still account for 92% of all banks. Consequently, the consolidation resulted in high growth of own funds per bank (by 37 times in nominal terms and 19 times in real terms). During the 1995–2007, both the number of bank offices (head, branch and others) and the number of employees was expanded. Despite good geographical coverage, the share of the cooperative banking system in overall bank business according to assets, liabilities and aggregate profits is rather low, however some improvements were observed.

The cooperative banks faced both with changes in the whole economy (but especially in the commercial banking sector) and new regulations (including those imposed by the EU) have been forced to reorganize their structures in order to meet competition conditions inexperienced so far. In view of the cooperative banks' presidents, their banks due to restructuring process extended the range of bank products and services, boosted equity capital, improved customer services and the quality of staff. Generally, the cooperative banks have taken advantages from the consolidation process in terms of higher bank safety and security, wider scope of bank products and services, stronger position in local financial markets and improved performance efficiency. Moreover, cooperative banks in Poland managed to adjust to EU requirements. They have met minimum capital ratios, introduced credit concentration limits and systems of combating money laundering, implemented deposit guarantee system, credit risk control and management as well as new legislation. New technology seemed to be essential weakness of the cooperative banks.

The cooperative banks in Poland for the most part retained their original characteristics. They are well suited to serve clients in rural areas and rely on their advantage of having a widespread branch network. However, addressing market needs they became rather economic result-oriented than member-oriented banks. They will probably remain their leading position as financial intermediary in rural areas but have to consider whether the governing structures that have evolved in the past are likely to be appropriate for the future. I would also support the final argument that the cooperative banks are a well suited to serve clients in rural areas and rely on their advantage of having a widespread branch network.

To sum up, the author would like to indicate some directions for future research, which would be worth conducting with relation to cooperative bank sector in Poland. One of such directions would be to define the influence of Poland's accession to the EU on the functioning of cooperative banks. The second one would be to assess the influence of the global economic and financial crisis on the development of cooperative banks, and the third possible direction would be to confirm or reject the thesis stemming from the economic theory which says that cooperative banks are ineffective organizations. The latter, possible research direction would be the development of a theoretical model of functioning of cooperative banks in accordance with their mission. The valuable input to the banking science would also be the answer to the question on whether cooperative banks actually achieve their social mission towards their members and local environment, or do they focus on business activities and profit maximization. Because of the fact that cooperative banks are classified as social economy entities, another interesting research challenge seems to be the construction of efficiency/effectiveness measures or indicators for their social performance. The proposed directions for future research are exclusively the author's own choice. Obviously, with time passing new problems with respect to cooperative banking sector both in Poland and internationally will arise, providing research inspiration for scholars interested in the subject.

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