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**ON THE ISSUE OF FINANCING AND CREDITING OF
PRODUCTION COOPERATIVES***

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State banking institutions introducing in their practices the elements of cost-accounting, objectively are not interested in crediting cooperatives. The bank interest rates for the latter are considerably lower than for State-owned enterprises. Besides cooperative borrowers cause more troubles to the bank, and the risk of untimely repayment of the loans is great. By these and other reasons the crediting of cooperatives, although it has risen by 13 fold during 1988, is still on an extremely low level.

Considering the question of crediting cooperatives it should be noted that according to the rules of crediting no loan accounts are opened for cooperatives. Loans are given for the payment for goods and material values, work, services which, incidentally does not prevent unefficient use of the loans by the clients.

The main means of the bank supervision over the goal-oriented use of the loans is checking of the securing of the loan by material values and other assets except fixed assets (contributions and admission fees, and the funds established at the expense of savings), which requires a reliable accounting system and documentation, and that's where things leave much to be desired.

Thus loans are given upon a guarantee of the enterprise (organization) within which a cooperative is established, or against a guarantee of a cooperative authority. In connection

with the liquidation by various reasons of some cooperative formations, an issue of the proprietary responsibility of cooperatives deserves to be considered. The latter, as is known is provided for in Article 43 of the Law on Cooperatives in the USSR. It says that the members of a cooperative operating in the sphere of production and services are responsible for the debts of the cooperative according to the procedure, in an amount and on the terms provided for in its Statute.

At the same time the requirements to the contents of statutes set forth in the law are not distinct enough. Therefore the issues of proprietary responsibility are interpreted locally, differently and depend on subjective circumstances.

Multiple contradictions under the conditions of the current activities of banks and cooperative societies can be settled in our opinion by the development of the institution of cooperative banks, mutual crediting societies, and other forms of crediting cooperatives. By the beginning of the last year the USSR State Bank had registered 79 cooperative and commercial banks, the founders and shareholders of which were enterprises and cooperatives in many sectors of the national economy.

According to the Statutes of cooperative banks the latter provide credits and banking services to cooperatives included in cooperative unions (associations), represent their interests in economic and financial institutions. By agreement with a cooperative or a union of cooperatives, a

bank may sell, return securities (shares), and pay profits obtained from them. But such operations are not yet widely carried out. It should be noted that cooperative banks, being economically independent from the State planning and financial institutions but at the same time constituting a part of the single national economy, are forced to comply with the regulations pertaining to payment operations and economic rules established by the USSR State Bank. For example, to ensure a stable financial situation of the banks, maintain the liquidating structure of their balances, and protect the interests of the depositors it has been provided that a minimum amount of the bank statutory fund, the bank being established by cooperatives, should be 0.5 million roubles. (For the sake of comparison we shall note that the amount for a commercial bank established by state-owned enterprises is 5 million roubles). The total scope of the liabilities of a cooperative bank in relation to the deposited sums cannot be more than 12 times the amount of the bank's own funds. (Compare: for commercial banks they cannot be more than 20 times the amount). The maximum amount of credit to one borrower shall not exceed 50% of the bank's own assets for cooperative banks (100% for commercial banks).

Thus a cooperative bank must distribute its resources among at least 24 borrowers, while the commercial bank - among 20.

It is quite obvious that stricter requirements to cooperative banks as compared to state-owned banks are a result of a higher risk in their activities. At the same time, a compa-

relatively low possible amount of their statutory funds make it possible to establish a bank for even small cooperatives.

The production expansion funds of cooperatives may be the source to form the statutory fund of a cooperative bank at the expense of the contributions of the founding cooperatives. Such funds are formed from the profits remaining after the payments to the budget of the established taxes.

The distribution of the profits remaining after the payment of the taxes and other obligatory payments, deductions to the labour remuneration funds, production expansion funds, and for the establishment of other goal-oriented funds, is the prerogative of the general meeting of the cooperative shareholders. Consequently, the proportions in which the distributed profits are divided into savings and current expenses, depend on the balance of forces in such cooperative societies, difference of opinions and interests.

For example, in 1989 more than 79 per cent (16.3 billion roubles) of the profits distributed by cooperatives was paid to the labour remuneration fund, and only about 15 per cent (3.0 billion roubles) to the cooperative development fund. The share of the labour remuneration fund in the proceeds from selling the output, work and services has grown from 36 per cent in 1988 to 42 per cent in 1989.

The current situation in money circulation makes society interested in strengthening of cooperatives and grow-

ing of their material, technical and production basis. In the cooperative movement many chairmen of cooperatives are ready to sacrifice the instant interests and large earnings for the sake of the cooperative economic development and its prospects. However, overexcessive, in our opinion, democratization in the issues of distribution results in some cases in the opposition among the shareholders, who insist on the priority of labour remuneration. It appears to be desirable to include in the law on cooperatives some amendments and oblige cooperatives to pay a minimum per cent to the production expansion fund thus ensuring an extensive reproduction and fixed assets growth as the basis of the collective property. Such a measure will permit in the long run to establish a more flexible and meeting the interests of cooperatives and the State as a whole system of taxation of the incomes of cooperatives reducing the tax rate on the expansion fund formed in excess of the established minimum. Such a measure would considerably support the forces within the cooperative movement itself which are interested in a stronger material basis and expanded production in the cooperative sector.

The the same time such a measure would become a method of economic but not administrative solution of the problem of restricting payments made in cash to the cooperative workers; a need to establish additional restrictions would be eliminated in relation to the labour remuneration funds.