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# SAFE BANK

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# Fostering Regional Economic Development by Promoting Cooperative Banking Structures in Rural Areas – Lessons Learned in the Russian Federation after 1990

## Abstract

Cooperative banks have to consider their institutional and commercial development in order to be a full-fledged and relevant part of the banking system. This implies to offer carefully-designed financial products according to the level of development of their members/customers, of the regions and of the financial system in which they are embedded. The paper analyses the emergence of rural cooperative banking structures in Russia that developed after 1990 by referring to Chick/Dow's »stages-of-banking-model« and issues of corporate governance. The analysis suggests that the institutions need to achieve further elements of modern banking for becoming significant market players in the country. In addition, the regulation and supervision by the Russian government has to be balanced vis-à-vis the size and importance of single rural credit cooperatives in comparison to other – by far larger – elements of the financial system.

**Key words**: Russia, cooperative banking, credit cooperatives, financial development, regional development, regulation

## 1. Introduction

Credit Cooperatives have proven to be reliable providers of financial services to small and medium-sized companies in the past. Originating in the early second half of the 19th century until now they have managed to survive and adapt in many Western economies. As so-called stakeholder banks they gained – together with

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savings banks – renewed interest in the course of the so-called great financial crisis (GFC) of 2008–2009 since they were able to withstand the latter nearly without any public bail-out or assistance (see e.g. Birchall (2013)). This performance makes the concept of cooperative banking also appealing as instrument in the »toolbox« of modern development policy.[1] There is the option to proactively foster cooperative banking in transition economies, emerging and developing economies to underpin the financing of small local businesses, supporting their expansion and therefore contribute to regional economic growth. Russia may be regarded as an example for this option. In this country starting in the mid of the 1990s credit cooperation was supported by foreign organizations which were usually active in the area of development assistance and the US farming sector. Later in the middle of the last decade also the Russian government promoted the establishment of rural credit cooperatives as part of a special presidential program for the development of the agricultural sector.

The analysis presented here is derived from studies and scientific field work of the authors that especially considered the development of the system of rural credit cooperatives in the Russian Federation in the time after the year 2000. Due to significantly different economic (high oil prices) as well as political conditions and developments (start of the presidency of Vladimir Putin), this phase can be named the »second phase of transition« in Russia – following a first period of social and economic change in the 1990s. The present contribution aims to assess the system's impact on local development and to give recommendations in which way its performance can be increased and can be put on a sustainable basis under the contemporary conditions of the Russian economy. The theoretical background of the analysis is mainly formed by the Finance & Development approach and New Institutional Economics. The basic assumptions of the Finance & Development approach were already set in the 1950s – a time in which development theory and policy were born as a new field in the branch of economics.[2] It started with the explanation of underdevelopment because of a lack of effective systems of financial intermediation by authors like e.g. Abramovitz (1952). Later – also based on historical studies – the discussion was spinning around the question whether the financial sector is leading or following the course of economic development. Pagano (1993) was the first to integrate the system of financial intermediation in a model of endogenous growth. Empirical studies increasingly appearing in the early 1990s revealed approaches such as a »finance matters« and a »symbiotic

1 See Beck (2014) for the notion of »toolbox or financial development as »tool«, respectively.

2 In this theoretical line – with reference to Tschach (2002) and Stiglitz/Weiss (1981) – a model is built that explains the function of credit cooperatives as institutions that are able to fill gaps in the provision of loans left by the official banking system. By filling those gaps, they contribute to the realization of productive investment projects in rural areas. At this point the author describes an »informational proximity« that enables credit cooperatives as member-based institutions to deal with information asymmetries especially in remote areas in a different manner than »distant« banks are able to. The analysis of the system of rural credit cooperatives in Russia itself is focused on the group of »agricultural rural credit cooperatives« (ARCC) which is the dominating group among two other legal forms of credit cooperatives mainly operating in urban areas.

relationship« between the financial and the real sector. In addition, linkages were shown to other fields of development such e.g. the legal system, the education system and the industrial structure of a country. A so-called functional view was derived that points especially to the single services financial systems provide to the real sector (mobilization of savings, monitoring of borrowers, provision of liquidity etc. In this regard, special emphasis is given to the question which financial institutions are best at providing »access« to loans and financial services among circumstances of asymmetric information and high transaction costs (especially from the point of view of development economists). The aspect of »access« is also the one where the Finance & Development approach was strongly connected with the theoretical concept of New Institutional Economics that helps to explain how financial institutions can evolve from managing informational problems causing market failure. In addition, also Keynesian and Neo-Keynesian elements of thought (especially liquidity preference) enriched the basis of the Finance & Development approach. Although the latter may not have received the necessary attention, it formed the basis for the well-known stages-of-banking-model of Chick/Dow being strongly applied here in this article. It should be added, that the latest empirical post GFC studies on the relationship between financial and economic development like e.g. from Gambacorta et al. (2014) point at specific thresholds for a positive economic effect of financial sector development. The thresholds arise from non-linearities in the relationship between financial and economic development (e.g. qualitative differences in the provision of intermediation services).[3] There is a new consensus rising that politicians and practitioners in the area of development policy have to be aware of these thresholds to fine-tune the quality and quantity of their activities to support domestic banking structures and the establishment of equity markets.

The article is organized as follows: it delivers a theoretical consideration of cooperative banking and its possibility to foster regional growth especially from the point of view of the stages-of-banking-model of Chick/Dow which is further elaborated by new elements. Then the case of Russia and its system of rural credit cooperatives is analyzed using this framework. Following the results of these elaborations implications are drawn for the further promotion of the cooperative banking structure as a »tool« for promoting especially regional growth in Russia.

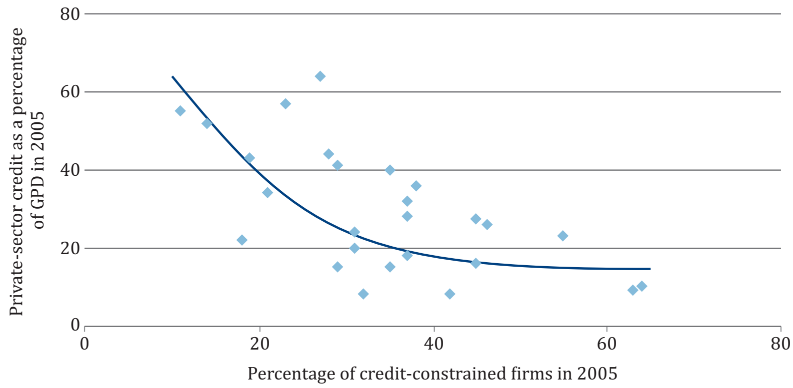
## 2. Regional development and its nexus with financial development

Financial development is generally important to assure the provision of adequate financial services and hereby especially loans for commercial investments. Empirically, the percentage of credit-constrained firms diminishes in the course of financial development measured by the amount of private-sector credit as

[3] See also Beck (2014) for a list of possible phenomena behind the non-linear character.

a percentage of GDP (see Figure 1). On a national aggregated level – obviously – the capability of the institutions to cope with credit constraints grows in the course of financial development.

**Figure 1. Size of banking sector and percentage of credit-constrained firms for a sample of transition countries**




Source: EBRD (2015), p. 34.

One has to recognize that newer empirical studies have confirmed the threshold character of financial development.[4] This means that the positive effect on growth generated by a growing financial sector is diminishing in the course of economic growth or even vanishing – eventually turning negative – beyond a certain level of development.[5] Gambacorta et al. (2016) identify two thresholds: for the banking market and for the equity market. E.g. Griffith-Jones (2015) takes this result to draw conclusions for Africa given this fact. Due to the still low level of financial development there is still a good potential to use financial development to spur economic development on this continent and to learn from the latest regulatory lessons to sketch institutions and bureaucratic procedures to accompany the path of financial expansion. Also regarding former communist transition countries like Russia the threshold character is an important message for fine-tuning the further development of financial services and especially loans to the private sector. While having seen a considerable increase the overall level of financial development remains still below the level of countries with comparable levels of economic development. There is room for further expansion to make maximal use of the growth-promoting effect of the financial sector.

4 See Graff (2000) and Graff/Karmann (2006) for a comprehensive analysis. For the general notion see: Berthelemy/Varoudakis (1996).

5 See Beck (2014).

Especially while looking at interregional development differences the threshold approach points to two possible directions: (A) In cases of much less developed regions there might be room for a further expansion while (B) in others – comparably more developed ones like the Moscow region – it would be rather recommended to shrink the volume of financial services provided. This may also apply to considerable differences between the amount of financial services provided to single branches of an economy.

Regional differences are often associated with differences between centers and peripheries. Peripheral regions' growth prospects are often lower due to a lack of market access or lack of agglomeration economies. Here, in addition the regional-credit-availability literature (RCA) shows up to add the lack of finance as a further stumbling block for growth in the periphery. By causes of liquidity preference and information asymmetry the supply of funds to the periphery is lower or at least more volatile. At least here, structural-organizational issues of the banking system come into play. The better e.g. regional banks are able to pre-finance local investments and are not channeling funds away to the »center« the higher also the growth prospects of the periphery. This capability to pre-finance is explicitly in the focus of Victoria Chicks stages-of-banking-model. Therefore, it is also useful to analyze the financial capabilities of local banking structures like e.g. those of credit cooperatives.

**The Stages-of-Banking-Model – and its nexus to the level of financial development**

According to Dow et al. (2008) – who applied the model to analyze former Soviet Union countries in their early years of transition – the stages-of-banking-model was conceptually outlined in Chick (1986) and Chick (1993). It was applied in Chick (1988) and later refined by Dow (1999). Crucial for the mechanics of the model (see Figure 2) is the habitus of economic agents – producers, vendors, consumers – of increasingly using banking accounts for their transactions i.e. keeping money and paying bills.[6] The more it happens the more banking-system-intern money creation takes place providing means of payment – demand funds – to pre-finance investment. Of course, this also entails a systematic basis for inflation. Although the core of this process is that banks monetize claims – promises to pay – of the mentioned economic agents against each other. Thus, they transform promises-to-pay into a medium – money – to (easily) pay for other claims. The more this is taking place the more one could speak of an »investment first« instead of a »savings first«. This points to a partially substitutive character of money creation vis-à-vis the collection of savings from the public (but especially from foreign sources – e.g. via cross border banking – what is supposed to be a more unstable form of supply) to underpin (local) economic development processes. Due to this, it delivers strong arguments for the creation of a strong and stable domestic monetary and banking system.

6 See Kumhof / Jakab (2016).

**Central building blocks – liquidity preference and information asymmetries**

Liquidity preference is one of John Maynard Keynes' basic tenets to make forecasts about the behavior of economic agents regarding the holding of assets during changes of perceived risk and uncertainty. By looking at financial services – namely possibilities to deposit money and to issue credit – it is important to have a look at both sides of the market in parallel – the supply side (banks/lenders) *and* the demand side (companies and households/borrowers). If the future outlook is negatively affected so is the will of suppliers to lend or invest funds for a longer term. Both sides – the supply and the demand side are more prone to keep their assets liquid and to remain flexible. There is also a center-periphery aspect in the sense that financial markets in the center tend to be more liquid so that a diminishing outlook favors the flow of funds to (economic) centers leaving the periphery aside as object for investment. Here, the structure of the banking markets appears as a possible counterforce to withstand an overreaching drainage of funds to centers that diminishes the growth perspective of the periphery. Especially savings banks and cooperative banks have a reputation for being banks operating locally – collecting deposits and issuing loans. Their charter and business policy is from scratch (by charter or regulation) devoted to their host region (stakeholder banking approach/regional principle).

**Figure 2. The Stages-of-Banking-Model and the demand and supply of funds**

| Stage-1 | Stage-2 | Stage-3 | Stage-4 | Stage-5 | Stage-6 | Stage-7 |
|---|---|---|---|---|---|---|
| Savings First | Investment First | Inter-banking Market develops | Lender of Last Resort exists | Liability Management | Sales Maximization and Financial Innovation | Shadow Banking & Disintermediation |
| Supply of funds | | | | | | |
| Liquidity preference | | Information asymmetries | Corporate governance | Cross border banking | Shadow banks | Financial innovation |
| Demand for funds | | | | | | |
| Liquidity preference | | Structural change | Technological change | Investment | Consumption | Business cycles |
| Beck (2014): *"What is the role of finance in a modern society?"* | | | | Development of money – crypto money like e.g. BITCOIN – and Fintechs | | |

Source: According to Chick/Dow (1993) and amended with own conceptual ideas.

The second building block – although not directly obvious in the formulation of the stages-model – is the assumption of information asymmetries between the lender and the borrower of funds. The borrower is typically alleged of having more and better information about the prospects of his project seeking finance. The less he is able to convince the lender of its quality the higher is the risk of denial of funding or of being rationed in the sense of Stiglitz/Weiss (1981). It is important to add that this rationing may also appear in the relationship between a bank seeking deposits to issue loans from savers/depositors. E.g. bank runs can occur if the latter's confidence has fallen beyond a certain threshold. The phenomenon of rationing is also not only confined to bank loans but also encompasses the possibility to receive equity to fund investment projects. Here also rationing – namely equity rationing – may occur. Regarding credit rationing, again, the structure of the banking system and the goals it pursues come into play. The above mentioned stakeholder banks are in this sense seen as being better able to cope with information asymmetries due to their local position – in close proximity to the borrower of funds. As a result the chance to receive funding for the latter is greater and due to this a contribution to local economic development can be asserted. Empirical studies underpin this notion and experiences made in countries like Germany – being a prominent international showcase for a decentralized banking landscape (financing of the German »Mittelstand«) – pointing to its importance for the design of financial structures supporting local business activities elsewhere in the world.

**The interrelationship with aspects of Corporate Governance**

According to Shleifer/Vishny (1997) aspects of »good« corporate governance are central for receiving significant financial contributions from external partners. In its core this concept deals with mechanisms to assure a certain return for investors. Thus, it is relevant in regard to the relationship between the financial institutions and their borrowers (internal) and the financial institutions and their depositors and investors/lenders (external). Better corporate governance on the side of the borrowers increases the chance to adhere to the terms of the debt contract. Assuring a good governance within the conduct of business of the financial institution contributes to its reputation by its depositors and investors/lenders. Due to this, a better corporate governance also diminishes information asymmetries and enhances the functionality of the financial institutions. Thus, it promotes a »stepping-up-the-stages« in the sense of Chick & Dow as laid down in the next section.

Based on these basic theoretical considerations a short look at the single different stages of banking development according to Chick and Dow is given with a supplement to the last few years.

**Stage-1 – Savings First**

At a low level of usage of the banking system for payments the power to pre-finance investments of banks remains low. Therefore, it is overwhelmingly dependent on savings held by the public or owned by the banks itself. One should note that early banking was to a certain extent only investment banking. Bankers were entrepreneurs identifying prospective investment projects, organizing depositors for it, and leading the process of investment.

**Stage-2 – Investment First**

For this to exist there has to be a typical behavior of using bank accounts for transactions. Due to this banks can to a great extent generate or create money by monetizing claims of their customers vis-à-vis each other. Due to this the power to pre-finance investments is maximized. To start an investment the banking systems provides funds finally based on promises to »pay the bill later« – with the revenue from the investment and the value added created by it.

The »Investment-First«-power of the banking system is good news for transition and developing countries. It means that there is – besides using foreign savings – a second powerful channel to use »financial development« as »tool« for economic development. This means a stable banking system resting on a stable monetary regime is an important ingredient to »internally« foster investment (or at least to create the basis for it).

**Stage-3 – Interbanking market develops**

As banks lend money to their customers-depositors they also lend money to other banks. Due to this, they can underpin their liquidity management and can earn money with interest payments. This affects the capability of transforming risks and durations while issuing loans based on their deposits that can be withdrawn on a daily basis. Thus, the interbanking market supports their ability to transform deposits into long-term loans for investments.

Again, this is good news for transition and developing countries that have the chance to interconnect their banking systems internally but also with foreign institutions and finally financial markets. Although there needs to be an increasing awareness of the »cursory« character of these transactions. In times of crises, liquidity preference rises what may at first affect money lend to borrowers in developing countries. A special consideration must here be given to cross border banking that offers – in addition – bank organization-intern channels to move money / means of payment from one country to another.

**Stage-4 – Lender of Last Resort exists**

Looking back at the history of banking there is a modus of transforming a fully-privately run banking business into a system where private commercial banks operate side-by-side with a distinguished monetary authority – namely a Central Bank. Although not compulsory necessary, this is typically a public bank – a bank owned by the state. Due to the importance of the functioning of the monetary system and the acting of commercial banks pursing their role as deposit collectors and issuer of loans for our today's economies (with an extremely high division of labor) it is in the public interest to have this system run smoothly. Thus, there are good reasons to have one powerful agent being able to act as »fire brigade« and with the necessary far-sightedness to use created money to secure the functioning of the system in the light of the huge negative external effects of their break down for other parts of economy.

**Stage-5 – Liability Management**

Having established an integrated banking system banks cannot be alleged of being profit maximizers. Thus, they look at their costs of refinancing while issuing loans against interest rates paid by their customers. Thus, they will consider other means of refinancing next to deposits given to them by their customers-depositors. An important alternative here is the financial market in its broadest sense that develops over time in the course of (global) financial integration.

**Stage-6 – Sales Maximization and Financial Innovation**

Going further with the notion of profit maximization it is obvious that commercial banks will try to generate as much revenue from lending operations as possible. If they have stepped over the necessity to solely use deposits for this they again make use of the »deep« international financial market to increase their liability side-by-side with an increase of their assets – that means an increasing amount of loans lend out to customers. Here also examples of »financial innovation« come into play – especially modern forms of securitization – that can be used to increase the amount of loans issued.

**Stage-7 – Shadow Banking and Disintermediation**

The fact that banking could be a profitable business of course also attracts competitors or new business actors to the financial market trying as well to earn money with offering possibilities to deposit money and to lend-invest into profitable investments projects or to offer consumer credits. This trend can be summarized under the term shadow banking.[7] This may of course partially lead to a process of disintermediation in which's course officially registered commercials banks lose their »monopoly« or generally their importance as – traditional main – provider of financial services. At best, they can use these new technologies or evolving innovative institutions complementary for expanding their own lending business. Here, especially securitization and the necessary organizations/institutions to operate it (e.g. special purpose vehicles) are in the focus but also fee-based services and remunerations from the off-balance sheet activities as a whole. In most of the cases – due to its competitive character – financial innovation and especially shadow banking will be rather a substitute for the services of commercial banks. This of course poses a threat to their own genuine existence. Although from a dynamic point of view, this should not be a negative development. As long as the new financial organizations/institutions that evolve are not a threat to financial stability and therefore for the function to finance investment and consumption it is a positive process of institutional evolution. More choice – more instruments for investment and lending – is provided to investors and consumers. Of course, this also calls for new practices to monitor and regulate these activities by the monetary/

[7] See e.g. Deutsche Bundesbank (2014) for an overview.

public authorities. This process of adjusting the regulation is already ongoing and was spurred by the triggers-and-effects of the so-called Great Financial Crisis(GFC) of 2007-9.[8]

**Post Stage-7 – or »What is the role of finance in a modern post-GFC society« –** according to Beck (2014)

The aftermath of the GFC provoked a public debate about the way commercial banking is behaving and what – especially risks – is associated with the ongoing process of financial globalization. Thorsten Beck (2014) considered this discussion under the headline or question about the »role of finance in a modern society«. The notion that the financial sector has an important function to play in a globalized world remains. Although there have also been certain »own development« of the financial sector that showed signs of an »expanding-too-much» – leading to much financing and an unhealthy or unproductive swallowing up of resources – namely human capital – to »run« it. Last-but-not least the expected leave of the United Kingdom of the European Union – the »Brexit« – revealed the importance of the financial sector for some certain localities in the world – here the London City. This capital region became one of the most important financial centers worldwide after the so-called »Big bang« deregulation in 1986 – being one of the mayor steps of financial liberalization of the Thatcher government. Due to the Brexit a discussion was started to move important financial institutions and with it the necessary personnel to the city of Frankfurt and other EU capitals. It is obvious that such concentration of the financial sector – as a »real« sector – deploying human resources, generating services and paying profit taxes also has implications on the behavior of (local) politics and economic policy as a whole. All-in-all the financial sector should not be expanded in a way that »Dutch-disease-like« dependencies on it develop to the damage of other sectors or the diversification of the whole economy, respectively.

Beyond the evolvement of shadow banking and financial innovations there is a further line of innovations that are connected to the increasing digitalization of the economy/society. This also produces innovation (starting) at the level of the baseline of the monetary system: the kind of money/specie used to conduct transactions. There is an increasing »toying-around« with so-called crypto currencies – with the BITCOIN being the most prominent. Their usage in certain areas still shows the typical signs of an uncontrolled currency in its infancy. But there are also more serious attempts to adopt this »technology« for standard transactions.

To sum up – and also by coming back to Thorsten Beck's question on the future of finance – it is intriguing that financial services will go on playing a very important role for the economic development of countries, regions and localities. Hereby, it is important to acknowledge their own dynamic development partially being driven

[8] The International Monetary Fund is intensively looking at this regulatory aspect of financial innovation and publishes a lot of information about this for practitioners in its journal Finance & Development.

by the search-for-profit but also by innovations resulting from market gaps and the application of modern digital technologies. Like every innovation there are opportunities and risks that need to be managed to assure a fruitful use.

Interestingly financial innovations – excluding (badly structured) securitization and financial derivatives – have according to Thorsten Beck – especially taken place in developing countries and can – together with the »power« of digitalization and IT as the infrastructure of the knowledge society – have an important impact on the growth prospects of single localities, regions and countries. Here, especially the African continent is in the focus where e.g. new payment and loan technologies were born to tackle the problem of not existing »traditional« banking structures and of lacking technical infrastructure as a whole. This is a typical latecomer advantage that can be used.[9]

Before we apply our theoretical analysis to the Russian economy we regard the interplay of the stages of banking to be reached or that can be reached and the *regional* availability of loans and financial services as a whole.

## 3. Analysis of local / sub-systems within the model – the particular role of stakeholder-oriented banks – especially of cooperative banks

a) A last-but-not-least static view

Local banking structures can be mirrored in the stages-model to assess their »individual« capability to finance or pre-finance local investments – or to speak more broadly – offer adequate financial services to their – local customers – including consumer loans as well.

As whole banking systems climb up the ladder single or sub-parts like nascent cooperative banking structures in transition countries can do the same.

Taking a look at cooperative banking systems operating »worldwide« there is a tendency to run in a certain way separate internal structures for refinancing and monitoring-supervision. This leads to a high degree of internal financial integration and typically encompasses the operation of so called apex structures providing »financial-services-for-financial-intermediaries« like e.g. insurance products, investments products-vehicles, leasing etc.

9 This bodes well in a time where the young population on this continent needs much more »prospect« than ever – since ironically due to information technology – and at the same time – the quality and chances of life »elsewhere« have become more visible and transparent and are thereby increasing the time preference or to say in other words the »impatience« to wait too long for economic development to take place.

b) A dynamic view

By looking at the evolvement of cooperative banking structures in the »West« and their still partially considerable high market shares it is obvious that they have managed to adapt their service-offers according to the needs of economies graduating from agrarian to industrial and further on to service or even to knowledge economies.

This structural change is closely associated with a technological change. The latter typically demands another quality and quantity of financial services.[10]

Thus, also local cooperative banking systems should be continuously adapting their service portfolio (scale and scope) to the changing needs of their local customers – commercial but of course also private ones – like e.g. consumers – not only demanding new household equipment but also loans to invest in education to increase their human capital. When do so they contribute to local economic development and welfare. Although, especially in transition economies, the structural break caused by the time of communism and the associated central planning – partially of up to 70 years – diminishes the market share that can be reached during the time of economic transition to full-fledged market economies.

From the outlined perspective the following hypotheses shall be examined:

(1) The power / capability to pre-finance investment increases in the course of financial development – going along with an increased use of banking accounts.
(2) Due to liquidity preference, funds tend to flow to highly liquid financial centers.
(3) Due to information asymmetries, local banks remain important to finance local investment projects.
(4) An interconnected local banking system is optimal. Cooperative banks operating with a sophisticated apex system are an example for this.
(5) Regional credit availability is affected in the course of »stepping up« the stages of banking development.
(6) Credit cooperatives have to align permanently their service portfolio to meet the changing needs of their local customers in the course of economic transition.

After having outlined this analytical framework we are now assessing the system of rural credit cooperatives that was re-established after the break-up of the Soviet Union and the central command economy in Russia in the 1990s.

## 4. The system of rural credit cooperatives in Russia

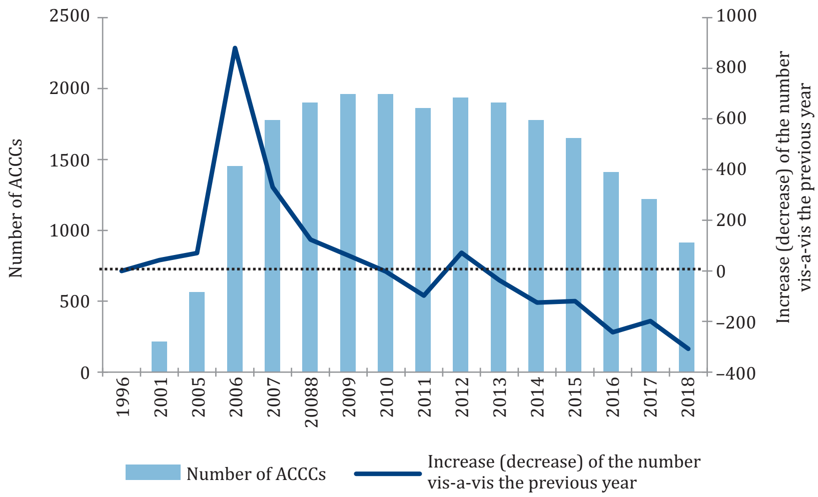
Although the system of credit cooperatives in Russia was one of the most sophisticated at the beginning of the 20th century a completely new movement emerged after 1990. The more than 70 years of communism led to a loss of collective memory in regard to the function of cooperatives within a market economy. The November

[10] See Lin (2012), p. 33.

revolution and the subsequent collectivization did not leave room for western-style cooperatives based on the idea of economic freedom and democratic organization. The new movement arising from the spirit of perestroika and the necessity to fill gaps in rural areas was pushed forward by a couple of charismatic persons. They had close ties to the idea of a regional development supported and stimulated by rural credit cooperatives capable of providing loans and services needed by farmers and rural entrepreneurs. After more than 20 years after their revival it is possible to evaluate the evolution of this specific system and to draw lessons from it.

In Figure 3 the development of the number of 1st tier agricultural rural credit cooperatives is outlined between the years of 1996 and 2018. After a strong growth of their number in the first half of the years 2000 the number peaked in 2009. A main driver of the peaking was a specific federal presidential program for the development of agricultural business (lasting from 2006–2007) that delivered strong incentives to found credit cooperatives to work as channels for low-interest federal funds. In the course of the GFC the small credit cooperatives and especially those founded on the basis of these government incentives were affected significantly. Since then their number shrank by roughly 1.000 to about 900 left over being registered in 2018. The reasons for this are manifold and can be found in the prematurity of the system not having established a cushion against a crisis situation as such in 2009–2010. Although, especially the still low professional level reached at this time is the most important reason. In addition, many of the institutions were not really operating. During this period only about 500 were considered to be working seriously as providers of loans – not primarily because of government incentives in connection to the mentioned federal presidential program.

**Figure 3. Development of the number of rural credit cooperatives in Russia from 1996 to 2018**




Source: Register of the Bank of Russia from the 16th of March 2018.

A specific reduction took place with regard to the number of 2nd tier – regional – rural credit cooperatives. The number decreased from 33 to 6 over the course of the last years since 2009. This is a particular problem because they fulfill a function of regional competence centers for the 1st tier cooperatives operating directly on the village level. This is a clear sign of a worsening of the institutional composition of the whole system of rural credit cooperatives in Russia. This issue will be addressed at the end of this article with regard to a modified and targeted strategy to publicly support the system.

## 4.1. Specific Russian characteristics

The basic motivation to deal with local development in the Russian Federation are its natural- and transition-related differences between urban centers and rural peripheries. The country operates under a partially completely different framework for its growth process in comparison to other smaller Central European transition countries that received a lot of guidance due to their perspective of becoming members of the European Union. A balanced development of urban and rural regions is especially challenging in a country like Russia endowed with a unique geography. Successful development approaches need to refer to existing economic structures and endowments. In this regard financial intermediaries can mobilize resources for the local development. Therefore, the building up of locally operating financial institutions is – nowadays – a core instrument of a holistic development policy. In this regard – however – as stated by Cuevas and Fischer (2006) – *"Co-operative financial institutions (CFIs) are among the poorly understood entities in financial markets."* Although, the observable success of many systems of cooperatives worldwide led to a new interest in cooperative structures and the recognition that – in the light of the failed laissez-faire neoliberalism that dominated the development scenery since the early 1980s – there must be other ways and frameworks to »organize« sustainable development. Even the World Bank – historically a typical advocate of market liberalism – has modified its development strategy by arguing for a so-called New Structural Economics-approach – a term introduced by its former chief economist Justin Yifu Lin (2008–2012). This approach calls for a combination of market incentives, a substantial provision of public goods and a pro-active government in the course of development. The approach also asserts that *"For low-income countries, small, local financial institutions should be the core of financial structure as the industrial structure is dominated by small firms/operators in agriculture, manufacturing and services."*[11] This is – albeit late – a further and general argument to consider the role small locally operating credit cooperatives can play to contribute to sustainable development in Russia.

11 See Lin (2012), p. 33.

## 4.2. Database and analysis

To gather the data necessary to back the analysis a lot of field work was done by the authors using results of three surveys among roughly 300 member-clients of agricultural rural credit cooperatives (ARCC) in 15 different regions of the country. They were conducted in 2004, 2005 and 2010 (see Table 1). The assessment of the data was backed up by several interviews conducted with local leaders of the system and international experts.

**Table 1. Overview on the studies conducted by ACDI/VOCA on the operation and impact of agricultural rural credit cooperatives**

| | Region | Year | | |
|---|---|---|---|---|
| | | 2004 | 2005 | 2010 |
| 1 | Wolgograd | x<br>Podershka:<br>45 respondents | | |
| 2 | Orenburg | x<br>Agrosojus:<br>14 respondents | x<br>48 respondents | |
| 3 | Perm | x<br>Doverie: 43 respondents | x<br>55 respondents | |
| 4 | Rostow | x<br>Doverie: 40 respondents,<br>Orlovsky:<br>40 respondents | | |
| 5 | Saratow | x<br>Krestjanin:<br>43 respondents,<br>Nadezhda:<br>46 respondents | | x<br>(16 ARCC,<br>40 respondents) |
| 6 | Udmurtia | x<br>Zardon: 40 respondents | | |
| 7 | Chuvashia | x<br>Soglasiya:<br>37 respondents | | |
| 8 | Jaroslawl | x<br>Sodruzhestvo:<br>46 respondents | | x<br>(3 ARCC,<br>56 respondents) |
| 9 | Mari-El | | x<br>51 respondents | x<br>(3 ARCC,<br>40 respondents) |

| | Region | Year | | |
|---|---|---|---|---|
| | | 2004 | 2005 | 2010 |
| 10 | Adygeya | | x<br>40 respondents | x<br>(3 ARCC with 24 respondents, 2 other organisations with 20 respondents) |
| 11 | Kalmykia | | x<br>63 respondents | x<br>(1 ARCC, 15 respondents) |
| 12 | Stawropol | | x<br>50 respondents | |
| 13 | Wologda | | | x<br>(10 ARCC, 40 respondents) |
| 14 | Kemerow | | | x<br>(1 LVKG, 20 respondents) |
| 15 | Pensa | | | x<br>(11 LVKG, 44 respondents) |
| | Number of regions | 8 | 6 | 8 |
| | Number of ARCC | 10* | not indicated | 48 |
| | Number of respondents | 394* | 307[a] | 299 |

* 45 members per ARCC were interviewed. *450 members interviewed totally.

[a] Regarding the number of respondents in the different regions see ACDI/VOCA (2005), p. 13.

Source: own composition based on ACDI/VOCA data.

One of the first questions of the survey was dedicated to the purpose of the loans received by the ARCC. Table 2 lines out the results. It is indicated that investment-oriented purposes such as especially »expansion of enterprise« and »start/opening up of a business« were making up more than 50% of the named purposes.

**Table 2. Purpose of the first loan received by ARCC (in % of the respondents of each single your group) – results of the surveys in 2004, 2005 and 2010**

| Purpose | Year of entry into the ARCC (become a member/survey in 2004) | | | | | | Survey in 2005 | Survey in 2010 |
|---|---|---|---|---|---|---|---|---|
| | 1997–1999 52= 100% | 2000 37= 100% | 2001 73= 100% | 2002 69= 100% | 2003 77= 100% | 2004 86= 100% | 307= 100% | 299= 100% |
| Maintain standard of living | 23 | 8 | 21 | 35 | 22 | 16 | 19,7 | 21,7 |
| Expansion of enterprise | 54 | 70 | 56 | 46 | 56 | 51 | 52,8 | 49,5 |
| Start/opening up of a business | 8 | 8 | 3 | 4 | 10 | 6 | 10,0 | 4,7 |
| Change of special-ization | 2 | 0 | 1 | 1 | 3 | 2 | 2,6 | 1,3 |
| Survive under changed condi-tions | 4 | 5 | 8 | 12 | 5 | 6 | 13,5 | 4,7 |
| Other | 8 | 5 | 11 | 12 | 4 | 19 | – | 8,0 |
| No answer | 2 | 3 | – | – | – | – | – | 0,1 |

Source: ACDI/VOCA (2004), p. 7, ACDI/VOCA (2005), p. 4 and ACDI/VOCA (2010), p. 35.

To see whether the loans given to the members were contributing to an increased economic activity the single borrowers were asked how the amount of cultivated land increased during the time of membership and how the number of employees had grown over the respective time. Table 3 lines out the results for the increased use of land – in total, regarding the amount owned and the amount leased.

**Table 3. Comparison of the amount of cultivated land between the year of entry into the ARCC and the year 2004 (early phase)**

| Basis indicator at time of entry into the ARCC | Year of entry into the ARCC | | | | | |
|---|---|---|---|---|---|---|
| | 1997–1999 52=100% | 2000 37=100% | 2001 73=100% | 2002 69=100% | 2003 77=100% | 2004 86=100% |
| Share of borrowers cultivating land | 94 | 95 | 84 | 86 | 83 | 65 |
| ...in the year 2004 | 92 | 95 | 84 | 86 | 83 | 65 |
| a) Average amount of cultivated land in ha in the starting year | 251 | 211 | 264 | 171 | 369 | 82 |
| ...in the year 2004 | 394 | 279 | 342 | 194 | 402 | 82 |
| b) Average amount of cultivated land owned by the borrower in the starting year | 122 | 59 | 96 | 69 | 250 | 46 |
| ...in the year 2004 | 145 | 85 | 100 | 75 | 247 | 46 |
| c) Average amount of cultivated land leased by the borrower in the starting year | 228 | 229 | 258 | 207 | 237 | 76 |
| ...in the year 2004 | 378 | 300 | 343 | 221 | 287 | 76 |

Source: ACDI/VOCA (2004), p. 6.

Table 4 reveals an increased number of employees hired full-time, part-time and as seasonal workers.

The results of the three surveys indicate an increasing role of rural credit cooperatives. The third survey of 2010 – see Annex No. 1– revealed that the amount of land privately used for agricultural production increased in the course of the membership in the following way:

– total amount of cultivated land: 70,9%.

Among this:
- amount of cultivated land owned by the borrower: 132,2%,
- amount of cultivated land leased by the borrower: 61,0%.

In the survey during the period of 1998 to 2010 it is visible that the years between 2003 and 2006 can be described as the »boom« years of the early period of the second period of transition.

**Table 4. Comparison of number of employees and regarding type of employment**

| Basis indicator at time of entry into the ARCC | Year of entry into the ARCC (membership) | | | | |
|---|---|---|---|---|---|
| | 1997–1999 52=100% | 2000 37=100% | 2001 73=100% | 2002 69=100% | 2003 77=100% |
| a) Share of borrowers hiring full-time employees | 50 | 57 | 47 | 36 | 45 |
| ...in the year 2003 | 62 | 68 | 49 | 35 | 45 |
| b) Average number of full-time employees per borrower | 5,2 | 9,4 | 7,8 | 6,6 | 11,4 |
| ...in the year 2003 | 9,6 | 9,7 | 9,3 | 6,3 | 11,4 |
| c) Share of borrowers hiring part-time employees | 6 | 11 | 11 | 3 | 4 |
| ...in the year 2003 | 6 | 14 | 12 | 4 | 4 |
| d) Average number of part-time employees per borrower | 1,3 | 2,0 | 1,8 | 2,5 | 2,0 |
| ...in the year 2003 | 1,3 | 5,0 | 1,9 | 2,0 | 2,0 |
| e) Share of borrowers hiring seasonal workers | 33 | 38 | 28 | 30 | 31 |
| ...in the year 2003 | 33 | 38 | 34 | 33 | 31 |
| f) Average number of seasonal workers per borrower | 9,2 | 11,6 | 8,4 | 15,2 | 11,4 |
| ...in the year 2003 | 10,7 | 15,6 | 11,6 | 15,0 | 11,4 |

Source: ACDI/VOCA (2004), p. 6.

In addition, the 2010 survey lines out – by posing sociological questions – that in the perception of the local population there is a general positive influence of the credit cooperatives' activities on the specific locality in which they operate.

The main problem or »gap« with the design of the three surveys is their sole orientation on the input side. The increasing use of land or hiring of employers may not directly lead to an increase in the value added. Albeit this was due to the design of the surveys. ACDI/VOCA was aware that asking questions regarding revenues or economic success following from taking loans would have meant to lose a considerable number of respondents since they were afraid of disclosing personal financial figures (informal economy problem). Nevertheless, the role of agricultural rural credit cooperatives seems to be supportive for local growth processes. Albeit the quantity and quality of their operations and financial services – especially the total amount of loans – is very small.

Because of this we are now assessing the system of rural credit cooperatives that was re-established after the break-up of the Soviet Union and the central command economy in Russia in the 1990s in the framework of Victoria Chick's stages-of-banking-model. We assess it – according to the upper-mentioned sub-system character of cooperative banking structures in the »West« also as a separate system (see Table 5).

**Table 5. Analysis of Russia's commercial banking system and the system of rural credit cooperatives**

| Stage | Commercial banking system | System of rural credit cooperatives |
|---|---|---|
| 1 – Savings First | Functional | functional |
| 2 – Investment First | Yes, but remains under its possibilities. Many people still do not have a bank account.<br><br>The more the shadow economy is present the more cash paying is used – diminishing the basis for money creation. | Less – since they are not allowed to offer accounts for transactions. But as organizations themselves they are typically customers of commercial banks. |
| 3 – Inter banking Market develops | Yes | There was a third level – a federal – credit cooperative (called Narodny Kredit). It went bankrupt and was abandoned after the financial crisis. |
| 4 – Lender of Last Resort exists | Yes | No, although there are ambitions to establish an own cooperative banking institute with a full-fledged banking license. Only the Rural Credit Cooperatives Development Fund (RCCDF) provides some assistance. |

| Stage | Commercial banking system | System of rural credit cooperatives |
|---|---|---|
| 5 – Liability Management | No extremes | no |
| 6 – Sales Maximization | No extremes | no |
| 7 – Shadow Banking & Disintermediation | Partially | No, but it could be affected. Although, one should note the niche character of the system. |

Source: author's own work.

Considering the result – at first for Russia's system of commercial banks – one could note its typical transitional character. Although, some peculiarities or country specifics do exist vis-à-vis the commercial banking system of other transition countries – namely those closer to the European Union. There are considerable differences namely due to:

1. Strong role of the state
   The Russian government controls about 60% of the commercial banking market and is at the same time in charge for the supervision of the banking system via its so-called »megaregulator« (an agency run by the Russian Central Bank). This must naturally lead to conflicts of interests, although during the time of financial crisis it proved to be a cushion against uncontrolled bankruptcies of larger commercial banks.
2. Low share of foreign banks
   Only about 20% of the assets of the banking sector are controlled by foreign banks. This is in strong contrast to the situation in other transition countries in Central Europe. There, the banking sector is dominated by foreign banks. The latter strongly used the chance to internationalize their businesses by acquisition of incumbent banks or the establishment of new banking institutions. This contributed to a fast professionalization of the host countries' banking sectors but also proved to be a risk of capital flight in the course of the financial crisis.
3. Concentration on growth poles
   The World Bank staff describes the Russian banking sector as *„…relatively shallow, fragmented, and concentrated in Moscow"*.[12] Commercial banking concentrates its activities on Moscow and St. Petersburg region due to its high density of population and economic activity. Only the state owned Sberbank operates in the periphery because of its public task. For other commercial banks, the periphery is too expensive for business development vis-à-vis the growth poles of Moscow and St. Petersburg. The latter had already been alleged of being »overbanked«. Thus, there is a need for alternative financial institutions like e.g. rural credit cooperatives to fill the gaps left by the commercial banking sector.

[12] See World Bank (2013).

4. Specific geography
   Russia's unique geography is much more similar to the one of Canada or of the United States than to the geography of other Central European transition countries. As argued above this also – naturally – affects the concentration of economic activity and therefore also that of commercial banks and leaves whole territories unbanked.
5. Extraordinary influences caused by political sanctions
   Due to the political tensions surrounding the crisis in Eastern Ukraine and especially because of the Crimea conflict – followed by financial sanctions – Russian banks faced difficulties to refinance themselves on the international capital market. The Russian State had to become active and partially secured refinancing with public money.

All-in-all – and apart from the problems caused by political sanctions – the Russian commercial banking sector has seen a significant improvement of its professionalism. So-called pockets-banks had been closed by an engaged and reform-oriented government that heavily transformed the banking sector and its regulation since the early 2000 years. In 2016 about 100 small banks were closed.[13] Although, the functionality of the banking system as a whole remains below its possibilities with many people in Russia still not having a bank account. To sum up – all of the mentioned factors diminish the capability of the Russian banking sector to pre-finance investments and leave room for improvements or alternative institutions.[14]

By now looking especially at the system of rural credit cooperatives – being in the focus of this paper – one has to confess that it is still a system in its infancy. This regards to its size as well as to its level of institutional-commercial development. Being – still – not allowed to provide banking accounts to the population obviously prevents the system from moving beyond stage-1. In addition, many other aspects that typically make up apex organizations providing internal financial services for the members of the system are not yet developed. The GFC that also hit the Russian banking system – although by far not so intensively like Western banking systems – also had effects for the system of rural credit cooperatives. The main problems that arose were increasing amounts of non-performing loans caused by a – partially – low level of professionalism and associated problems of corporate governance. They led to the bankruptcy of the (only) third level cooperative Narodny Kredit. This federal credit cooperative was originally assigned to become an umbrella organization for refinancing and financial management of the whole system. Apart from this there were ambitions to at least form a so-called non-bank-credit-organization connecting the system with the financial market or even the forming of an own cooperative bank with a full-fledged banking license. All these initiatives had been stopped in the aftermath of the financial crises and a withdrawal of international assistance. The German Ministry of Finance was via the German Bank for Reconstruction and Development (KfW) engaged in building up structures for

13 See Russian Central Bank (2016).
14 See World Bank (2017).

re-financing. In 2005, a fund called GERFO was created. Yet, this fund had been closed and the financial resources were transferred to another fund that is not focusing on the re-financing of credit cooperatives.

Still operating is the Russian Credit Cooperative Development Fund – RCCDF – that was set up by a grant from the US American farm system in 1997. It is a foundation operating in close proximity to the Union of Rural Credit Cooperatives (URCC) – a branch association. The fund's mission is to channel loans to 2nd and 1st tier credit cooperatives. Thus, it is part of the small apex devoted to provide financial services to the credit cooperatives operating locally across Russia. The leadership of the RCCDF and of the URCC is typically also the head of the whole system operating Russian-wide. During this period, there existed also a cooperation between the fund, the union and other – partially occasionally – operating organizations. Among them were foreign public, semi-public, private and domestic federal institutions. Unfortunately, triggered by the financial crisis and the changed government policy the momentum of the development of the system got lost after 2012. Now, the sector's remaining apex organizations are in due need for sophistication and support. Especially problematic is the strongly diminished number of 2nd tier cooperatives (down from 33 to 6 institutions) that were used to be the backbone of the qualitative development of the 1st cooperatives in the respective regions.

To sum up, the level of internal financial integration of the system of rural credit cooperatives is very low. Due to this, its capacity to pre-finance investments is very low as well.

### 4.3. Paths to promote the impact of the system

Despite the low level of banking development in the sense of Victoria Chick's stages-model, a positive impact of the system of rural credit cooperatives on local economic development was found. Due to the provision of loans to farmers and rural entrepreneurs the currently more than 900 single institutions improve the performance of local economic circuits and increase the ability to export processed goods to urban regions. It is shown that the loans were used to increase the amount of agricultural production by deploying more land and hiring more employees. The strength of the systems rests on a) its regional presence, b) the high »informational proximity« vis-à-vis its members, c) the low cost of its personnel and d) the flexibility in the issuing of loans. On the other side, the system shows several weaknesses that need to be overcome: a) low financial capacity that enables only to issue small loans with short maturity, b) non-transparent bookkeeping, c) low level of organization on the federal level and d) only weak access to the (international) financial market.

Therefore, to become a sustainable system a lot of institutional and commercial development is needed. Especially the financial and economic crisis that also hit Russia in 2009–2010 revealed the mentioned weaknesses in the still nascent system of rural credit cooperatives. This refers especially to the lack of a powerful apex structure capable of providing monitoring and liquidity. Further, the applied credit technology needs to be improved and has to be supported by state-of-the-art management information systems (MIS). Altogether the core task is the provision of «internal public goods« – or to say it technically to provide adequate »financial-services-for-financial-intermediaries«. It is still recommended to found a »bank of credit cooperatives« linked to the financial market acting as a powerful apex institution exercising monitoring and supervision and – due to this – increasing and guaranteeing the reputation of the whole system. In the last months, there was some progress in this regard since the Central Bank of Russia started to explicitly recognize the system as a relevant part of the rural financial architecture to guarantee a certain level of access to financial services. In addition, there are ideas to implement a staged concept of supervision – depending on the size of the single institution – that could finally lead to the integration of the most sophisticated credit cooperatives into a specific sectoral deposit insurance scheme. The latter would increase the reputation of the respective institutions and could open up room for an extension of the spectrum of the financial services that can be offered to their members-customers. As a result, a better development of the whole business model seems possible that would strengthen the effect of the system on local economic development. Even now, the most innovative and active parts of the system are showing a lot of creativity to offer financial services different to classical loans for the investment into machinery etc.

### 4.4. The role international assistance had played – lessons learned

Regarding the role of the international development assistance provided to the system the results are rather disillusioning. Like in other parts of the world the support was not coordinated and dominated by the agenda and historical background of the international institutions. Currently – and especially due to the public good character of the necessary elements – it seems that only a comprehensive institutional and commercial development package with support by all relevant stakeholders including the Russian government and international institutions like the World Bank or the European Bank for Reconstruction and Development (EBRD) could give enough impetus to put the system on a sustainable development path. The alternative – and this is the situation that can be observed right now – would be an ongoing fragmented development dominated by single successful regional systems in some of the 83 Russian regions (like e.g. Saratov and Astrakhan). Therefore, the still existing chance to build up a Russian-wide system of rural credit cooperatives contributing to sustainable development especially in peripheral regions neglected by the commercial banking system could be used.

Following the results of the analysis recommendations can be given to the practitioners-regulators in the Russian Federation according to best-practice elsewhere and in the light of the post-financial-crisis regulatory regime or trend, respectively. Three main conclusions shall be formulated and explained:

- Foster the business development of the sector and do not hope too much for government assistance.
  There is still some tradition in Russia to look maybe too heavily at the government to solve problems or to give assistance. Of course, the political economy of Russia's agrarian complex is especially prone to think into this direction. But there are strong arguments for pursuing the development by implementing and applying tested business models elsewhere. There is room for a common marketing of the brand »Russian Rural Credit Cooperative« as soon as basic »rules of the game« are settled. They are necessary to guarantee the building up of a common reputation as providers of financial services in the Russian periphery.
- Connect the system of rural credit cooperatives with initiatives for rural development like e.g. the Local Initiatives Support Program (LISP) of the World Bank.[15]
  Economic development can – at the end-of-the-day – not be isolated from the broader social development and quality-of-life issue to be available for economic agents. The Russian branch of the World Bank is following this point by implementing and expanding its so-called Local Initiatives Support Program (LISP). It supports local government agencies to invest in public infrastructure in several Russian regions – at first pilot regions – now in a broader geographic range. Hereby, World Bank funds are merged with local public and private funds to invest in local infrastructure projects of a broad range. Rural credit cooperatives may become part of this cooperation due to their character as financier of smaller local investment projects and their participative decision making. Especially the latter is a core element of LISP to engage the local public in setting the goals and co-financing of the single projects. There is a chance for complementary funding of projects by the credit cooperatives and LISP to overcome bottlenecks for business to be started due to the lack of the respective infrastructure.
- Find new national and international partners to promote the building up of a powerful apex structure.
  After having completed the first phase of building up structures that started in the early 1990s with the assistance of international organizations now the new realities have to be taken into account. The first reality is the loss of some kind of »federal spirit« in the Russian system of rural credit cooperatives due to the loss of the initial protagonists. The second reality is that most of the international organizations – NGOs and public development institutions – have left the country by reason of »mission accomplished« or »changed attitude«. The recent Russian official policy vis-à-vis (not only foreign) NGOs is also an argument, but maybe not the decisive one regarding the system of rural credit cooperatives. While the hitherto given assistance was basic work with of course also idealistic goals now a next round of »tougher« much more business-oriented assistance is in need. This refers to a solid marketing package aligned with capital to pay for the necessary investments to introduce it locally at the point-of-sale. This would obviously mean a selective approach with the most sophisticated and strong regional systems rece-

[15] See World Bank (2014) and World Bank (2016).

iving assistance. With smaller and not so sophisticated parts of the systems other ways of dealing have to be found. This may go from »closing-them« – something that happens automatically due to the intensive new way of regulating the sector – up to keep on assisting them within federal programs to support the poorest Russian regions – e.g. in the tested ways of organizing on-lending-programs or by intensifying the role of the state-owned Russian Agricultural Bank as shareholder in single credit cooperatives. Time will show whether these regions can climb up the economic ladder and whether credit cooperatives can remain in a niche with a very simple organization necessary to provide financial services.

## 5. Summing up and looking ahead

Altogether there seems to be a necessity for more selectivity regarding the strategy and actions to be chosen to use credit cooperatives in Russia as a tool for promoting regional growth. Here it also has to be noted that the probability of credit cooperatives attaining market shares as in western countries with a strong and continuing cooperative tradition and business practice is rather low. The period of communism that swept away all forms of privately-oriented cooperative banking is also a structural break during which no adaptation to the changing circumstances of the overall transition from agrarian, to industrial and to service economies took place. The new forms of credit cooperation created after 1990 were born into a much different and fast changing environment in which the historical basis – agriculture and handicraft – only possesses a smaller importance.

On the other side, Goglio/Alexopoulos (2013) state that the importance of stakeholder-oriented banking structures has risen as a result of the GFC. They see growing market shares in developed countries what also bodes well for their operation and economic chances in transition and development countries. Here, an important prerequisite is obviously an informed government with a regulatory body that acknowledges the peculiarities of the cooperative banking business model vis-à-vis purely shareholder-oriented banks. The latter have a lower risk profile and a different (typically regional-confined) modus of operation that diminishes the probability of becoming a threat to the overall banking system in case of their bankruptcy. E.g. in the post GFC regulation in the Eurozone this is not appropriately acknowledged and leads to asymmetric high regulation costs for those typically smaller financial institutions (due to high fixed costs of fulfilling the regulations). Thus, shareholder-oriented banks benefit from this regulation. However, they are not primarily interested in serving market niches or peripheral regions. This is exactly the room for cooperative banks providing financial services that are urgently needed for the catching-up process of regions lacking behind.

**Annex-01. Change of the amount of cultivated land on average per company**

| Indicator | Year of entry into the ARCC | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | **No answer** | Total |
| Number of respondents | 1 | 9 | 4 | 16 | 8 | 12 | 16 | 30 | 59 | 39 | 56 | 36 | 7 | 6 | 299 |
| **Indicator at the time of receiving the loan** | | | | | | | | | | | | | | | |
| In % of respondents | | | | | | | | | | | | | | | |
| cultivating land | 100 | 100 | 75 | 94 | 63 | 58 | 56 | 57 | 78 | 79 | 70 | 67 | 43 | 67 | 71 |
| *Among who leased* | 0 | 22 | 25 | 44 | 25 | 42 | 44 | 33 | 49 | 23 | 32 | 42 | 14 | 33 | 36 |
| Total amount, ha | 5 | 118 | 1120 | 273 | 81 | 2193 | 663 | 208 | 581 | 273 | 243 | 385 | 24 | 27 | 413 |
| *owned* | 5 | 108 | 637 | 148 | 27 | 59 | 9 | 48 | 21 | 19 | 43 | 146 | 4 | 8 | 63 |
| *leased* | | 43 | 1449 | 283 | 135 | 2908 | 840 | 266 | 880 | 868 | 433 | 386 | 60 | 39 | 684 |
| **Indicator in 2009** | | | | | | | | | | | | | | | |
| In % of respondents | | | | | | | | | | | | | | | |
| cultivating land | 100 | 100 | 75 | 94 | 63 | 58 | 56 | 67 | 78 | 82 | 70 | 67 | 43 | 67 | 73 |
| Among who leased | 0 | 44. | 50 | 75 | 25 | 33 | 44 | 47 | 51 | 21 | 30 | 42 | 14 | 33 | 39 |

**Annex-01 – continued**

| Indicator | Year of entry into the ARCC | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | **No answer** | Total |
| Number of respondents | 1 | 9 | 4 | 16 | 8 | 12 | 16 | 30 | 59 | 39 | 56 | 36 | 7 | 6 | 299 |
| Total amount, ha | 120 | 600 | 2400 | 451 | 149 | 8535 | 726 | 329 | 584 | 288 | 296 | 385 | 24 | 27 | 692 |
| owned | 120 | 518 | 854 | 185 | 59 | 1086 | 20 | 116 | 42 | 33 | 73 | 146 | 4 | 8 | 137 |
| leased | | 185 | 2320 | 278 | 225 | 13006 | 908 | 303 | 828 | 994 | 503 | 386 | 60 | 39 | 1009 |
| **Change of the indicator till 2009 vis-a-vis the time of receiving the first loan** | | | | | | | | | | | | | | | |
| Total amount, ha | 115 | 482.7 | 1280,0 | 178,2 | 68,6 | 6342,1 | 63,4 | 121,3 | 2,9 | 14,9 | 53,0 | 0 | 0 | 0 | 62278 |
| *owned* | 115 | 409.9 | 216,3 | 36,2 | 32,6 | 1008,7 | 11,1 | 68,7 | 20,9 | 14,6 | 29,6 | 0 | 0 | 0 | 16437 |
| *leased* | 0.0 | 142,5 | 871,0 | -4,3 | 90,0 | 10097,9 | 67,3 | 37,3 | 52,7 | 125,6 | 70,0 | 0 | 0 | 0 | 45122 |
| **Change in percentrage** | | | | | | | | | | | | | | | |
| Total amount, ha | 2300,0 | 410,2 | 114,3 | 65,4 | 84,9 | 289,2 | 9,6 | 58,3 | 0,5 | 5,5 | 21,8 | 0 | 0 | 0 | 70,9 |
| *owned* | 2300,0 | 378,7 | 33,9 | 24,4 | 121,6 | 1702,3 | 119,0 | 143,9 | 99,7 | 78,6 | 68,1 | 0 | 0 | 0 | 132,2 |
| *leased* | | 335,3 | 60,1 | -1,5 | 66,7 | 347,3 | 8,0 | 14,0 | -6,0 | 14,5 | 16,2 | 0 | 0 | 0 | 61,0 |

Source: ACDI/VOCA (2010), p. 29.

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