

COOPERATIVE BANKS AS A LOCAL INITIATOR OF ECONOMIC DEVELOPMENT IN POLAND



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Abstract. Although cooperative banks in Poland have a small share in the banking system, their competitive advantage lies in an extensive network of branches in rural areas and small towns. They aim at ensuring an access to financial services in poorly urbanised areas which are endangered with financial exclusion.

The main aim of the present study is to identify these advantages and various aspects of activities conducted by cooperative banks that place them in a role of local initiators of economic development in Poland.

The study includes a review of the literature on the subject, an analysis and synthesis of issues discussed, as well as an analysis of data from the reports of the Polish Financial Supervision Authority (UKNF) and the National Association of Cooperative Banks (KZBS). The analysis of financial data covered the years 2016-2021 and was carried out with the use of structure and dynamics indicators.

Cooperative banks stimulate local economic development through cooperation with local governments, offering preferential loans for farmers and family businesses. They also provide consulting services to various groups of clients. An important element of their activities resulting from their mission are pro-social activities which aim at educating and supporting local sport and cultural initiatives.

Keywords: cooperative banks, local development, social goals, cooperatives.

JEL code: G21, R11, R51

Introduction

Cooperative banks represent a numerous and diversified group of Polish banking sector. Their role is important not because of their percentage share (which is rather small) but the mission they accomplish.

A large number of their branches, which are commonly located in small towns, allows them to engage directly in creating synergies of economic development at the global and national levels, including local and regional ones. The nature of these financial institutions, that means their territoriality, social mission, reciprocity and cooperation translate into effective actions which aim at local economic development (Rondinella, 2021, s. 2-3).

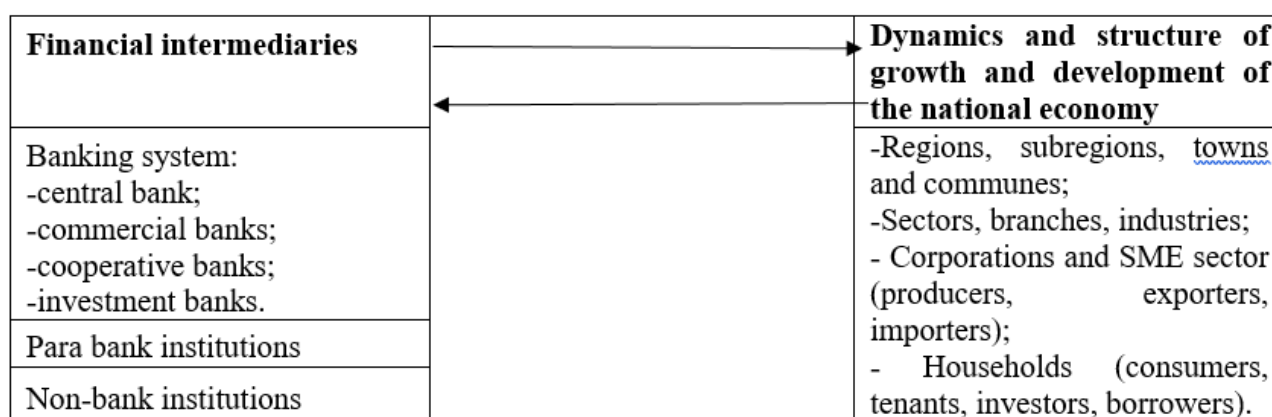
Theoretical aspects of local development

Local development is an interdisciplinary concept. For this reason, ways of approaching and defining the issue are varied. S.L. Bagdzinski (1994) treats local development jointly first, as beneficial changes in the territory of the local system, sources of which can be found in local natural and material resources and also these features of local community which are conducive to its development, and secondly, as the results of these changes which serve to satisfy the residents' needs better and to increase their well-being. Local development can be defined within the context of economic, social, cultural and political changes that lead to an increase of the general level of welfare. Focusing on an economic aspect, M. Adamowicz (2020, p.149; Zabielska, 2013, p. 315) draws attention to the quantitative and qualitative development of entities conducting economic activities in a given local environment (commune, country), which can be equated to improving and introducing new products and services, expanding sales markets, modernising technologies and investing, increasing employment and production efficiency, and supporting external activities of financial, capital and innovative nature. Therefore, it can be concluded that local development depends on the entrepreneurship of entities and institutions operating in a given area, as well as on innovativeness and pro-social attitudes of local leaders. A bottom-up approach of generating the dynamics of the development

on a varied spatial scale encompasses territorial communities and is aimed at improvement of living conditions, rational use of resources, economic growth and rise of competitiveness of the given spatial unit (Pietrzyk, 2000; Brol, 2005). Therefore, it is a process that involves all entities at the local scene, which may include (Brol, 2005):

- consumers on the local market of goods and services, recipients of public goods provided by the commune and participants of the local labour market;
- residents of the commune;
- self-government entities: budgetary units and establishments, municipal companies;
- business entities unrelated to the local self-government in terms of ownership and organisation (commercial law companies, physical persons conducting business activities and farms settled in the territory of the commune);
- commune administration and self-government bodies.
- While considering various aspects of the local development, the following needs have to be taken into account (Alinska, 2008, p. 57):
- entities and various types of organisational units operating in a given area;
- the applied tools and instruments;
- on-site conditions and mechanisms;
- available physical and financial resources to be used.

Within a group of entities that play an important role in the local environment, there are banks and other financial institutions which significantly contribute to the local economic development. S. Flejterski and B. Swiecka (Figure 1) emphasise the role and importance of these entities in the financial system, which support the economic development of the country and its regions.



Source: S. Flejterski, B. Swiecka (2006, p. 104).

Fig. 1. **Relations between the national financial system and the growth and development of the national economy**

The figure shows an interaction between financial intermediaries and entities, sectors of the national economy and regions in a given country. The importance of financial institutions for the economic development refers not only to creating sources of financing, but it also initiates the improvement of the quality of management and efficiency of enterprises.

Cooperative banks as local financial institutions

Cooperative banks in Poland are of a dual nature. On the one hand, they have a legal form of a cooperative, on the other, they have a status of a bank, i.e., they are subject to legal requirements of the

entire banking system. The cooperative features are manifested in the idea of voluntary, open membership, as well as a partnership approach to management. What is interesting, the legal basis for their operation is: an Act on the operation of cooperative banks, their affiliation and affiliating banks, and the banking law. This means that the functioning of cooperative banks is to some extent determined by the regulations applicable to all banking institutions.

However, it must be noted that cooperative banks are specific corporate entities in which a human factor is the most influential. It is manifested in many aspects (Kolodziej, 2018):

- non-transferability and non-inheritance of membership;
- indivisibility of membership;
- personal participation in the general meeting of shareholders;
- having only one vote regardless of the number of shares held;
- volatility of the equity fund.

The tradition of emphasising the role of banks in the local development dates back to the 19th century. Banks, defined as local financial institutions, acted for the benefit of local communities, their development and as a support for local entrepreneurship. Therefore, savings of local communities are collected and used by the local entities for their development.

A cooperative bank, being a local institution, is characterised by the following features (Nowacka, Szewczyk-Jarocka, 2015, p. 184):

- limited area of operation;
- a range of banking products tailored for the needs of the local community;
- care for the local community;
- ties between clients (members) and the bank;
- the bank's mission (aiming not only at profits, but acting for the benefit of its members).
- P. Pluskota (2018, p. 251) also draws attention to the advantages of the local nature of activities conducted by cooperative banks:
- traditions of developing rural (cooperative) banking, and in particular its usefulness for areas poorly saturated with financial services, experience in granting loans for agriculture and SME sector;
- availability of the network of banking services in the local environment;
- following a principle of "using local money for the needs of the local environment";
- unique and significant capital of knowledge, manifested by the knowledge of customer's needs, local self-government's needs, local decision makers, and directions of development of the local economy; all that allows for a better impact on the local (regional) space by means of financial services and in accordance with the assumptions of local authorities and strategies;
- strengthening local entrepreneurship and developing small family businesses due to allocation of 'local' money in this segment, and recognising the needs of the local customer;
- increasing tax revenues (taxes paid by cooperative banks and their employees);
- using local human resources and improving their competences; cooperation with other financial intermediaries (where banks are the main group), which favours the creation of new jobs in the region.

Local rooting provides cooperative banks with a deep understanding of local conditions and allows them to benefit from a network of interinstitutional connections (including local authorities, public institutions, non-governmental organisations, professional organisations etc. (Aramburu, Pescador, 2019; Giagnocavo, Gerez, Sforzi, 2012).

At the end of September 2021, there were 517 cooperative banks acting in Poland. Among them, 319 were members of the Institutional Protection Scheme of the Bank of Polish Cooperative (IPS BPC), whereas 186 were the institutions affiliated with the IPS Cooperative Bank Group (IPS CBG). There were 12 banks functioning outside the security system (UKNF information, 2021). Basic information on cooperative banks in Poland is presented in Table 1 below.

Table 1

Basic information on cooperative banks in Poland in 2016-2021

Cooperative banks	as of 30 September 2016	as of 30 September 2021
Total number of banks	560	517
Total number of branches	4633	3305
Average number of branches per one cooperative bank	8.3	6.4
Employment in tenure	31.525	27.368
Average employment with cooperative bank in tenure	56.4	52.9

Source: author's own calculations based on UKNF information in 2016 and 2021

In 2016-2021, the number of cooperative banks (headquarters) decreased by 8,3% and branches by 40,2% and the average number of branches - 30%. As a result, the employment level in the sector also decreased by 15,2% and the average employment in the cooperative bank by 6,6%. This trend has continued for many years. It is caused, inter alia, by a process of merging these banks which do not meet the requirements of the initial capital level and the use of electronic banking services by customers.

A territorial range of operations of cooperative banks is determined by the initial capital level. The smallest cooperative banks can conduct their operations via branches and affiliates, usually within an area of few or several counties. Slightly bigger banks operate within the territory of a given province, while those with own funds at the level of over EUR 5 million (the minimum initial capital level for a bank acting as a joint-stock company) can offer their services throughout the country. Very often, these banks are located in rural areas or in small towns. Detailed data on that issue is presented in Table 2.

Table 2

Location of cooperative banks' headquarters in Poland (as of 30 September 2021)

Cooperative banks	Urban commune	Urban-rural commune	Rural commune	Total
Affiliated with IPS BPC	31	137	151	319
Affiliated with IPS CBG	13	100	73	186
Unaffiliated	6	1	5	12
Total:	50	238	229	517

Source: author's own calculations based on information at www.kzbs.pl

Almost 44% of cooperative banks have their headquarters located in rural communes, and barely 10% in urban communes. It can be seen that cooperative banks dominate in small towns. A higher percentage of cooperative banks in rural communes was recorded in IPS BPC (47,2%) than in IPS CBG (39,1%). Unaffiliated banks that are independent dominate in urban communes.

Activities of cooperative banks for local economic development

Activities of cooperative banks for the local development include a number of services that vary in their nature (Nowacka, Szewczyk-Jarocka, 2015, 178):

- stimulating, by means of offering preferential loans intended to support changes in agriculture and the food sector;
- integrating (integration of cooperative banks with local institutions of economic, social and administrative nature and the self-government);
- protecting, by means of protection of the environment and natural values of rural community,
- structuring (e.g. changes in the agrarian structure, employment structure of the population, investments made in rural areas);
- servicing (e.g. provision of services and servicing municipal budgets, including schools, management of funds for individual and collective customers);
- socialising (shaping ties between cooperative banks and their customers, strengthening credibility, loyalty, positive image, public relations, shaping consumption patterns and attitudes of the agricultural and rural population);
- advising (assistance in composing business plans, triggering economic initiatives, support with the credit procedure, providing financial advice for clients);
- educating (e.g. trainings for bank members and employees, courses improving the quality and qualifications of bank staff, courses shaping appropriate relations between bank employees and clients).

Due to their specificity and locations, cooperative banks are natural partners of local self-governments and associated units that manage, inter alia, public funds (Table 3).

Table 3

Selected items of assets and liabilities of cooperative banks in Poland in 2016-2021 (as of 30 September)

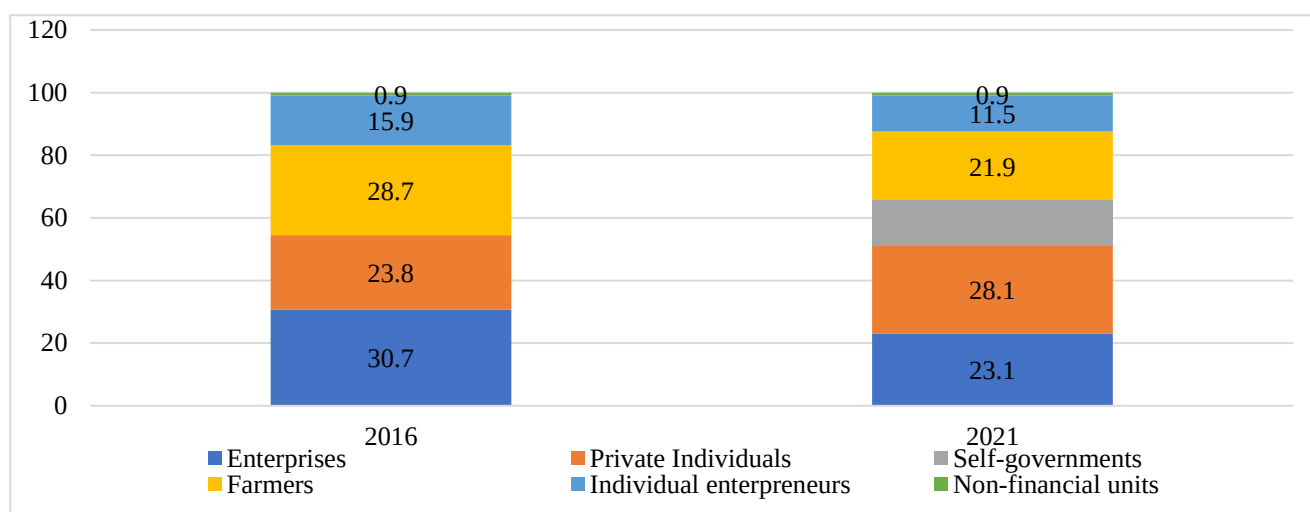
Cooperative banks	Percentage of shares in assets/ liabilities in total in 2016	Percentage of shares in assets/ liabilities in total in 2021
Receivables from the non-financial sector	52.3%	38.9%
Receivables from the financial sector	24.7%	18%
Receivables from the government and self-government sector	5.1%	6%
Liabilities to the non-financial sector	78.6%	77.5%
Liabilities to the financial sector	1.4%	0
Liabilities to the government and self-government sector	8.6%	13.2%

Source: author's own calculations based on UKNF information in 2016 and 2021

The needs of local self-government units have an impact on shaping product offers of cooperative banks. This is evidenced by changes in the structure of liabilities and assets. Receivables from the non-financial, financial and local government sectors constitute a significant item in the assets. In 2021, there was an increase in receivables from the general government sector to 6% and a significant decrease in receivables from the non-financial and financial sectors. On the liabilities side, the level of liabilities to the non-financial

and financial sectors remained at a similar level in the analysed period. On the other hand, there was an increase in liabilities to the general government sector to 13,2%.

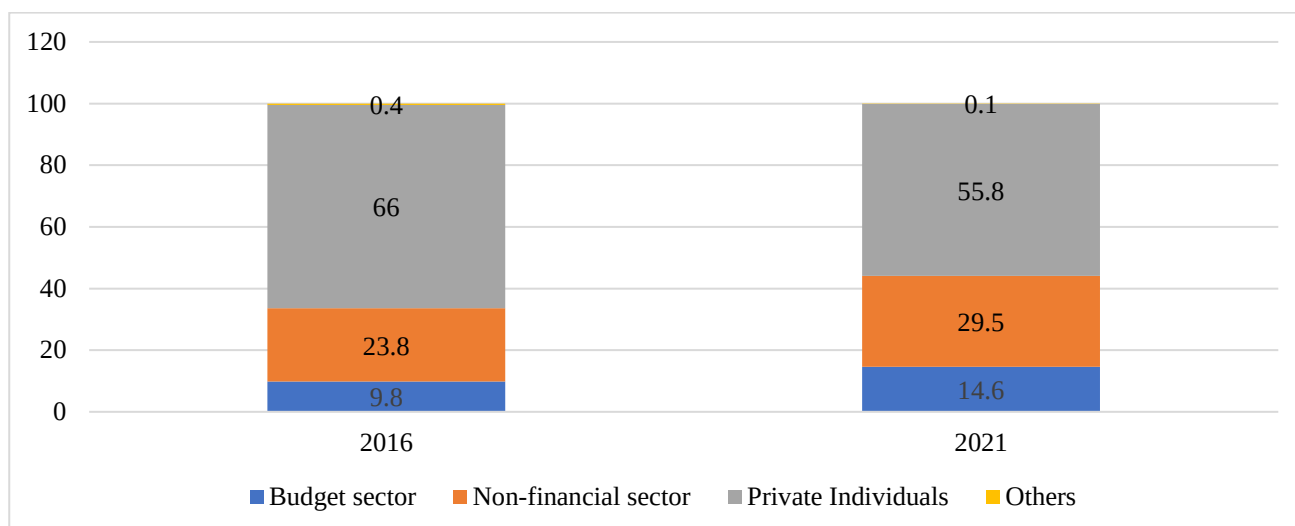
The most group of bank clients among borrowers constituted: private individuals, entrepreneurs and farmers (Figure 2). Over the last 5 years, there have been significant changes in the entity structure of the loan portfolio in relation to local government units, the share of which is estimated at 14,5%, and enterprises - a decrease to 23,1%, similarly in the case of farmers – 21,9%. There was an increase in the share of private individuals in the structure of the loan portfolio (28,1%). When analysing the subject structure, the dominant types of loans can be noticed: housing - mainly in the segment of private individuals and for the SME sector.



Source: author's own calculations based on UKNF information in 2016 and 2021

Fig. 2. Structure of the loan portfolio in cooperative banks in 2016-2021 (as of 30 September)

Apart from offering loan products, cooperative banks are also partners for local self-government units in terms of deposit offers, the share of which reaches a level of 13,2%. The most important factor that attracts cooperative banks to self-governments is not the potential income from possible loan transactions so much as the expected benefits from the deposits related to servicing of self-government accounts as well as the possibility to use local and regional influence that local self-governments have on their social and economic environment thus obtaining new customers in that way (Coccorese, Shaffer, 2018; Zóltkowski, 2011, p. 64). The data presented in the table and the chart do not fully reflect the scope of cooperation between these entities. Representatives of the cooperative community estimate that the share of cooperative banks in servicing local self-government units and their subordinate entities may even reach 70% (NBS, 2017).



Source: author's own calculations based on UKNF in 2016 and 2021

Fig. 3. Subject structure of deposits in cooperative banks in 2016-2021 (as of 30 September)

The data in Figure 3 indicate that private persons have the largest share in the structure of deposits, although their share decreased from 66% in 2016 to 55,8% in 2021.. It shows that small and medium-sized enterprises play an increasingly important strategic role for cooperative banks.

Contrary to commercial institutions, the banks which act as cooperatives have a certain mission to fulfil (Jimenez-Hernandez, Picazo-Tadeo, Saes-Fernandez, 2019, p. 420-421). In particular, they fill a gap in poorly urbanised and low-industrialised areas, where an access to economic education is also limited. Their employees are often people educated in big cities, who returned to their homeland and share their knowledge with bank clients. Therefore, cooperative banks perform not only financial, but also advisory and educational roles. It should be noted that cooperative banks prevent financial exclusion (Szewczyk-Jarocka, 2019). They attempt at increasing the level of banking services for beneficiaries of the Social Insurance Institution and the Agricultural Social Insurance Fund.

What distinguishes cooperative banks from other financial units and indicates the social aspect of their operations is offering products to groups of clients that may encounter problems in their access to commercial banks. Examples of this can be environmentally friendly solutions and preferential loans with a subsidy from the Agency for Restructuring and Modernisation of Agriculture, Bank Gospodarstwa Krajowego and the National Fund for Environmental Protection and Water Management, for example:

- energy-saving thermal insulation of buildings;
- construction or expansion of waste landfills and other waste management facilities;
- cultivation of plants used for biomass production;
- replacement of products containing asbestos.

Representatives of the agricultural sector, agri-food processing and agricultural services are often discriminated in offers of commercial banks. Due to the favour of cooperative banks, they are not in the groups of poorly banked or financially excluded.

Social goals are not only declarative as they are implemented in favour of bank members and various local customer groups. Support which is offered by cooperative banks has not only a financial but also social dimension, e.g. by commemorating historical places, sponsoring sportsmen or local artists. E. Kolodziej (2018) collected the following responses of research respondents who were asked: whether a cooperative bank is engaged in the life of local community not only as an entity offering financial services

but also as an institution that is a permanent element of this community, and that is sensitive to its needs and interested in its sustainable development (Table 4).

Table 4

Engagement of cooperative banks in Poland in social initiatives

Sequence of indications	Type of social initiative
1	Family festivities
2	Organisation of apprenticeships
3	Possibility of a professional internship
4	County harvest festivals
5	Promotion of saving among children and adolescents
6	Promotion of culture
7	Support in charity actions
8	Promotion of sport

Source: Kolodziej, 2018

Involvement of cooperative banks in social activities can also be noticed in the undertaken educational initiatives (Szustak et al., 2020, p. 71):

- the BAKCYL programme, the aim of which is to increase the financial knowledge and awareness among youths;
- TalentowiSKO programme, the aim of which is to support schools in teaching entrepreneurship and to develop talents among children and adolescents;
- organising demo lessons in bank branches so as to increase knowledge about banking products,
- co-financing school competitions;
- running an educational campaign: "Be cybersecure with the cooperative bank".

Cooperative movement is a specific method of managing financial resources which combines social goals with economic ones. Characteristics that distinguish cooperative banks from other financial institutions are their attempts to perform tasks that other banks or economic entities are not interested in. They support local economic development, build local ties and counteract financial and social exclusion.

Conclusions

Cooperative banks in Poland have a long and rich tradition. From the very beginning, they adjusted their activities to the needs of local communities. Despite many changes and transformations aimed at construction of a stable and safe cooperative banking sector, they still stimulate the local economic development in the country.

The review of subject literature and the presented results of studies conducted by various authors show that cooperative banks are the engine of economic development in the local and regional dimensions. They offer financial services not only to their members, but also to a growing number of clients: farmers, individual persons, local self-government bodies and SMEs. Their offer is tailored to local specificity and meets its needs, e.g. in the field of preferential loans, pro-ecological investments.

Integration of local communities, education of the youths and elderlies, support in sports and cultural events are all the activities resulting from the mission of cooperative banks that contribute significantly to local economic development.

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