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КВАЛІФІКАЦІЙНА РОБОТА

на тему:
«Кредитна кооперація у світовій економіці»

зі спеціальності 292 Міжнародні економічні відносини освітня програма «Міжнародний бізнес» за першим (бакалаврським) рівнем вищої освіти

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Полтава 2021

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HIGHER EDUCATIONAL ESTABLISHMENT OF UKOOPSPILKA
«POLTAVA UNIVERSITY OF ECONOMICS AND TRADE»
Educational and Scientific Institute of Business and Modern Technologies
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International Economics and International Economics Relations Department

Approved for defense
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QUALIFYING THESIS

«Credit cooperation in the world economy»

Program Subject Area 292 International Economic Relations, educational program «International Business», first (bachelor's degree) level of higher education

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Reviewer **Oleksandr Nozdrin**

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ЗМІСТ

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INTRODUCTION

Actuality of the research. Most of the banks operate on self-interest. It is just the way the financial markets work. However, credit cooperatives offer an alternative approach and whilst they must be efficient businesses, they are driven by member wellbeing not-profit. This means that they do not speculate on the money market to profit from short term fluctuations. Nor do they hold unethical investments. Instead, credit cooperatives just pool member savings and then lend to other members, circulating money for the benefit of their community. This ensures that every member of such cooperatives can benefit, not just a small group of people. Credit cooperatives are entirely owned and operated by their members. They take members' feedback and use it to make changes that have real benefits. A credit union may be more willing to work with a person than a bank might be if this person has poor credit or have difficulty qualifying for a loan. If the member-client is interested in getting a mortgage loan but has a poor credit history, then a credit union may be his best route to financing the new house. They may also offer educational programs that will help their members get control of their budget and develop better financial habits. This is why researching activity of credit cooperatives is of great interest and importance.

In the literature, the problems of credit cooperative movement are researched in the works of Braverman A. [11], Delfiner M. [16], Fairbairn B. [18], Glenn C. [21] and others. However, the topic has not been studied enough. There is a certain lag in the field of ensuring the financial stability of credit-cooperative institutions. Thus, all of the above led to the choice of the topic of the qualifying work and its relevance.

The aim of qualifying work is to study credit cooperation in the world economy. According to the purpose of the qualifying work, the following **tasks** are set:

- to highlight the nature of credit cooperative as a social financial institution;

- to analyze basic models of rural and urban credit cooperation;
- to research activity of credit cooperatives in Germany, France, the Netherland, the USA and Canada;
- to explore ensuring the financial stability of credit-cooperative institutions;
- to determine modern problems of credit-cooperative sector development in conditions of globalization.

The **object** of the research is credit cooperation in the world economy.

The **subject** of the research is activity of credit cooperatives in different countries.

Research methods. While writing the qualifying work, the following methods were used: analysis and synthesis, comparison, research, statistical and graphical methods, logical generalization of results in the formulation of conclusion and others; systemic and classification – for understanding basic models of rural and urban credit cooperation; analysis – for evaluating credit cooperatives' activity in European and North American countries; system analysis – for finding the solutions of modern problems of credit-cooperative sector development in conditions of globalization.

Research's database is a set of specialized publications, reports of cooperatives, periodical articles and Internet resources that evaluate the activities of cooperatives.

Academic programs, plans and themes correlation. Executing this qualifying work is connected with the research plan of the Higher Educational Institution of Ukoopspilka "Poltava University of Economics and Trade" on the topic "Modern processes of globalization: driving forces, megatrends, contradictions" (0113U006220). The author's contribution is an original approach to finding the ways of solution for modern problems of credit-cooperative sector development in conditions of globalization.

Qualifying work results approbation. The most significant research results were presented at 1) XLIV International scientific student conference on the results of students' research works in 2020 "Actual problems of the development of science and the quality of education in the XXI century" (Poltava, March 30-31, 2021); 2) International scientific Internet conference "The third sector and social economy: Ukrainian and international experiences" (March 30, 2021).

Publications: 1) Azeez O. The role of credit unions in financial systems of European countries / O. Azeez // "Actual problems of the development of science and the quality of education in the XXI century" : reports for XLIV International scientific student conference on the results of students' research works in 2020 (Poltava, March 30-31, 2021) : in 2 volumes – Poltava : PUET, 2021. – Vol. 2. – P. 313-315; 2) Owoeye A. Credit cooperative sector of Europen countries' economies / A. Owoeye // Digest of the international scientific Internet conference "The third sector and social economy: Ukrainian and international experiences" (March 30, 2021) – Poltava : PDDA, 2021. – P. 56-57.

CHAPTER 1
CONSEPTUAL FUNDAMENTALS OF CREDIT COOPERATIVE MOVEMENT

1.1. The nature of credit cooperative as a social financial institution

Throughout its 150-year history, credit cooperation has undergone a complex evolutionary path, which had its own characteristics for each country. The homeland of credit cooperation is Western Europe, especially Germany. The nineteenth century was marked by significant economic and social progress for businesses, including agriculture and small-scale urban producers and entrepreneurs. The precondition for the emergence and development of credit cooperation was the urgent need of business entities in working capital, i.e. financing. Obtaining adequate financing on favorable terms for the borrower played the key role in achieving economic and social benefits from economic activities and at the same time was one of the most difficult problems.

It was during this period that the leading thinkers and economists of Western Europe turned to the not-so-new but promising idea of self-help of the population which was *cooperation*. In English, the word *cooperation* means *working together*. There are two levels of understanding of the term *cooperation*. In a general sense, this term means a process that involves the joint activities of individual entities on the basis of combined economic resources in order to obtain a specific target effect (economic, social, psychological) for the participants of this activity. Therefore, in this case, cooperation means various types of co-working. In a narrow sense, cooperation is a specific organizational form of co-working. It is transformed into a *cooperative movement*, which has the characteristics and features that separate it from other forms of economic entities. This includes consumer, credit, housing cooperation. This is creating the terms such as *cooperative idea*, *cooperative law* and so on [16].

Cooperative is an organizational and legal form of expression of the cooperative idea in practice and implementation of cooperative activities. Cooperative is only one of many organizational forms of cooperation. Cooperation, as a process, can manifest itself in a variety of organizational forms, the nature of which depends on existing social relations [2].

The cooperative movement is driven by the desire of people to improve their lives, help themselves and each other, preserve the most important social, spiritual, moral and ethical values, which include democracy, justice, solidarity and mutual assistance, equality of rights and responsibilities.

The social significance of cooperation extends far beyond maintaining balance in society. The human race survived and developed mainly through cooperation.

The advantages of the cooperative idea, cooperative worldview and cooperative form of management also include a significant synergistic effect, which is observed in the pursuit of economic, social and moral goals. Each individual has the opportunity to achieve certain successes in their activities, and often there were difficulties in obtaining the desired results. Cooperation is not just the effort of individuals, it is acting as a multiplier.

The cooperative management system has its advantages both in the sphere of production and in the sphere services. Thanks to cooperation, the production potential of enterprises, institutions and organizations increases, and the cost of time and money decreases.

The main sources of credit at that time were the banking system and the institution of usury. At the same time, banks prevailed in terms of the number and strength of influence in cities, and moneylenders – in rural areas. According to M.F. Shklyar [6], rural moneylenders had relatively little money and acted in isolation from the city financial market, which significantly strengthened their monopoly position. Therefore, the interest rates of rural moneylenders were five or more times higher than those of the city. There were significant difficulties in obtaining a loan in the city. Banking institutions demanded from borrowers reliable collateral, usually it was real estate. In addition, the procedure for obtaining a loan was complicated and time consuming. These circumstances became the preconditions for the need to find a new form of credit institutions that would meet the needs of the population in fast and inexpensive loans. This form of credit organization was a credit cooperative, and, above all, its primary link – credit cooperative.

The mission and functions of credit cooperatives are both economic and social. In this case, the social function of coops, although in second place after the economic one, but still is very important [34]. The basic principles of credit cooperatives, defined at the Congress of the International Cooperative Alliance, held in 1995 in Manchester, are set out in the "The Statement on Cooperative Identity" [39] and have, above all, a social focus.

Thus, the purpose of the credit cooperative is to meet the financial needs of its members, but, unlike commercial financial institutions - on the basis of socio-ethical, moral and just principles: voluntariness and open membership; democratic membership and control; economic participation of members in the establishment and operation of the cooperative; autonomy and independence of the cooperative; education and advanced training of members and employees of the cooperative; cooperation between cooperatives; promoting the development of cooperative communities (Table 1.1).

On the contrary, there is a principle of accrual by credit cooperatives of minimum interest on members' deposits, which makes it impossible for people to create non-working capital, lead a rentier's lifestyle. The social function of credit cooperatives in this case is to help members lead a working and honest lifestyle. The social mission of credit cooperatives is also to create a certain system of balance in society, depriving the parties (creditor and debtor) of the opportunity to profit from each other, because it is in the credit cooperative that these parties unite and act as a whole.

Table 1.1 – Basic cooperative principles of social orientation

Principle	Its significance for the social development of society
1. The principle of equality of members of the cooperative	Promotes the ideal of equal human relations, improves relations between members of the cooperative, raises the sense of human dignity.
2. The principle of joint management of the cooperative by all its members	This principle comes from the first one and plays a very important role in creating a democratic society at the micro-level. The possibility of each member's participation in the management of cooperative presupposes a more objective expression of the will of each individual community and makes any coercion impossible.
3. The principle of joint liability of members of the cooperative	Causes increase in the degree of responsibility, because each member of the cooperative perceives possible costs and losses as his own and, in fact, in the event of such, loses part of the profits, which is distributed among members at the end of the year.
4. The principle of mutual assistance	Mutual assistance in this case can be not only material but also moral and spiritual. This principle is one of the most important principles of cooperation and, in particular, credit cooperation. It increases the degree of trust and good relations between members, helps to increase the level of formation of moral and ethical values in the community of the cooperative, and through it - in society as a whole.
5. The principle of religious and political neutrality	Prevents disputes and complications in the relationship of members on religious and political grounds. This principle also prevents any dependence of cooperatives on religious or political institutions and organizations.
6. The principle of limiting the geographical area of the cooperative	Provides a situation when most members of the cooperative know or have the opportunity to know each other personally, which increases the degree of responsibility to each other, and hence - the degree of efficiency of the cooperative institution.
7. The principle of promoting education and other socially useful activities	Cooperative organizations, and in particular credit cooperatives, are often the initiators and founders of various educational activities and even educational institutions, thereby increasing the level of education and morality of members of cooperatives and society as a whole.
8. The principle of cooperation with other cooperatives	It aims to develop a powerful cooperative self-help system for members

Note: the table is compiled according to the World Association of Credit Unions [44],

The second operating principle is the distribution of the economic result of the credit cooperative at the end of the year according to the extent to which members use the services of the cooperative. Part of the funds received in the form of interest on the loan and not spent on the operating activities of the credit cooperative during the year, is distributed among the members of the cooperative.

This operating principle supports the basic principle of fairness, allowing members to receive distributed funds depending not on their share contribution, but on personal activity in the use of cooperative's services [24].

The third operational principle is equitable funding by cooperative's members. The resources necessary for the functioning of the credit cooperative are attracted both by deductions of the share of the economic result of the financial activity of the cooperative, and by the contributions of members, which can be divided into introductory, target and share.

Entrance fees are non-refundable and become the property of the cooperative. The share contributions, which are also a condition of joining the cooperative, can be returned to the person upon leaving the cooperative.

The share contribution in size can be either equal for all or proportional to the projected amount of use of the services of a member of the credit cooperative. In both cases, the method of determining the amount of contributions corresponds to the principle of fairness. Targeted contributions have a purely economic meaning and are not related to basic or operational cooperative principles.

There is a close connection between the general, basic cooperative principles and the operational principles of credit cooperatives. It should be noted that operational principles are closely linked to the basic principle of equality of members and thus contribute to the establishment and maintenance of equality in the cooperative community.

The principle of joint responsibility of members is significant in terms of the number of social consequences that it affects. In addition to equality of relations, it also increases the degree of responsibility of members, their objective expression of will.

The principle of mutual assistance together with the principle of cooperation with other cooperatives and the promotion of educational activities lead to an increase in the degree of trust and good relations between members, increase their level of education and moral development.

All the main social consequences of the cooperative principles, namely:

equality of relations between members, objective expression of will of members, increasing their degree of responsibility, political and religious independence of members of the cooperative community, increasing trust and good relations between members, increasing their education and spirituality – can be briefly described as prerequisites for the establishment of social justice and democracy. It is justice and democracy that are the main ideals pursued by the pioneers and founders of the cooperative movement and thought, and which attract millions of people today [11].

Returning to the unprofitability of cooperatives, it is necessary to define this principle as important for understanding the nature of credit cooperatives, as it demonstrates their fundamental difference from other credit institutions, and above all – commercial banks, and therefore deserves special attention.

Awareness of the unprofitability of credit cooperatives by their management staff, ordinary members and the general public is of great importance for the spread of the credit cooperative movement and its development in the right direction, determined by its basic and operational principles [28].

At first glance, there is a contradiction between the non-profit status of a credit cooperative and the alleged actual income from lending activities [14].

The solution to this contradiction lies in the six determinants of non-profit activity shown in Figure 1.1*,* three negative and three affirmative ones.

First, unprofitability can be defined as "non-loss", i.e. work on the verge of self-sufficiency. Carrying out lending activities naturally requires certain costs. But these costs are covered not by profit, but by income from this activity, because profit is the difference between income and expenses. Thus, in the case where the income is equal to the expenses, the profit may well be equal to zero. And if for a commercial organization such activity does not make sense, then for the cooperative it is natural, because its purpose is to provide services to its members, and this goal is achieved. In practice, such a balance between income and expenses is rare, but, unlike business entities, it is desirable and ideal for credit cooperatives.

Second, non-profit activity means *non-commercial activity*. This statement comes from understanding the purpose of any commercial enterprise – to get as much profit as possible. The purpose of the establishment and operation of the cooperative is to meet the needs of members, in the case of credit cooperatives – the need for lending and placement of own funds for storage. There may be a question of whether members of cooperatives receive interest accrued on deposits, but this is not the profit of the cooperative, but of its members as customers [35].

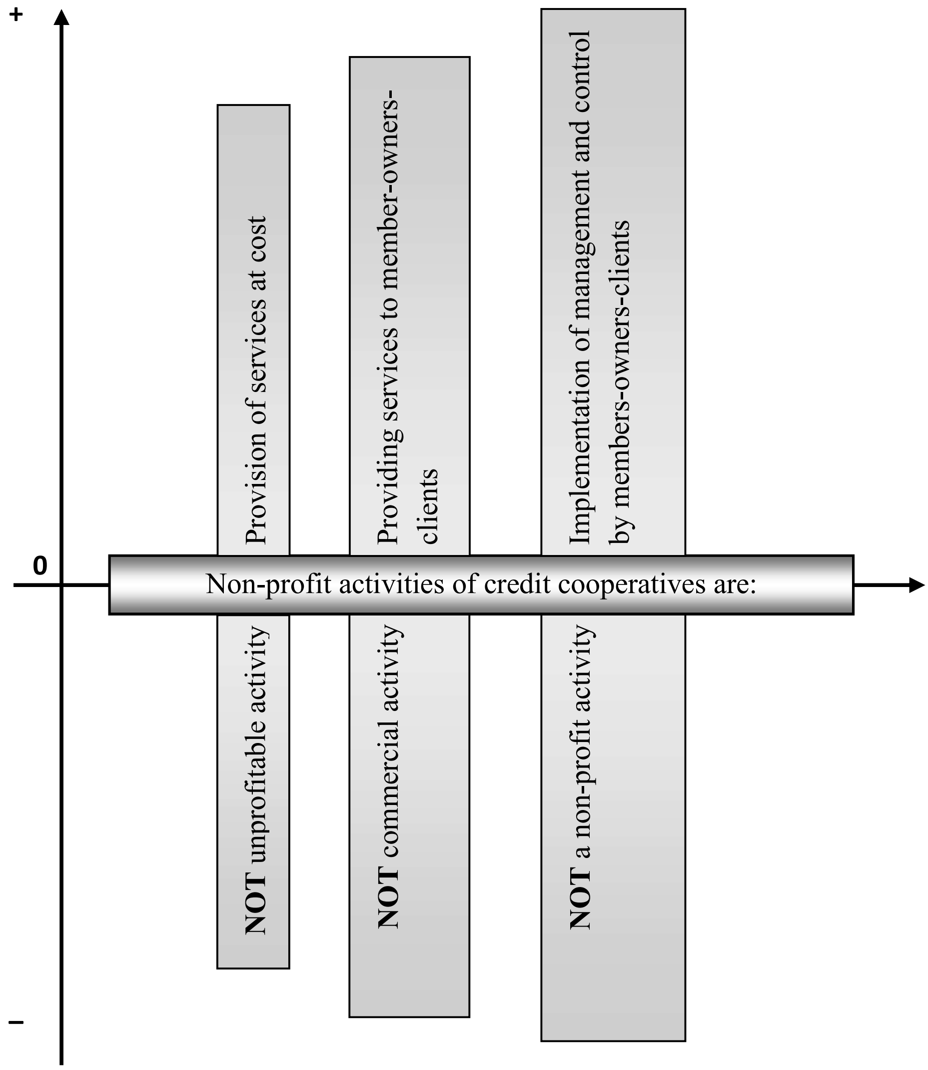

Fig. 1.1 – The essence of non-profit activities of credit cooperatives

Third, *non-profit activity*, as a rule, is *not without profit*, i.e. the cooperative still receives a profit, because in practice, the calculation of the mode of activity, in which costs are exactly equal to income, is almost impossible. Therefore, the choice in favor of profit rather than loss is logical. Use of profits is another thing.

In business entities, profits are naturally distributed among the owners in proportion to the money invested in the business. For credit cooperatives, ideally, the accrual of minimum interest on shares and the direction of profits mainly on the formation of reserve capital, designed to ensure the financial stability of the cooperative. Thus, the priority in the use of profits to strengthen the cooperative before the enrichment of the owners is the proof of unprofitability.

Fourth, the provision of services at cost is a sign of non-profit activities of credit cooperatives. In modern conditions, this thesis can be questioned and criticized, because often the actual cost of credit cooperative services is almost no different from the bank's one. Therefore, it should be noted that the purpose of cooperatives is to provide services at a price as close as possible to prime cost. In today's market conditions, competing with banking institutions, credit cooperatives must raise funds from the public on terms no less attractive than those offered by banks. As a result, the interest rate on the loan should be high enough to cover deposit payments. Thus, the cost of the lending process is quite significant. But at the same time, commercial credit institutions set the maximum possible interest rate on the loan, hoping to get the maximum possible profit; credit cooperatives do not aim to make a profit, but to provide services to members. Therefore, the setting of prices for credit services of coops is only taking into account the need to cover costs.

Fifth, non-profitability of credit cooperatives is confirmed by the identity of their owners and customers in one person which is the person of member. Commercial enterprises provide services to customers, while the owners receive profit from the activities of the enterprise. From this point of view, the profitable activity of credit cooperative is generally impossible, because both payers and recipients of funds in this case are the same – members of this credit cooperative.

Sixth, the exercise of functions of management and control over the activities of the credit cooperative members also indicates non-profit activity. The actions of commercial institutions are aimed primarily at maximizing profits, and therefore are determined and adjusted by the party that should make profit – by the owners.

At the same time, in order to increase profits, the price of services can be raised, the range and number of services provided, the geographical location of the institution or enterprise can be changed. Credit cooperatives are controlled by members who are customers at the same time.

Therefore, profit maximization, in contrast to meeting the needs of members, is not on the list of priorities of credit cooperatives, which also proves their unprofitability.

The difference between credit cooperatives from commercial banking institutions, in addition to non-profit and social aspects of activity, also lies in economic goals, organizational form, official status, management methods, ownership, types of services, composition of consumers services, size and structure of capital, target segments of the economy (Table 1.2).

Table 1.2 – Aspects of the qualitative difference between credit cooperatives and commercial banks

Qualitative aspect	**Difference**	
	Credit cooperative	**Commercial bank**
Social goal	Ensuring the financial needs of members through cooperation and self-help	Ensuring the financial needs of clients by selling them financial services
Economic goal	Cheaper and easier access to financial services for members	Receiving profits by owners from the sale of financial services to customers
Organizational form	Cooperative	Private enterprise, joint-stock company, limited liability company
Official status	Non-profit, public organization	Commercial organization
Ownership	Collective, relatively unlimited: all members are owners; the number of members can grow freely	Private or collective, limited
Management methods	Democratic (the principle of *one member - one vote*)	Individual or collective (in proportion to the ownership of the share of capital of the enterprise)
Types of services provided	Some types of financial, consulting and educational services	A wide range of financial services
Consumers of services	Only cooperative members (they are the owners too)	Bank customers (usually they are not owners)
The size and structure of capital	Relatively small authorized capital, which is constantly growing. Interest in increasing reserve capital	Relatively large fixed share capital. Lack of great interest in increasing reserve capital
Target segments of national economy	Household and agricultural farms, small business	Industry, trade, agricultural sector, households

Thus, our study of the conceptual apparatus of credit cooperation, historical, social and economic-financial aspects of credit cooperatives, as well as the system of principles of their activities allowed us to consider credit cooperatives as a unique and original organizational form of meeting the financial needs of the population through self-help, fundamentally different from other traditional lending institutions (banks and pawnshops).

1.2. Basic models of rural and urban credit cooperation

Credit cooperation historically emerged in two main forms. Prominent German cooperators and public figures Hermann Schulze-Delich and Friedrich Raiffeisen almost simultaneously, independently of each other, proposed two fundamentally different approaches to the organization of cooperative crediting: the first was for the urban population, the second was for farmers. Accordingly, there were two types of credit cooperatives: *credit societies* (often called *village loan societies*) by F. Raiffeisen and *savings and loan associations* (also called *people's banks*) by G. Schulze-Delich. These were two different models of cooperative crediting, each of which was adapted to particular social environment. From Germany they spread to other countries and today credit cooperation in any country is based either on the model of Raiffeisen or of Schulze-Delich, with some differences caused by peculiarities of national law. In some countries, both forms coexist, and there may be mixed versions. Therefore, understanding the nature of modern credit cooperation is impossible without analyzing the features of these classical forms.

Raiffeisen credit society operated on the basis of specific organizational and economic principles linked into one system [18]. In the book *Credit Societies as a Remedy for Poverty of Peasants, Factory Workers and Artisans*, Raiffeisen described and justified his system of financial self-help for the rural population.

But, setting out his views in this book, he did not provide an exhaustive list of organizational and economic principles of the system of financial self-help for peasants. Therefore, various researchers, analyzing the content of the book, at their discretion identify certain provisions as "Raiffeisen principles" [27].

For example, G. Wolf identified [1] eight principles in the Raiffeisen system:

1. Denial of entrance and share fees;
2. Lack of payment of dividends to members;
3. Direction of the company's net income to the reserve and founding funds, which are the property of the company, not its members;
4. Free work of members of the board and council of the cooperative;
5. Localization, i.e. restriction of the area of activity of the company;
6. Unlimited property liability of members;
7. Providing loans only to members;
8. Providing loans exclusively for production purposes.

The following provisions can be considered as the most important, fundamental principles of Raiffeisen cooperatives:

1. Lack of share capital (membership fees);
2. Unlimited liability of members for debts of the company;
3. Restriction of the society activity area (so that all members know each other);
4. Providing loans only to members of the cooperative, taking into account the identity of the borrower;
5. Free work in elected governing bodies and democratic control in the organization. [43]

Let's look at each of these principles separately, their relationship and the features of the system they create in the complex.

Raiffeisen's first principle: *lack of share capital in the cooperative*. This principle, at first glance, seems absurd. After all, no organization, in principle, can exist without the capital that is contributed by the owners at its inception and used to perform statutory tasks. If a cooperative is created to provide loans, it is logical that it should form at the expense of share contributions of members share capital, which would then be used to provide loans.

Why was Raiffeisen opponent of share capital? The fact is that societies, as a rule, were started by a small number of people. To generate sufficient capital to provide loans, the cooperative had to set a large share for each member. But at that time the vast majority of farmers did not have enough money to make shares of considerable size. Only individual owners could afford it. Therefore, the large size of the share limited access to society for many farmers. Establishment of a small share opened the possibility for middle and poor farmers to join the cooperative, but did not allow to form a sufficient amount to provide loans. So in this case, the cooperative needed outside help.

The first Raiffeisen societies were receiving capital on a charitable basis: wealthier villagers (landowners, clergy, and others) provided credit cooperatives with the necessary capital. It must be returned after the cooperative strengthens. But if all credit cooperatives were created on the basis of charitable assistance from outside, they could not become widespread.

In fact, life has made its adjustments, and the above dilemma has found an interesting logical solution over time. The first credit cooperatives strengthened, formed their own associations, which were able to provide loans to start-ups, providing them with the necessary capital for initial development. Rural credit cooperatives received a solid foundation for their development, with time began functioning without outside help and at the same time avoided the need to form share capital through large share contributions.

Raiffeisen's second principle - *unlimited liability of members for the cooperative's debts* - became the basis that ensured the credibility of the cooperative by creditors. This principle is reflected in the strength of cooperative association. Individual insufficiently solvent farms, united by a strong bond of mutual joint responsibility, together represent a strong, sufficiently solvent unit. And the more members you have in this organization, the higher its solvency is.

Of course, the joint liability of the members caused trust and respect on the part of creditors and significantly increased the solvency of cooperative. The property of several hundred farms (members of cooperative) was a reliable security and allowed the company to obtain a large and long-term loan to form the initial capital. Commercial banks, which did not want to deal with individual small farms and, as a rule, denied to credit them, but provided loans to a credit society as a reliable borrower. In addition, this form of securing the cooperative's liabilities has won people's trust, and many of them were willing to invest their money in savings and current accounts opened by cooperative.

Thus, in Raiffeisen's credit cooperatives, it was not share capital that became the basis of activity, but creditors' trust in the cooperative. Therefore, in Raiffeisen organizations there was no need for share contributions and the creation of their initial equity. The company began to work on funds raised under joint and several liability. This enabled even the poorest farmers to become members of credit societies.

Raiffeisen's third principle was *limiting the area of the cooperative's activity* (in the literature it is often called the *principle of localization*). This principle at the first glance seems illogical. After all, every organization is interested in maximizing the scope of its activities. Therefore, the credit cooperative should be interested in covering as much territory as possible and attracting as many members as possible. But the Raiffeisen societies did the opposite. They limited the scope of their activities. Raiffeisen considered the territory of the society's activity within one church parish to be the most optimal. The maximum area for a credit society was considered to be the territory inhabited by up to 1,500 people. In practice, the average number of members of Raiffeisen societies was much smaller.

The logic of localization principle was due to the unlimited joint and several liability of members of the cooperative for its debts. Of course, in order to agree taking responsibility for a person's actions, you need to know well his personal qualities. In addition, it is necessary to know its solvency and efficiency of management. Therefore, the restriction of the cooperative's area of activity contributed to the fact that its members, who were jointly and severally liable for its debts, knew each other well, and the board had the opportunity to monitor changes in financial and property status of members and targeted use of credit.

The fourth principle of Raiffeisen was to *provide loans only to members of the cooperative* and taking into account the identity of the borrower. It matters, who gets the credit and for which purpose.

The fifth principle of Raiffeisen was *free work of members of elected bodies of the society and democratic control in the organization*. The principle of operation of cooperative governing bodies on a voluntary basis was caused by the potentially small size of credit cooperative and desire to reduce the costs of activities. It stipulates that when members of elected bodies are not remunerated for their work in the society, the governing bodies of the society will be filled by people who will take on certain responsibilities only out of interest and desire to help their fellow villagers. These people will receive not a material but a moral reward for their work, and if we consider that the territory of the society is limited, it will significantly increase their authority in the community.

Raiffeisen's sixth principle was *creation of a special "indivisible fund"* in each cooperative. Raiffeisen proposed to direct two thirds of the cooperative's net income to the formation of this fund, which would have a dual purpose: 1) as long as the cooperative exists, the fund belongs to the company. It will be growing and over time it will ensure financial independence for the cooperative; 2) upon liquidation of the cooperative, this fund is not distributed among the members of the cooperative, but is transferred to the association of credit cooperatives, which will provide it to another credit cooperative to be established in this area. Such a mechanism should ensure the *immortality* of every once established credit society. The idea of indivisibility of the fund looked attractive for creation of the system, but did not find adequate support from credit cooperatives, which used only the mechanism of forming their own funds mostly.

This principle stipulates that only the treasurer can receive payment for work.

The seventh principle of Raiffeisen was *the gradual transformation of a credit cooperative into a universal rural cooperative*. Credit operations, according to Raiffeisen, should not be the only business of the coop. The credit society was to become a rural cooperative of a universal type: in addition to providing loans, it should help its members make savings, buy the necessary means of production, sell their products, organize courses and lectures on agriculture for its members, raise economic, moral and intellectual level of farmers [8].

Thus, the principles of Raiffeisen credit cooperatives were interconnected and together created a strong, viable cooperative form of financial self-help for farmers. This model was focused on farmers, but found great support among other social groups in the village.

Hermann Schulze-Delich proposed a different model of credit cooperative, which was fundamentally different from Raiffeisen cooperatives because it had different financial mechanism. This model was called the *People's Bank*, or *savings and loan society*, and was created to meet the financial needs of mostly urban residents: artisans, employees and other segments of the urban population [42].

Working in cities, especially large ones, where people know little about each other, required specific approaches to the organization of mutual financial assistance. Therefore, Schulze-Delich savings and loan cooperatives, having a cooperative nature and based on cooperative principles, built their financial mechanism on principles similar to those applied by banks and other financial institutions. The purpose of the first *people's bank* of Schulze, according to its charter, was to provide its members with funds. Their source was formed by members' shares, membership fees, reserve capital, as well as deposits and borrowed funds. The share and the entrance fee could be paid immediately or in installments. The society was governed by a general meeting, a committee and a board. The general meeting, according to the statute, was to be convened every three months, and for the current work they elected a committee consisting of the chairman, treasurer and auditor, who formed the board of the cooperative, and nine members. The statute also provided the institution of honorary membership. Honorary members of the cooperative were those who participated in its work and made contributions, but did not apply for a loan. Honorary members could participate in the general meeting and hold certain positions in the cooperative. Loans were provided for up to 3 months at the rate of 8% per annum. The loan term could be extended for no more than 3 months at 10% per annum.

These were the basic principles of the first Schulze *savings and loan cooperatives*. Over time, Schulze-Delich societies began to be characterized by the following features:

1. The cooperatives had significant equity capital, formed by the share contributions of members.

2. Membership of the society was not limited.

3. If possible, dividends were accrued, and they were greater than interest on borrowed funds.

4. Interest rate on the loan was high, but it was slightly lower than in other financial institutions.

5. The list of cooperative's financial services was similar to the list of banking services.

6. The work of the members of the board was paid.

7. Members of savings and loan cooperatives were indefinitely liable for its debts. Only later the law allowed creation of savings and loan cooperatives with limited liability.

8. Members of savings and loan associations were often passive. This was one of the hallmarks of Schulze-Delich societies. The wide membership meant that the members hardly knew each other. In many Schulze-Delich savings and loan societies there was no cooperative spirit of mutual assistance, members did not participate in general meeting. Passivity of the members was also facilitated by their limited liability for the cooperative's debts.

9. Services were often provided not only to members of the cooperative [8].

These were the main features of Schulze-Delich savings and loan cooperatives, which were very similar to banks. This is why they were called *people's banks*.

These were the classic models of credit cooperatives. They emerged in the mid-nineteenth century in Germany and began to spread around the world, receiving different names in different countries and acquiring specific features depending on the historical traditions of national cooperative movements and peculiarities of local legislations.

Today credit cooperatives function under a variety of names: *Volksbanken* and *Raiffeisenbanken* in Germany; *Rabobank* in the Netherlands, *Credit Agricole* and *Credit mutuel* in France, *Co-operative Bank* in India, Uganda and many other countries, *Bank for cooperatives* in the USA, *credit unions* in the USA, Canada, Great Britain, Korea, Australia and many other countries, *Cpoldzielcza Kasa Oszczednosciowo-Kredytowa* (joint savings and loan office) in Poland, *Saisses populaires* (people's treasury) in the province of Quebec, Canada, *Credit mutuel* (mutual credit) in Peru and many other countries, *Cooperativas de Ahorro y Credito* (savings and loan cooperative) in many Latin American countries. Credit cooperatives are also found under such names: *National Bank, Mutual Bank, Mutual Credit Society, Credit Society, Savings and Loan Society*, *financial cooperative, village cash desk, Raiffeisen cash desk, mutual aid fund*, etc.

Depending on the level of economic development and the specifics of national legislation, credit cooperatives have their own characteristics in each country.

In some countries they are small independent organizations that provide a range of financial services to their members, in other countries they are financial institutions that look little different from commercial banks; or they are quite powerful, multi-level financial and credit systems that provide a wide the range of banking services.

But whatever the name of these financial cooperatives, no matter what stage of development they are in, their activities are based on the basic models of F. Raiffeisen or G. Schulze-Delich, adapted to the specific conditions of each country.

Conclusions for chapter 1

The mission and functions of credit cooperatives are both economic and social. In this case, the social function of coops, although in second place after the economic one, but still is very important. The purpose of the credit cooperative is to meet the financial needs of its members, but, unlike commercial financial institutions - on the basis of socio-ethical, moral and just principles: voluntariness and open membership; democratic membership and control; economic participation of members in the establishment and operation of the cooperative; autonomy and independence of the cooperative; education and advanced training of members and employees of the cooperative; cooperation between cooperatives; promoting the development of cooperative communities.

Returning to the unprofitability of cooperatives, it is necessary to define this principle as important for understanding the nature of credit cooperatives, as it demonstrates their fundamental difference from other credit institutions, and above all – commercial banks, and therefore deserves special attention.

Thus, our study of the conceptual apparatus of credit cooperation, historical, social and economic-financial aspects of credit cooperatives, as well as the system of principles of their activities allowed us to consider credit cooperatives as a unique and original organizational form of meeting the financial needs of the population through self-help, fundamentally different from other traditional lending institutions.

Credit cooperation historically emerged in two main forms. Prominent German cooperators and public figures Hermann Schulze-Delich and Friedrich Raiffeisen almost simultaneously, independently of each other, proposed two fundamentally different approaches to the organization of cooperative crediting: the first was for the urban population, the second was for farmers.

Accordingly, there were two types of credit cooperatives: credit societies (often called village loan societies) by F. Raiffeisen and savings and loan associations (also called people's banks) by G. Schulze-Delich.

These were two different models of cooperative crediting, each of which was adapted to particular social environment. From Germany they spread to other countries and today credit cooperation in any country is based either on the model of Raiffeisen or of Schulze-Delich, with some differences caused by peculiarities of national law.

The following provisions can be considered as the most important, fundamental principles of Raiffeisen cooperatives: lack of share capital (membership fees); unlimited liability of members for debts of the company; restriction of the society activity area (so that all members know each other); providing loans only to members of the cooperative, taking into account the identity of the borrower; free work in elected governing bodies and democratic control in the organization.

Hermann Schulze-Delich proposed a different model of credit cooperative, which was fundamentally different from Raiffeisen cooperatives because it had different financial mechanism. This model was called the People's Bank, or savings and loan society, and was created to meet the financial needs of mostly urban residents: artisans, employees and other segments of the urban population.

Over time, Schulze-Delich societies began to be characterized by the following features: the cooperatives had significant equity capital, formed by the share contributions of members; membership of the society was not limited; if possible, dividends were accrued, and they were greater than interest on borrowed funds; interest rate on the loan was high, but it was slightly lower than in other financial institutions; the list of cooperative's financial services was similar to the list of banking services; the work of the members of the board was paid; members of savings and loan cooperatives were indefinitely liable for its debts; members of savings and loan associations were often passive; services were often provided not only to members of the cooperative. These were the main features of Schulze-Delich savings and loan cooperatives, which were very similar to banks. This is why they were called people's banks.

CHAPTER 2
CREDIT COOPERATION IN THE COUNTRIES OF EUROPE AND NORTH AMERICA

2.1. Credit cooperatives in Germany, France and the Netherland

The system of credit cooperation in Germany. About 2,500 cooperative credit societies are located in cities, mainly under the name *Volksbank*, and in rural areas under the name *Raiffeisenbank*. In part, these are relatively small rural cooperative credit institutions, the number of which has been steadily declining in recent years due to their merger. The basis for the creation of a cooperative credit sector in Germany was the idea of *self-help through mutual aid*, which appeared more than 125 years ago and was based on the principles of self-government and joint responsibility. Today, cooperative credit unions offer a universal range of financial services, despite the fact that their activities focus on obtaining term and savings deposits and providing short-term and medium-term loans to their members. It should be noted that the volume of long-term loans is constantly increasing. If earlier members of such societies were artisans and farmers, today the vast majority of more than 13 million members are represented by the middle classes (workers, employees, officials). Settlement operations between individual cooperative credit societies are carried out through regional central cooperative banks, the task of which is to maintain liquidity and carry out operations in the field of banking services such as settlement operations with other countries and so on. Today there are 4 such central cooperative banks. DG Bank is the supreme organization of the cooperative banking group. It is a corporation of public law and is tasked at the legislative level to encourage German cooperative work. As a universal commercial bank and a bank operating worldwide, it has the right to issue shares and perform banking transactions of all kinds" [37]. The system of credit cooperation in Germany can be depicted as follows (Figure 2.1).

BVR Federal Union of German Volksbanks and Raiffeisenbanks	National level	DG BANK Deutsche Genossenschaftsbank
11 Regional unions (leagues)	Regional level	3 Central cooperative banks
	Local level	
2500 of credit cooperatives (Volksbanken and Raiffeisenbanken), having 19,700 bank branches		

Fig. 2.1 – The system of credit cooperation in Germany

Credit cooperatives are called local or primary coops and are the basis of a cooperative banking system. They are mostly called *Raiffeisenbank* or *Volksbank*, less often as *Savings and Loan Fund*, *Union Bank*, *Savings and Loan Bank* or simply *Bank of…* (associated with a particular locality) [19]. Credit cooperatives are independent financial institutions governed by German banking law. Just like universal banks, they carry out traditional banking operations. In addition, almost a third of them are engaged in commodity transactions for their members engaged in agriculture. At that, primary cooperatives receive significant support from central cooperative banks and the unions' system. All credit cooperatives are considered credit institutions under the Credit System Act. Credit cooperatives in Germany have the legal status of a cooperative (eG) on the basis of the law on cooperatives, adopted in 1889 with the participation of G. Schulze-Delich, as amended in 1898, 1985 and 1988. According to the model statute, the purpose of the credit cooperative is economic support and servicing the members. The subject of activity of *Volksbank* and *Raiffeisenbank* is the following: conduct of traditional banking and additional operations, such as commodity and service: acceptance of savings deposits; acceptance of other deposits; providing loans of all kinds; providing guarantees for members; payment and settlement operations;

international transactions, including the purchase and sale of cash and non-cash currency; counseling, mediation, assistance in managing the family budget; purchase and sale at auctions, storage and management of securities and other valuables; mediation or sale of contracts for construction savings, insurance, etc .; collective purchase of goods necessary for members; collective sale of agricultural products; supply of goods to members.

German law allows cooperatives to conduct business with non-members. Individuals, personal partnerships and legal entities of private or public law can be members of the cooperative.

The activities of *Volksbanks* and *Raiffeisenbanks* are constantly supervised by the Federal Credit System Agency. In addition, paragraph 33 of the *Law on the credit system* sets professional requirements for the heads of credit cooperatives [19].

Germany's primary credit cooperatives have more than 1,500 branches. It is the densest banking network in Europe [45].

Central cooperative banks (it would be more correct to call them regional cooperative banks) are the average level of the cooperative banking sector. They are created by credit cooperatives, operate on a cooperative basis, provide a variety of banking services to primary cooperatives and are owned by them. There are 3 central cooperative banks in Germany (SGZ-Bank in Frankfurt, WGZ-Bank in Düsseldorf and GZB-Bank in Stuttgart), which operate simultaneously for both rural and urban credit cooperatives.

The task of central cooperative banks is to equalize monetary demand among cooperatives and include them in the national money market system, providing the possibility of refinancing at the interbank level. Central cooperative banks are the basis of the system of technical implementation of payment and other banking operations of credit cooperatives. They are engaged in their own credit operations, advisory work on property issues for clients of credit cooperatives, as well as transactions with securities, especially foreign ones, in cooperation with credit cooperatives and DG-Bank.

DG-Bank is the central cooperative bank, which functionally completes the German cooperative banking system at the national level [41]. It is located in Frankfurt and was created in the legal form of the organization of public law. As a *bank of banks*, DG-Bank has the main task of equalizing fluctuations in demand for money in the entire cooperative banking system of Germany and conducting operations in international financial markets. He was granted the right to issue securities [45]. DG-Bank belongs to regional cooperative banks and national associations of other types of cooperatives (agricultural, housing, etc.), together with which specialized cooperative financial institutions at the federal level have been created, and together they form the cooperative financial and credit system of Germany (Figure 2.2).

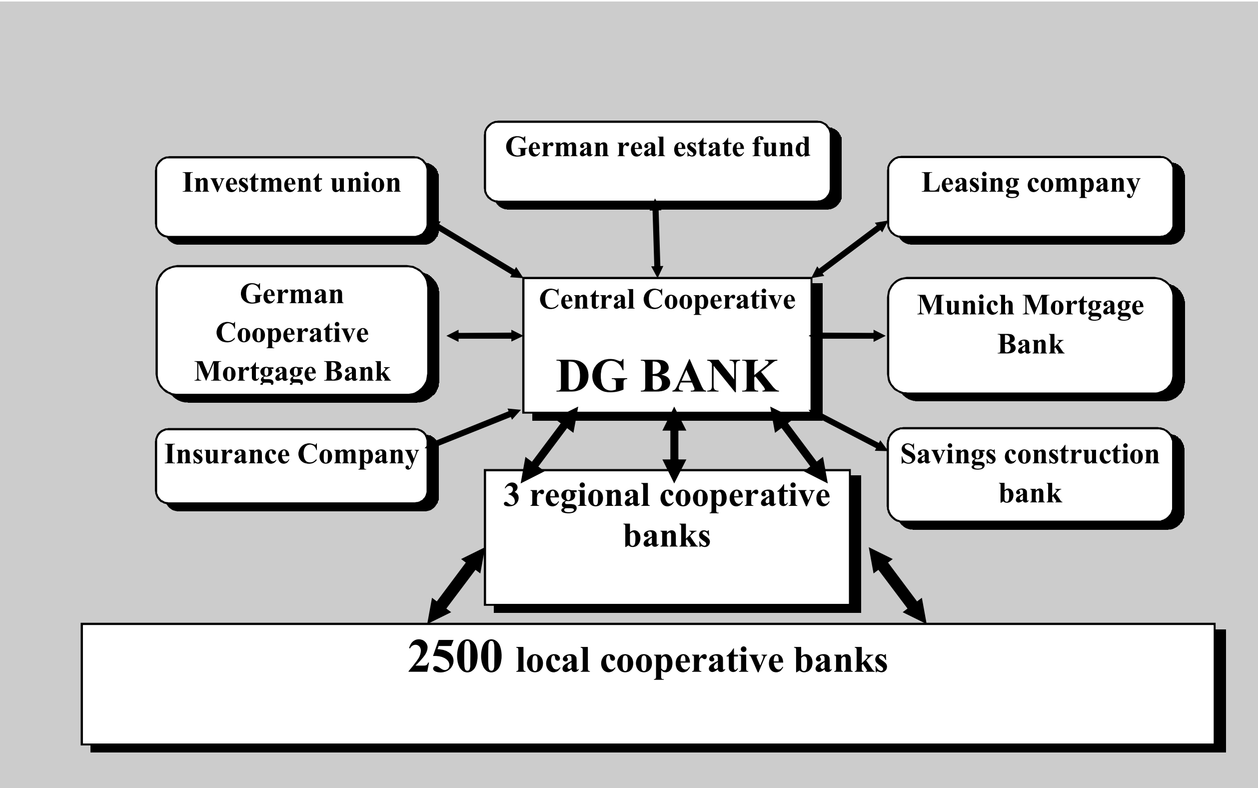

Fig. 2.2 – Cooperative financial and credit system of Germany

Source: [41]

In addition to these financial associations, German credit cooperatives have established *Regional unions (leagues) and the Federal Union of German Volksbanks and Raiffeisenbanks (BVR)*, which aim to promote, support and represent the professional and economic interests of members and institutions of cooperative credit. The Federal Union of Volksbanks and Raiffeisen Banks (BVR) is a national association established in 1972 by an association of Schulze-Delich and Raiffeisen systems [33]. BVR conducts national educational cooperative program and cooperates with the government. The union has authority from the federal government and is responsible for auditing all German credit cooperatives.

The Federal Union (BVR) has the following objectives: to promote and develop the cooperative credit system; lobbying the interests of the cooperative credit system; consulting on global legal, tax, economic and organizational issues; establishment of security systems and promotion of credit unions; participation in associations and institutions that promote the development of the cooperative credit system; publication of annual reports, journals, as well as statistical accounting. The members of the BVR are regional cooperative unions (leagues), which, among other activities, are responsible for conducting audits of the activities of local cooperative banks and inform the national association about the financial condition of its members.

The system of credit cooperation in France. In France, there are four powerful national systems of cooperative banks: Credit Agricole, Credit Mutuel, Credit Cooperatif and Banque Populaires. In addition, in June of 1999 the French savings banks (Caisses d′epargne) were transformed into a system of cooperative banks [17], which French legislators consider to be more progressive form of financial institution. These cooperative systems are characterized by the following features (Table 2.1) [38].

Table 2.1 – Institutional elements of individual credit and cooperative systems in France

National cooperative systems	Regional cash registers	Local cash registers	Branches and offices
Credit Agricole	53	2773	5754
Credit Mutuel	18	1880	3231
Banques Populaires	30 regional banks		1832
Credit Cooperatif	38 credit institutions		171

• *Credit Agricole*, consists of local and regional cooperative cash registers, combined at the regional level into regional associations and cash desks, which, in turn, are part of the national association *Federation Nationale du Credit Agricole* and the national cooperative cash register *Caisse Nationale du Credit Agricole*.

• *Credit Mutuel*, local cooperatives organized in the regional federations of Credit Mutuel, which are united in the confederation *Confederation Nationale du Credit Mutuel* and are members of the *Caisse Centrale du Credit Mutuel*.

• *Credit Cooperatif,* consists of *Caisse Centrale de Credit Cooperatif* and regional credit institutions.

• *Banquws Populaires,* regional cooperative banks formed their central institution *Chambre syndicale* and central banking institution - *Caisse Centrale des Banques Populaires*.

Credit cooperatives (cooperative cash desks and banks) in France are financial and credit institutions that have the status of a legal entity and are engaged in banking: accept funds for various types of savings accounts, provide loans, perform settlement and cash services and other operations. Members of these credit cooperatives are both lenders and borrowers, and in different organizations under their statutes may belong to the same field of activity (farmers, fishermen, etc.), or operate in different areas.

Today, cooperative institutions operate as universal banks. They are allowed to accept deposits from any individuals and legal entities, to receive and provide support to third parties who are not members of cooperatives, under the conditions specified in the statutes.

Due to the fact that these systems of cooperative banks are similar to each other, let's consider only one of them - the banking group *Credit Agricole*, which serves two-thirds of the French agricultural sector and is the largest bank in the French banking system and one of the largest banks in Europe.

Credit Agricole is a cooperative group with a three-level structure: 2,773 local cooperative banks (cash desks) are the main members of 53 regional banks, which in turn own 90% of the capital of the National Credit Agricole (CNCA). The National Credit Agricole Federation (NFCA) represents the interests and coordinates the activities of regional banks (Figure 2.3).

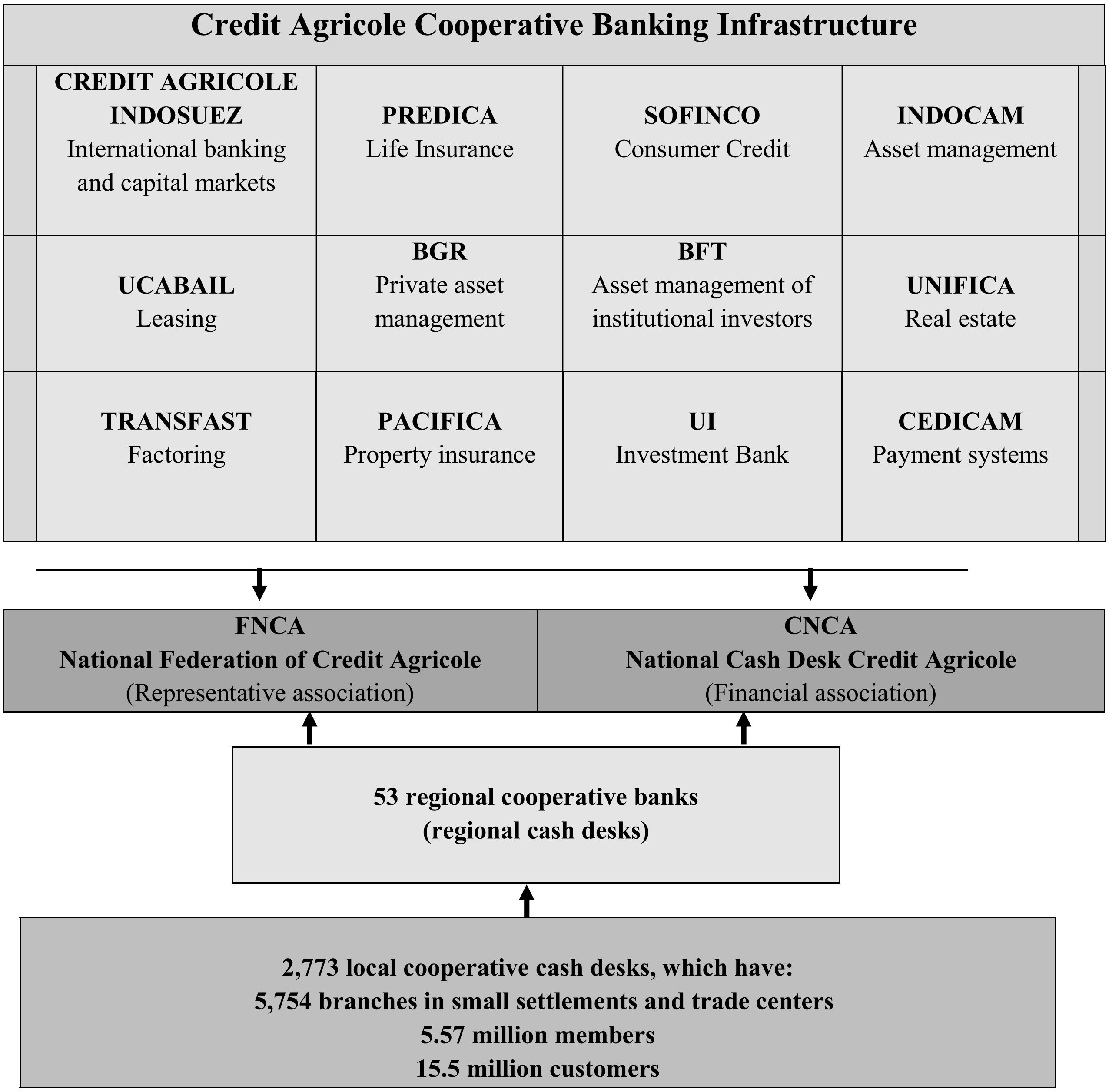

Fig. 2.3 – The structure of the cooperative bank Credit Agricole Group

Until 1988, the Credit Agricole system had the unique status of a specialized cooperative-and-state banking system for lending to the French agricultural sector, partly owned by local and regional cooperative cash desks and partly owned by the state (National Cash Desk Credit Agricole), through which the state financial support was directed to the farmers. Since 1985, Credit Agricole banks have been allowed to direct public credit resources not only to the agricultural sector, but also to other sectors of the French economy. In 1986, Credit Agricole expanded its business to insurance, creating the Predica subsidiary, which 10 years later became the second largest life insurance company in France.

Credit Agricole became really universal in 1991, when the French government cancelled all socio-professional and geographical restrictions on lending for this organization. By a special law in 1988, the National Cash Desk Credit Agricole was granted the status of a company, where 90% of the capital belongs to regional cooperative banks, and 10% - to current and former employees of the Credit Agricole Group.

Today, Credit Agricole plays a key role in France's small credit markets, serving 15.5 million customers through its vast network. Credit Agricole was originally primarily a financial organization of French farmers, but later expanded to include households, people of liberal professions, companies and local governments. In addition to traditional banking services, Credit Agricole offers its customers a wide range of financial services provided by its specialized infrastructure institutions. Credit Agricole has a strong position in the capital markets and international settlements markets thanks to network of 150 offices in 60 countries. It is expanding its presence in promising domestic and international asset management markets.

C*redit Agricole Regional Cash Desks* (banks) are fully independent credit cooperatives that provide a wide range of banking and financial support services that are standardized at the Group level. At the local level, domestic cooperative cash desks have been set up, managed by councils elected by the members.

The National Cash Desk Credit Agricole (CNCA) has been dependent on the state for some time, as most of its capital was once provided by the state to support the French agricultural sector. In the late 1980s, a special law transformed Credit Agricole into an institution independent of the state, owned by regional cooperative banks. As the central body of the Credit Agricole

Cooperative Banking Group, the CNCA controls the financial unity of the group, invests free funds of regional banks, receives savings deposits from them, and provides them with medium- and long-term loans. The CNCA coordinates the implementation of the group members' strategy. It develops savings and investment financial instruments, which are implemented by regional banks. It is responsible for the development of international operations, branches and supports the activities of regional banks in their regions. As the central body of Credit Agricole Group, it supervises regional banks to ensure their liquidity and solvency. CNCA represents Credit Agricole Group in its relations with banking and financial government agencies.

The National Credit Agricole Federation (NFCA) was established by regional banks as a collegial body to determine the basic directions of the Credit Agricole Group activity and to represent the interests of regional banks and the Group in relations with the French Government, the European Parliament and cooperatives and industrial enterprises in France and abroad. In addition, *NFCA* performs the following functions:

- personnel management policy of all regional banks;
- consulting and audit;
- coordination of protection against crimes in the financial sphere;
- management of the group's policy in the field of life insurance of creditors;
- introduction of new information technologies;
- management of the Group's holding infrastructure.

Credit Agricole has an efficient structure, which is both single (centralized financial group) and decentralized (regional cooperative banks). The advantage of Credit Agricole, as a federal organization, is the centralization and use of resources and experience that would be unavailable to regional banks in the case of their separate operation. And the structure of the organization gives the participants of this cooperative system significant advantages in the financial market: on the one hand it is financially, commercially and legally the only powerful financial institution, on the other hand, participants are free to make decisions on most aspects of economic activity.

The system of credit cooperation of the Netherlands. The cooperative financial and credit sector of the Netherlands is represented by the Rabobank banking group. Today it is a powerful cooperative structure that has remained committed to its cooperative nature for many decades. Rabobank's operations have always been focused mainly on customers-owners.

The cooperative banking group consists of 480 autonomous local Rabobanks [30], which own the national cooperative Rabobank, Rabobank-International (corporate and private banking services, investment services) and a number of specialized institutions such as Interpolis (insurance), De Lage Landen International (leasing and trade finance), Nedship Bank (merchant fleet financing), Gilde Investment Management (venture capital). Robeco Group, the company that manages Europe's largest investment fund, also belongs to the "family" of Rabobank [30].

The national Rabobank provides advisory support to local Rabobanks, helps regulate liquidity and place temporarily free funds, and supervises solvency. Local Rabobanks are independent cooperative banks whose purpose is to provide financial services to enterprises and the population at the local level. In terms of market share, Rabobank is the largest bank in the Netherlands and one of the 50 largest banks in the world. Cooperative traditions, according to which healthy conservatism has always been preferred to risk, have allowed Rabobank to achieve outstanding reliability. For a long time, the world's three most recognized international independent rating agencies have given it the highest rating for this financial institution, which is AAA.

Although *Rabobank International* was formally established only in 1996, Rabobank's international operations began much earlier. Its branches were opened in Europe, North America, Asia and South America, they entered into strategic alliances with European partners. They also acquired some existing banks as ADCA in Germany, PIBA in Australia, ACC in Ireland, Valley Independent Bank in the United States, which allowed Rabobank to establish itself in foreign markets for consumer banking and agricultural lending [22].

In 2006, Internet Savings Bank *RaboPlus* was founded. It first appeared in Ireland under the name RaboDirect, and then as RaboPlus in Belgium, New Zealand and Australia [32].

In May 2007, Rabobank completed the acquisition of Mid-State Bank&Trust, and in 2010 – Pacific State Bank, which allowed it to expand its influence in California (USA) [32].

At the turn of the XX and XXI centuries there was a significant decrease in the number of member banks of the system. Thus, if in 1997 their number reached 481, in 2008 – only 153. The number of branches also decreased from 1823 to 1112.

Such changes are due to numerous mergers and acquisitions within the country's credit-cooperative system. However, the total assets of Dutch cooperative banks increased from 122 billion euros in 1994 to more than 600 billion euros in 2018. Loans to the private sector during this period increased from 80 billion euros to about 410 billion euros [9].

The system of cooperative banks in the Netherlands serves 1.7 million members and more than 9.5 million individuals and corporate clients (Figure 2.4).

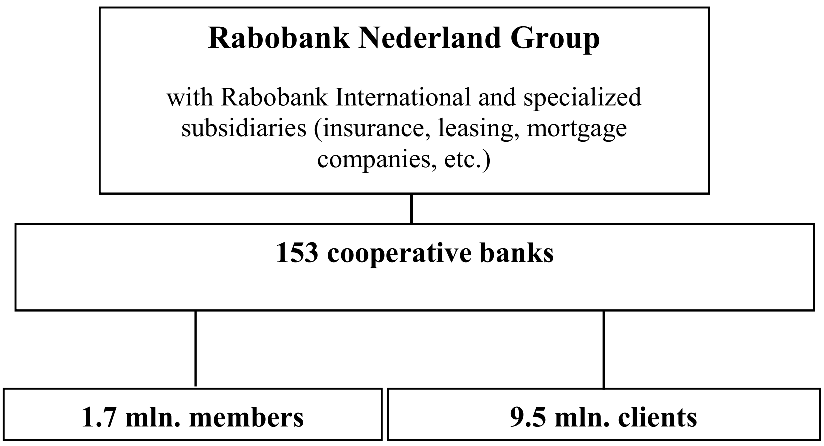

Fig. 2.4 – Credit and cooperative system of the Netherlands Rabobank Group

Source: [29]

In addition, the Rabobank Group is represented in 45 countries. Its successful work is ensured by 60 thousand employees.

The activities of a cooperative bank are aimed mainly at providing its members (individuals and legal entities) with funds to conduct their business [31]. More than 40% of deposits in the country are in Rabobank. This makes it possible to meet about 90% of the needs of Dutch agricultural loans, which is more than 30% of its annual credit turnover. The rest of the funds are directed to non-agricultural medium and small businesses (18%) and to meet the needs of individuals (52%). Most of these loans are secured by collateral, but Rabobank's portfolio of services is quite diverse.

In terms of retail lending market share, Rabobank is the third largest bank in the Netherlands and the second largest in terms of current accounts [32]. In addition, Rabobank ranks 35th among the 100 largest banks in the world [23].

So, credit cooperatives form significant segments of European countries' financial sectors. Established mostly in the middle of the nineteenth century, European credit cooperatives were getting very popular among both village and city livers. Two basic models of credit cooperative developed by Germans (Raiffeisen and Schulze) became samples for credit cooperatives of rural and urban people correspondently. They could be named as credit unions, peoples' banks, cooperative banks, Raiffeisen banks etc. Since the second part of the twentieth century they are going through two basic transformations. First, credit cooperatives are getting bigger and less numerous through constant merging and acquisitions. Second, they use to perform more and more functions typical for ordinary commercial banks, in order to compete with them on financial market.

2.2. Credit cooperatives in the USA and Canada

US credit union system. The US economy has a strong cooperative financial and credit sector, which consists of several developed systems that have an efficient service infrastructure which allows financial and credit cooperatives to compete successfully with other financial market players. These systems include the system of credit unions, farmers' credit system and systems of other cooperative financial institutions (insurance cooperatives, etc.) [26] (Figure 2.5).

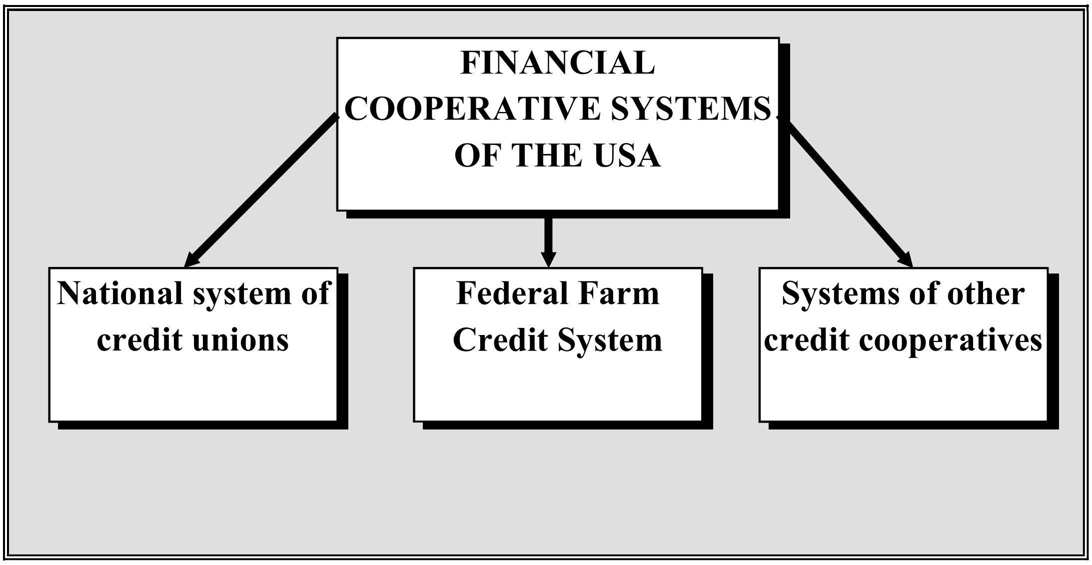

Fig. 2.5 – The structure of the financial and credit cooperative sector of the US economy

Leaders of the American credit union movement in the early years of their development began to apply the idea of financial cooperation not only between people but also between their financial institutions. Realizing that merged credit unions can achieve much more than they can by their own, they began to actively form their own organizations at various levels and in almost a hundred years created a strong, highly developed financial system in the United States (Figure 2.6).

States Leagues. Leagues are non-profit associations of credit unions at the state level. In addition to the 50 leagues of each US state, the credit unions of the District of Columbia and Puerto Rico also have their own leagues. In 1988, more than 90% of local credit unions were members of leagues. Each credit union that is a member of the league pays dues according to the number of its members. The larger the credit union, the greater the contribution to the league it pays to support the services that the league provides to its members.

One of the important functions of the leagues is constant monitoring of the formation of legislation and lobbying. All bills that are developed and can be passed by state legislatures are analyzed in terms of their possible impact on the future work of credit unions. In the event that a bill may in any way affect the interests of credit unions, the league proposes to make appropriate changes [15]. Given the need for ongoing work, leagues are located in the administrative centers of the states to be closer to the politicians who make the laws.

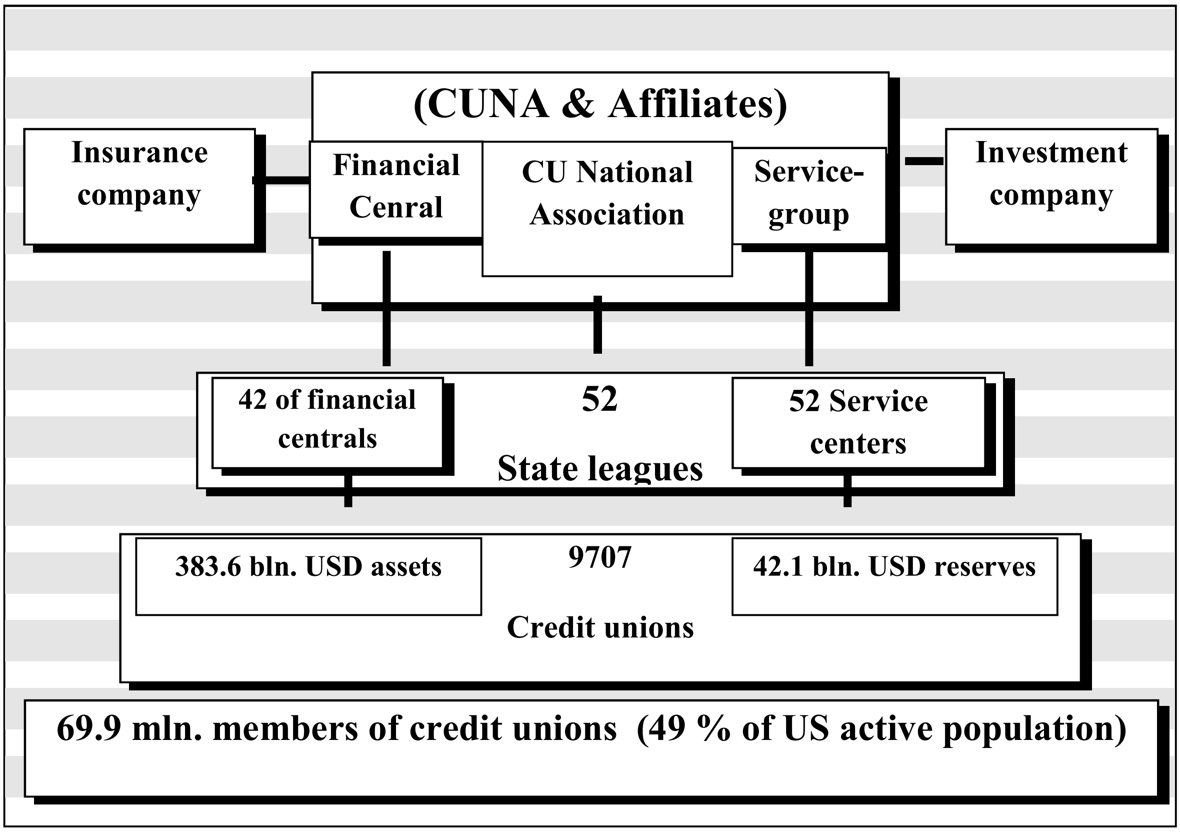

Fig. 2.6 – The US National Credit Union System

Source: [15]

The second important function of leagues is training. The leagues offer training seminars and conferences for credit union employees on a wide range of issues, from robbery prevention to pension programs (IRA) in credit unions.

In addition, leagues provide information support to credit unions, advertising, public relations, etc.

Service centers. They are created by leagues to provide credit unions with a variety of goods and services, such as office equipment, data processing, marketing research and more.

As a rule, the league and the service corporation are located in one place, which makes it easier to interact with each other. The Service Corporation also has a working relationship with the Service Group of the National Association of Credit Unions.

The state leagues are members of the National Association of Credit Unions (CUNA), the Service Group (CSG) and the Central (USC). These three national organizations, united under the same name *CUNA & Affiliates*, have clearly defined functions regarding credit unions and leagues, are their property, are under their democratic management and provide them with various services: credit card, check and money transfer services, investment and information services, provision of pension programs (IRA), liquidity support, etc. This structure provides the US credit union system with reliability and stability, which is constantly monitored by the state body – the National Credit Union Administration (NCUA).

The current dynamics in the US credit unions quantity is shown on the Figure 2.7. As it can be seen from this figure, during the last years the total number of American credit unions is constantly decreasing which can be explained by strong tendency of merges and acquisitions.

The Federal Farm Credit System (FFCS) is the second largest cooperative financial system. Agricultural credit cooperatives in the United States are represented with state support, unite 800 local farmers' banks and associations that are part of 37 large regional banks. The capital of the farm credit system in the mid-1980s was 9.6 billion USD, and assets reached 74 billion USD. The ratio between own funds and assets was 12.5%, while the average for American banks was 5-6%. In terms of agricultural lending, FFCS ranks first among other credit institutions in the country. In 1986, it accounted for 40% of long-term and 20% of short- and medium-term loans.

The farmer's credit system is the main investor into the US cooperatives. And it is organized with the help of the state. It is based on three unions: the first one is represented by 12 federal land banks with local branches (land bank associations); the second one unites 12 federal intermediate credit banks with local branches – producers' credit associations; the third one has a central bank for cooperatives and 12 district cooperative banks.

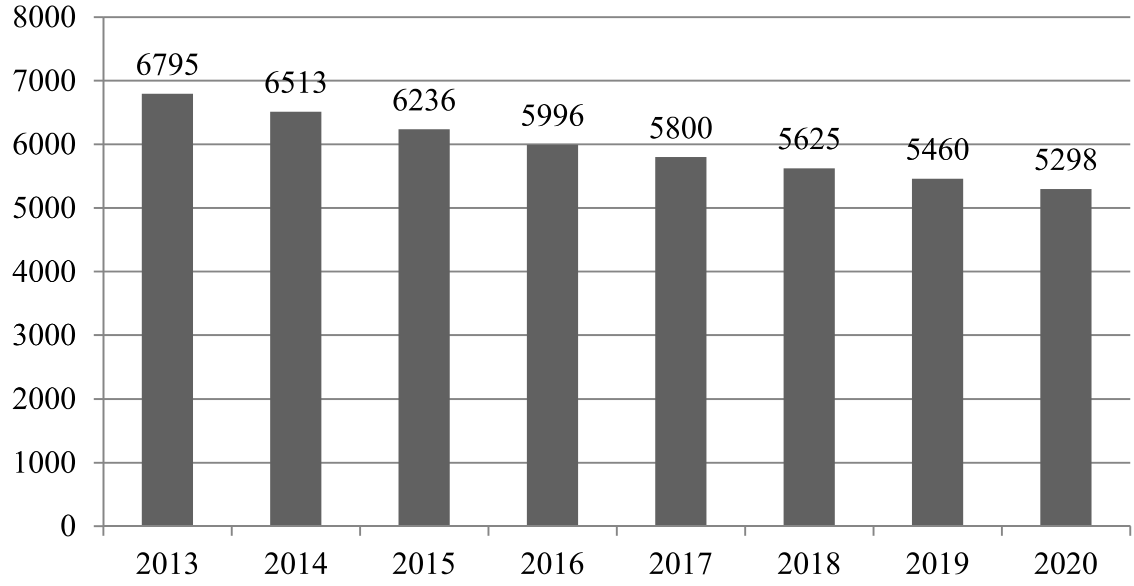

Fig. 2.7 - Number of credit unions in the USA, 2013-2020

In total, in the late 80's FFCS consisted of about 500 credit associations. Farmers are involved in the management of FFCS organizations at all levels. They elect the governing bodies of the land bank and industrial credit associations, as well as more than four of seven members of FFCS board of directors. The 12 primary associations of federal banks and land banks are autonomous. Farmers can be members. Each member pays his share upon joining. Each association has its share in the federal land bank, which allows member farmers to use the services of the land bank in any of its district branches. More than 600,000 farmers were members of the farmers' credit system in the late 1980s [26].

The Farm Credit System is a network of cooperative credit institutions and organizations that provide relevant financial services and operates throughout the United States. These institutions specialize in providing credit and other financial services to farmers. Loans are provided to finance the production and marketing activities of participants. In addition, loans can be provided to homeowners in rural areas, some companies whose activities are related to agriculture, agricultural cooperatives, rural infrastructure enterprises (electricity and telephone networks, water supply, sewerage). Today, FFCS provides loans worth more than 61 billion USD for more than half a million rural borrowers.

Unlike commercial banks, cooperative institutions that are part of the system do not attract deposits. Instead, bonds are the source of credit resources. They are common for the entire System and are sold on capital markets. All banks in the system are governed by boards of directors elected by the members of the cooperative. In addition, federal law requires that at least one member of the board of directors be elected by other non-participating directors.

While researching financial indices of the Farm Credit System, we have calculated the basic indicators, shown in the Table 2.2.

Table 2.2 – Farm Credit System major financial indicators, by annual comparison

mln.USD

Item	31. Dec., 2019	31. Dec., 2018	31. Dec., 2017	31. Dec., 2016	31. Dec., 2015
Total assets	$ 365,359	$ 348,992	$ 329,518	$ 319,915	$ 303,503
Gross loan volume	$ 286,964	$ 273,378	$ 259,888	$ 249,791	$ 236,750
Bonds and notes	$ 295,499	$ 283,276	$ 267,119	$ 260,213	$ 246,214
Nonperforming assets	$ 2,347	$ 2,282	$ 2,022	$ 2,037	$ 1,725
Net income, full year	$ 5,446	$ 5,332	$ 5,189	$ 4,848	$ 4,688
Nonperforming assets / Gross loans and other property owned	0.82%	0.83%	0.78%	0.82%	0.73%
Capital & insurance / Assets	16.90%	16.75%	16.81%	16.35%	16.09%
Retained earnings / Assets	13.41%	13.31%	13.24%	13.50%	13.33%
Return on average assets	1.54%	1.59%	1.62%	1.56%	1.64%
Return on average capital	8.91%	9.29%	9.49%	9.44%	9.87%
Net interest margin	2.42%	2.46%	2.48%	2.49%	2.55%
Efficiency ratio	36.2%	35.2%	35.1%	34.6%	35.0%
Operating expenses / Average loans	1.18%	1.17%	1.17%	1.16%	1.21%

Source: [7]

As for the credit activity of American agricultural credit cooperative system, it is rather diversified. The loans are provided for funding various spheres of agricultural business, starting with agricultural production and finishing with leasing, real estate and marketing (Table 2.3).

As of July 1, 1999, the System consisted of the following credit institutions:

Table 2.3 – Farm Credit System loans outstanding, 2015-2019

mln.USD

Loan Type	2019	2018	2017	2016	2015	Percent Change from 2015	Percent Change from 2018
Agricultural real estate mortgage loans	$132,215	$126,310	$120,561	$115,469	$108,673	21.7%	4.7%
Agricultural production and intermediate-term loans	56,095	53,447	51,724	50,282	49,204	14.0%	5.0%
Agribusiness loans to the following:							
Processing and marketing operations	28,205	24,832	21,582	21,166	19,949	41.4%	13.6%
Cooperatives	17,776	17,589	17,335	15,300	13,113	35.6%	1.1%
Farm-related businesses	4,068	3,692	3,293	3,162	3,533	15.1%	10.2%
Rural utility loans by type of utility:							
Energy	19,432	20,100	19,689	19,577	17,925	8.4%	-3.3%
Communication	7,847	6,755	6,311	6,023	6,196	26.6%	16.2%
Water / wastewater	2,390	2,305	1,965	1,840	1,677	42.5%	3.7%
Rural home loans	7,405	7,308	7,261	7,148	7,117	4.0%	1.3%
Agricultural export finance	6,712	6,581	5,645	5,531	5,075	32.3%	2.0%
Lease receivables	3,902	3,630	3,665	3,480	3,373	15.7%	7.5%
Loans to other financing institutions	917	829	857	813	915	0.2%	10.6%
Total	$286,964	$273,378	$259,888	$249,791	$236,750	21.2%	5.0%

Source: [7]

• Six regional *Farmer Credit Banks*, which provide direct long-term loans through 32 *Federal Associations of Land Banks* and provide credit resources to 63 *Production Credit Associations*, 48 *Agricultural Credit Associations* and 40 *Federal Land Credit Associations*.

• *Agricultural Credit Bank* provides credit resources to 4 agricultural credit associations. In addition, it provides loans to all types of agricultural, water and service cooperatives, as well as authorized to finance the export of agricultural products and provide international banking services for farmers' cooperatives.

The Washington-based *Farmers' Credit Council* represents the legal interests of the FFCS and in its relations with regulators. The *Farm Credit Administration* is an independent federal regulatory agency responsible for auditing and ensuring the financial stability of all institutions of the System. It is governed by a board of directors consisting of three members appointed by the President and approved by the Senate. In addition, the *Farmers' Credit Administration* controls and regulates the following institutions of the System:

• *Federal Corporation for Financing of Farm Credit Banks* (*Financing Corporation*) is an institution owned by the System. It markets securities that banks sell to finance credit resources. The institutions of the system obtain most of their credit resources by selling these securities on the domestic capital market. Securities, mainly bonds and discount bonds, are distributed by the Financing Corporation through a nationwide system of securities dealers and dealer banks. Debt securities are a joint liability of all banks in the System.

• *The Farmers' Credit Financial Assistance Corporation* (*Aid Corporation*) was established under the Agricultural Credit Act 1987 to provide the System with the necessary capital through the purchase of securities issued by the System's institutions for financial assistance authorized by the FFCS Financial Assistance Council. Approximately 1.26 billion dollars was provided by the Aid Corporation, but its powers to provide assistance expired on December 31, 1992. This institution is governed by the same board of directors as the Financing Corporation and will continue to operate until all funds used to provide financial assistance have been recovered.

• *The Federal Corporation for Agricultural Mortgages* was established to develop a secondary market for mortgages for houses in rural areas.

• *Pharm-Credit-Leasing* provides equipment leasing services to agricultural producers, cooperatives and service organizations in rural areas.

Canada's credit union system. Today, the cooperative credit system of Canada [12] consists of two autonomous cooperative systems: the English-language system of credit unions and the French-language system of mutual benefit societies of Desjardins, Quebec (Figure 2.8).

Credit unions. In terms of organizational structure, financial and economic mechanism of activity and set of financial services, they are almost indistinguishable from American ones. Credit unions within the province are united by the Central.

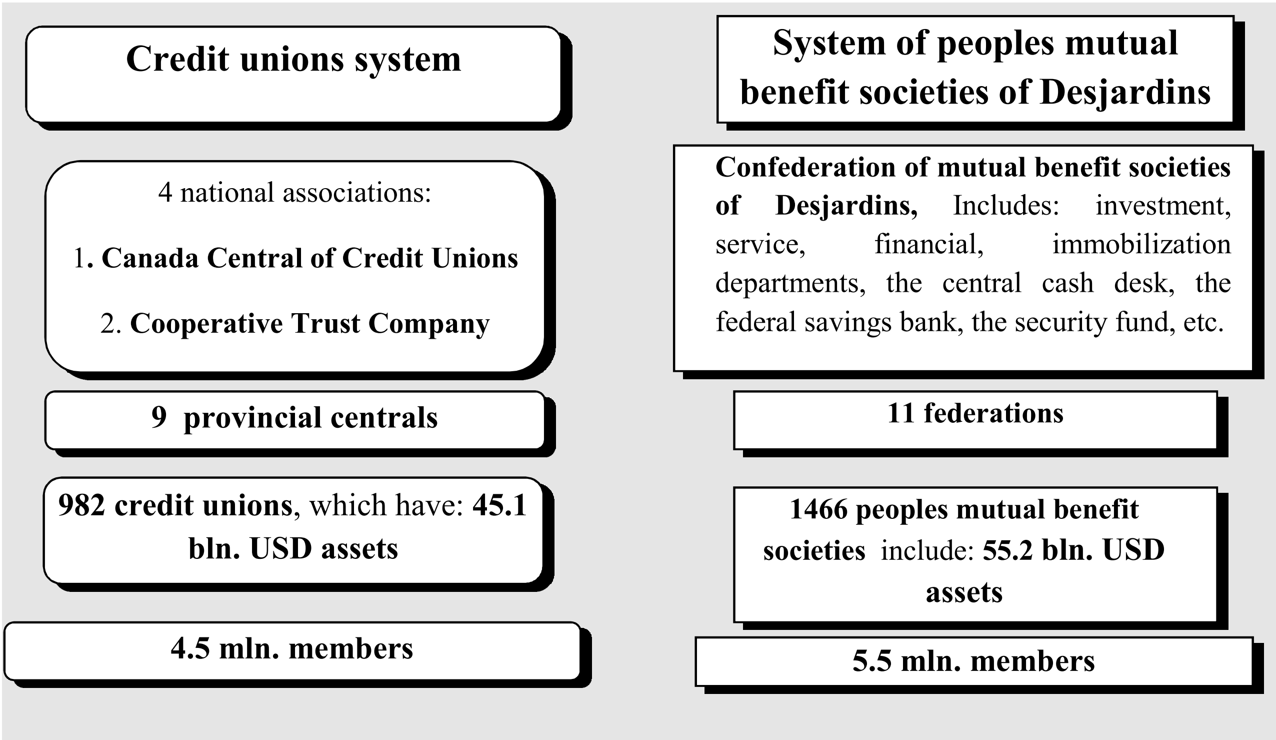

Fig. 2.8 – The structure of the cooperative credit system of Canada

Provincial centrals are regional associations of credit unions. There are 9 provincial centrals: the British Columbia Credit Union Central, which brings together 100 unions with 1.3 million members; Alberta Credit Unions Central got 87 and 427 thousand, respectively; Central of Saskatchewan Credit Unions got 167 and 558 thousand; Manitoba got 75 and 361 thousand; Ontario got 417 thousand and 1.4 million, New Brunswick got 26 and 75 thousand; Prince Edward of Iceland got 10 and 44 thousand, Nova Scotia got 69 and 172 thousand; Newfoundland got 17 credit unions and 34 thousand members. Credit unions carry out almost all financial transactions (electronic payments, liquidity support, etc.), staff training, etc. through centrals. The provincial centrals of credit unions have established the *Central of Credit Unions of Canada*.

Central of Credit Unions of Canada. It was established in 1953 as a national financial association for credit unions, whose task was to maintain liquidity and provide its members, the provincial centrals, with a variety of financial services. In 1977, when the *Canadian National Association of Credit Unions* was reorganized, the headquarters took over all its non-financial functions. Thus, today the Central performs advanced functions. It has broad powers in the field of credit union development. Access to the national and international systems of electronic payments is provided through the central office. The Central maintains relations with national and international cooperative systems, government, carries out lobbying activities, etc.

Cooperative trust company was organized to meet the needs for trust financial services. It provides services through credit unions to their members and through 10 own offices directly.

CUMIS and *Cooperators* groups provide a wide range of insurance and non-financial services to credit unions, other financial cooperatives and their members through their offices, which are open in 30 Canadian cities (CUMIS) and 12 Canadian-based companies (Cooperators). The group provides services for life, property, car, accident, fire and other insurance. Non-financial services include leasing, marketing, advertising, investment advice, property management, information processing. These two groups have developed special insurance products for credit unions.

Thus, the systems of credit cooperation in the developed countries have many common features, which are the integration of primary credit cooperatives into multilevel pyramidal structures (systems), the availability of developed service infrastructure, government support for the initial stage of creation and so on. At the same time, they have specific differences caused by the peculiarities of national conditions of each country. As already noted, there is a big difference between credit union systems in North America and cooperative banks in Europe. The European system stipulates that cooperative banks can provide loans only to their members, and deposits can be accepted from both participants and other persons (depositors). This model of cooperative lending is common in almost all European countries (except the United Kingdom and Ireland). In the United States, credit unions provide services (including savings) only to their members, and the Farm Credit System does not attract deposits at all, but receives the necessary credit resources through the issuance and sale of its own debt securities in domestic capital markets. They also have different ways of forming mutual funds. In the United States, the Farm Credit System does not have permanent share contributions of participants. The participant's share exists only during the period of crediting, and is 5% of the total loan amount. The share increases or decreases depending on the change in the loan amount and is fully reimbursed at the time of debt repayment. The client's personal account has a symbolic amount of 5 USD, which gives him the right to consider himself a member of the System and use its services. The assets of the System are considered to be the cooperative property of its members. In Germany and the Netherlands (Rabobank), on the other hand, much of the capital was generated by attracting local savings and foreign private investment. The size of the share is set the same for all members. The size of the loan does not depend on the share, but on the value of the collateral and the assessment of other guarantees provided to secure the debt.

In the United States, the Farm Credit System provided loans exclusively for agricultural production purposes. And only relatively recently it began to lend to the development of rural social infrastructure (electricity and telephone network, sewerage, road construction). In Germany and the Netherlands, the concept of "stimulating the development of any small business in rural areas" and not just agricultural production has prevailed from the very beginning. In addition, the Dutch Rabobank is specific in terms of the distribution of economic results, which is not returned to the participants, but accumulates in the reserve fund. This fund is designed to strengthen the bank's equity and serves to cover possible losses or expand services for the benefit of members and the local community.

Conclusions for chapter 2

Credit cooperatives form significant segments of European countries' financial sectors. Established mostly in the middle of the nineteenth century, European credit cooperatives were getting very popular among both village and city livers. Two basic models of credit cooperative developed by Germans (Raiffeisen and Schulze) became samples for credit cooperatives of rural and urban people correspondently. They could be named as credit unions, peoples' banks, cooperative banks, Raiffeisen banks etc. Since the second part of the twentieth century they are going through two basic transformations. First, credit cooperatives are getting bigger and less numerous through constant merging and acquisitions. Second, they use to perform more and more functions typical for ordinary commercial banks, in order to compete with them on financial market.

German system of credit cooperation includes about 2,500 cooperative credit societies which are located in cities, mainly under the name Volksbank, and in rural areas under the name Raiffeisenbank. Both groups of credit cooperatives have built their systems with associations and servicing infrastructure and central cooperative banks. In France, there are four powerful national systems of cooperative banks: Credit Agricole, Credit Mutuel, Credit Cooperatif and Banque Populaires. Today, cooperative institutions operate as universal banks.

The cooperative financial and credit sector of the Netherlands is represented by the Rabobank banking group. Today it is a powerful cooperative structure that has remained committed to its cooperative nature for many decades.

The US economy has a strong cooperative financial and credit sector, which consists of several developed systems that have an efficient service infrastructure which allows financial and credit cooperatives to compete successfully with other financial market players. These systems include the system of credit unions, farmers' credit system and systems of other cooperative financial institutions.

The cooperative credit system of Canada consists of two autonomous cooperative systems: the English-language system of credit unions and the French-language system of mutual benefit societies of Desjardins, Quebec. Credit unions within the province are united by the Central. *Provincial centrals* are regional associations of credit unions. There are 9 provincial centrals.

Thus, the systems of credit cooperation in the developed countries have many common features, which are: the integration of primary credit cooperatives into multilevel pyramidal structures (systems); the availability of developed service infrastructure, government support for the initial stage of creation and so on. At the same time, they have specific differences caused by the peculiarities of national conditions of each country. There is a big difference between credit union systems in North America and cooperative banks in Europe. The European system stipulates that cooperative banks can provide loans only to their members, and deposits can be accepted from both participants and other persons (depositors). This model of cooperative lending is common in almost all European countries (except the United Kingdom and Ireland). In the United States, credit unions provide services (including savings) only to their members, and the Farm Credit System does not attract deposits at all, but receives the necessary credit resources through the issuance and sale of its own debt securities in domestic capital markets. They also have different ways of forming mutual funds. In the United States, the Farm Credit System does not have permanent share contributions of participants. The share increases or decreases depending on the change in the loan amount and is fully reimbursed at the time of debt repayment. In Germany and the Netherlands (Rabobank), on the other hand, much of the capital was generated by attracting local savings and foreign private investment.

CHAPTER 3
GLOBAL TRENDS OF CREDIT-COOPERATIVE DEVELOPMENT

3.1. Ensuring the financial stability of credit-cooperative institutions

One of the most important components of successful economic development of any country is the stability of its financial and credit system. Bankruptcy of financial market participants undermines investors' confidence in financial institutions and can lead to a systemic financial crisis, as evidenced by the experience of countries with developed market economies.

The relatively recent banking crisis in the United States, the United Kingdom, and other countries was closely linked to deregulation in financial markets in the late 1970s and early 1980s. Many countries have reduced interest rate controls and eased restrictions on money and capital markets. Liberalization of the financial market has led to a loss of state control over the situation in the financial sector. As a result, in many developed countries there has been a rapid development of credit operations and "overheating" of the securities and real estate markets. With the onset of the economic downturn, real estate and securities prices began to fall rapidly. As a result, many financial institutions found themselves in financial difficulty, especially banks and savings and loan associations, hundreds of which went bankrupt during the banking crisis of the 1980s. Credit unions were also affected by the financial crisis, but due to their special socio-economic nature and the associations created, they endured the crisis with the least losses, using mergers and stabilization mechanisms. However, the bankruptcy of other financial institutions had a significant negative impact on the activities of credit unions during this period.

In the late 1970's savings and loan associations in the United States were a group of "*sleepy, rich and stable*" financial institutions [36]. These institutions were an important part of the mortgage lending system. However, the structure of their financial transactions had one main drawback – the provision of long-term loans for up to 30 years with a fixed rate due to short-term deposits. Interest rates on deposits rose in the mid-1960s, but Congressional decisions (known as "Regulation Q") set interest rate caps on deposits [20]. This measure, taken in time by the state, worked for the next ten years, because investors had no other alternatives.

But in the late 1970s, interest rates began to rise again. By this time, investors have already had alternative channels for investing funds. One of the most attractive of them were money market mutual funds. As a result, savings and loan associations began to suffer heavy losses. In this regard, in the early 1980's Congress decided to introduce deregulation of the financial market. Financial institutions were allowed to offer *"floating" interest rates* on mortgage loans. They were given the opportunity to provide commercial loans, unsecured and consumer loans, to participate in various investment projects. Interest rate restrictions have been lifted and the maximum deposit insurance coverage has been raised from 40,000 USD to 100,000 USD for each deposit account.

In these circumstances, many savings and loan associations quickly took advantage of the more liberal order and sought to cover the losses of previous years by expanding their activities. The removal of restrictions on interest rates has made it possible to significantly expand the attraction of deposits by setting high interest rates on deposits. The increase in the amount of insurance coverage also significantly contributed to the attraction of deposits. Assets of financial institutions began to grow rapidly. A study of 637 bankrupt associations in 1986-1989 showed that their assets doubled in a few years, and 74 of them grew by more than 400% [40]. At the same time, a significant part of the funds raised was invested in new, non-traditional, little-studied and risky assets, which were made available by deregulation. At the same time, unfavorable changes in tax legislation further complicated the situation. The real estate tax significantly affected the activities of mortgage lending institutions. Since 1986, real estate prices have begun to fall, and financial institutions have suffered increasing losses and bankruptcies.

When the gravity of this situation became apparent, the US government tightened prudential rules on financial institutions' investment activities, but there were already significant losses estimated at 100 billion USD, or 2% of GDP [36]. By 1989, 637 the US financial institutions had either been liquidated or were in liquidation.

Similar crises were observed in the late 1980s and early 1990s in other developed countries. Deregulation of financial markets in the Scandinavian countries (Norway, Sweden, Finland) in the mid-1980's led to significant losses and fairly large expenditures from the budget to rescue the financial system. Phenomena of financial instability of a similar type can be found in almost all developed countries.

These examples clearly demonstrate the negative consequences of both avoiding government regulation and ill-considered government intervention in the mechanisms of financial markets, as well as the high price that will have to be paid for eliminating the consequences of financial institutions bankruptcy. It should be noted that the liberalization of financial markets itself was not the cause of financial instability. Factors of instability already existed in the financial structures, and liberalization only exposed the hidden problems accumulated in previous years. In many cases, these problems were caused by the policies and measures of the government, which, along with increasing the level of state guarantees for the preservation of deposits, reduced prudential supervision. Similar problems, when government action was not accompanied by adequate regulatory and supervisory rules, were typical of many developed countries.

It should be also noted that, despite significant losses of financial institutions, their depositors in most cases were fully or partially compensated for lost savings. This became possible due to the existence of special systems (funds) of deposit insurance. In different countries, these systems have different names, features and mechanisms of operation [4]. They can be created both by the state and by associations of certain institutions (banks, credit unions, savings banks, etc.), may be in some cases mandatory, and in other cases may be voluntary. However, despite some differences, these systems perform approximately the same functions: they accumulate insurance funds in case of bankruptcy of their participants, monitor their financial condition, help solve financial problems.

In the United Kingdom, *the Bank Deposit Insurance Fund* was established in 1982 on the basis of a provision in a new banking law. The Foundation is an independent legal entity. Governing bodies consist of representatives of the central bank, the government and the participating banks. Participation of all commercial banks in the Fund is mandatory. The fund is formed at the expense of obligatory entrance and annual contributions of participating banks, the amount of which is determined depending on the class of the bank. The minimum deposit amount is 10,000 and the maximum is 300,000 thousand pounds. If necessary, the amount of contributions of each specific bank may be increased, but may not exceed 0.3% of deposits. The maximum amount of insurance compensation per depositor is 10 thousand pounds.

In France, a similar insurance fund is called a "*solidarity mechanism*". It is created and managed by the French Association of Banks and covers all banks. The amount of insurance indemnity per depositor does not exceed 200 thousand francs.

In Japan, there has been a Deposit Insurance Corporation since 1971. Its capital was contributed in equal shares by the Government, the Central Bank and commercial banks. Participation in the deposit insurance system is mandatory for all national banks and credit unions. The insurance fund is formed at the expense of annual contributions in the amount of 0.008% of insured deposits. Depositors are reimbursed for deposits of up to 10 million yen.

In Germany, there are several deposit insurance funds over which the Central Bank of Germany has no significant influence. These Funds are created on an institutional basis: Deposit Insurance Fund of commercial banks; Deposit Insurance Fund, *Deposit Insurance Fund of Cooperative Banks*. The mechanism of participation in the fund is interesting. It looks voluntary but it is mandatory in principle. Only institutions that are members of the respective national association can be members of the fund. If an institution withdraws (or is excluded for any reason) from the association, it automatically loses membership in the fund and vice versa, termination of participation in the fund as a result of withdrawal or exclusion from it leads to loss of membership in the association.

A mixed system of depositors' interests protection is created in the United States. It is called the *Federal Deposit Insurance Corporation (FDIC)* and *Federal Savings and Loan Insurance Corporation (FSLIC)*. FDIC is required to insure all deposits of both individuals and legal entities in federal banks and state banks in the amount of up to 100 thousand USD. Membership of others is voluntary. The initial insurance fund of FDIC was formed at the expense of the state treasury and 12 federal reserve banks. In addition, in emergencies, FDIC has the opportunity to obtain a loan from the State Treasury in the amount of up to 3 billion USD. In addition to direct protection of bank deposits, FDIC has the right to purchase a share in the capital of the troubled bank (or all capital for up to 5 years), provide it with a loan, temporarily change management, transfer receivables and payables to another bank-member of FDIC. In addition, the FDIC has the right to conduct inspections of banks that are not members of this organization. FDIC has a fairly large staff. The FDIC is governed by a Board of Directors consisting of five individuals, two of whom are appointed by the President of the United States with the approval of the Senate.

Thus, the analysis shows that there is no universal mechanism for protecting deposits in financial institutions, however, in one form or another, the protection system is an important component of developed countries' financial systems.

After considering the general reasons, conditions and mechanisms for ensuring the stability of financial institutions by various countries and deposit insurance, it is necessary to dwell in more detail on the credit unions of developed countries. How they have their own systems to ensure their stability and guarantee deposits. It should be noted that most of them were created on the initiative of credit unions and their associations, which were interested in ensuring that no cooperative financial institution collapses, because it would inevitably negatively affect the image of other organizations of this type. Therefore, such cooperative stabilization systems have been created and are operating successfully in almost all developed countries.

The insurance fund of German cooperative banks was established under the Federal Union of Cooperative Banks. Local cooperative Volksbanks and Raiffeisenbanks make certain contributions to it, depending on the size of their assets. 10% of all insurance premiums are in a special account in the Federal Union, and 90% - in the relevant accounts in regional unions, which manage these funds on behalf of the Federal Union. A cooperative bank that has found itself in a difficult financial situation may be provided with subsidies, soft and interest-free loans and guarantees from the established insurance fund [4], necessary to ensure its exit from the financial crisis.

Credit unions of Canada have created systems that have different types of stability and deposit guarantee in different provinces [5], but are schematically reduced to two main models (Figures 3.1 and 3.2).

In the first model, deposit guarantee is provided by a separate state organization created with participation of credit unions association, in the second – by credit unions association itself, which has formed its own guarantee fund.

The Regulatory Department registers credit unions, monitors their financial condition, protects the rights of members, develops recommendations to the government regarding changes in legislation, and resolves disputes between credit unions and their members. In some cases, this body may authorize associations of credit unions to exercise the functions of supervising member unions of the system (self-regulatory organization). This is exactly what is expected in the second of these models.

The Credit Unions Central is an association of unions at the provincial level, the main task of which is: to represent the movement of credit unions in the province; management of *the Credit Unions Central Fund of Liquidity* and providing credit unions with credit resources; maintenance of a single computer payment system for credit unions; conducting an internal system audit; providing credit unions with auditing, educational, training, consulting, advertising, printing, analytical, computing, marketing services; centralized provision of necessary goods and equipment, conducting scientific and methodological work.

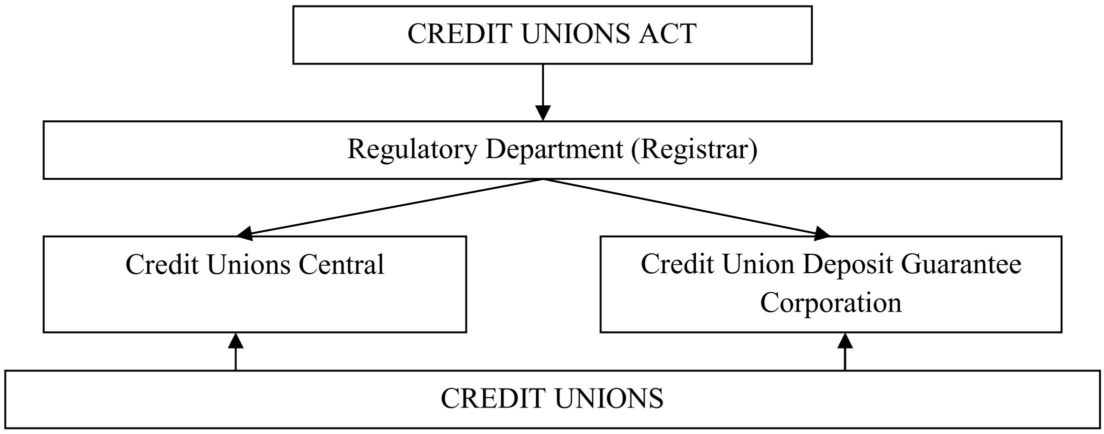

Fig. 3.1 – Deposit stabilization and guarantee system of provincial credit unions (Manitoba, Canada)

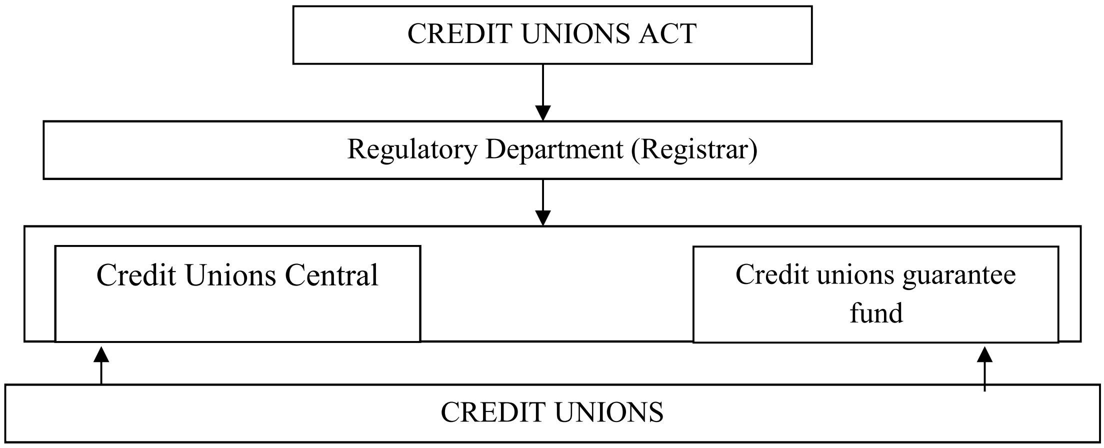

Fig. 3.2 – Deposit stabilization and guarantee system of credit unions (Quebec, Canada)

In Manitoba, Central is a credit union of credit unions, in which there are 68 independent unions, while remaining autonomous, merge into one (central) credit union, endowing it with certain management functions. Territorially, the unions belong to 10 districts, each of which has its own representative on the Central

Board of Directors. The Central's activity is financed from three sources: annual contributions of credit unions, the amount of which is determined depending on the size of assets and the number of members; fees for services provided by the Central Office; income from the activities of the *Central Fund of Liquidity*.

The *Deposit Guarantee Corporation* insures all deposits of Manitoba credit unions and acts as the regulator and supervisor of compliance with the law. The board of the corporation consists of 5 people, 2of which are appointed by the provincial government, 2 are appointed by the credit union system (association), and the chairman of the board is appointed jointly by the government and the credit union association. The corporation's staff consists of 16 employees, led by a general manager, in addition to inspection manager, loss supervising manager, financial manager, financial analyst and office manager. Once a year, the corporation estimates the amount of the contribution that the credit union must pay to the corporation's insurance fund this year.

Thus, in the developed countries, ensuring the stability of cooperative financial institutions and protecting the deposits of their members is in most cases initiated by the cooperative systems themselves, who usually receive the right to self-regulation and supervision of member organizations from the state. At the same time, a multi-stage protection system is created. The first stage (at the level of a credit union) is the regulatory requirements for the accumulation of equity and the formation of a reserve for *"problem" loans*. The second level of protection (at the level of the association) is the stabilization program of the association. The third level of protection (at the level of the association or the state) is the Deposit Guarantee Fund. Such a system provides reliable protection of cooperative organizations from both macroeconomic factors and internal shortcomings of the management of individual institutions that can cause deterioration or loss of assets, insolvency of the organization due to loss or mismatch of assets and liabilities.

These protection systems allow cooperative financial institutions of developed countries to successfully compete with banks and other financial market players. However, this competition has recently become increasingly difficult in the context of globalization, which has a significant impact on the development of the global cooperative movement. And this impact cannot be assessed unambiguously. Globalization has both positive and negative effects on the development of cooperative organizations in the world.

At the meeting of the European Assembly of the ICA, held in Paris in 1998, it was noted [3] that the processes of globalization taking place in the modern world are of double importance for cooperatives. On the one hand, they mean the emergence of new opportunities for international cooperative cooperation "without borders", create the preconditions for strengthening the position of regional cooperative organizations in the International Cooperative Alliance as a whole. But the other side of globalization is that in modern conditions the role of large multinational companies, which are increasingly taking over the markets, is sharply increasing. In these conditions, it is becoming increasingly difficult for cooperatives to compete with them. In this regard, cooperatives are forced to seek new markets and enlarge, which is contrary to their nature and philosophy. So many credit unions and cooperative banks in developed countries have been forced to unite in recent years to strengthen their financial strength and enable them to provide services at the level of other financial institutions [38]. In addition, for example, the cooperative bank Rabobank (Netherlands) has established an extensive international network of 112 branches in 35 countries, of which 46 branches are located in 17 European countries. Rabobank also plans to create a new, pan-European cooperative bank together with the German cooperative DG-Bank, which will unite cooperative banking groups of European countries into a single cooperative banking network [30]. These processes can witness about degeneration of credit unions in the developed countries and their transformation in the context of globalization into usual commercial financial institutions.

It should be noted that there are many factors that have influenced the changes in cooperative systems in recent years. Some of them are specific to cooperatives in certain regions or countries [13], while other factors are specific to certain sectors. The most important for cooperatives are structural adjustments and changes in government policy in many developed countries. In addition, the following factors are extremely important: globalization of markets; deregulation and privatization processes in individual countries; adoption of stricter competition legislation; scientific and technological innovations on a planetary scale; widening the gap between rich and poor; people's desire for some control over their environment.

3.2. Modern problems of credit-cooperative sector development in conditions of globalization

The world cooperative movement is undergoing significant changes caused by global processes and the processes of national economies adaptation to them. The most important ones are the following (Figure 3.3):

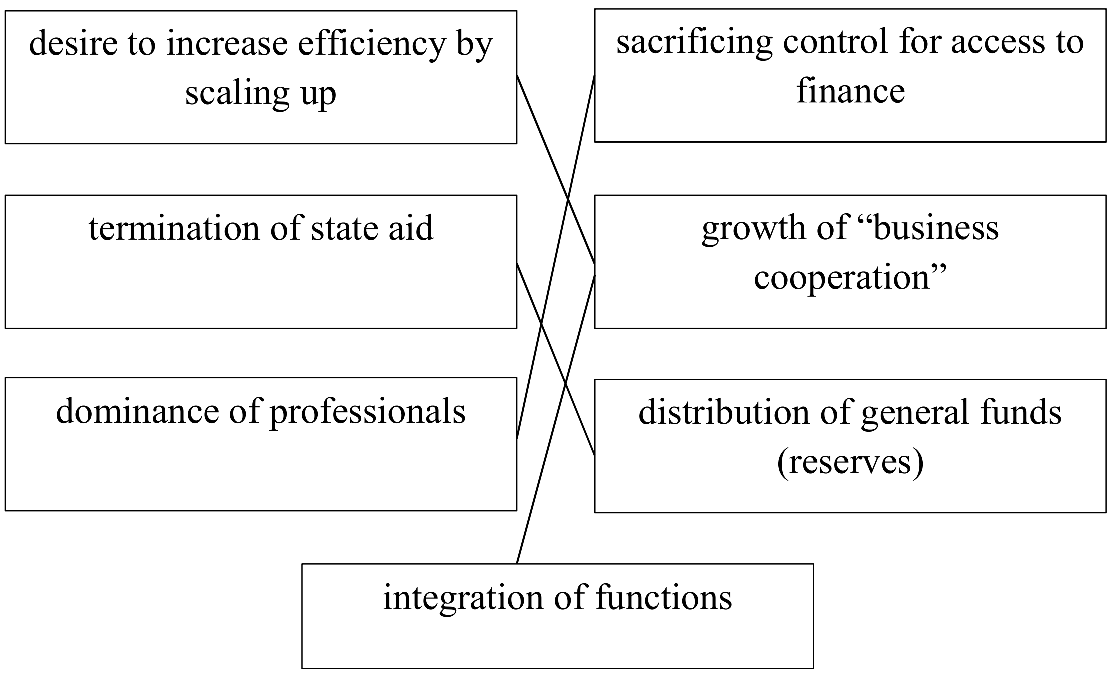

Fig. 3.3 – The main global processes bringing changes for cooperative movement

• *The desire to increase efficiency by scaling up*. Cooperatives of all types continue to seek efficiency gains through scaling up and by that they fatally weaken ties with their members. There are mergers of cooperatives and as a result, the traditional for cooperative systems structures of federal associations of cooperatives lose their significance and are destroyed. This could lead to the collapse of the entire cooperative sector.

• *Termination of state aid*. Cooperatives in many, especially developed countries of the world are suffering from the fact that their governments are ending the policy of protectionism towards the cooperative sector of economy.

• *Dominance of professionals*. Operational and strategic management and control in many cooperatives have shifted from members to professionals. Accordingly, priorities in such cooperatives began to be based on the professional competence of their managers, rather than on the real needs of their members.

• *Growth of "business cooperation"*. There are many examples of small businesses that provide themselves with supply services. For example, in agriculture, especially in developed countries, the decline of family farms means that many agricultural cooperatives now have members who are enterprises rather than individual farmers. Many manufacturers can survive if they move some of the profits further down the marketing chain. And to achieve this, new cooperatives are emerging.

• *Sacrificing control for access to finance*. Cooperatives that face the need to increase funding sometimes sacrifice membership control to get the funding they need. Very often this activity sooner or later leads to the fact that organizations cease to be cooperatives.

• *Distribution of general funds (reserves)*. If required by law, individual cooperatives seek to distribute reserve funds accumulated over many years among members by liquidating or reorganizing the cooperative into a business company. This occurs if the members believe that the present value of their share in the property of the cooperative in its liquidation will be greater than the economic profit from the activities of the cooperative.

• *Integration of functions*. Many cooperatives seek to become universal service centers that provide a wide range of services (for example, all types of financial services are provided in one item - savings, loans, insurance coverage, foreign exchange transactions, etc.). Customers also hope to be able to receive all these services during their usual visit to the cooperative. This trend is particularly important for those cooperatives that specialize in providing a narrow range of services, but this trend also provides real opportunities for cooperation between cooperatives in different sectors.

Along with this, cooperation continues to evolve. People do not stop finding new areas where cooperation can be used to meet their needs. In some parts of the world there is a long tradition of some forms of cooperation, while in others these forms are becoming relatively new or remain little known.

It should be noted that the globalization of the economy has not weakened competition, but, on the contrary, made it tougher [25]. As a result, living standards are declining in underdeveloped countries. And this, in turn, is an essential factor for the development of cooperative movement in these countries, the history of which convincingly shows that people are organized into cooperatives in order to jointly confront the negative socio-economic consequences of market economy. If we consider cooperatives in the context of all the changes taking place in the process of globalization, then cooperatives should be considered as institutions with a special purpose and role in the economy. In the process of activity, they not only economically contribute to their members in running their own farms, but also develop certain social values in society, form people's faith in their own strength.

Despite globalization, the development of small and medium-sized businesses will continue at the local level as a result of specific needs that exist in the regions. Flexibility, short turnaround terms and decision-making channels, as well as fewer bureaucracies to respond quickly and adapt to changes in the external environment, are vital to success in a globalized economy. Cooperatives can facilitate this, and small organizations and decentralized structures have significant competitive potential and can occupy specific market niches to meet the needs of their customers. At the same time, the traditional shortcomings of small organizations can be offset by the association of cooperatives and the use of information and communication systems, which in the context of globalization reduces the need for physical business expansion to achieve economies of scale.

The opinion of the head of Italian Cooperative Banks' Federation A. Azzi on the further development of credit cooperation system in the context of globalization is quite interesting [10]: Italian credit unions are facing a big problem: how to maintain their specific model and mechanisms to function successfully in a professional and competitive market. In recent years, significant structural and institutional changes in Italian credit cooperative banks have somewhat deprived them of their original characteristics. Nevertheless, cooperative banks still reflect the main features of their historical ideal – Raiffeisen cooperatives: equality of members at the general meeting; relatively small share contribution; limited accrual of dividends; accumulation of reserves; indivisibility of accumulated reserves; localization of membership in a certain territory.

A. Azzi emphasizes that the central role in the context of globalization should be played by members of cooperatives, and incentives to do so are important aspects in the implementation of concepts for improving the modern model of credit cooperatives.

According to the author, the main organizational structure of a small cooperative bank or mutual credit institution should protect the factors through which they play their institutional role in a competitive environment. Ultimately, credit cooperatives need to be encouraged to maintain aspects that set them apart from other banks, but they also need to have new ideas that will help them become more competitive without losing their specificity and strength.

Thus, cooperative banks face the task of preserving their specificity, based on the cooperative idea and structural increase of the cooperative financial and credit system. Preservation of the specifics of cooperative financial institutions should be based on the following principles:

• the real possibility for members to exercise their rights in making decisions regarding the activities of the cooperative;

• lack of opportunity for members to demand the distribution of reserves formed in the process of the cooperative;

• limited accrual of dividends per share of members;

• mandatory participation of members in the activities of cooperative bank.

The structural increase of cooperative financial and credit system should be based on the following principles:

• *self-discipline*, which is based on the provision of financial and non-financial services necessary for members by each financial and credit cooperative;

• *compliance with the norms of cooperative legislation* governing the territorial expansion of cooperatives on the basis of economic feasibility and respect for the spheres of activity of other similar cooperatives (prevention of territorial competition between cooperatives);

• *cooperation with other cooperatives* within a single network to obtain economic effect through joint action within a single cooperative financial and credit system (Figure 3.4).

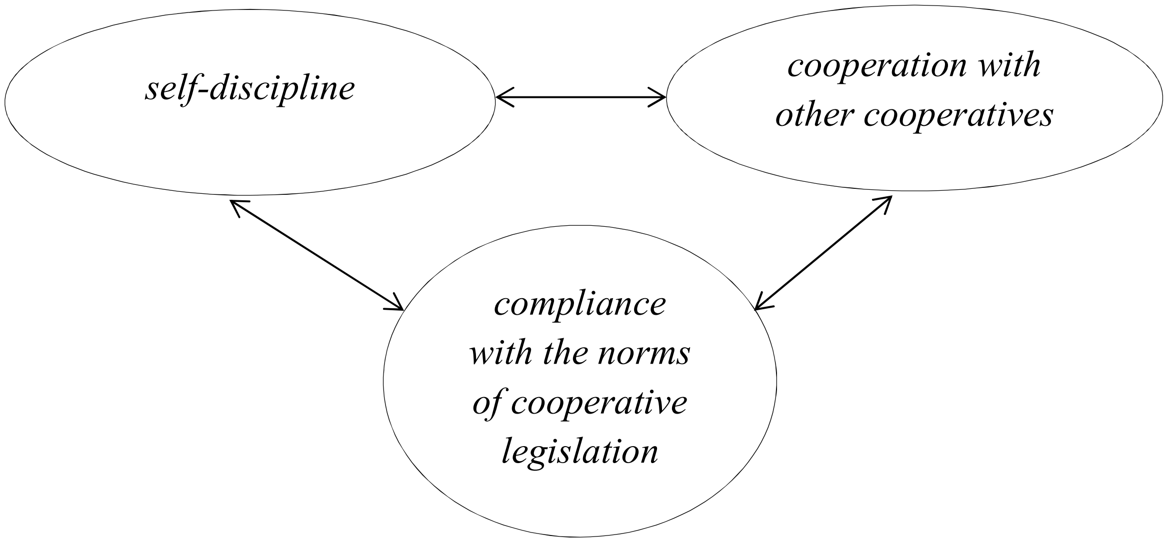

Fig. 3.4 – Principles of cooperative financial and credit system structural increase

In order to ensure the practical implementation of these principles, it is necessary to implement a set of certain organizational measures, such as:

• gradual expansion of the membership base of cooperative financial and credit institutions in society by further implementation of the principle of open membership, ensuring the stability of the system and creating motivational factors for the participation of new members;

• creating conditions for intensifying participation of members in the general meeting in order to improve internal control mechanisms;

• promoting public spirit and sense of unity among members in order to maintain the stability of the cooperative structure and ensure its balanced development;

• resolving the problem of conflict of interest of members and clients who are not members of cooperative banks;

• improving the internal control system to ensure sound and professional management;

• increasing the transparency of election procedures, ensuring internal dialogue and introducing more representative participation in governance.

These measures will allow cooperative financial institutions to significantly strengthen their position in the financial market and successfully develop in the context of globalization.

The issues of further development of cooperative organizations in the current conditions of economic globalization were considered by the European Regional Assembly of the ICA in October 2000 [3].

Cooperatives are focused on providing services to their members, rather than maximizing profits from their activities. They seek to reduce costs and increase the income of their members, so in the context of globalization can significantly help their members not only to improve the efficiency of their economies, but also to reach new markets and areas of activity.

Thus, it is possible to determine the following strategic directions of cooperatives in the context of globalization:

1. In seeking to adapt to the changes caused by globalization, cooperatives must not lose their socio-economic nature and local character. Due to the expansion of the scope of activities in the process of globalization, cooperatives risk losing contact with their members. Provided that cooperatives support their

members in the process of globalization and are focused on meeting their needs, globalization can make a positive contribution to strengthening ties between members and their cooperatives. This requires cooperatives to have a clear focus on the needs of their members and to ensure the professionalism and high qualification of the cooperative's managers and employees.

2. In the context of globalization, cooperatives are able to solve the problems arising from globalization, due to their decentralized democratic structure and non-profit nature. Proximity to the needs of members in the context of globalization is very valuable. However, it is necessary to ensure that cooperatives of the second and third levels (regional and national associations of cooperatives) fulfill the aspirations and meet the needs of primary organizations, which should not become a "market" for services for higher level associations in their conditions of uncontrolled autonomy.

3. Primary cooperatives must continue to operate in local markets. Mergers should not be executed unless it is vital for financial or operational reasons. Cooperatives must cooperate, regardless of national borders. In other words, we need cooperation (including international), rather than expanding the scope of cooperatives.

4. In the context of globalization, the importance of establishing a new form of relations between local cooperatives and their branches, as well as associations and the formation of all members of cooperative system a sense of "part that strengthens the whole."

5. The process of globalization creates new risks for cooperatives, which are strengthened by the following factors:

• members of cooperatives may think that the services of the cooperative can be successfully replaced by the services offered by companies;

• market niches served by cooperatives may disappear or be significantly narrowed due to global technological changes (for example, e-commerce via the Internet, introduction of bank machines networks, etc.);

• cooperative members may begin to lose their cooperative spirit and loyalty to the "common cause." Collectivism can begin to be replaced by individualism, which can grow into selfishness;

• under the influence of increasing competition in the leadership of cooperatives may form an awareness of their own indispensability (the importance of professional management) and focus on uncontrolled, and often unjustified expansion of the scope of activities and services of the cooperative;

• technological and organizational changes in cooperative activities caused by globalization may create the impression of "bureaucratization" of certain processes;

• among some cooperative movements, the practice of creating non-cooperative (business) structures to generate profit and finance cooperative activities at the expense of cooperative activities may intensify.

6. In the context of globalization, it is necessary to take into account that the needs of cooperative members are priority and it is necessary to ensure maximum independence of primary level cooperatives and their effective support by cooperatives of secondary (regional) and tertiary (national) levels and their specialized agencies.

7. In the context of globalization, national cooperatives should be more active at the international level and work more closely with similar organizations in other countries. International cooperation between national cooperatives, creation of cooperative confederations at the international level will allow cooperative organizations in many countries to be more effective in the context of globalization.

Thus, on the one hand, globalization is making competition on the market of financial services more intensive and the expectations of consumers – higher; in its turn, this leads cooperatives to evolution into half-business oriented economic organizations. But on the other hand, this also motivates coops to reorganize themselves into global cooperative systems of mutual international self-help.

Conclusions for chapter 3

Although, there is no universal mechanism for protecting deposits in financial cooperative institutions, however, in one form or another, the protection system is an important component of developed countries' financial systems. It should be noted that most of them were created on the initiative of credit cooperatives and their associations, which were interested in ensuring that no cooperative financial institution collapses, because it would inevitably negatively affect the image of other organizations of this type. Therefore, such cooperative stabilization systems have been created and are operating successfully in almost all developed countries.

For example, credit unions of Canada have created systems that have different types of stability and deposit guarantee in different provinces, but are schematically reduced to two main models: Credit Union Deposit Guarantee Corporation and Credit unions guarantee fund. In the United Kingdom, the Bank Deposit Insurance Fund was established in 1982 on the basis of a provision in a new banking law. In France, a similar insurance fund is called a "solidarity mechanism". It is created and managed by the French Association of Banks and covers all banks. In Japan, there has been a Deposit Insurance Corporation since 1971. A mixed system of depositors' interests protection is created in the United States. It is called the Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporation.

It is possible to determine the following strategic directions of cooperatives in the context of globalization: 1) In seeking to adapt to the changes caused by globalization, cooperatives must not lose their socio-economic nature and local character: 2) In the context of globalization, cooperatives are able to solve the problems arising from globalization, due to their decentralized democratic structure and non-profit nature. Proximity to the needs of members in the context of globalization is very valuable. However, it is necessary to ensure that cooperatives of the second and third levels (regional and national associations of cooperatives) fulfill the aspirations and meet the needs of primary organizations, which should not become a "market" for services for higher level associations in their conditions of uncontrolled autonomy; 3) Primary cooperatives must continue to operate in local markets. Mergers should not be executed unless it is vital for financial or operational reasons. Cooperatives must cooperate, regardless of national borders. In other words, we need cooperation (including international), rather than expanding the scope of cooperatives; 4) In the context of globalization, the importance of establishing a new form of relations between local cooperatives and their branches, as well as associations and the formation of all members of cooperative system a sense of "part that strengthens the whole." 5) In the context of globalization, it is necessary to take into account that the needs of cooperative members are priority and it is necessary to ensure maximum independence of primary level cooperatives and their effective support by cooperatives of secondary (regional) and tertiary (national) levels and their specialized agencies; 6) In the context of globalization, national cooperatives should be more active at the international level and work more closely with similar organizations in other countries. International cooperation between national cooperatives, creation of cooperative confederations at the international level will allow cooperative organizations in many countries to be more effective in the context of globalization.

CONCLUSIONS AND SUGGESTIONS

Based on this research, the following ***conclusions*** were formulated, which reveal theoretical and practical aspects of credit cooperation movement.

In the first chapter of this qualifying work, the mission and functions of credit cooperatives were determined as both economic and social. In this case, the social function of coops, although in second place after the economic one, but still is very important. The purpose of the credit cooperative is to meet the financial needs of its members, but, unlike commercial financial institutions - on the basis of socio-ethical, moral and just principles: voluntariness and open membership; democratic membership and control; economic participation of members in the establishment and operation of the cooperative; autonomy and independence of the cooperative; education and advanced training of members and employees of the cooperative; cooperation between cooperatives; promoting the development of cooperative communities.

Returning to the unprofitability of cooperatives, it is necessary to define this principle as important for understanding the nature of credit cooperatives, as it demonstrates their fundamental difference from other credit institutions, and above all – commercial banks, and therefore deserves special attention.

Thus, our study of the conceptual apparatus of credit cooperation, historical, social and economic-financial aspects of credit cooperatives, as well as the system of principles of their activities allowed us to consider credit cooperatives as a unique and original organizational form of meeting the financial needs of the population through self-help, fundamentally different from other traditional lending institutions.

Credit cooperation historically emerged in two main forms. Prominent German cooperators and public figures Hermann Schulze-Delich and Friedrich Raiffeisen almost simultaneously, independently of each other, proposed two fundamentally different approaches to the organization of cooperative crediting:

the first was for the urban population, the second was for farmers.

Accordingly, there were two types of credit cooperatives: credit societies (often called village loan societies) by F. Raiffeisen and savings and loan associations (also called people's banks) by G. Schulze-Delich.

These were two different models of cooperative crediting, each of which was adapted to particular social environment. From Germany they spread to other countries and today credit cooperation in any country is based either on the model of Raiffeisen or of Schulze-Delich, with some differences caused by peculiarities of national law.

The following provisions can be considered as the most important, fundamental principles of Raiffeisen cooperatives: lack of share capital (membership fees); unlimited liability of members for debts of the company; restriction of the society activity area (so that all members know each other); providing loans only to members of the cooperative, taking into account the identity of the borrower; free work in elected governing bodies and democratic control in the organization.

Hermann Schulze-Delich proposed a different model of credit cooperative, which was fundamentally different from Raiffeisen cooperatives because it had different financial mechanism. This model was called the People's Bank, or savings and loan society, and was created to meet the financial needs of mostly urban residents: artisans, employees and other segments of the urban population.

Over time, Schulze-Delich societies began to be characterized by the following features: the cooperatives had significant equity capital, formed by the share contributions of members; membership of the society was not limited; if possible, dividends were accrued, and they were greater than interest on borrowed funds; interest rate on the loan was high, but it was slightly lower than in other financial institutions; the list of cooperative’s financial services was similar to the list of banking services; the work of the members of the board was paid; members of savings and loan cooperatives were indefinitely liable for its debts; members of savings and loan associations were often passive; services were often provided not only to members of the cooperative. These were the main features of Schulze-Delich savings and loan cooperatives, which were very similar to banks. This is why they were called people's banks.

The second chapter of the qualifying work discovers credit cooperatives forming significant segments of European countries' financial sectors. Established mostly in the middle of the nineteenth century, European credit cooperatives were getting very popular among both village and city livers. Two basic models of credit cooperative developed by Germans (Raiffeisen and Schulze) became samples for credit cooperatives of rural and urban people correspondently. They could be named as credit unions, peoples' banks, cooperative banks, Raiffeisen banks etc. Since the second part of the twentieth century they are going through two basic transformations. First, credit cooperatives are getting bigger and less numerous through constant merging and acquisitions. Second, they use to perform more and more functions typical for ordinary commercial banks, in order to compete with them on financial market.

German system of credit cooperation includes about 2,500 cooperative credit societies which are located in cities, mainly under the name Volksbank, and in rural areas under the name Raiffeisenbank. Both groups of credit cooperatives have built their systems with associations and servicing infrastructure and central cooperative banks.

In France, there are four powerful national systems of cooperative banks: Credit Agricole, Credit Mutuel, Credit Cooperatif and Banque Populaires. Today, cooperative institutions operate as universal banks.

The cooperative financial and credit sector of the Netherlands is represented by the Rabobank banking group. Today it is a powerful cooperative structure that has remained committed to its cooperative nature for many decades.

The US economy has a strong cooperative financial and credit sector, which consists of several developed systems that have an efficient service infrastructure which allows financial and credit cooperatives to compete successfully with other financial market players. These systems include the system of credit unions, farmers' credit system and systems of other cooperative financial institutions

The cooperative credit system of Canada consists of two autonomous cooperative systems: the English-language system of credit unions and the French-language system of mutual benefit societies of Desjardins, Quebec. Credit unions within the province are united by the Central. *Provincial centrals* are regional associations of credit unions. There are 9 provincial centrals.

Thus, the systems of credit cooperation in the developed countries have many common features, which are: the integration of primary credit cooperatives into multilevel pyramidal structures (systems); the availability of developed service infrastructure, government support for the initial stage of creation and so on. At the same time, they have specific differences caused by the peculiarities of national conditions of each country. There is a big difference between credit union systems in North America and cooperative banks in Europe. The European system stipulates that cooperative banks can provide loans only to their members, and deposits can be accepted from both participants and other persons (depositors). This model of cooperative lending is common in almost all European countries (except the United Kingdom and Ireland). In the United States, credit unions provide services (including savings) only to their members, and the Farm Credit System does not attract deposits at all, but receives the necessary credit resources through the issuance and sale of its own debt securities in domestic capital markets. They also have different ways of forming mutual funds. In the United States, the Farm Credit System does not have permanent share contributions of participants. The share increases or decreases depending on the change in the loan amount and is fully reimbursed at the time of debt repayment. In Germany and the Netherlands (Rabobank), on the other hand, much of the capital was generated by attracting local savings and foreign private investment.

The third chapter of the qualifying work states that despite there are no universal mechanisms for protecting deposits in financial cooperative institutions, however, in one form or another, the protection system is an important component of developed countries’ financial systems. It should be noted that most of them were created on the initiative of credit cooperatives and their associations, which were interested in ensuring that no cooperative financial institution collapses, because it would inevitably negatively affect the image of other organizations of this type. Therefore, such cooperative stabilization systems have been created and are operating successfully in almost all developed countries.

For example, credit unions of Canada have created systems that have different types of stability and deposit guarantee in different provinces, but are schematically reduced to two main models: Credit Union Deposit Guarantee Corporation and Credit unions guarantee fund. In the United Kingdom, the Bank Deposit Insurance Fund was established in 1982 on the basis of a provision in a new banking law. In France, a similar insurance fund is called a "solidarity mechanism". It is created and managed by the French Association of Banks and covers all banks. In Japan, there has been a Deposit Insurance Corporation since 1971. A mixed system of depositors' interests protection is created in the United States. It is called the Federal Deposit Insurance Corporation and Federal Savings and Loan Insurance Corporation.

It is possible to determine the following strategic directions of cooperatives further development in the context of globalization with the help of the following ***suggestions***: 1) In seeking to adapt to the changes caused by globalization, cooperatives must not lose their socio-economic nature and local character: 2) In the context of globalization, cooperatives are able to solve the problems arising from globalization, due to their decentralized democratic structure and non-profit nature. Proximity to the needs of members in the context of globalization is very valuable. However, it is necessary to ensure that cooperatives of the second and third levels (regional and national associations of cooperatives) fulfill the aspirations and meet the needs of primary organizations, which should not become a "market" for services for higher level associations in their conditions of uncontrolled autonomy; 3) Primary cooperatives must continue to operate in local markets. Mergers should not be executed unless it is vital for financial or operational reasons. Cooperatives must cooperate, regardless of national borders.

In other words, we need cooperation (including international), rather than expanding the scope of cooperatives; 4) In the context of globalization, the importance of establishing a new form of relations between local cooperatives and their branches, as well as associations and the formation of all members of cooperative system a sense of "part that strengthens the whole." 5) In the context of globalization, it is necessary to take into account that the needs of cooperative members are priority and it is necessary to ensure maximum independence of primary level cooperatives and their effective support by cooperatives of secondary (regional) and tertiary (national) levels and their specialized agencies; 6) In the context of globalization, national cooperatives should be more active at the international level and work more closely with similar organizations in other countries. International cooperation between national cooperatives, creation of cooperative confederations at the international level will allow cooperative organizations in many countries to be more effective in the context of globalization.

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