

## Executive Summary

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This is the sixth semi-annual report for the Russia-Cooperative Development Program (CDP) activity. The main thrust of the CDP activity is to further build the scale and salience of the rural credit cooperative system in Russia.

The following items highlight the main activities/results achieved over the reporting period:

- The RCCDF Board of Trustees meeting was held, where the extension of the RAL Program until December 31, 2008 was supported. The members of the Board also made a decision to develop a strategy for the establishment of an apex organization for the system of rural credit cooperatives.
- The Ministry of Agriculture of Russia was appointed to provide for Government regulation of self-regulated Special Audit Unions (SAUs) of agricultural cooperatives and maintenance of the Register.
- The members of RCCs will keep receiving subsidized loans under the *Farm Bill* for development of agriculture for 2008-2012 after the completion of the *National Project* in 2007.
- 1,015 new agricultural credit cooperatives were established over the first 18 months of the *National Project* implementation (2006). Small farming units (households, farms and consumer cooperatives) received 42.5 billion rubles (\$1.65 billion<sup>1</sup>) in loans, including rural credit cooperatives, which received 834.6 million rubles (\$32.4 m.).
- Rural credit cooperatives are represented in 69 regions of Russia. During January 2006 – June 2007 RCCDF, the Union of rural credit cooperatives and second-tier RCCs assisted the development at over 250 of the newest 1,015 RCCs, almost one quarter of the newly-founded RCCs.
- The rating review of RCCs in Russia demonstrated that the number of credit cooperatives with assets in excess of five m. rubles (\$200,000) grew by 80% over the year, and 25% of these cooperatives were established in 2006. RCCs from forty two regions of Russia were represented in the rating review.
- Activities of rural credit cooperatives receive great public recognition. Vladimir Pakhomov, RCCDF General Director, was awarded with the Peter Stolypin prize “Agrarian Elite of Russia”.
- Seventy RCCs received the package of in-house regulations for the first-tier RCCs which essentially standardized the system of documentation through [www.ruralcredit.ru](http://www.ruralcredit.ru). Over 100 participants of “How to start an RCC” workshops, which were held by the Training Consortium and NC RCC&AD project, also received standardized package of essential documents for RCCs.
- A working group engaged in the development of standard in-house documentation for second-tier RCCs (charter, regulations, loan agreements, monitoring procedures, etc.) was set up.
- The loan portfolio of RCCDF exceeded 315 million rubles (\$12.2 mln.), a new high.
- Over the reporting semi-annual period NCC *Narodny Credit*, the third-tier RCC, increased its loan portfolio by 1.8 times and equity 2.4 times; 240 grass root credit cooperatives are now members of 16 RCCs, who are members of NCC *Narodny Credit*.

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<sup>1</sup> Conversions are based upon the Central Bank rate of 2 July 2007. \$1US = 25.73 RR

- The CDP team is working in close collaboration with the North Caucasus-Rural Credit Cooperation & Agribusiness Development (NC-RCC&AD) project. The second U.S. Farm Credit System fact-finding mission was organized with support of the CDP team for the group of the North Caucasus participants. The CDP team made recommendations on best use of the \$400,000 grant received by RCCDF under the NC-RCC&AD Program. During the last semi-annual period, three new RCCs from the North Caucasus received accreditation with the RAL Program and funding of 1.8 m. rubles (\$70,000). Activities on automation of accounting and reporting in rural credit cooperatives in the cooperatives of the North Caucasus and Kalmykiya were coordinated to ensure integration of North Caucasus RCCs unto the National system of RCCs.
- Four new RCCs were accredited in the RAL program, including one second-tier RCC (Karelagro, Karelya).
- Seven credit cooperatives accredited in the RAL program received international ratings in the last semi-annual period, with assistance from the World Bank CGAP program.
- The “Implementation of Developmental Concept for Rural Credit Cooperatives in light of Changes in the Federal Legislation” seminar was organized with participation of second-tier cooperatives to discuss institutional development of credit cooperatives reflecting amendments to the legislation.
- A concept and plan for establishing regional SAUs and a National SAU for agricultural credit cooperatives and standard incorporation documents needed to establish regional SAUs and the National SAU were developed by expert working groups.
- The software for automation of accounting, financial and credit activities of developing RCCs was tested for compatibility with the “1C” program. This creates a basis for unification of accounting and reporting in rural credit cooperatives.
- The round table “Automation of RCCDF, 2<sup>nd</sup> and 3<sup>rd</sup> tier Cooperatives Management Information System” was organized for distribution of MIS accomplishments to 3<sup>rd</sup> tier RCC and the 2<sup>nd</sup> tier RCCs, members of the 3<sup>rd</sup> tier RCC .
- Over 18 months, the Training Consortium for RCCs (that received financial support from CDP) held 29 workshops for 589 specialists including 375 women (64%). During this semi-annual period, eight workshops accommodated 161 specialists.
- Two new training programs (“Portfolio and Savings Management in RCCs” and “Business Planning in RCCs”) for interactive workshops were completed jointly with NC-RCC&AD project.
- Training materials for two workshops held under the Training Consortium (“How to start an RCC” and “Accounting, taxation and audit in RCCs”) were updated to reflect modifications in the Federal Law “On Agricultural Cooperatives” passed in November 2006.
- The Loan Portfolio Management software training seminar (June 2007) was held for specialists from RCCDF and the 3<sup>rd</sup> tier RCC. During the seminar the computer system of RCCDF and the software itself were tested and the specialists had an opportunity to practice with the Loan Portfolio Management software.
- The Farmer-to-Farmer Program facilitated five volunteer assignments at four credit institutions, including the RCCDF.

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## I. INTRODUCTION

### A. Project Goal/Objectives

The Russia Cooperative Development Program (R-CDP) expands on earlier development work conducted under the Mobilizing Agricultural Credit Program (MAC) that was completed on 30 June 2004. The R-CDP is structured to achieve the following goal:

**Project Goal:** Support enhanced access to privately owned and managed financial resources (credit cooperatives) for private and restructured farms as well as for other rural businesses:

**Objective 1:** Achievement of scale and salience at the national and oblast level.

**Objective 2:** Strengthened RCCDF and rural credit cooperative planning and information systems.

**Objective 3:** An improved legislative and regulatory environment for Russian rural credit cooperatives.

ACDI/VOCA, and its partners, the Rural Credit Cooperation Development Fund (RCCDF), the Consulting-Training Center *Cooperative Credit*, the Union of Rural Credit Cooperative Auditors (Auditors' Union), and the Union for RCCs, formed a partnership to implement a three-year Russia Cooperative Development Program (R-CDP). The RCCDF, Training Center and Audit Union are also sub-grantees. A description of the MAC Program achievements and baseline data as of October 2004 is included in Appendix A.

## II. DESIRED OUTCOMES

### A. End-of-Project Desired Outcomes

#### Objective 1 – Achievement of scale and salience at the national and oblast level

**Target:** Expansion of the overall lending operations of RCCDF, NCC, and RCCs through enhanced skills, sufficient liquidity, and portfolio diversification.

**Anticipated Results** (see Table in Section IX for cumulative results vs. anticipated results):

- 6,000 private farmers have access to loans or other financial services.
- Net equity of rural financial institutions increased by \$4 million.
- Rural credit cooperative membership grows from 41,000 to 51,000 (increase of 25 percent).
- Fifty six RCCs accredited by RCCDF with 100 RCCs borrowing directly or through member 2<sup>nd</sup> tier RCCs.
- RCCDF's assets grow to \$ 9 million from \$8 million.
- The National Credit Cooperative (NCC) will increase assets by 300 percent from \$110,000.
- The Training Center will develop three courses and certify two of them through the Ministry of Education.
- Four potential donors, lenders and/or investors contacted.
- Two new loan products developed and offered by RCCDF.

#### Objective 2 – Strengthened RCCDF and rural credit cooperative planning and information systems

**Target:** Strengthened planning and information systems ensure proper loan accounting, minimize loan delinquency, and instill confidence in potential lenders and investors.

**Anticipated Results:**

- RCCDF portfolio at risk is less than 6 percent of loans to RCCs.
- Accredited RCCs maintain loan delinquency rates of less than 8 percent.

- MIS installed by RCCDF and integrated into all accredited second-tier RCCs.
- CAMELS rating and monitoring performed by RCCDF on 45 RCCs.
- Prudential norms adopted and incorporated into the charter of 45 RCCs.

**Objective 3 – An improved legislative and regulatory environment for Russian rural credit cooperatives**

**Target:** Promote a legislative and policy environment more conducive for rural credit cooperative operations.

**Anticipated Results:**

- Six municipal, regional or federal issues affecting RCCs identified and advocacy campaigns launched.
- Three credit-support institutions participating in alliances or working groups to address RCC policy constraints.
- The positive results of five tax, registration, or legal precedents disseminated throughout the RCC system.
- A standardized RCC Chart of Accounts prepared and implemented by 45 RCCs (if Ministry of Finance adopts the proposed Chart of Accounts).

**B. End-of-Current-Period Actual Outcomes**

**Objective 1 – Achievement of scale and salience at the national and oblast levels**

**During last semi-annual period:**

- 473 new private farmers received access to loans.
- Net equity of accredited RCCs increased by \$993,000<sup>2</sup>.
- Rural credit cooperative membership grew from 110,260 to 136,716 members. The number of active RCCs grew from 1,587 to 1,698.
- Four new RCCs accredited by RCCDF. A total of fifty one RCCs are accredited by RCCDF and 240 RCCs are borrowing directly from or through second-tier RCCs.
- RCCDF's total assets were \$13.6 million.
- The National Credit Cooperative (NCC) increased assets from \$861,948 to \$1,500,000.
- RCCDF had meetings and reached agreements on loans from three potential lenders and financial intermediaries (*OikoCredit, BlueOrchard, Symbiotics*).
- Rural credit cooperatives received \$32.4 m. (834.6m. rubles) in loans from *Rosslkhobzbank* under the *National Project* (2006-2007) and \$20.3 million (523m. rubles) share capital from the associate members.
- RCCDF made share capital contributions of \$692,000 (17.8m. rubles) to the accredited cooperatives, while \$303,000 (7.8m. rubles) of which were wire transferred to the accounts of credit cooperatives and \$389,000 (10.0 m. rubles) were accounted for as RCCDF share contributions as a result of RCCs delinquent loans restructuring to RCCDF.

**Objective 2 – Strengthened RCCDF and rural credit cooperative planning and information systems**

**During last semi-annual period:**

- RCCDF portfolio at risk was stable at 3.43% percent on loans to RCCs.
- Accredited RCCs maintain loan delinquency rates (PAR > 30) was 3.2%.

<sup>2</sup> During first three months of 2007.

- CDP jointly with NC RCC&AD project developed a three-day training programs “Business planning in RCCs” and “Loan portfolio and savings management in RCCs”.
- CDP managed the development of Loan Portfolio Management software. The beta-version of Loan Portfolio Management software was tested at three pilot regions - Saratov (*Garant* RCC), Chuvashia (*Soglaie* RCC), Mary-El (*Maryisky Credit* RCC).
- The accounting in microfinance organizations software was provided for a module for provision of information to the Credit Bureau, relatively new for Russian financial markets.
- Seven RCCs received an international rating held by *Microfinanza* (Italy) with financial support added by CGAP.
- RCCDF published rating results of the cooperatives with over five million rubles in assets as of April 1, 2007.

### **Objective 3– An improved legislative and regulatory environment for Russian rural credit cooperatives**

#### **During the last semi-annual period:**

- The “Rural Credit” newsletter made eight advisory publications on accounting, taxation and legal support to RCCs.
- Three rural credit support institutions (Union of RCCs, RCCDF, Credit Union League) participated in the working groups to address RCC legislative constraints. These support institutions worked in: i) the President’s Council as well as working groups in the Ministry of Agriculture for the implementation of the *National Project*; ii) working groups developing new legislation and modifying the existing law; iii) national activities held by the legislative and executive power bodies, etc.
- *Training Consortium* held 29 workshops attended by 589 participants, including 375 women.
- Website [www.ruralcredit.ru](http://www.ruralcredit.ru) was developed and put into operation for rural credit cooperatives. The website proactively serves as Consultancy and Advisory Center for RCCs.
- ACDI/VOCA supported the activity to establish the infrastructure for regional SAUs and a National SAU by:
  - developing a concept and plan for establishing a NSAU for agricultural credit cooperatives;
  - developing standard incorporation documents needed to establish regional SAUs and the National SAU.

### **III. STRATEGY & PROBLEM ANALYSIS**

#### **A. Strategy for Effecting Change**

The RAL Program (see Appendix A for RAL background) intentionally avoided setting the agenda for development of a national institutional framework, believing that the stakeholders needed to take the lead in developing the strategy. Due to Russia’s vast size, the three-tier system in place prior to the revolution that worked well across Russia’s expanse attracted common support from the working group. Lacking analogous support from the Russian Government (up to 2005—see below), the rural credit cooperatives could not rely on a large injection of borrowed funds to prime their pumps (the RAL Program had been particularly significant by leveraging starting capital for lending to RCCs). Therefore, a large emphasis has been placed on mobilizing time deposits to fund the credit cooperatives’ near- and medium-term growth.

The developmental hypothesis is validated by a growing rural credit cooperative system based on replication of successful credit cooperatives, but *the proposition that credit cooperatives will drive the development process by marking out their development path has been under stress* as the Russian Government decided to promote the opening of 1,000 new RCCs from 2006-2007 and to provide a large

injection of capital that may disrupt the organic growth of bottom-up driven credit cooperatives. Regional administrations are jumping on board making this all look less like financial markets development and more like a political movement and effort to “make the numbers” of the plan.

At this point, however, the feared financial tsunami that could have hit and seriously weakened existing RCCs has not yet materialized. Furthermore, the Ministry of Agriculture in March 23, 2006 actually endorsed the concept for developing RCCs that RCCDF developed based on the concept outlined above. The political dexterity of the RCC system in general, and the work of RCCDF in particular, allowed the RCC system to promote its own vision for development when the Russian Government decided to bring resources to RCCs (reinforcing hypothesis 4 – see Appendix A for development hypotheses background).

Before 2006, there were no equitable market conditions for borrowers of commercial banks, who had access to partially subsidized interest on agricultural production loans and borrowers of credit cooperatives, who were unable to receive subsidies on loans. In 2006, these unfair terms were eliminated with introduction of the *National Project* and through the effort of RCCs representatives in the *National Project* working group.

Subsidizing of loans for credit cooperative members will be continued after the completion of the *National Project* under the auspices of the National Program for agricultural development and regulation of agricultural produce, raw materials and food markets for 2008-2012 (it is projected to increase subsidies from 5.6 billion rubles in 2008 to 8.3 billion rubles in 2012). However, CDP Program specialists believe that the amount of subsidies should be reduced in the long run to make the cooperative borrowers operate on market terms. It would be essential to preserve equitable terms for both borrowers of commercial banks and credit cooperatives.

The Government Decree # 833 as of December 29 2006 approved the federal budget appropriations to regional budgets to partially subsidize interest on loans received by members of agricultural credit cooperatives in 2006-2007.

Our strategy is to strengthen the infrastructure of the credit cooperative system by developing its institutions: apex financial institutions (RCCDF, third-tier RCC), Training Center, Audit Union, Union of RCCs and individual credit cooperatives. With a strengthened credit cooperative system, RCCDF and RCCs can attract more lending capital.

On November 3, 2006, a significant change to the law that governs rural credit cooperatives was adopted that places a deadline on all agricultural cooperatives to join a new form of special audit unions (SAUs) that ultimately will form national-level, self-regulating organizations. These organizations are charged with regulating the financial activities of their members, providing standards for reporting and training for their members. In other words, the law has put all cooperatives formed under the Law on Agricultural Cooperatives on alert that the primary organization that will provide their regulations, standards, reporting expectations, training and a host of other functions must be founded by November 2007 in a manner consistent with that outlined in the law.

The Russian Government Decree # 109 as of 20 February 2007 authorized the Ministry of Agriculture to provide for government regulation of self-regulated Special Audit Unions (SAUs) of agricultural cooperatives and maintenance of the Register. The Instructions of the Minister of Agriculture #172 as of 21 March of 2007 appointed the Department of Finance and Accounting to maintain and issue excerpts from the unique state Registry of self-regulated SAUs of agricultural cooperatives.

To establish a self-regulating organization at the national level for the credit cooperative system ACDI/VOCA has been addressing the following problems/opportunities:

**1. Establish regional SAUs that serve primarily credit cooperatives and that can combine to create a National SAU that will provide self-regulation, audits, training and other functions for its members.**

Agricultural credit cooperatives must establish their own self-regulating national special audit union (NSAU) comprising at least 40 regional special audit unions (SAUs) by November 2007, or join other, general special audit unions that belong to a national, self-regulating organization that would regulate all kinds of cooperatives, including production, input, and marketing cooperatives.

The new law that includes the requirement to establish SAUs may displace the role of the Union of Rural Credit Cooperatives (URCC) and the Audit Union that are now in place. Practically all of the key functions of both of these credit cooperative support organizations will be taken over by the NSAU and the regional SAUs. The credit cooperatives that work closely with the Rural Credit Cooperation Foundation (RCCDF) that administers the RAL program, together with the Union of Rural Credit Cooperatives (URCC) and RCCDF see it in their interests to form *their own* national self-regulating organization that will be focused primarily on the needs of credit cooperatives rather than on the needs of the broad array of agricultural cooperatives that include production cooperatives (these are often former kolkhozes), input and marketing cooperatives. supplemental funding for the Russia-CDP will provide significant support to the credit cooperative community as it establishes its own national self-regulating organization.

**Step One -- Establish SAUs and a NSAU:** ACDI/VOCA, with Mission support, is carrying out the North Caucasus –Rural Credit Cooperation & Agribusiness Development Program. (NC-RCC&AD). Under this activity, a grant to the partner Training Center is planned that will support the following activities in the North Caucasus to establish the infrastructure for regional SAUs and a National SAU by forming expert work groups to:

- develop a concept and plan for establishing regional SAUs and NSAU for agricultural credit cooperatives in the North Caucasus;
- develop standard incorporation documents needed to establish regional SAUs and the National SAU;
- organize and hold a conference for SAUs in the North Caucasus to found a national SAU.

The result of this work can be replicated across Russia.

**Step Two<sup>3</sup> – Provide institutional support and training to the SAUs and NSAU:** The Russia-CDP effort will support the SAUs and NSAUs that agricultural credit cooperatives establish by focusing on organizing, together with its partners like RCCDF and the Union of RCCs, working groups that will:

- create standard, in-house regulations for regional SAUs and for a national SAU;
- develop a training course for proper auditing procedures so the national SAU can certify regional SAU auditors;
- run workshops to train auditors and staff of SAUs and the NSAU;
- develop a training course “Monitoring of RCCs” that is CAMEL-based and is wider than financial auditing: it includes methods of assessing five key areas of a financial institution: Capital adequacy, Asset quality, Management, Earnings and Liquidity. This course is for staff of second-tier RCCs who monitor loan operations of first-tier RCCs;
- run workshops for training the monitoring specialists from second-tier RCCs.

The provision of standard documents to an array of newly founded SAUs will help to standardize their operations. The training courses will help to prepare new SAU auditors to carry out their tasks as well as help develop the staff in second-tier RCCs who need to carry out loan monitoring for all first-tier RCCs that borrow from them. These activities are distinct and mutually supportive. Audits focus on whether the financial reports of a RCC present a fair picture of the financial condition of the RCC. The monitoring that second-tier RCCs carry out of its member borrowers takes the audited accounts as a starting point of information and then look closely at Capital adequacy, Asset quality, Management, Earnings and

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<sup>3</sup> Step Two might be implemented in the event of CDP Program extension and additional funding for 2007-2008.

Liquidity. A good loan monitoring system that is CAMEL-based helps to control risks by identifying RCC problem areas and eliciting improvements by the RCC management.

In addition to responding to the challenge that the latest legislation has made for RCCs, another problem/opportunity is to assist RCCDF to grow its financial strength by committing to a plan that is attractive for Russian and international investors that will establish a financial organization that can leverage its equity to expand the scale of lending in Russia. EBRD, Oikocredit, and Developing World Market Fund have been talking with RCCDF and ACDI/VOCA for over a year now about their interest in expanding funding, but RCCDF has not yet developed a practical plan for investing into an organization, be it a limited bank or a third-tier credit cooperative that could significantly leverage its equity to meet the huge need for agricultural financing in Russia.

**2. Increasing the Financial Leverage of RCCDF:** When the Russia-CDP program began, RCCDF had cumulatively loaned out 600 billion rubles (\$22.6 million - 2000-2004); as of July 1, 2007 the cumulative total had reached 1.6 billion rubles, three times over a four year period. Its 2007 summer-high for loan portfolio was roughly 315.1 million rubles (about \$ 12.2 million). (See attachment C).

RCCDF attracted only \$2.75 million from external sources and as of 1 July 2007. The Fund has \$2.0 million in outstanding loans from the external sources. A loan of \$500,000<sup>4</sup> from Symbiotics is being negotiated.

At the same time, RCCDF has had three international audits (2003-2005)<sup>5</sup> and two international ratings. Its financial activity with agricultural credit cooperatives plus its completion of a series of audits make RCCDF attractive for creditors. Two German partner organizations, KfW and GERFO Fund, have supported the development of the credit cooperatives system in Russia and agree that the further development of a central, apex lending organization that is capable of leveraging its equity would be a major, positive development for funding and developing Russian credit cooperatives. The problem is one of transformation and change management.

Over the reporting period, A.Maksimov, CDP director, held meetings with potential investors at the 10<sup>th</sup> MFC Conference of Microfinance Institutions (30 May – 2 June, 2007, Sofia). The following investment foundations expressed their interest in cooperation with RCCDF: Developing World Markets (MA, USA), INCOFIN (Antwerp, Belgium), Minlam Assets Management (NY, USA), Triple Jump (Amsterdam, Netherlands), PlaNet Finance (NY, USA). RCCDF will continue negotiations to attract investment.

The strategy of development has grown to the point where the Supervisory Council of the RAL Program will increase the credit limit of the apex credit cooperative NCC “*Narodny Kredit*” significantly, and will begin to transfer a significant portion of the RAL program assets to NCC “*Narodny Kredit*” in the form of longer-term loans to help NCC “*Narodny Kredit*” to deepen its credit history and size of its capital base. The longer-term loans will be subordinated debt, thus increasing the credit cooperative’s attractiveness to other creditors).

However, current efforts are insufficient to significantly increase financial leverage of RCCDF. At the initiative of GERFO Fund and ACDI/VOCA, on 29 March 2007 the Board of Trustees of RCCDF made a decision to set up a working group for the development of a strategy for an apex organization for the RCC system. The working group will consider three transformation options:

1. Establishment of NDKO with international investors.
2. Development of a third-tier cooperative as a primary apex organization.
3. RCCDF operating in the capacity of a guarantee fund.

<sup>4</sup> A loan of \$500,000 was received in July 2007.

<sup>5</sup> In July 2007 RCCDF will complete the international audit review for 2006. It is also planned to complete the development of a business plan for the period through 2010.

A fourth transformation option is also likely, which is a purchase of a commercial bank by the cooperative community. The interest to this option would be contingent on the eligibility of credit cooperatives to serve as shareholders by law. A special request was prepared to the Central Bank of Russia, as the current legislation does not contain an unambiguous answer at the moment.

The first discussion of these options will be held in July 2007 with participation of ACDI/VOCA specialists.

The immense contribution of RCCDF to the development of rural credit cooperatives received recognition from the agrarian community of Russia. V. Pakhomov, RCCDF General Director, was awarded with the Peter Stolypin “Agrarian Elite of Russia” prize on April 16, 2007. A. Gordeyev, Minister of Agriculture of Russia participated in the award ceremony.

## **B. Problem Analysis**

In the mid-90s, there were no rural credit cooperatives and only a dim awareness that credit cooperatives had figured prominently in Russian history prior to the Soviet Period. Sovkhozses and kolkhozses<sup>6</sup> had a long history of receiving centrally-planned orders and low- or no-interest loans that were frequently forgiven by the Russian Government; lending to agricultural enterprises of the sovkhoz or kolkhoz type was rightfully considered to be a high-risk activity. In the 1990s, as Russia dismantled its central economic planning system, individuals were stimulated by the State to enter into private farming; a movement led by AKKOR (the national farmers’ association) began that promoted small private farming as opposed to collective farming that the State increasingly abandoned as funding for subsidizing state collective farming dropped precipitously.

The 1990s was a wrenching time for the agricultural system in Russia that had to adjust to a completely changed market system where state support for agriculture had practically been wiped out. Thousands of farm communities in Russia were slowly dying and many farm assets (dairy cattle, trucks, building materials even scrap metal) were sold off as these farms, typically with hundreds if not thousands of people working or living on them, spiraled into decay. At the same time, a new class of rugged small and medium farmers who had broken away from State farms or who had started farming from scratch emerged. By the mid-1990s the first credit cooperatives were founded, typically by private farmers who realized that the State had no resources or will to finance farming while at the same time, commercial banks were weak and did not serve rural communities and were adverse to the perceived risks of lending to agricultural enterprises.

In such an environment, the first problem to solve was to demonstrate that lending to private farmers through credit cooperatives was a good avenue to sound lending. From 1999 to 2004, the Russian American Lending Program (RAL) supported the growth of Russian rural credit cooperatives by leveraging up to 7.5 times the available lending capital in RCCs. The RAL Program did demonstrate that lending through credit cooperatives at commercial rates was effective, as the RCC members did pay back loans with interest in a timely, profitable manner.

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<sup>6</sup> State Collective farms

Appropriate legislation was developing alongside with the new credit cooperatives. The federal law “On Agricultural Cooperatives” # 193-FZ, adopted on December 8, 1995 (with subsequent modifications and amendments) laid the legal basis for establishment and development of rural credit consumer cooperatives.

The CDP (since October 2004) is working to increase the salience and scale of rural credit cooperation but a new problem arose in 2006: the Russian Government, recognizing the achievements of the nascent rural credit cooperative system, included credit cooperative development into its *National Project*, a sweeping social/economic program that is pumping new government funding into four areas that have been targeted for attention: 1) Medical Services, 2) Education, 3) Housing and 4) Agriculture. Under agriculture, rural credit cooperatives are receiving an estimated \$300 million<sup>7</sup> of new, subsidized lending capital through the state agricultural bank, Rosselkhozbank. The *National Project* also set a goal of stimulating the creation of 1,000 additional credit cooperatives by using Rosselkhozbank as an initiator and/or an associated member. This goal has already been exceeded. It is envisaged to establish 1,435 agricultural credit cooperatives by December 31, 2007, which is 1.5 times greater than was expected initially under the *National Project*.

The concept for development of RCCs developed by RCCDF and approved by the Ministry of Agriculture on 23 March 2006 is very significant for development of the system of rural credit cooperatives. The Ministry also approved a methodology for drawing up regional and municipal developmental programs for rural credit cooperatives. The program was designed with immediate support of RCCDF. Based on these recommendations, sixty three regions of Russia developed and presented to the Ministry of Agriculture regional programs (sub-programs) for development of consumer (and credit) cooperatives. As of 1 January 2006 (before the *National Project*) there were 872 rural credit cooperatives in Russia, including 419 agricultural consumer cooperatives.

#### Small farming units in rural areas

Of the total 16 million rural households of Russia, over 14 million households (86.6%) produce 92% of potatoes, over 80% of vegetables, 52% of meat and milk and 57% of wool. In 2004 households sold 32.9% of livestock and poultry in live weight, 20,1% of milk, 10,3% of potatoes and 9.7% of vegetables. Only 3.4 million of 16 million households market their agricultural products.

There are 261 thousand private farms in Russia. The farms produce over 18% of the grain, 26% of sunflower seeds and 10% of sugar beet. Over recent years, farms built up agricultural production output - 23.6 billion rubles in the prices of 2000 to 90 billion rubles in 2005.

There are 1,697 consumer cooperatives established under the *National Project*. Of these 775 are agricultural credit cooperatives.

*The Farmer Bill* for development of agriculture and regulation of agricultural produce, raw materials and food markets for 2008-2012 provides for state support to small rural businesses through partial subsidies of interest on loans received from commercial organizations of Russia and rural credit consumer cooperatives.

<sup>7</sup> The State expects its sixty million dollar capital grant to Rosselkhozbank to be leveraged by that bank to 300 million dollars over the next two years.

**Table 1: Development of Rural Credit Cooperation (Oct. 2004 – 2006)**

	2004 (9 months)	2004	2005	2006	2007 <sup>8</sup> (6 months)
<b>No. of Registered RCCs</b>	661	707	872	1,536	1,698
<b>No. of RCCs registered under law “On Agricultural Cooperatives”</b>	n/a	361	419	1,165	1,407
<b>No. of RCC members</b>	69,186	71,206	91,874	128,304	136,716
<b>Value of RCC Capital, millions of RR</b>	247	251	376	625	1,211
<b>Value of Loans Disbursed by RCCs, millions of RR</b>	1,163	1,350	2,200	3,150	3,907

As of 1 March 2007 there were 1,698 rural credit cooperatives in Russia, including 1,407 agricultural consumer cooperatives.

On 26 April, 2007, at a press conference, Arkady Dvorkovich, Head of Expert Department of President of Russia, noted that since 2008, *National Project* “Development of Agro-Industrial Complex” will be transformed into a five-year *Farm Bill*.

A. Kudrin, Minister of Finance of Russia, stated that the federal center intended to reduce funding to prioritized *National Projects* after 2007. The destiny of projects would be largely dependent on the intent and local funding in the regions, who would receive the authority of participation in funding of those programs.

Various types of security pledged by small businesses are used in the regions. Collateral funds were established in six regions, while in 19 regions local government authorities provide guarantees.

RCCDF, the Union of rural credit cooperatives and second-tier RCCs assisted in the establishment of 775 RCCs . RCCDF and the Union provided information and methodological support to the second-tier RCCs. The second-tier RCCs played a key role in the development of initiative groups, preparation of founding documents, organization of incorporation meetings, and interaction with regional and municipal authorities

According to the monitoring data of RCCDF as of 1 January 2007, a two-tier system is developing in 32 regions of Russia. Ten new regions expressed their intention to develop a two-tier system.

On December 29, 2006, Vladimir Putin, President of Russia, signed the *Farm Bill* “On Development of Agriculture”. The law regulates government support to agricultural development. This law had no precedent in the past.<sup>9</sup>

The *Farm Bill* endows rural credit consumer cooperatives with the status of agricultural producers.

The *Farm Bill* “On Development of Agriculture” determines lending principles. The government subsidizes interest on loans in amount of 2/3 of the Central bank discount rate (95% of the discount rate for small businesses).

At the discussion of the law, A. Gordeyev, Minister of Agriculture, stated that “the federal law underscores the notion of agricultural activities and sustainable development of rural areas improving the quality of life of rural residents”.

<sup>8</sup> According the data of the Ministry of Agriculture of Russia, as of 1 July 2007, 1,015 agricultural consumer cooperatives were established during January 2006 – March 2007.

<sup>9</sup> Allan Mustard, Minister Councilor for Agricultural Affairs of the U.S. Embassy, Moscow, noted that USAID Farmer-to- Farmer Program made a significant contribution to promoting the Farm Bill in Russia through the work of volunteer consultants. Jane Shey, registered lobbyist, from Washington D.C. provided advice and information to key policy-makers, including Dr. Serova and agricultural minister Gordeyev in 2004.

According to the *Farm Bill*, government support will make credit resources accessible for rural agricultural producers, processors and providers of appropriate services, households, farmers and rural consumer cooperatives, livestock breeders, seed growers and land fertility improvement operations. The law focuses on sustainable development of villages, including construction of good quality roads in the countryside. Another priority of the law is insurance of agricultural risks for losses caused by weather, drought and pests.

It is important that the law introduced the notion of “transparent government support” to agriculture for the first time. The support program is approved for five years. According to the law, approval of the first five-year term is expected before in 2007. This is a historical first for Russian agriculture. Of note was a section devoted to credit cooperatives, further legitimizing these institutions in Russia.

Development of land mortgage opens new opportunities for lending to agricultural production. The Inter-Agency working group on the *National Project* “Development of Agro-Industrial Complex” at the Presidential Council of the Russian Federation on implementation of prioritized *National Projects* and population policy approved the concept of land mortgage lending system (Minutes # 3 as of 19 March 2007). Adoption of this concept could add an impetus to lending to agricultural producers.

According to expert estimates, land mortgage value is equivalent to \$100-200 billion. Agricultural producers possess land, which is a great collateral potential. According to preliminary data of the All-Russia Rural Census of 2006, agricultural enterprises utilize over 223 million hectares. Farmers own 25 million hectares, and households 8.5 million hectares. Since long-term loans can be secured only by land plots, which in addition to the market value bring current income adequate to repay principal and interest – the actual collateral potential of agricultural land is 9 to 10 million hectares of land.

Significant financial resources are used to support agricultural production, including small rural businesses in Russia these days. However, existing funding mechanisms like Rosselkhozbank are not enabling the development of alternative funding system in rural areas and a rural credit cooperative system. The existing system in combination with subsidized loans leads to corruption, which serves as a basis for pre-negotiated soft loans. Moreover, Rosselkhozbank is viewing credit cooperatives only as a source of reliable clientele rather than a cooperative system for lending in rural areas.

#### **IV. Assessment of End-of-Reporting Status**

##### **A. Achievement of Salience and Scale**

**1. Salience:** Salience was defined by the Request for Applications (RFA) as “the importance of the role played by the cooperative in the lives of its members, in its community and in the sector of the economy in which it works.” Russia CDP is not focusing on the “success” of one cooperative, but the achievement of salience by the entire Russian rural credit cooperative system. The rural credit cooperative system is already extremely important to over 130,000 rural members and the thousands of employees of these cooperative institutions. However, the level of quality still needs to be upgraded both within the cooperative support institutions and the rural credit cooperatives in order to ensure the long-term importance of these organizations to their members and the private agricultural sector.

The efforts undertaken to develop credit cooperatives in Russia are yielding good steady results. According to the Union of Rural Credit Cooperatives as of July 1, 2007 there were 1,698 RCCs in 69 regions<sup>10</sup> of Russia, 373 rural districts and over 792 rural settlements. Though the growth rate of RCCs is high there is still potential for great development. RCCDF survey findings demonstrated 50-57% of unmet loan demand even among the cooperative members.

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<sup>10</sup> There are 85 Federal Subjects in Russia (4 federal subjects merged into larger ones reducing the number from 89).

The membership of 1,698 RCCs comprises over than 136,000 members. On average the annual growth of members over the last five years was 21,600 members. Overall, the membership as of 1 April 2007 is comprised of 63% rural households, 13.9% farmers, 2.4% entrepreneurs, 1.3% collective farms (agricultural enterprises), 0.3% agricultural consumer co-ops and 19.1% others. For reference, in 1999 there were only 3% rural households, whereas today, rural households make up 63% of the membership.<sup>11</sup>

RCCDF has signed memoranda of cooperation to jointly support RCC development with 15 regions of Russia, where 15.8% of the population resides (Table 1).

**Table 1: Federal Subjects that Signed MOUs on Credit Cooperation<sup>12</sup>**

Volgograd Oblast	(Population: 2.7 mln.)	Astrakhan Oblast	(Population: 1.0 mln.)
Chuvashia Republic	(Population: 1.3 mln.)	Mari-El Republic	(Population: 0.7 mln.)
Udmurtia Republic	(Population: 1.6 mln.)	Omsk Oblast	(Population: 2.0 mln.)
Perm Oblast	(Population: 2.8 mln.)	Buriatia Republic	(Population: 1.0 mln.)
Voronezh Oblast	(Population: 2.3 mln.)	Saratov Oblast	(Population: 2.6 mln.)
Kaluga Oblast	(Population: 1.0 mln.)	Ivanovo oblast	(Population: 1.5 mln.)
Kalmykia Republic	(Population: 0.3 mln.)	Kareliya Republic	(Population 0.7 mln.)
Yakutiya Republic*	(Population: 1.0 mln.)		

\* Signed during this semi-annual reporting period.

Implementation of the “Development of Agro-Industrial Complex” *National Project* was faster than was initially expected. As of 1 July 2007, 1,015 new credit cooperatives were established. Initially 400 new credit cooperatives were planned, but local authorities in the regions planned the establishment of 667 new credit cooperatives for 2007. The *National Project* significantly diversified the funding sources for small businesses in rural areas. During January 2006 – June 2007, small businesses in rural areas received 42.5 billion rubles (\$1.65 billion) in loans from Rosslekhobzbank.

In the first six months of 2007, Rosselkhozbank disbursed 15.6 billion rubles in over 120,000 loans, including 11.8 billion rubles in 84.9 thousand loans for development of rural households. Overall, Rosselkhozbank made 300 thousand loans. In 2007, the bank plans to disburse 300-350 billion rubles in loans in comparison with 187 billion rubles in 2006.

Agrofact Agency

Under the auspices of the *National Project*, Rosselkhozbank during January 2006 – June 2007 disbursed 834.6 m. rubles (\$32.4 m.) in 378 loans to rural credit cooperatives. Rosselkhozbank also joined, as an associate member, 52 credit cooperatives and contributed 523 million rubles (\$20.3 m.) as share capital. However, it is noteworthy that Rosselkhozbank views rural credit cooperatives as satellites dealing with end-borrowers rather than independent entities.

However, according to CDP and RCCDF specialists, rapid growth of cooperatives and attraction of substantial credit resources without appropriate training of specialists, adequate credit history, RCC evaluation and monitoring system, guarantee and insurance mechanisms might result in disastrous effect when some RCCs are unable to meet their obligations. In fact, this may have an overall negative impact on the system of rural credit cooperatives in the regions and in Russia.

**The key threat of the *National Project* RCC support implemented through Rosslekhobzbank is the development of a parallel system of rural credit cooperatives.** Rosselkhozbank joined 52 credit cooperatives in 23 regions as an associate member. For instance, in Krasnodar krai Rosselkhozbank proactively joined the eight first-tier cooperatives as an associate member (160 million rubles, or \$6.2 m.) and views them as agents, which prepare clients for Rosselkhozbank. Meanwhile, this bank ignores *Istok Yug*, the second-tier RCC operating in the region that is accredited with the RAL Program.

<sup>11</sup> Rural households denote family garden plots that are intensively cultivated for food and to generate income.

<sup>12</sup> Total population in Russia is 144.2 m. The population of Federal Subjects that signed MOUs on credit cooperation is 15.8% of the total.

**Actions to Address Key Threat:** ACDI/VOCA jointly with its Russian partners is trying to reduce these threats. During the reporting period, V. Pakhomov, RCCDF General Director and A. Kovbas, Chairperson of Narodny Credit RCC (Astrakhan), attended the meeting of a working group on implementation of the *National Project*. Among the outcomes of this work are consideration of amendments to the “concept” of rural credit cooperatives development proposed by RCCDF and the Union of RCCs. This concept provides for the development of an independent, three-tier system of rural credit cooperatives. The apex structure of this system will be Narodny Credit, the third-tier RCC, which may be reorganized into an NDKO, or a bank in the future, or develop independently.

Owing to joint effort of the working group on implementation of the *National Project*, Ministry of Agriculture and Union of RCCs, the Government of Russia adopted a decree which enabled borrowers representing small businesses to receive subsidies on interest on loans borrowed from banks *and* credit cooperatives. This decision put banks and credit cooperatives in equal market conditions in rural areas, leveling the playing fields.

The Supervisory Council of RCCDF made a decision to enhance support to *Narodny Credit*, the third-tier RCC through the increase of share capital contribution of up to six million rubles, and the loan limit increase making it equal to 15% of RCCDF assets. In addition, RCCDF, NCC and German fund GERFO agreed on uniform lending policy, which provides for the uniform loan pricing schedule for credit cooperatives according to their reliability class.

The Union of RCCs and RCCDF jointly with the Ministry of Agriculture sponsored the round table “Development of rural credit cooperatives in terms of implementation of the Development of Agro-Industrial Complex *National Project*” (12 December 2006, Moscow), and approved recommendations to the State Duma of Russia, the Russian Government and Ministry of Agriculture. Also the Union of RCCs and RCCDF with technical assistance of ACDI/VOCA organized the International scientific conference “Rural credit cooperatives in Russia: investment in the future” (13 December 2006, Moscow). Over 130 representatives of RCCs, federal and regional government authorities, international organizations and investors, and research institutions took part in the conference. Based on the discussion, the participants of the conference adopted recommendations for the State Duma of Russia, the Government of Russia, Central Bank, Ministry of Agriculture, regional government authorities on further institutional development of the system of rural credit cooperatives, improvement of taxation system, support to regional credit cooperatives, etc.

On 29 March 2007, the RCCDF Board of Trustees meeting was held in Moscow. The Board approved the accomplishments and financial reporting of RCCDF in 2006; it also adopted a plan of work and the budget for 2007. The Board supported a memorandum of understanding for the RAL Program for 2007-2008 signed by A. Rasskazov, Deputy Director, Department of Agrarian policy, Ministry of Agriculture of Russia and A. Mustard, Minister-Counselor of Agricultural Affairs. The Board of Trustees approved the extension of the RAL Program through December 31, 2008. The Board also made a decision on the establishment of a working group to prepare a developmental strategy of RCCDF. The strategy will be considered at a special Board meeting in late 2007.

### **Development of cooperation with North Caucasus region.**

The entire N. Caucasus area is unstable to varying degrees. The eastern republics closer to the Caspian (Dagestan, Chechnya, Ingushetia and N.Ossetia) are not stable. The western republics and krais of the North Caucasus that are closer to the Black Sea (Krasnodar, Stavropol, Kabardino-Balkariya, Karachayevo-Cherkessia and Adygea) are less turbulent but nonetheless are prone to some ethnic frictions, clan factions and political uncertainties.

The Russia USAID Mission, with a Congressional earmark of five million dollars, awarded 2.9 million dollars to ACDI/VOCA to create an economic development program called the North Caucasus—Rural

Credit Cooperation & Agribusiness Development (NC—RCC&AD) Program. This program is providing short-term technical assistance to regional agribusinesses. It is also delivering training for credit cooperatives staff, limited technical assistance as well as a capital grant to RCCDF to expand lending to the North Caucasus.

The CDP Program meshes extremely well with the NC-RCC&AD Program; CDP held several activities jointly with the NC-RCC&AD Program. In particular:

- A. U.S. Farm Credit System fact-finding missions to the United States (November 2006, May 2007) were organized and facilitated for a delegation including regional ministers of agriculture of the North Caucasus, representatives of the Ministry of Agriculture of Russia, RCCDF and *Narodny Credit* third-tier rural credit cooperative. These trips had significant impact on the development of rural credit cooperatives in the North Caucasus and helped to establish solid contacts with representatives of governments of North Caucasus republics.
- B. Representatives of the North Caucasus made visits to Volgograd and Saratov regions, where credit cooperatives are well-developed. These visits helped to establish business contacts with credit cooperatives.
- C. Development of recommendations for the best use of the \$400,000 grant received by RCCDF under the NC-RCC&AD Program. The recommendations were approved by the Supervisory Council of RCCDF. The recommendations covered the procedures for RCCDF to join RCCs in the North Caucasus and Kalmykia as an associate member. They also described a mechanism for loan-limit increase. The additional loan limit of 1,000,000 rubles was established for the second-tier RCCs in the North Caucasus, 500,000 rubles for the first-tier RCCs, and 1,500,000 rubles for cooperatives with assets in excess of 50 million rubles.
- D. Five new cooperatives from the North Caucasus (*Fisht*, the second-tier RCC from Adygeya, *Niitzyan*, the second-tier RCC in Kalmykiya, *Rus'* from Stavropolsky krai, *Kolos* from Kabardino-Balkariya, and *KavkazAgroFinanceServise* from Karachaevo-Cherkessiya), were accredited with the Russian-American Loan Program in the reporting period. The initial loan limit of six m. rubles (\$233,200) was established for these cooperatives. According to the prerequisites of the grant provided to RCCDF under NC-RCC&AD Program, the loans within the loan limit will be made for two years at the interest rate prescribed by RCCDF for relevant class of cooperatives. RCCDF also joined these cooperatives as an associate member and contributed 1.9 m. rubles (\$73,800) of share capital on condition of 2% annual dividends on contributed share capital, effective the second year of membership.
- E. At least 30 RCCs from the North Caucasus will be reviewed by specialists of NC—RCC&AD and CDP projects. Twenty RCCs already received technical assistance: computers, certified software, including 1C program, training and free annual consultancy.
- F. Two new training programs (Portfolio and Savings Management in RCCs and Business Planning in RCCs) for interactive workshops jointly with NC-RCC&AD project were completed.
- G. Coordination of activities on automation of accounting and reporting in rural credit cooperatives in the cooperatives of the North Caucasus and Kalmykiya. At the first stage, five workshops on accounting for RCCs were held, attended by 133 accountants from the North Caucasus and Kalmykiya. At the next stage, accounting will be automated based on the “1C” platform, lending and savings management software as well as managerial reporting (MIS) for the first-tier developed with assistance of CDP will be introduced for practical use. For this purpose, two workshops were held with participation of 20 RCCs, which received TA and the above-mentioned software developers from *Garant* the second-tier RCC of Saratov, and *JSC Alliance*.

These organizations established a consortium to track the developed software products and they are also providing consultancy support to the cooperatives of the North Caucasus.

### Building a Functional Network of Cooperative Support Institutions

**RCCDF & the RAL Program:** The RAL Program has issued a total of 1.6 billion rubles (\$ 62.2 million) in loans since project inception. A total of 1.3 billion rubles (\$50.5 million) have already been repaid almost entirely in accordance with loan agreements. The portfolio on 1 July 2007 of **315,160,506** rubles (\$ 12.2 million), had increased by 21% compared to the portfolio 12 months ago (the portfolio on 1 July 2006 was **259,625,265** rubles). The loan portfolio of fifty-one Rural Credit Cooperatives accredited in the RAL Program comprises 17,370 individual loans to 11,308 individual borrowers<sup>13</sup> (well over 90% continue to be private farmers and/or rural entities engaged in agricultural production). The loan portfolio of RCCDF as of July 1, 2007 is in Attachment C. The current sustainability ratio stands at 162%, whereas one year ago it was 181%.

*Brief summary on 47 RCCs accredited with RCCDF as of April 1, 2007:*

Assets –	1,570 mln. rubles (\$61,018 mln.)
Savings –	658.2 mln. rubles (\$25.6 mln.)
Debt (loans) –	606.9 mln. rubles (\$23.6 mln.)
Equity –	301.7 mln. rubles (\$11.7 mln.)
Financial income from operations –	44.1 mln. rubles (\$1.7 mln.)
Financial expense -	30.1 mln. rubles (\$1.2 mln.)
Personnel and administrative expenses –	37.2 mln. rubles (\$ 1.4 mln.)
Net income –	3.2 mln. rubles (\$ 0.12 mln.)
Total outstanding portfolio –	1,408 mln. rubles (\$ 54.7 mln.)
Portfolio at risk above 30 days –	45.7 mln. rubles (\$ 1.8 mln.)
Portfolio at risk above 180 days –	10.9 mln. rubles (\$ 0.4 mln.)
Number of employees –	414
Number of loan officers –	132
Number of loans outstanding –	17,326
Number of active borrowers –	11,264

**Loan Approvals, Repayments and Delinquency:** Overall quality of loan portfolio remains steady. A total of 205,229,000 rubles (\$7.9 million) of loans have been made by RCCDF in the last six months. The breakdown of lending approval is as follows:

**Table 2: Loan Approvals**

<i>RAL Loan Program</i>	<b>Financial Directorate</b>	<b>Supervisory Council</b>	<b>Lines of Credit (RCCs)</b>	<b>Total Loan Activity</b>
<b>Semester Total Loans</b>	144	99	15	258
<b>Semester Total Lending (rubles)</b>	70,419,000	113,430,000	21,380,000	205,229,000

The Financial Director reported to the Supervisory Council that repayments were being made as usual. The following table reflects overdue payments at 0.17%.

**Table 3: Delinquency**

<b>Aged</b>	<b>Amount</b>	<b>Percent of Portfolio</b>
<30 Days		0.00%

<sup>13</sup> The number of individual borrowers is less than the number of individual loans as some borrowers have multiple loans.

31-60 Days		0.00%
61-90 Days		0.00%
>90 Days	550,000	0.17%
<b>Total Delinquent</b>	<b>550,000</b>	<b>0.17%</b>

Rescheduled loans<sup>14</sup> accounted for 15.5 million rubles, or 4.91% of the portfolio as of July 1, 2007, 4.3% higher than 12 months ago. The attached table detailing rescheduled loans gives more insight into their viability (Attachment D, as of 1 July 2007). According to the portfolio at risk methodology used by RCCDF, PAR is 3.32%.

Supervisory Council Decisions—RCCDF: One Supervisory Council meeting was held over the last six months: on April 27, 2007. In addition to the regular review of loan applications and Class A and B ratings, the following topics were discussed or decisions taken:

- Reconsideration of RCCDF accreditation plan for 2007. The new plan provides for 12 accreditations in 12 regions.
- Approval of the new three four RCCs of the North Caucasus and Kalmykiya, which will be joined by RCCDF as an associate member:

	Tier	Cooperatives	RCCDF share capital contribution (rubles)	Loan limit increase (rubles).
1	1 <sup>st</sup> tier	RCC “Rus”, Stavropol krai	100,000 (\$3,900)	500,000 (\$19,400)
2	1 <sup>st</sup> tier	RCC “KavkazAgroFinansService”, Karachaevo-Cherkessia	100,000 (\$3,900)	500,000 (\$19,400)
3	1 <sup>st</sup> tier	RCC “Kolos”, Kabardino-Balkaria	100,000 (\$3,900)	500,000 (\$19,400)
TOTAL			300,000 (\$11,600)	1,500,000 (\$58,300)

- Accreditation of *Karelagro*, Karelya regional rural credit consumer cooperative and joining the cooperative as an associate member with a share capital contribution of 25,000 rubles (\$972), establishment of a loan limit of 1,000,000 rubles (\$38,865). Specialists of RCCDF and ACDI/VOCA reviewed *Karelagro*, and recommended the cooperative for accreditation in the RAL Program. The cooperative has strong potential as a second-tier RCC. The cooperative also received initial borrowers’ reliability rating BB.

“Karelagro” was registered on 21 April 2006 on the basis of “Sodeystvie+” RCC, which was in operation since 2002.

Thirteen rayon-level first-tier RCCs are founders of the cooperative. In 2007, it is planned to admit six new cooperatives. “Karelagro” has 236.500 rubles (\$9,191) in equity.

The cooperative is developing allowance for loan losses in amount of 10% of the cooperative equity. The allowance for loan losses is generated through allocations of 0.2% of all loans made. As of 1 January 2007, capital adequacy ratio is 0.35.

<sup>14</sup> These are loans that RCCs could not pay on time due to factors such as bad weather or poor crop prices. Rescheduled loans are loans outstanding that have been renegotiated and modified to either carry forward or postpone the term of the originally scheduled repayment, without substantially altering other conditions and terms of the loans.

- Modifications in the Instruction Manual for the Financial Directorate regarding evaluation of borrowers by credit history with RCCDF and other creditors.
- Modifications in the guidelines for credit cooperatives regarding maximum exposure for a single borrower.

#### **RAL Indicators in Effect for Accredited Cooperatives**

	Prior Indicator	Approved Indicator
<b>6. Maximum loan size for individual borrower</b>		
First-time borrower	350,000 rubles (\$13,600)	500, 000 rubles (\$19,400)
Positive credit history on loans borrowed from RCC and banks and successfully repaid: a loan of 500,000 rubles or two loans of 350,000 rubles each	500,000 rubles (\$19,400)	750,000 rubles (\$29,100)
Positive credit history on loans borrowed from RCC and banks and successfully repaid: a loan of 750,000 rubles or two loans of 500,000 rubles each	750,000 rubles (\$29,100)	1,000,000 rubles (\$38,900)
Positive credit history on loans borrowed from RCC and banks and successfully repaid: a loan of 1,000,000 rubles or two loans of 750,000 rubles each, or three loans of 500,000 rubles each.	1,000,000 rubles (\$38,900)	1,500,000 rubles (\$58,300)
<b>7. Individual loan approval authority delegated by Supervisory Council to:</b>		
Class A Cooperatives on Line of Credit	200,000 rubles (\$7,800)	350, 000 rubles (\$13,600)

The need to amend the Instruction Manual stemmed from continuous growth of an average loan size caused by inflation and economic development of credit cooperatives.

ACDI/VOCA and RCCDF jointly developed Procedures for the Loan Committee. The Loan Committee received loan approval authority from the Supervisory Council of RCCDF and begins its work in the fall of 2007. This initiative is an important stage in termination of ACDI/VOCA's oversight over the RAL Program.

**Training and Consulting Center - Credit Cooperation ("Training Center"):** The CDP-R strongly believes that for successful implementation of the training component of the Program, three elements need to be in place.

1. Unified training programs.
2. Unified training materials.
3. Excellent facilitators and trainers.

To achieve the above-mentioned objectives ACDI/VOCA has vigorously implemented the January 2006 decision by ACDI/VOCA, RCCDF and the Training Center to establish a **Training Consortium**. 17 potential participants were identified from the following regions: Chuvashiya, Volgograd, Mary-El, Perm, Yaroslavl, Udmurtiya, Stavropol, Saratov, St. Petersburg, Tomsk, Krasnodar, Orenburg, Ivanovo and Moscow (Training Center, RCCDF and ACDI/VOCA). The participants signed a tri-lateral memorandum of understanding, which stipulates the use of unified training approaches and standard training materials. CDP finances the development of training materials under CDP direction and ultimately grants a copyright to the Training Center. The Center updates training materials as needed, maintains a database of the workshops held and the participants and provides uniform certificates of accomplishment. Since its establishment 29 workshops were held under the auspices of the Consortium over the 18-month period:

Workshop	Time frame	Venue	# of participants	# of woman
As of January 1, 2007	21 workshops		428	298
Implementation of the concept for development of RCC system in light of changes in the federal legislation	18-19.01.07	Moscow	28	8
Automation of RCCDF, 2 <sup>nd</sup> and 3 <sup>rd</sup> tier Cooperatives Management Information System		Moscow	9	3
Institutional development of RCCs: <i>Narodny Credit</i> 3 <sup>rd</sup> Tier RCC, Union of Rural Credit Cooperatives and Audit Union	02.03.07	Moscow	30	11
Legal aspects of RCC operations	19-20.03.07	Yaroslavl	19	9
Accounting and audit in RCC	26-27.03.07	Ufa	28	16
MIS in RCCs on “1C” platform		Volsk	10	4
Accounting and audit in RCC	16-17.05.07	Orenburg	22	14
Monitoring of rural credit cooperatives	20-22.06.07	Cheboksary	15	12
As of July 1, 2007	29 workshops		589	375

Overall 589 participants, including 375 women (64%), took part in 29 workshops.

During the reporting period, the “*Implementation of Developmental Concept for Rural Credit Cooperatives In light of Changes in the Federal Legislation*” seminar was organized with participation of second-tier cooperatives to discuss institutional development of credit cooperatives in light of amendments to the legislation. The participants discussed organization of special audit unions of agricultural cooperatives, a self-regulated organization of special audit unions, developmental prospective for the Union of Rural Credit Cooperatives, and transformation of the Audit Union to a self-regulated organization of special audit unions. The seminar happened to be the first stage of SAU development.

The roundtable “*Automation of RCCDF, 2<sup>nd</sup> and 3<sup>rd</sup> tier Cooperatives Management Information System*” was organized for distribution of MIS accomplishments to third-tier and the second-tier RCCs, which are members of a third-tier RCC. The participants of the roundtable discussed the problems that evolved at the introduction of Loan Portfolio Management software in the pilot cooperatives and consultancy support issues, as well as distribution of the software to the other regions of Russia.

During the reporting, training materials for two workshops held under the Training Consortium (“How to start RCC” and “Accounting, taxation and audit in RCCs”) were updated to reflect modifications in the federal law “On Agricultural Cooperatives” made in November 2006. L.Ovchinnikova, Director of the Training Center and a specialist in accounting and taxation in RCCs, was involved in editing of those training materials.

In addition, RCCDF jointly with the Training Consortium won a tender for training RCCs at the workshops under the *National Project* “Development of Agro-Industrial Complex”. RCCDF developed an express three-day workshop “How to set-up and organize activities

Alexei Gordeyev, Minister of Agriculture of Russia, in his presentation at the meeting of the Council on implementation of *National Projects* (25 December 2006) noted that “in light of the importance of professional training for cooperatives, Ministry of Agriculture jointly with *Rosselkhozbank*, RCCDF, agricultural educational institutions on professional development developed 26 regional groups and started training of specialists for rural credit cooperatives”.

of a rural credit cooperative” for specialists of RCCs established under the *National Project*. The express course was based on training materials developed by CDP-R, ACDI/VOCA under the Consortium for RCCs. RCCDF with the help of Consortium held 29 workshops in 23 regions of Russia under the auspices of the *National Project*. The workshops were attended by 813 participants from 37 regions.

The Training Center presented final financial and operational reports on utilization of the grant received from the CDP project. The financial report confirmed the appropriate use of grant funds. The operational report demonstrated that all the objectives were achieved except for certification of training programs. The certification was inexpedient for the following reasons:

- a) The duration of Training Center workshops never exceeded three days, while certification is required only for professional development training programs in excess of 72 hours;
- b) The Training Center does not have training facilities and has to rent them annually. According to the procedures, the certification term may not exceed the rent term. Therefore, the Training Center would have to renew certification each year, which would entail additional expenses.
- c) Russian legislation requires no certification of training unless formal graduation certificates are issued.

At the same time, the Training Center with support of the Training Consortium, used the grant funds to hold over 20 workshops as opposed to the three planned originally: the Consortium leveraged CDP training budget seven times. This was possible because the Training Center paid only for reproduction of training materials, stationery, facilitators’ fee, coffee breaks and training facilities and equipment as needed. These expenses were not in excess of 15% of the workshops’ total cost, as the participants or regional cooperatives – members of Training Consortium, incurred the bulk of such expenses for travel, accommodations and meals. The Training Center and ACDI/VOCA issue certificates of accomplishment and maintain a database of participants.

ACDI/VOCA views on-line consultancy at [www.ruralcredit.ru](http://www.ruralcredit.ru) as a new priority for the Training Center. Currently, ACDI/VOCA is considering development of user-friendly interface for placing questions and replies, statistics of provided consultations as well as funding of written advice for the web-site users. During the reporting period, the Training Center provided 17 consultations which were downloaded at [www.ruralcredit.ru](http://www.ruralcredit.ru).

ACDI/VOCA also views the role of the Training Center in development of a concept for establishment of a self-regulated organization of special audit unions for agricultural cooperatives, preparation of incorporation documents set for SAUs and a self-regulated organization, and hosting a founding conference for a self-regulated organization. This initiative is implemented jointly with NC NCC&AD project.

During the reporting period, a concept and plan for establishing *regional SAUs and a National SAU* for agricultural credit cooperatives and standard incorporation documents needed to establish regional SAUs and the National SAU were developed through establishment of expert working groups. The standard incorporation documents were placed at [www.ruralcredit.ru](http://www.ruralcredit.ru) and e-mailed to various regions. Thirty-six newly-established SAUs supported by the expert group used this set of incorporating documents.

*Union of Rural Credit Cooperative Auditors (“Audit Union”):*

During the observed period, the Audit Union successfully accomplished eight audit reviews. Twenty-three audit reviews were held since CDP inception, including fifteen RCCs accredited with the RAL Program.

Over the reporting period, the Union provided 21 consultations, including seven in writing. A. Maximov, CDP Director, jointly with A.Kryukova, Moscow office accountant, reviewed financial and general reporting on the sub-grant activities on a monthly basis.

The adoption of changes in the law “On Agricultural Cooperatives” on 3 November 2006 that includes the requirement to establish special audit unions (SAUs) may displace the role of the Union of Rural Credit Cooperatives (URCC) and the Audit Union that are now in place. Practically all of the key functions of both of these credit cooperative support organizations will be taken over by the new self-governing organization.

Development of a self-regulated organization of special audit unions for rural credit cooperatives is an essential component in the establishment of a sustainable system of credit cooperatives. Availability of existing RCCs potential and the development of 400 new RCCs in 2007 under the prioritized *National Project* allow the establishment of at least 40 regional special audit unions within 2007. Each special audit union will provide coverage for 25 rural credit cooperatives.

Therefore, RCCDF, the Union of RCCs and ACDI/VOCA are jointly working to establish a **self-regulated organization** for special audit unions in line with the existing law “On Agricultural Cooperatives”.

The aim of the cooperation is to support the establishment of a self-regulated organization of at least 40 regional special audit unions comprising 1,000 agricultural cooperatives by means of development of a business plan, common incorporating documents, training course materials, web-site, organization of an incorporation conference and workshops for auditors and staff. To achieve the overall aim, the following objectives need to be reached:

- (1) development of a special audit unions network for rural credit cooperatives and their amalgamation into a federal self-regulated organization;
- (2) development and introduction of a uniform methodological database for regular audit reviews of RCCs by the federal self-regulated organization;
- (3) training of an adequate number of auditor-consultants with the help of a specialized training program and its implementation in the Training Center, bench-marking, consultancy and methodological support to auditor-consultants in RCCs;
- (4) support to primary activities of a self-regulated organization and special audit unions; web-site and technical aids
- (5) achievement of financial sustainability of the system. Technical assistance to special audit unions and insurance of auditor-consultants’ professional risks.

It is planned to implement the project in 40 regions of the Russian Federation, concentrating investments in the areas with the most developed credit cooperatives and existing networks of rural audit unions, which are amalgamated in regional and inter-regional associations. Such concentration will allow for gradual expansion of unions to the regions where the unions have not been developed or where the unions are at their fledgling stage. In fact, this approach is less risky than the “top-down” approach, when the unions could be established through direct government oversight.

The initial project implementation (2007) will transform the existing Audit Union into a national self-regulated organization – The National Special Audit Union for rural credit cooperatives; to develop and improve in-house regulations, to develop a specialized training program for auditor-consultants and to develop uniform standards of operations and accounting policy. Common databases for credit cooperatives and regional special audit unions will be also developed.

All rural credit cooperatives belonging to the National SAU will be rated at the final stage of the project.

The extended meeting of the Audit Union Board (18 January 2007, Moscow) served as a first practical step towards the establishment a self-regulated organization of special audit unions for agricultural consumer cooperatives. The Board members made the following decisions: (i) to bring the Charter in compliance with the new edition of the Law “On Agricultural cooperatives”; (ii) to establish a self-regulated organization on the basis of the Audit Union; and (iii) to hold a general meeting of the Audit Union members on 2 March 2007.

On 2 March 2007, the general meeting of Audit Union was held with participation of 60 persons. The general meeting adopted the new Charter and made a decision on reorganization of the Audit Union into a self-regulated organization of SAUs for RCCs. ACDI/VOCA supported the decision and came up with an initiative to assist the establishment of a self-regulated organization of special audit unions for RCCs through the existing projects related to the development of rural credit cooperatives.

The grant provided by ACDI/VOCA to CCTC within the reporting period helped to prepare a) a concept pertaining to the establishment of audit unions and self-regulated organization of agricultural consumer cooperative audit unions; and b) constituent documents of audit unions and self-regulated organization of agricultural consumer cooperative audit unions. The constituent documents were placed at [www.ruralcredit.ru](http://www.ruralcredit.ru) for free access, which would enable emerging special audit unions use those documents. Currently, Audit Union and Union of RCC are negotiating with 36 regions the establishment of NSAU.

**Union of Rural Credit Cooperatives:** The Union of RCCs is not a grant recipient but is an active partner of the CDP effort. The amendments to the law “On Agricultural Cooperatives” approved on November 3, 2006 concern the future role of the Union of Rural Credit Cooperatives in the system of rural credit cooperatives. This results from the delegation of the Union authority to a **self-regulated organization** for special audit unions in line with the existing law “On Agricultural Cooperatives”.

On 18 January 2007 in Moscow, the enlarged meeting of the Union Council was held after the seminar “On the implementation of the developmental concept for rural credit cooperatives in terms of changes in the federal legislation”. The participants discussed potential transformation of the Union of Rural Credit Cooperatives into an inter-regional special audit union, which would comprise regional second-tier RCCs.

Further discussion of this issue was continued at the 10<sup>th</sup> Annual Conference of URCC on 2 March 2007 in Moscow. V. Pakhomov, General Director of RCCDF suggested liquidation of URCC on the grounds that evolving self-regulated organizations would perform most of functions of the Union of Rural Credit Cooperatives. G. Nikulin, Chairman of URCC supported this idea.

However, the participants of the 10<sup>th</sup> Conference declined this proposal and made a decision to bring the Union of RCC Charter in compliance with the existing legislation. There were several reasons for this: (i) Union RCC may unite any credit cooperatives regardless their tier in the system, location and availability of accreditation with RCCDF; (ii) URCC may represent interests of credit cooperatives in legislative and executive bodies of the Government; (iii) URCC creates a forum for discussion of various legislative initiatives, promotion of credit cooperatives; (iv) the National SAU must regulate and monitor RCCs therefore it is not able to effectively represent and advocate RCCs, etc.

The Conference elected S. Pozdnyazkov, Chairman of the largest RCC in Stavropol, as a new Chairman of the Union of RCCs. In the capacity of the Chairman of Union of RCCs, S. Pozdnyakov started work to increase the membership and to develop the new Charter. Now, any credit cooperative irrespective of the tier and status in the system may join the Union. All these cooperative have votes in Union of RCCs<sup>15</sup>.

ACDI/VOCA prefers to stay out of political struggles because a) it is an internal affair of the Union; b) it is demonstration of increased RCCs’ activity and their desire to be immediately involved in the work of

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<sup>15</sup> Mr. Nikulin, Volgograd, who was Chairmen of the Union of RCCs for 10 years, lost his bid for re-election.

the Union. The vigorous campaigning for change of the Union of RCCs, while stressful, is evidence of the growing saliency of the rural credit cooperative community. However, ACDI/VOCA believes that URCC serves as an important democratic institute lobbying interests of all credit cooperatives. For example, a conflict in Volgograd region, where another second-tier RCC was organized, led to inability of the new cooperative to join the existing financial institutions of the credit cooperative system (RCCDF and third-tier RCC). Now these cooperatives are on equal grounds.

### **National Rural Credit Cooperative (NCC) “Narodny Credit”:**

The NCC was registered on October 10, 2004. The following key functions were identified for it:

- raising additional financial resources to the credit cooperative system;
- reallocation of temporarily underutilized funds in the credit cooperative system;
- mitigation of financial risks. In particular, NCC introduced a ratio of share capital contribution to the loan value of 1:7, which significantly increases sustainability of NCC in comparison with RCCDF.

So far, 16 founders and three associate members (RCCDF, ACDI/VOCA and GERFO) have contributed 13.2 m. rubles (\$513,000) to the equity. ACDI/VOCA joined NCC as an associate member and contributed 300,000 rubles (\$11,300) as a membership fee. This entitled ACDI/VOCA to participate in the management of NCC. NCC adopted loan policies and practices currently being used in the RAL Program. At this stage, ACDI/VOCA is viewing NCC as an institution, which will be receiving the apex financial structure authority from RCCDF on a step-by-step basis.

Now two hundred and forty first-tier RCCs receive services from sixteen cooperatives – members of NCC *Narodny Credit*.

The loan portfolio of 39 mln. rubles (\$1.5 m.) comprises the cooperative’s own funds (34%) and the funds borrowed from: GERFO Fund (12%) and RCCDF (53%). NCC received 25.7 m. rubles in loans. As of 1 July 2007, NCC made 96 loans for 60.7 m. rubles (\$ 2.4 mln.), including 42 loans for 29.1 m. rubles (\$ 1.1 m.) during the reporting period. In order to build-up lending of NCC the Supervisory Council of RCCDF will make a decision to provide additional loans to the NCC under the conditions that loans to members would be at the same rate as those provided to them under the RAL Program.

According to the business plan of NCC, by the end of 2007, the number of members will grow to 19, equity up to 12.3 million rubles (\$ 0.47 m.), and loan portfolio of 52.1 million rubles (\$2 m.). However, assets must be increased further to achieve sustainability.

At the fledgling stage of NCC development it is extremely important to have an automated accounting system in place including a loan portfolio management module and a module for international reporting standards for micro-finance organizations. During the observed period ACDI/VOCA assisted the conversion of accounting and loan and savings management into “1C” platform, to train two specialists at specialized training courses on “1C:”, and to provide advice on utilization of the automated lending module. Over 2006, NCC developed automated reporting in line with CGAP and SEEP recommendations. ACDI/VOCA, as an associate member of NCC, will receive reporting electronically (over 10 reporting forms) on a quarterly basis.

During the reporting period, NCC held its general meeting, where the new management was elected and financials were approved. The participants of the general meeting elected N. Vshivkova, Executive Director, *Doverie RCC* (Perm), the Chairperson of *NCC Narodny Credit*. New members were also introduced to the Board and Supervisory Council of the cooperative.

Further development of NCC is associated with the developmental strategy of an apex organization of the credit cooperative system. In line with the resolution of the RCCDF Board of Trustees, NCC is viewed as an alternative option for the development of an apex organization based on cooperative principles. Adoption of such decision is expected at the upcoming meeting of the RCCDF Board of Trustees.

### **Enhanced Technical Capacity of RCC Personnel:**

Having played a key role in the development of the Russian rural credit system, ACDI/VOCA CDP-R is enhancing technical capacity of RCC personnel through organization of U.S. fact-finding missions for key Russian experts, bringing U.S. volunteers to Russian RCCs, organization of workshops and proficiency improvement programs for RCC managers and experts, training of trainers programs, etc.

Under the auspices of the Training Consortium regional cooperatives held 29 workshops, including eight workshops in the reporting period participated by 161 experts. All the workshops were facilitated by regional specialists or specialists from CDP-R ACDI/VOCA, Training Center and RCCDF. The success of workshops was achieved with help of training materials prepared by ACDI/VOCA and trainers, who participated in the “The Interactive Methods of Teaching” workshop in the International Moscow Banking School of the Financial Academy, organized by CDP-R in collaboration with NC-RCC&AD.

The web-site [www.ruralcredut.ru](http://www.ruralcredut.ru) serves as a valuable source of information for provision of information and consultancy to RCCs. The web-site pilot testing indicated that many RCCs applied for advice in accounting, taxation, development of special audit unions, etc. Establishment of regular feedback from the web-site users will invariably help RCCDF and other apex entities of credit cooperatives to take a lead in rendering information and consultancy to credit cooperatives of Russia. Since this activity is very important for the credit community, ACDI/VOCA is considering likely funding of this initiative at the early stage of the project.

In view of importance of MIS introduction to first- and second-tier RCCs, CDP organized and held a workshop “Management Information System based on 1:C platform in rural credit cooperatives” with participation of nine experts from second-tier RCCs on 24-27 April 2007 in Volsk. Participation in the workshop enabled representatives from the cooperatives to hold workshops on automation of accounting and reporting for grass-roots cooperatives in the regions.

### **Achievement of Salience and Scale (II. continued)**

**2. Scale:** Scale, as stated in the RFA, is interrelated with salience and defined as “achieving a size and reach that allows influence on social, economic, and political issues.” The system of rural credit cooperatives is expanding in the Russian Federation. According to the monitoring data of RCCDF, rural credit cooperatives are operating in 69 regions of Russia, 373 rural districts and 792 rural settlements. In some regions rural credit consumer cooperatives develop branch networks (representative offices and branches), which significantly enhance access of rural residents to financial services. There are all the necessary prerequisites for the development of a two-tier system in 32 regions of Russia.

On November 16 2006, William Burns, U.S. Ambassador to Russia, visited Volgograd region, where the cooperative movement is most advanced. During the visit, the Ambassador visited a farm of Iliya Golubev in Ilovinsky rayon and met Ivan Dobrobaba, Chairman of *Start* rural credit cooperative. This credit cooperative provides financial assistance to farms, households and rural residents of the rayon. In 2001, credit cooperatives, including *Start*, received 3.5 million rubles (\$131,700) under the RAL Program. Those loans enormously helped the cooperative members - Ivan Golubev was able to increase the number of pigs on his farm. (source: <http://volgogradinform.ru/vlast/1234.html>).

Over the first year of the *National Project* implementation, 777 new cooperatives have been established. It is now envisaged to set up 1,435 credit cooperatives in the regions, 1.5 times greater than was expected under the *National Project*. In 2006, the leaders in development of credit cooperatives are Republic

Sakha-Yakutiya - 102 RCCs, Rostov region – 38 RCCs, Aginsky-Buryatsky Autonomous region – 39 RCCs and Krasnodar krai – 32 RCCs. However, only 60% of newly established cooperatives are in operation. RCCDF in collaboration with the Ministry of Agriculture is planning to conduct a thorough review of new cooperatives.

Under *the National Project* 2,000 specialists will be trained for the rural credit cooperative system. Since the *National Project* term will be extended for at least a year, the outcomes of development will be tremendous for Russia. In 2006, the Consortium as an implementer of the *National Project* training component held 29 workshops for 813 specialists from rural credit cooperatives under the *National Project*. ACDI/VOCA supported this initiative of RCCDF by running four workshops “How to start a rural credit cooperative” under the *National Project*. CDP-R also co-funded four workshops, where 54 specialists were trained in addition to the specialists trained under *National Project*. ACDI/VOCA’s initiative provided access to training for members of set-up groups and experts from RCCs established before the *National Project*, who were unable to participate in training programs.

**Increased access to capital:** A key factor in achieving scale and corresponding political influence and social impact is greater access to financial resources. The Supervisory Council approved a new plan to accredit up to twelve additional RCCs during 2007-2008. Under CDP ten new cooperatives received accreditation at the RAL program. At the same time five credit cooperatives (*Khozyain* in Saratov, *IOVK* in Vologda, *Fermer-99* in Tomsk, *Universal* in Tomsk, *Krestianskaya ssuda* in Tomsk) lost their accreditation due to the failure to meet obligations on loans borrowed from RCCDF. Some restructured indebtedness of those cooperatives was assumed by the other cooperatives (*Garant-Credit*, Saratov, *Ustyuzhensky*, Vologda, *Tomsky oblastnoi*, Tomsk), the rest of delinquent loans were committed to share contributions to the cooperatives. The aim will be to identify second-tier RCCs in new regions to increase the geographical composition of accredited RCCs and to leverage political influence through RCC members who are constituents to elected Duma members. Selection of second-tier RCCs and RCCs with clear potential to become regional second-tier RCCs is well within the development concept of a three-tier system in Russia. Access to credit, it should be noted, is not restricted to the 51 currently accredited RCCs. Through on-lending, RAL Program capital is actually reaching 148 RCCs (at maximum 183 RCCs received funding via accredited RCCs).

#### **Additional Loan Capital:**

As a result of meetings attended by A.Maksimov, Director CDP, S.Kokosyan, Regional NC-RCC&AD Project Manager and V.Pahomov, Director of RCCDF at the “Microfinance with a Mission: Learning Together” conference (Budapest, June 7-9 2006), an agreement was reached on external borrowings in the 2007:

- OikoKredit - (expected - \$1.0 m., in fact - \$0.25 m.)
- BlueOrchard - (expected - \$1.0 m., in fact - \$1.0 m.)
- Symbiotics SA - (expected - \$1.0 m., in fact - \$0.5 m. in July 2007)

**Rosslekhobzbank:** A joint effort of RCCDF, the Union of RCCs and second-tier RCCs (Volgograd, Mary-El, Saratov, etc.) helped convince Rosselkhozbank to make loans through the second-tier RCCs. Initially the bank wanted to work only with first-tier RCCs. However, top management of Rosselkhozbank is still determined to make loans only to grass-roots cooperatives. Since the inception of the *National Project* rural credit cooperatives received 834.6 million rubles (\$32.4 m.) in 378 loans from Rosselkhozbank. *Rosselkhozbank* is most proactive with the following regions: Krasnodar region, where RCCs received 33 loans to the sum of 162.2 million rubles (\$6.3 m.), Rostov region - 27 loans to the sum of 71.0 million rubles (\$2.7 m.), Orenburg region – 35 loans to the sum of 63.8 million rubles (\$2.5 m.). *Rosslekhobzbank* also joined 52 RCCs as an associate member and contributed 523.0 million rubles (\$20.3 m.) of share capital, including Krasnodar region – eight RCCs, 160.6 million rubles (\$6 m.); Kemerovo region – 6 RCCs, 93.2 million rubles (\$ 3.6 mln.); Lipetsk region – 3 RCCs, 110.2 million rubles (\$ 4.1 m.).

**Sberbank of Russia** penetrated the credit cooperative loan market as a significant player. The bank joined the *National Project* and disbursed 580 million rubles (\$21.8 m.) in 159 loans to consumer cooperatives (as of January 1, 2007).

**Loan Portfolio Diversification (New Loan Products):** Large-scale lending to small rural businesses under the *National project* had significant impact on the microfinance services market:

a) Loan offer increased at the microfinance market, and in January 2006 – June 2007 small rural businesses received 42.5 million rubles. (\$1.65 m.) through 208,142 loans.

b) The interest rate on loans to small rural businesses decreased due to competition for the reason of increased loan offer and the Government program on subsidized interest on loans to small rural businesses. According to the program a part of the loan interest was subsidized with regard to the Central Bank discount rate<sup>16</sup>. Thanks to lobbying from RCCDF and the Union of Rural Credit Cooperatives, borrowers representing small rural businesses received access to the subsidized interest program like borrowers of the banks.

c) The number of rural microfinance organizations also grew. In 2006, 777 new rural consumer credit cooperatives were set up and their number will continue to grow in 2007. Thirty-two regions of Russia have all the necessary prerequisites for the development of a two-tier system. Under these circumstances, the Supervisory Council of RCCDF approved a resolution to amend the credit policy:

1. Support to the development of an apex structure, *Narodny Credit*, Inter-regional rural consumer credit cooperative: The Supervisory Council of RCCDF made a decision to increase the RCCDF share capital in *Narodny Credit* by 6 million rubles (\$225,800), to establish the loan limit at the level of 15% of RCCDF assets and to open a line of credit of 30 million rubles (\$1,129,000) for three years against the loan portfolio pledged as security. During 2007, the size of RCCDF share capital in *Narodny Credit* may be increased up to 10 million rubles on condition of new members' admission and additional capital contributions made by existing members.

2. Financial support to the second-tier cooperatives: RCCDF launched the line of credit to the second-tier cooperatives in the amount of 50% of the established loan limit for three years against loan portfolio pledged as security. As a result, the loan limit of the second-tier cooperatives will increase by 0.5% and will equal 7.5% of RCCDF assets. The loan limit of the first-tier cooperatives will decrease accordingly by 0.5% being equal to 3.75% of the Fund's assets. In the event a first-tier RCC agrees to receive funding via a second-tier RCC, the latter receives the loan limit of the above-mentioned first-tier RCC. Absolute loan volumes will increase for all RCCs, so no liquidity squeeze is anticipated.

3. Reduction of interest rates by 1 point to 3.5% with regard to reliability classes of rural credit cooperatives: The decision was also made to synchronize loan-pricing schedules on loans made by RCCDF, third-tier cooperatives and the GERFO fund.

The demand for loans with a term greater than 12 months is growing. Over the last six months the share of these loans in the loan portfolio has increased from 13.3% to 19.5% (during last 12 months from 6.8% to 19.5%). Credit cooperatives are interested in long-term loans and the portion of such loans in the RCCDF loan portfolio is increasing.

The RCCDF loan portfolio is subject to seasonal fluctuations (see attachment C). To encourage the demand for loans in the fall-winter period, the Supervisory Council of RCCDF made a decision to reduce interest rates down to 15% for loans made within November – April. RCCDF loaned 48.6 million rubles

<sup>16</sup> The Central Bank discount rate was 10.5% within 29 January -18 June 2007. June 19, 2007 effective the discount rate is 10%.

in 51 loans to credit cooperatives (185 end-borrowers). This initiative helped maintain the loan demand within the fall-winter period.

RCCDF, GERFO fund and Rosevrobank implemented a pilot project, where Rosevrobank made a five million ruble loan to *Garant RCC* (Saratov) against guarantees provided by RCCDF and GERFO fund. However, RCCDF and GERFO fund being unsure of efficiency of such cooperation are not considering any new guarantees in the near future.

Currently RCCDF is offering four loan products: a short-term loan; a long-term loan; a line of credit facility; and a loan for the fall-winter period and a financial product – a guarantee.

To support small business development in rural areas, the German partners of RCCDF and the Union of RCCs established GERFO fund and transferred one million euros for loan capital. GERFO Fund adopted the RAL Program loan policies and procedures. 30 RAL-accredited Class AA and A cooperatives were accredited in the GERFO fund. The first loan was made on October 24, 2005. As of July 1, 2007, GERFO fund disbursed 71.42 million rubles (\$2.8 million) in 147 loans to 25 cooperatives for more than 360 end-borrowers.

A.Maksimov, CDP Director, participated in the 10<sup>th</sup> MFC Conference of Microfinance Institutions with a view to establish contacts with potential investors (30 May – 2 June 2007, Sofia). Below are the observations made at the Conference:

1. Greater number of potential investors penetrates the MFI market. Many investors float bonds at the market and raise financial resources for MFIs.
2. In addition to credit resources, investors offer investments in equity of commercial MFIs and to not-for-profit MFIs, which are in the process of transformation to commercial entities (banks). Investments in local currencies are offered at large scale.
3. It is worthwhile for RCCDF to circulate a package of proposals for investments and **establish regular communication with investors**. At minimum, the package may contain:
  - a. Brief description of the RCC system in Russia and roles of apex organizations in the RCC system (RCCDF and NCC “*Narodny Credit*”).
  - b. RCCDF financials for 2004, 2005 and 2006 audited according to international standards and a last quarter report.
  - c. *Microfinanza* rating report.
  - d. Loan Portfolio reports for the last three years.
  - e. Business plan for a three-year prospective reflecting required investments.
4. RCCDF provides insufficient information to potential investors. In fact, submission of data to MIX Market on a regular basis would expedite development of relationship with investors and increase loan portfolio.
5. NCC “*Narodny Credit*” needs to be proactive with potential investors, though at the initial stage those could be existing partners of RCCDF - OikoCredit, BlueOrchard.

The results of negotiations were discussed with V. Pakhomov, RCCDF Director. It was noted that investments should be linked to the development strategy of apex organizations.

## **B. Strengthened RCCDF: Monitoring, Planning and Information Systems**

The development of rural credit cooperatives at this stage requires comprehensive information generation and dissemination. RCCDF and ACDI/VOCA support the following mechanisms:

- *Workshops and conferences.*

- *Development and introduction of unified in-house regulations (prudential norms).*
- *Publication and distribution of specialized Rural Credit journal.*
- *Distant and on-site monitoring, introduction of a rating system.*
- *Development and maintenance of Rural credit Cooperatives web-site.*
- *Development and introduction of automated MIS.*

## 1. CAMELS and RCC Monitoring

The CDP staff continues to focus on working with the RCCDF to improve its approach to monitoring credit cooperatives that borrow from the RAL Program. ACDI/VOCA together with RCCDF completed two on-site monitoring examinations using CAMELS technology over the reporting period. ACDI/VOCA's FtF program has fielded one USDA volunteer who assisted RCCDF in adapting the internationally accepted CAMELS rating system and in developing a system of RCC monitoring.

In the course of a U.S.-based assignment, Steve Bazzell, an FtF volunteer, developed standardized training modules on the topic of credit cooperative examination/monitoring. The training modules were designed to fit within a two- or three-day seminar. The training had to be in line with the Monitoring Manual adopted by RCCDF and contained interactive exercises.

In April 11-13, 2007, Alexander Toropov, CDP Program Manager, Steve Bazzell, Vladimir Saraykin, RCCDF Monitoring specialist with participation of Margarita Asriyan and Gennady Kuginov from ACDI/VOCA office in Stavropol (NC NCC&AD project) organized and run a three-day workshop "Monitoring of rural credit cooperatives" in Elista, Republic of Kalmykia. The participants, potential monitoring examiners, represented rural credit cooperatives and government agencies of Republic of Kalmykia, Republic of Mary-El, Republic of Karelia, Stavropol krai, Yaroslavl region and Ivanovo region. The participants were engaged in interactive discussion throughout the training and the instructors elicited responses from participants not relying on lecturing. The participants were forced to use their reasoning skills to understand the concepts involved with risk and risk mitigation. The overall intent was to have RCCDF assume full responsibility for the updating and future delivery of the training.

On June 20-22, 2007, Alexander Toropov, CDP Program Manager, Vickie Cosentino, an FtF volunteer consultant, Alexander Nosov, RCCDF expert, facilitated the workshop "Monitoring of rural credit cooperatives" in Cheboksary, Republic of Chuvashia. The workshop was organized with assistance of the Training Center and held under the Training Consortium. Fourteen potential monitoring experts from Chuvashia participated in the workshop. Similar training approaches were used at the workshop that proved to be efficient at the prior workshop in Kalmykia.

In the past six months, rural credit cooperative examinations were completed with the assistance of USDA and FCA examiners under the FtF Program. The examinations were conducted in Volgograd, (*Podderzhka and Alexeyevsky RCCs*) with Steve Bazzell, and Yaroslavl (*Partner RCC*) with Vickie Cosentino, The following table lists the CAMELS ratings applied to the examined RCCs.

**Table 4: CAMELS Ratings**

Credit Cooperative	Region	Date of monitoring	Appraisal Rating
<i>At the beginning of the reporting period – total 18 RCCs</i>			
<i>For the reporting period – 3 RCCs, incl.:</i>			
<i>Podderzhka</i>	Volgograd	April '07	3
<i>Alexeyevsky</i>	Volgograd	April '07	3+
<i>Partner</i>	Yaroslavl	June '07	in process
<i>By the end of reporting period – 21 RCCs</i>			

The Financial Directorate of the RCCDF continues to monitor the RAL accredited RCCs indicators for compliance with the financial indicators stipulated in the federal law “On Agricultural Cooperatives” as well as with the indicators prescribed by the Russian-American Loan Program.

In April 2007, the Rural Credit journal published the rating of credit cooperatives, which have over five million rubles (\$200,000) in assets as of January 1, 2007. The rating list included 165 RCCs and they represent 11.5% of all RCCs and 85% of loan portfolio<sup>17</sup>. In essence, 15 RCCs form the “core” of regional systems of rural credit cooperatives. Overall, the rated RCCs represent 42 of 69 regions the Russian Federation, where RCCs operate. A quarter of RCCs with five million rubles(\$200,000) in assets were set up in 2006. The rating criteria amongst the others also includes the standards prescribed for RCCs accredited in the RAL Program. In comparison with rating examination of April 1, 2006, the number of cooperatives with assets in excess of 5.0 mln. rubles (\$200,000) increased by 80%. It demonstrates rapid growth of RCCs and theirs financial indicators.

## 2. Management Information System

The lack of automated management information system (MIS) significantly reduces investment attractiveness of RCCDF. For RCCDF the most essential component of MIS is a loan portfolio management system for a multi-tier system of RCCs. RCCDF received a special grant from CDP for the development of the above-mentioned component. The grant provided to RCCDF for the development of a loan portfolio management system paid for the following items:

- *Concept paper for a management information system.*
- *Terms of Reference for the development of standards and list of indicators for database.*
- *Terms of Reference for the development of loan portfolio management system.*
- *Software development for the loan portfolio management system.*
- *Software testing and update for the loan portfolio management system.*
- *Software introduction for the loan portfolio management system in RCCDF and three pilot regions.*
- *Final report on development and introduction of software for the loan portfolio management system.*

A tender was held for development of software for the loan portfolio management system for credit cooperatives. The following developers were chosen: Consortium of “Garant”, rural credit cooperative (Saratov) and JSC “Alliance-Soft”<sup>18</sup>. A reason for the choice is that Consortium of “Garant has already completed the CDP-R funded development of:

a) a special module “Accounting in micro-finance organizations” software for automation of accounting, credit and savings activities in RCCs that runs on the “1C: Accounting” platform. This software is becoming popular with RCCs that utilize the ubiquitous “1C: Accounting” and simplifies data collection for RCCDF’s MIS. More than 50 RCCs has purchased the module, 30 of which are using it already, including NCC “*Narodny Credit*” the 3rd Tier RCC.

b) a special module for “1C: Accounting” that produces reports for micro-finance organizations in line with CGAP and SEEP (“Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis, and Monitoring”) recommendations.

<sup>17</sup> As of April 1, 2006 the rating list included 92 cooperatives and they represent 10% of all RCCs and 75% of loan portfolio. The rated RCCs represented 42 of 69 regions the Russian Federation, where RCCs operated.

<sup>18</sup> JSC “Alliance-Soft” is a certified franchiser of “1C” company. JSC “Alliance-Soft” launched an on-line users’ consultancy for the “Accounting in micro-finance organizations” software (<http://alst.ru>), providing on-going support for credit cooperatives that use its special accounting module.

JSC “Alliance Soft” completed the development of a beta-version of the loan portfolio management software. The program has been tested in RCCDF and in three pilot regions (Saratov, Republic of Chuvashia and Republic of Mary-El). This software was presented to the second-tier RCCs at the “Rural credit cooperatives: investments in the future” conference (December 2006) held by the Union of rural credit cooperatives and RCCDF. The loan portfolio management software was also discussed at the “Development of loan portfolio management system” roundtable, which was held in Moscow on December 14, 2006. Seven programmers and technical experts from regional cooperatives took part in the discussion, the result of which were used to update the *Loan Portfolio Management* software.

The *Loan Portfolio Management software* training seminar was held for specialists from RCCDF and third-tier RCC (June 2007). In the course of the workshop, computer system of RCCDF and the software itself were tested and specialists were trained to work with the *Loan Portfolio Management software*.

At the next stage, the loan portfolio management software will be introduced to the cooperatives, which are the members of “*Narodny Credit*”, the third-tier RCC. NCC “*Narodny Credit*” will continue the work with the grant received from ACDI/VOCA. S.Fedorov, Deputy Director, RCCDF, will supervise the development and testing of the software for MIS.

### 3. RCC Prudential Norms

Before the implementation of CDP, there were no attempts to develop prudential norms and standardize RCCs activities in Russia. However, the need to standardize documentation systems, credit and savings activities and accounting in RCCs was growing with the number of credit cooperatives and development of a multi-tier RCC system. Owing that, CDP-R team organized the development and introduction of prudential norms:

- the development of standard in-house regulations and provisions for rural credit cooperatives;
- the development of methodological recommendations on accounting and taxation in rural credit cooperatives;
- observance of prudential norms at rural credit cooperatives.

CDP-R team organized and supervised the development of *standard in-house regulations and provisions* for first-tier the auspices of the Training Consortium for rural credit cooperatives of Russia. ACDI/VOCA provided supervision and financial support to the development of standard documents package. The job was done by a working group of 10 representatives from rural credit cooperatives and other financial organizations operating in rural areas, such as credit unions. The working group prepared a package of over 50 documents serving various purposes. The documents represent fiveups:

- Charter and in-house regulations
- Credit and savings activities
- General assembly documents
- Membership documentation
- Accounting and documents flow management in the cooperative.

These standard in-house prudential regulations for RCCs were presented at the “Rural Credit Cooperatives in Russia: Investment in the Future” international scientific conference (December 13, 2006). Each participant received an electronic version of the documents package. The set of developed documents is available on the web-site of rural credit cooperatives <http://www.ruralcredit.ru/514/538/> and it will be used at the workshops and distributed free of charge to the new cooperatives in the North Caucasus.

The feedback received by ACDI/VOCA and RCCDF from the regions demonstrated high demand for the in-house regulations in rural credit cooperatives. ACDI/VOCA will continue technical assistance to develop similar package of documents for second-tier organizations since the RCCs appreciated this package of standard prudential norms.

In the past six months a working group engaged in the development of standard in-house documentation for second-tier RCCs (charter, regulations, loan agreements, monitoring procedures, etc.) was set up. Experience generated in the development of in-house regulations for first-tier RCCs will be used for development of similar regulations for the second-tier cooperatives.

*Methodological recommendations on accounting and taxation* in rural credit cooperatives were developed with participation of RCCDF and Audit union. The recommendations enable unification of accounting in RCCs and facilitate automation of accounting and provision of information to rural credit cooperatives. ACDI/VOCA will provide technical assistance to publication and dissemination of recommendations to the cooperatives accredited in the Russian-American Program and operating in the North Caucasus.

*Observance of prudential norms* at the cooperative level is facilitated by the RCCs' rating assessment system based on financial reporting to RCCDF. This was introduced by the RCCDF Financial Directorate. RCCDF particularly checks financial and operational standards of rural credit cooperatives for compliance with the law "On Agricultural Cooperatives":

- The ratio of equity and reserve fund. The reserve fund should not be less than 10% of equity;
- The ratio of equity and assets of a credit cooperative;
- The ratio of assets and current liabilities;
- The ratio of maximum exposure to a single borrower and assets of a credit cooperative;
- The value of temporarily underutilized cash of the mutual financial assistance fund. The value may not exceed 50% of the fund value.
- In the long run, self-regulated organizations of SAUs will be involved in regulation, including development of prudential norms. CDP-R specialists believe the system of rural credit cooperatives should have its own self-regulated organization, which would regulate the system in accord with credit cooperative norms. ACDI/VOCA is addressing this issue and actively supports the development of a self-regulatory organization for consumer rural cooperatives of Russia.

## C. Improved Legal and Regulatory Environment

### 1. RCCDF and the Union of RCC Advocacy Efforts

Agreements with regional governments to support the development of rural credit cooperation have been a useful tactic for promoting support among regional dumas (equivalent to U.S. state legislatures) and for underscoring on a regional basis that rural credit cooperatives are legitimate financial organizations that are owned and controlled by their members. The RCCDF signed memoranda of understanding with 12 federal subjects (oblasts, krais or republics). These MOUs were mentioned under the section on *salience* and are repeated here since these MOUs with regional dumas enhance advocacy efforts:

Volgograd Oblast	(Population: 2.7 mln.)	Astrakhan Oblast	(Population: 1.0 mln.)
Chuvashia Republic	(Population: 1.3 mln.)	Mari-El Republic	(Population: 0.7 mln.)
Udmurtia Republic	(Population: 1.6 mln.)	Omsk Oblast	(Population: 2.0 mln.)
Perm Oblast	(Population: 2.8 mln.)	Buriatia Republic	(Population: 1.0 mln.)
Voronesh Oblast	(Population: 2.3 mln.)	Saratov Oblast	(Population: 2.6 mln.)
Kaluga Oblast	(Population: 1.0 mln.)	Ivanovo oblast	(Population: 1.5 mln.)
Kalmykia Republic	(Population: 0.3 mln.)	Kareliya Republic	(Population 0.7 mln.)
Yakutiya Republic*	(Population: 1.0 mln.)		

\* Signed during last semi-annual period.

### 2. Law on Credit Cooperation and Law on Agricultural Cooperatives

Over the reporting period, RCCDF took an active part in the activities of the working group at the Committee on Economic Policy, Entrepreneurship and Tourism of the State Duma. The working group refined the draft law "On Credit Cooperatives" for its second reading as well getting buy-in for the draft from various ministries and agencies. However, the adoption of the framework law "On Credit Cooperatives" in its second reading did not happen during 2006. One of the reasons was that the Ministry of Agriculture, which was in charge of the law's development, was not interested in promoting the law.

By decision of the the Russian Federation Government, the draft law was transferred to the Ministry of Economic Development and Trade. At the conference of the Russian Micro-finance Center (30 November 2006), Mr. Sharov, Deputy Director, Department of State Regulation of the Economy, Ministry of Economic Development and Trade, noted that the draft law “On Credit Cooperatives” will be considered in its second reading at the spring session of the State Duma in 2007 and that it was very likely, according to him, that the draft law would be approved.

However, this draft law was not considered at the spring session of the State Duma in 2007. The issue was raised on 4 June 2007, at the meeting of the Council on Small and Medium Business Development under S. Mironov, Chairman of the Council of Federation of Russia. A. Menshikova, Department of Corporate Governance, Ministry of Economic Development and Trade of Russia, informed that the Government of Russia appointed the Ministry of Economic Development and Trade to be in charge of the draft law accomplishment. A. Menshikova also presented a mechanism of credit cooperatives self-regulation. Unfortunately, even the preliminary date of adoption the law is still unknown.

The Agrarian group in the State Duma supported by Mr. Vershinin<sup>19</sup> lobbied for the adoption of the law “On amendments to the Federal Law On Agricultural Cooperatives” (November 3, 2007). One of the amendments requires all agricultural cooperatives (including credit cooperatives organized under the law on agricultural cooperatives) to join a special audit union (SAU) by November 2007. All SAUs will have to join a Federal SAU registered with the Ministry of Agriculture. Each Federal SAU will be a Self-Regulating Organization with the authority to set standards for its member cooperatives, conduct mandatory annual special audits, lobby government on behalf of its members and conduct training.

The adopted amendments *were never discussed* with the cooperative community, which view many of the amendments critically: the amendments seriously threaten the development of rural cooperatives if they do not succeed in meeting deadline to establish a Federal SAU for credit cooperatives. The Union of RCCs and RCCDF view those changes as ill-conceived; neither of these organizations was consulted! Before the Council of Federation of Russia voted on these amendments, RCCDF and the Union of Rural Credit Cooperatives wrote to S. Mironov, Chairman of the Council, about the amendments that deteriorate the overall legal status of rural credit cooperatives, to no avail. This was a political set-back for the RCC community.

With regard to amendments made to the law “On Agricultural Cooperatives”, at the Conference of URCC in March 2007, credit cooperatives made a decision to develop their own NSAU. Over the reporting period, RCCDF and Audit Union took effort to develop special audit unions and to amalgamate them in NSAU, which will be established on the basis of the Audit Union. It is planned to convene a founding conference of NSAU in September-October 2007.

### 3. Legislative Work

ACDI/VOCA cooperates with legislative bodies through the Union of RCCs and participation in the discussions of legislative initiatives. During the reporting period, the CDP-R specialists took part in the following events:

- On 18 January 2007 in Moscow RCCDF and URCC conducted the seminar “On the implementation of the developmental concept for rural credit cooperatives in terms of changes in the federal legislation”. The participants discussed a) potential transformation of the Union of Rural Credit Cooperatives into an inter-regional special audit union, which would comprise regional second-tier RCCs; b) expediency of NSAU establishment for the system of RCCs.

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<sup>19</sup> Mr. Vershinin is a consultant to Rosselkhozbank, the state agricultural bank. Mr. Vershinin founded an Audit Union called “Chayanova” and has been working to get cooperatives to join it.

- On 20 March 2007, M. Nikolayev, Deputy Chairman, Council of Federation presided over a meeting of the Council of non-for-profit partnership for support of cooperatives “*Cooperative Community*”, in the Council of Federation. The participants discussed a possibility of developing a cooperative bank. Another suggestion was for URCC and other organizations supporting RCC development, to organize a roundtable “Legislative support to credit cooperatives and prospective development of a cooperative bank” in late 2007 in the Council of Federation.
- V. Pakhomov, General Director of RCCDF, took part in six meetings of the working group for implementation of the *National Project* under the Ministry of Agriculture. A. Gordeyev, Minister of Agriculture, participated in three meeting held in the regions. V. Pakhomov made presentations on development of rural credit cooperatives and accomplishments of RCCDF and RCCs at those meetings.

#### V. Analysis of Outcomes and Implications for End-of-Project Outcomes

- The concept of rural credit cooperatives development, the methodological recommendations for the drafting of regional and municipal programs for support of RCCs (approved by the Ministry of Agriculture) and methodological recommendations on accounting and taxation in RCCs, established a methodological and legal basis for a three-tier system of rural credit cooperatives in Russia and attraction of funds from the federal budget.
- The system of credit cooperatives received recognition at the national level. The rural credit cooperative system, which was established with assistance of the RAL Program, is represented in the working groups that will implement *National Project*.
- Growth of RCCs and membership necessitates the development of a state regulator and self-regulating organizations. These organizations are charged with regulating the financial activities of their members, providing standards for reporting and training for their members.
- RCCDF, which serves as an apex institution, has been generating a strong credit history. The Fund performs successful loan administration of loans borrowed from international and Russian creditors. RCCDF demonstrated professional ability in cash flow management and representation of credit cooperatives interests. This credit history can help to attract financial resources to the system of credit cooperatives on a larger scale in the future.
- The developmental stage of the three-tier system of rural credit cooperatives in Russia is being completed. The third-tier cooperative was founded by 11 second-tier RCCs in October 2004 (now the third-tier RCC has 16 members). The cooperative membership also incorporates three associate members interested in the development of credit cooperatives. Over a short period of time, the national credit cooperative increased its assets to 40 m. rubles (\$1.6 m.). The transfer of RAL Program experience, policies and procedures rapidly facilitated the cooperative activities. As soon as the NCC generates the necessary operational and managerial experience, transfer of additional RAL funds to the NCC might be viewed as a likely scenario for the RAL Program completion.
- Large-scale development of credit cooperatives requires the most efficient apex financial institution for the system. The establishment of an NDCO or a bank is viewed as a scenario for further development of the third-year cooperative (NCC). The Board of Trustees of RCCDF tasked the Fund to prepare and discuss likely scenarios for development of an apex financial institution for the system of RCCs.
- Development of a multi-tier system of RCCs requires comprehensive information coverage and dissemination, including workshops and conference; development and introduction of unified in-

house regulations (prudential norms); publication and distribution of specialized journal; distant and on-site monitoring, introduction of a rating system ; development and maintenance of special web-site and development and introduction of automated MIS.

- The Consortium established at the initiative of ACDI/VOCA has facilitated rapid, quality training of specialists from new and existing cooperatives. Over 1,400 individuals participated in 58 workshops and seminars held in January 2006 – June 2007 by either CDP, the Training Consortium or through the contract with Rosselhosbank.

## **VI. Proposed Next Steps**

### **A. Plans for the Next Six months<sup>20</sup>**

- Continue business relationships with working groups at the Presidential Council and the Ministry of Agriculture to facilitate the implementation of the *National Project*, lobbying the interests of the system of rural credit cooperatives.
- Publish and distribute Methodological recommendations on accounting in RCCs to rural credit cooperatives participating in the RAL Program that are located in the North Caucasus.
- Participate in the working group on developmental strategies for an apex organization of the rural credit cooperative system and organize a discussion with the most advanced cooperatives.
- Support the activities to organize and hold a conference for *regional SAUs* to incorporate a *National SAU* and reorganize Audit Union into a self-regulated organization of agricultural consumer cooperative audit unions.
- Develop a Training Manual “Monitoring in a Rural Credit Cooperative”, based on the training materials prepared by Steven Bazzell and Vickie Cosentino.
- Develop a case study and training materials “Agricultural Consumer Cooperatives” jointly with NC RCC&AD.
- Organize five workshops in the cooperatives, which are the members of the Training Consortium.
- Prepare and hold two meetings of the RCCDF Supervisory Council to review:
  - Strategy of RCCDF further development.
  - Establishment and activities of RCCDF Loan Committee.
  - Attraction of additional loan capital.
  - Analyze results of monitoring work.
- Assist to RCCDF for two on-site CAMEL-based monitoring examinations.
- Provide organizational and limited financial assistance to introduction of consultancy support to credit cooperatives via [www.ruralcredit.ru](http://www.ruralcredit.ru) and on-line feedback.
- Prepare a report on utilization of a grant for development of the *Loan Portfolio Management* software and its introduction to three pilot regions.
- Prepare a report on utilization of a grant made to Auditor Union for development methodological recommendations “Accounting and Taxation in Rural Credit Cooperatives”, audit reviews and consultancy to RCCs.

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<sup>20</sup> There plans depend upon extension of CDP.

- Assist to NCC in reviewing admission of new members as well as MIS to the remaining its members and attraction of additional funding.
- Tracking and financial oversight over the activities of grant recipients under the CDP Program (RCCDF, Audit Union).
- Participate in the VI national Conference on microfinance “*Developing Comprehensive Financial System*”.

## **B. Planned Desired Outcomes for the Next Reporting Period**

### **Objective 1 – Achievement of scale and salience at the national and oblast levels**

#### **During next semi-annual period:**

- 300 new private farmers will receive access to loans.
- Net equity of accredited RCCs will increase by \$300,000. Net equity for RCCs (accredited plus those that can receive loans from accredited RCCs) will increase by \$1 million.
- Rural credit cooperative membership grows from 136,716 to 140,000 members. The number of RCCs grows from 1,698 to 1,800.
- Two new RCC will be accredited by RCCDF.
- RCCDF’s assets grow to \$14 million from \$11.6 million.
- The National Credit Cooperative (NCC) will increase assets from \$1,500,000 to \$1,700,000.
- Negotiations with three new potential lenders (*Symbiotics, Development World Markets, Minlam Assets Management*) will be continued. RCCDF will attract investments from international lenders.

### **Objective 2 – Strengthened RCCDF and rural credit cooperative planning and information systems**

#### **During next semi-annual period:**

- RCCDF portfolio at risk will not exceed of 3.0%.
- Information and consultancy support will be rendered to rural credit cooperatives by means of www.ruralcredit.ru web-site and on-line feedback
- RCCDF and NCC will test a beta-version of the *Loan Portfolio Management* software for five more second-tier RCCs.
- A report on development and introduction of *Loan Portfolio Management* software in RCCDF and three pilot regions.
- CAMELS rating and monitoring will be performed by FtF volunteers and RCCDF in two RCCs.
- RCCDF will continue publications of rating of the cooperatives with over 5 million rubles in assets for 2007.

### **Objective 3 – An improved legislative and regulatory environment for Russian rural credit cooperatives**

#### **During next semi-annual period:**

- Methodological recommendations on accounting in rural credit cooperatives will be distributed to rural credit cooperatives participating in the RAL Program and operating in the North Caucasus.
- The Rural Credit newsletter will publish at least five consultations on accounting, taxation and legal support to RCCs.

- Three credit support institutions (Union of RCCs, RCCDF, Credit Union League) will continue participating in working groups to address RCC legal constraints, including participation in i) Presidential Council and working groups in the Ministry of Agriculture for the implementation of the “Development of Agroindustrial Complex” *National Project* ii) working groups for the development of new legislation and amendments to the existing law; iii) national events organized by the legislative, executive power bodies, etc.
- ACDI/VOCA jointly with Union of RCCs, RCCDF will set up a working group engaged in the development of standard in-house documentation for second-tier RCCs (charter, regulations, loan agreements, monitoring manual, etc.). The working group will comprise experienced lawyers from RCCs and RCCDF. The group will develop a standard set of in-house regulations for second-tier RCCs, discuss it at a special workshop and propose it for approval at the annual meeting of the Union of RCCs. The set of developed documents will be placed at the web-site of rural credit cooperatives, used at the workshops and distributed free of charge to the new second-tier cooperatives in the North Caucasus.
- ACDI/VOCA will support the activity to establish the infrastructure for regional SAUs and a National SAU by setting up work groups to convene a conference for SAUs to incorporate a National SAU.

## VII. Issues

- Potentially a corporate tax may be levied at the end of the RAL program for 24% of the original donated capital to RCCDF. With support from the Ministry of Agriculture RCCDF will apply to CHATA to extend the program for two to five years.
- The law “On Agricultural Cooperatives” gives no clear answer on whether credit cooperatives may purchase and hold securities (shares) of financial organizations, banks and NDKO. This limits their ability to raise additional capital from financial markets. RCCDF and URCC requested the Central Bank of Russia to comment on this law provision.
- According to the new edition of the law “On Agricultural Cooperatives”, all agricultural credit cooperatives should join special audit unions, which in turn should join a self-regulated organization of special audit unions of agricultural cooperatives. Local administrations of many regions urge special audit unions to join “Chayanov”, a self-regulated organization of SAUs. This seriously complicates the development of a self-regulated organization for rural credit cooperatives.

## VIII. Integration of Lessons Learned into the Program

The CDP experience (as well as MAC) demonstrates the following lessons, which need to be learnt for the implementation of similar projects:

- It is necessary to lobby with legislative and executive power bodies for conditions that are equal to or at least not worse than those for commercial banks in terms of taxation, subsidies and guaranties for credit cooperatives. It is critical to have the **concept** of development of rural credit cooperatives approved at the federal level, so that this document can guide legislators.
- The cooperatives should apply a unified accounting system. This should be a prerequisite for accreditation of a cooperative into our loan program. A unified accounting system needs to be developed and adopted either by a government agency regulating credit cooperative activities or by a self-regulated organization, where the members undertake to adopt such a system.

- MIS needs to be developed and introduced at the earliest possible stage of the rural credit cooperative system development. In fact, MIS should be based on the accounting programs most widely used and supported in a given country.
- Credit cooperatives, both second- and third-tier, should submit standard reporting in compliance with common accepted reporting standards for microfinance institutions. MIS should generate standard reporting.
- In terms of a multi-tier system of rural credit cooperatives, the monitoring function should be decentralized to some extent. This will help reduce monitoring costs, but for this to happen, a training and certification system of local monitoring specialists has to be in place.
- The development of credit cooperatives necessitates the establishment of an apex organization capable of attracting financial resources to the system from domestic and international financial markets.

#### **Our Development Hypotheses Remain:**

- i) Once it has been demonstrated that credit cooperatives can lend effectively at market rates and they have obtained through good lending practices and governance policies a critical mass of resources, **that model can be replicated on a larger scale.**
- ii) **Wholesale lending to RCCs that allows RCCs to leverage their “sweat” capital after at least one year of actual lending operations is a powerful catalyst to encourage the growth of RCCs.** Some experts from TACIS have argued that such wholesale lending can retard the collection of savings from rural dwellers. However, the history of the RAL Program indicates that mobilization of local savings has increased rapidly on the whole and provision of additional lending capital helped to strengthen new RCCs as well as to provide longer term liquidity than just short-term deposits would allow. New RCCs should be careful with accepting savings until sound management systems are in place.
- iii) After critical issues preventing credit cooperatives from forming and growing are removed, **the initiative of the cooperatives is the engine that drives the expansion of the private rural credit system, not the donor nor the State.** This hypothesis holds in an environment where the State is indifferent or mildly supportive of RCC development. In cases when the State embraces the development of RCCs and decides to do more than support an enabling environment, for example, by injecting large amounts of capital into RCCs or directly creating and managing RCCs, such an embrace may seriously warp the development of a healthy RCC system by replacing the traditional “bottom-up” development by a fiat driven “top-down” approach.
- iv) **RCCs need to establish national- and regional-level advocacy groups early.** Given that the State may decide at any moment to embrace rural credit cooperation as a development strategy and may support its development in a manner that is actually counterproductive, one lesson learned is that credit cooperative leadership that can develop political contacts in the federal executive and legislative bodies provides some defense against arbitrary state policies that can hurt credit cooperatives. In Russia, the inclusion of two former ministers of agriculture and one Duma deputy into the Board of Trustees for RCCDF helped to build ties to influential policy leaders. Also, collaborating with KfW and the German GERFO fund has provided allies with additional connections to various policy-makers. These connections proved invaluable in getting seats on the steering committees that helped determine how the government developed its *Concept of Development* as well as influencing how new lending capital will be injected into the system.

During the past eighteen months, the RCC system has not been swamped by a flood of cheap money to selected credit cooperatives or loaned directly to members of credit cooperatives that were attracted to loans from the State Agricultural Bank. Rosselkhozbank in certain regions (Volgograd, Mari El, Saratov and Chuvashia, for example) has extended credit to existing second-tier credit cooperatives and has acted in a supportive way toward rural credit cooperatives. RCCDF and the Union of RCCs did act in time to protect the interests of its members and in fact, won an important battle in convincing the Ministry of Agriculture to endorse its Concept for the development of Russia's credit cooperative system. While it is too early to say that the threat of a serious disruption of the nascent credit cooperative system is over, there is some hope that the credit cooperative system will stay intact and may benefit from the State support, despite the fact that subsidized credit in general has not proven to be a sound way to develop self-sustaining, robust financial institutions.

## IX. PROGRAM BENCHMARKS

CDP vision is self-reliant cooperative enterprises that meet the evolving needs of their members, contributing to the quality of member lives, to their communities and nations.			
USAID/Russia Strategic Objective 1.3 Strengthened and Expanded SMEs LR. 2 - Access to Finance for Small and Medium Enterprises Increased		IR 2.2 - Quality and Range of Financial Services to SMEs Improved IR 3 – Number of Sustainable Institutions Providing Financing to SMEs Increased	
Target	Activities	Indicators/Anticipated Results	Results
<b>Objective 1 – Achievement of scale and salience at the national and oblast level<sup>21</sup></b>			
<b>1.1 Expansion of the overall lending operations of RCCDF, NCC, and RCCs through enhanced skills, sufficient liquidity, and portfolio diversification.</b>	1. Improved coordination and performance of cooperative support institutions	6,000 private farmers have access to loans or other financial services Net equity of rural financial institutions increased by \$4 million (from \$4.9 to \$8.9 mln.)	6,422 private farmers and rural dwellers have borrowed 11,095 loans from the RAL Program. Net equity of 47 accredited RCCs on April 1, 2007 was 301.7 million rubles (\$ 11.7 million).
	2. RCC training needs assessment	Rural credit cooperative membership grows from 41,000 to 51,000 (increase of 25 percent)	Current RCC membership is 136,716 member from 1,698 RCCs, inc. 1407 agricultural consumer cooperatives. Net equity for 1,698 RCCs was 1.2 billion rubles (\$ 47.1 million). <sup>22</sup>
	3. Advanced training offered by TRAINING CENTER to RCC managers, loan officers, chief accountants, and board directors.	56 RCCs accredited by RCCDF with 100 RCCs borrowing directly or through member 2nd tier RCCs RCCDF's assets grow to \$ 9 million from \$8 million	Current accredited RCCs number 51 with more than 240 borrowing RCCs from them. Current RCCDF Total assets is 350 million rubles (\$13.6 million). <sup>23</sup>
	4. TRAINING CENTER institutional development plan developed	The National Credit Cooperative (NCC) will increase assets by 300 percent from \$110,000 to \$440,000.	Assets of accredited RCCs were 1.6 billion rubles (\$61.0 million); for 1698 RCCs assets were 4.4 billion rubles (\$172 million). NCC assets are 40 million rubles (\$1,500,000)
	5. Accreditation of additional RCCs	The Training Center will develop three courses and certify two of them through Ministry of Education	New training materials were developed for six seminars.
	6. Attraction of additional loan capital	4 potential donors, lenders and/or investors contacted	RCCDF attracted \$2.75 million from three external sources and as of 1 July 2007 the Fund has \$2.0 million in outstanding loans from the external sources.
	7. Development and Issuance of new loan products	2 new loan products developed and offered by RCCDF	Three new loan products and one financial service were develop: a) Long term (3 year) loans. b) Winter period loans (November-March) at reduced rates. c) Loan Guarantee for Bank Credit.

<sup>21</sup> The indicators selected for Objective 1 are verified using RCCDF's loan tracking and accounting system, the new RCCDF MIS, RCC Quarterly financial reports and statements, RCCDF Quarterly financial statements, and surveys of RCCs.

<sup>22</sup> Information on equity and assets of non-accredited RCCs that borrow from accredited RCCs was provided by RCCDF Financial Directorate.

<sup>23</sup> RCCDF has 350 mln. rubles (\$ 13.6 million) in performing assets. Plus 58.6 mln. rubles (\$ 2.3 mln.) were deposited with a commercial bank, which went bankrupt as a result of financial debacle of 1998.

Target	Activities	Indicators/Anticipated Results	Results
<b>Objective 2 – Strengthened RCCDF and rural credit cooperative planning and information systems<sup>24</sup></b>			
<p><b>2.1 Strengthened planning and information systems ensure proper loan accounting, minimize loan delinquency, and instill confidence in potential lenders and investors.</b></p>	<ol style="list-style-type: none"> <li>1. RCCDF and RCC MIS capabilities upgraded</li> <li>2. CAMELS monitoring and reporting system used implemented by RCCDF</li> <li>3. Prudential norms developed, adopted by RCCs, and adhered to by RCCs.</li> </ol>	<p>RCCDF portfolio at risk is less than 6 percent on loans to RCCs</p> <p>Accredited RCCs maintain loan delinquency rates of less than 8 percent.</p> <p>MIS installed by RCCDF and integrated into all accredited 2<sup>nd</sup> tier RCCs</p> <p>CAMELS rating and monitoring performed by RCCDF on 45 RCCs.</p> <p>Prudential norms adopted and incorporated into the charter of 45 RCCs.</p>	<p>Current RCCDF Risk Portfolio is 3.43% according to RAL estimates.</p> <p>Current accredited 46 RCCs loan delinquency is 2.7 %.</p> <p><i>MIS software has developed. Beta-version of MIS software is being tested on the basis of three pilot regions.</i></p> <p>Current number of RCCs monitored with CAMELS is <i>twenty one</i>. Plus <i>seven</i> RCCs accredited in RAL program received international rating.</p> <p>Training Consortium for RCCs developed and distributed a package of in-house regulations for the <i>1st tier</i> cooperatives; the package essentially standardized the system of documentation used in the <i>1<sup>st</sup> tier</i> RCCs.</p> <p>RCCDF reviewed the accredited RCCs for the extent of prudential norms application. RCCDF prepares and publishes the rating of credit cooperatives on a semi-annual basis.</p> <p><i>Twenty three</i> RCCs audited were audited by Audit Union, <i>fifteen audited</i> RCCs are accredited with RAL Program</p>

<sup>24</sup> The indicators selected for Objective 2 are verified using RCCDF's Quarterly Financial Statements, RCCDF's loan tracking and accounting system, RCC Quarterly Financial Statements, and Project Quarterly Reports.

Target	Activities	Indicators/Anticipated Results	Results
<b>Objective 3– An improved legislative and regulatory environment for Russian rural credit cooperatives<sup>25</sup></b>			
<b>3.1 Promote a legislative and policy environment more conducive for rural credit cooperative operations.</b>	1. RCCs receive information on the impact of the new amendments to the Law on Agricultural Cooperatives.	6 municipal, regional or federal issues affecting RCCs identified and advocacy campaigns launched	Two sociological surveys of impact of loans to life of rural residents were completed.
	2. ACDI/VOCA and its cooperative partners advocate for the Law on Credit Cooperation.	3 credit support institutions participating in alliances or working groups to address RCC policy constraints	More than 3 credit support institutions (Union of RCCs, RCCDF, Credit Union League, etc.) participating in alliances to address RCC policy constraints
	3. Standardized Chart of Accounts Developed for RCCs	The positive results of 5 tax, registration, or legal precedents disseminated throughout the RCC system	The positive results of 31 tax, registration, or legal precedents were disseminated throughout “Rural Credit” magazine which is published by Union of RCCs.
	4. Audit manual and prudential norms prepared for RCCs	A standardized RCC Chart of Accounts prepared and implemented by 45 RCCs (if Ministry of Finance adopts the proposed Chart of Accounts).	38 participants from RCCs took part in the January 2005 seminar on standard chart of accounts.  Methodological recommendations on accounting and taxation in RCCs were developed in cooperation with NC RCC&AD project and with participation of RCCDF and Audit union.  Web-site www.ruralcredit.ru was developed for the RCCs system. The web-site is helpful in terms of methodology, consultancy and information support to RCCs.

<sup>25</sup> The indicators selected for Objective 3 are verified through quarterly meetings with RCCDF and the Union of RCCs.

## X. ADDITIONAL USAID REPORTING FOR MOSCOW MISSION

### A. USAID Loan Analysis Table

USAID requested under the MAC Program that ACDI/VOCA report additional statistical information on the RAL program in accordance to USAID/Moscow Micro-finance indicators and provide individual loan data. USAID Mission has also asked that the CDP Program include Intermediate Result 2: Increased access to finance for small and medium-sized enterprises<sup>26</sup>. ACDI/VOCA reiterates that while the information requested can be provided, the goals and objectives of the CDP program are to support the institutional development and the sustainability of RCCDF, RCC support organizations (Training Center and Audit Union) and the scale and salience of the RCC system. Therefore, the reporting for the Russian-American Lending Program (RAL) has always been at the RCCDF and RCC level.

ACDI/VOCA can report cumulative data for the project, although RAL loans do not fall neatly into the categories typical for SME and micro-lending programs. For example, most of our loans are for agricultural production purposes and, to the extent that farms are SMEs (and we think they are) we can report against these indicators. Secondly, our loans are mostly made to private farms, usually family run and registered in the husband's name. Since the loans are made to that family, relatively few loans are made directly to women, even though women, as members of the family enterprise are direct beneficiaries of the program (as has been reported in the past). The following chart depicts to the best of our ability, the information requested:

**Table 5: USAID Loan Analysis**

Cumulative Individual Loans - loans/amount.	6,422 end borrowers have received 11,095 individual loans made through 2,722 apex loans to RCCs. Loans to RCCs averaged 587,800 rubles (\$ 22,800). Average loan size to end-borrowers approximately 144,200 rubles (\$5,600). Range between \$2,000-60,000. During last semi-annual period (as of 30 June 2007), 258 loans for 205,229,000 rubles (\$ 7.9 million) were made to RCCs, who on-lent to 910 individual borrowers, averaging 225,000 rubles (\$ 8,700).
Cum. % of # loans to women	87% (since January 2006)
Cum. % of \$ amounts to women	36%
<b>Sustainability Indicator</b>	
Local Program Average Income per month (January-June 2007)	3,618,367 rubles (\$140,600)
Local Average Costs per Month (January-June 2007)	2,232,500 rubles (\$86,800)
Local Level of Sustainability (Revenues/Costs) %	<b>162%</b> (no actual and/or imputed "cost-of-funds")

### B. Synergies with the USAID Farmer-to-Farmer Program

The CDP Team and the Farmer-to-Farmer (FtF) Team closely cooperate on development of rural credit cooperatives. The FtF has been instrumental in attracting Farm Credit Administration bank examiners and other technical experts to Russia. Since the inception of CDP, 37 FtF volunteers provided consultancy to credit cooperatives and institutions supporting rural credit cooperatives. In the past semi-annual period, the following FtF assignments supported the work of the CDP activity:

**Table 6: FtF Synergies with CDP**

<sup>26</sup> Reference: In 2006, under the *National project* small rural businesses received 40,973 million rubles. (\$1,542 m.) in loans, including households – 24,042 million rubles. (\$904 ml), farmers – 14,598 million rubles (\$549 m.), rural consumer cooperatives – 2,332 million rubles. (\$ 88 m.).

Client	Location	FtF Volunteer	Assignment Focus
Agricultural Consumer Credit Cooperative “Delovoy Mir Sibiry”	Tyumen	Duane Stuker	Credit cooperative institutional development and cooperative monitoring
Rural Credit Cooperation Development Foundation	Moscow	Steven Bazzell	Rural Credit Cooperative Monitoring training module development
Rural Credit Cooperation Development Foundation	Moscow	Steven Bazzell	On site monitoring of “Alexeevsky” and “Podderzhka” Agricultural Consumer Credit Cooperatives (Volgograd oblast)
Rural Credit Cooperation Development Foundation	Moscow	Vickie Cosentino	On site monitoring of Partner Agricultural Consumer Credit Cooperative (Yaroslavl oblast)
Republican Agricultural Consumer Credit Cooperative “Soglasie”	Cheboksary	Vickie Cosentino	Rural Credit Cooperative Monitoring workshop

## XII. MANAGEMENT

### A. Moscow

Mr. Anatoly Maksimov, R-CDP Program Director, and Mr. Alexander Toropov, CDP Manager work daily with the RCCDF, the Financial Directorate and the Rural Credit Cooperatives. A. Maximov, CDP Director, jointly with A.Krykova, Moscow office accountant, review financial and general reporting on the sub-grant activities on a monthly basis. Since 2006, in terms of increasing collaboration of R-CDP and NC-RCC&AD in cooperative development, Program Anatoly Maximov bills 20% of his time to the latter project. This helps economize the CDP budget.

Mr. Harvey, Chief of Party for the Farmer-to-Farmer (FtF) Program and for the North Caucasus Rural Credit Cooperation & Agribusiness Development Program, serves as the co-signor of all RCCDF loan bank wires related to the RAL Program and maintains the ACDI/VOCA's seat on the RCCDF Supervisory Council, serving as the Co-Chairman. Ms Yelena Savinova designs the FtF rural finance assignments and has played a key role in guiding the development of the CAMELS monitoring system as she collaborated with the MAC program and now the CDP activity. Ms. Savinova also serves as member of the Board of Trustees of RCCDF. S. Fedorov, RCCDF Deputy Director, supervises of information inflow and outflow system of RCCDF, development and maintenance of a web-site for rural credit cooperatives and the training component, including the Training Consortium, which was recently established for training of rural credit cooperatives, and *National Project*, where RCCDF is implementing a training component for RCC management.

### B. Washington

Dr. Fred Smith, Vice President in the Europe and Asia Division supervises the CDP Program and works in an advisory capacity contributing significantly to the current and continuing success of the RAL Program in Russia. Mr. Charles Cox is the HQ-based manager of the overall CDP activity. Ms. Bermet Imankulova, HQ Project Coordinator; supports the CDP Program on routine issues and provides ongoing assistance with regard to operational and financial issues.

**Attachment A: Background Information**

**MAC Background and Baseline Information**

**Background on RCCDF Loan Monitoring System**

**Background on the Legal Environment for Rural Credit Cooperatives**

**Background on Development Hypotheses**

### MAC Background and Baseline Information

The Cooperative Development Program in Russia was preceded by the Mobilizing Agricultural Credit (MAC). This program established a self-sustaining fund for financing agricultural credit cooperatives and the creation of a network of user-owned democratically managed financial institutions. It also contributed to a better legal and regulatory environment. ACDI/VOCA and USAID together with USDA jointly demonstrated that lending to Russian private farmers and rural entrepreneurs could be profitable and that farmers can borrow and repay loans at market interest rates. The following key milestones had been achieved as of **December 31, 2004**:

- A central loan fund in support of rural credit cooperatives was established under the auspices of the RCCDF with starting capital<sup>27</sup> of 180,430,800 rubles (approximately \$6 million).
- RCCDF was operationally sustainable and was gradually working towards achieving financial sustainability by leveraging funds from financial institutions and commercial sources.
- RCCDF and ACDI/VOCA had successfully lobbied for improvements in the legal/regulatory structure for credit cooperatives (Amendments to Law on Agricultural Cooperatives passed, First Reading of Law on Credit Cooperation).
- The number of accredited Rural Credit Cooperatives (RCCs) had reached 46, two of which were recognized by the RAL program as *second tier*RCCs (*2<sup>nd</sup> tier RCC*).<sup>28</sup>
- The total number of cooperatives that have access to loans under the RAL Program (including those not accredited but participating through their respective *2<sup>nd</sup> tier RCC*) was **162** RCCs.
- Accredited Rural Credit Cooperatives were located in twenty two Oblasts, Republics or Krai (see table Attachment A). There were **16,317** members in the accredited RCCs.
- The total number of rural credit cooperatives in Russia was **661** (as of October 1, 2004) of which 211 were members of the Union of Rural Credit Cooperatives from 62 regions of Russia. There were approximately **70,000** people who belong to RCCs (Union RCCs accounted for approximately **60,000** members). Since 1998, the number of RCCs had increased 16 times and membership by 80 times.

**Table 7: Development of Rural Credit Cooperation**

	1998	1999	2000	2001	2002	2003	2004 (9 month)
<b>No. of Registered RCCs</b>	42	79	122	211	372	530	661
<b>No. of RCC members</b>	839	2,133	6,838	12,205	28,437	41,618	69,186
<b>Value of RCC Capital</b>	6,000,000 (RR)	9,000,000 (RR)	16,000,000 (RR)	35,000,000 (RR)	79,000,000 (RR)	158,000,000 (RR)	247,443,390 (RR)
<b>Value of Loans Disbursed by RCCs</b>	15,000,000 (RR)	40,000,000 (RR)	110,000,000 (RR)	350,000,000 (RR)	550,000,000 (RR)	750,000,000 (RR)	1,162,741,850 (RR)

<sup>27</sup> Starting capital was generated from sale of donated US seed under the Food for Freedom Program, USDA.

<sup>28</sup> Second Tier Cooperatives are comprised of local RCCs that combine to form a regional RCC (*stRCC*). These *stRCCs* establish regional reserve funds, lobby at the oblast level, provide lending capital to local RCCs and monitor and train local RCCs.

The RAL Program issued a total of 809.8 million rubles (\$29.2 million<sup>29</sup>) in loans under the MAC effort. A total of 608.4 million rubles (\$22.0 million) had been repaid almost entirely in accordance with loan agreements. The portfolio on 31 December 2004 stood at **201,411,937** rubles (\$7.2 million), with problem loans constituting less than 5% of the portfolio.

### **Background on RCCDF Loan Monitoring System**

ACDI/VOCA's FtF program has fielded five Farm Credit Administration (FCA) volunteers who have assisted RCCDF in adapting the internationally accepted CAMELS rating system and in developing a system of RCC monitoring. CAMELS ratings allow RCCDF to assign a composite rating for each accredited RCC based on an evaluation of six main components of a RCC's financial performance and operations. RCCDF has developed a monitoring approach which it can use to assess the quality of the RCC and assess the risk level in lending to the RCC. The CAMELS ratings system and its offsite monitoring of financial reports are also important because they allow RCCDF to evaluate its overall level of risk which can be applied to determine an appropriate level of loan loss allowances and loan loss reserves. RCCDF can also use this information to advise on appropriate loan loss reserve levels for RCCs.

The offsite monitoring and onsite examination processes are means for RCCDF to provide oversight to accredited RCCs. The objective of RCCDF oversight is to ensure the integrity of the RCCs' internal processes. If all aspects of the RCC are sound, RCCDF can have confidence in the loans made by the RCCs. RCCDF oversight activities to accomplish this include (1) identifying negative trends or problems as early as possible so that corrective actions can be taken, (2) identifying weaknesses, making recommendations, and requiring corrective actions to improve operations of the cooperative, (3) periodically reviewing and assigning a risk rating to each member cooperative to help differentiate the level of RCCDF supervisory oversight that is needed, (4) providing the cooperative's management with a comprehensive view of their cooperative's operation from many perspectives, and helping them refine their management performance over time, and (5) through on-site examination, testing compliance with internal/external procedures and requirements, and evaluating management.

RCCDF has conducted an off-site evaluation based on RCC quarterly balance sheets for each accredited RCC and assigned a provisional CAMELS rating. The Financial Directorate has begun the process of completing on-site ratings and monitoring of RCCs and seven on-site reviews have been completed. There are two inhibiting factors - staff and training. RCCDF's work to eliminate these barriers have delayed additional ratings and monitoring visits from being completed. A new RCCDF monitoring specialist was hired in July 2004, and RCCDF is working with the RCCs to provide accurate and transparent income statements.

### **Background on the Legal Environment for Rural Credit Cooperatives**

In 1995, the Russian Duma passed the *Law on Agricultural Cooperatives* that Boris Yeltsin signed into law. This law covers agricultural cooperatives and divides them into profit-making, production cooperatives and non-profit-making consumer cooperatives. Agricultural cooperatives include "processing, marketing (trading), servicing, procurement, gardening, vegetable-growing, stock-breeding, credit insurance and other cooperatives"<sup>30</sup> The majority of RCCs are registered under this law and are in rural areas.

Consumer credit cooperatives for Citizens (similar to credit unions in the US) are more typically urban and make loans only to individuals, as opposed to RCCs that make loans both to individuals and to businesses and farms; RCCs have *mixed memberships* while Consumer Credit Cooperatives for Citizens can only have individual persons as members and no more than 50% of the loans may be for entrepreneurial or business purposes. The Law that governs these kinds of cooperatives is called the Law for Consumer Credit Cooperatives for Citizens. A rough division of credit cooperatives is defined by those that are RCCs and are represented as an industry group by the Union of RCCs versus those that are more typically urban and more fractured as an industry represented by several national level advocacy groups such as the League of Credit

<sup>29</sup> Ruble Dollar Conversion in June 2004 was based upon the Central Bank Rate for 31 December 2004. (27.7487 R=\$1)

<sup>30</sup> Federal Law 193-FZ Of December 8, 1995 On Agricultural Cooperation, Article 4, Paragraph 2

Unions (led by Mr. Vadim Kalinichev) and the National Union of Non-commercial Mutual Finance Organizations (led by Mr. Yuri Volokhonsky).

The RCCDF and the Union of RCCs has advocated for a general, or framework, *Law on Credit Cooperation* for about seven years. These groups and their members believe that credit cooperatives need to be more broadly defined than at present. They succeeded in lobbying for passage of the draft Law on Credit Cooperation in its first reading on 24 April 2002. However, the law has been in committee since then. Mr. Putin's administration has some technical objections to parts of the draft law and has called for changes in the language of the law.

The stalled Draft *Law on Credit Cooperation*, did not, however, stop the RCCDF and the Union of RCCs from finding other avenues to promote a sounder footing for rural credit cooperatives. On 11 June 2003, the RCCDF and Union of RCCs succeeded in lobbying for passage of an amendment to the *Law on Agricultural Cooperatives* that strengthened the definition of credit cooperatives and defined certain fundamental principles in their organization in Article 40-1. Article 40, Point 11 of the Law on Agricultural Cooperatives now explicitly states that a Credit Cooperative will have prudential norms in its charter documents (or established by members at their annual meeting) that cover the size of its share capital and minimum loan loss reserves, core capital, and maximum loan exposure limits to one borrower, among other items.

The RCCDF and Union also note that *the significance of the more explicit language regarding credit cooperatives in the amendments to this law is a foundation for moving forward with setting up a three-tier national system of local, regional and national credit cooperatives*. These larger institutions are now more firmly grounded because the preamble to the law on Agricultural Cooperatives specifically states that they have the right to join or create higher level cooperatives, even international ones.

The stakeholders in rural credit cooperatives and their advocacy groups still intend to push for passage of the framework Law on Credit Cooperatives. They believe that credit cooperatives should be defined in law by one universal concept rather than by a sector by sector approach. They pose the question, "agricultural credit cooperatives have been defined in law, does that mean a deep sea fishing association, or any other industrial, manufacturing or service sector, must push for a separate law to define credit cooperatives in its particular economic sector?" Also, these stakeholders believe that the Law on Agricultural Cooperatives is not broad enough to include all rural dwellers who should have access to membership in a rural credit cooperative. Now, one must be an agricultural producer to belong to a RCC; this leaves out the local veterinarians, school teachers, priests, lawyers, shopkeepers, pensioners and others who could enjoy the benefits of belonging to a RCC.

### **Background on Development Hypotheses.**

The Russia CDP team started with two development hypotheses:

- Once it has been demonstrated that credit cooperatives can lend effectively at market rates and they have obtained through good lending practices and governance policies a critical mass of resources, **that model can be replicated on a larger scale.**
- After critical issues preventing credit cooperatives from forming and growing are removed, **the initiative of the cooperatives is the engine that drives the expansion of the private rural credit system not the donor nor the State.**

In our last reports, the Russia CDP team modified and expanded our working hypotheses to the following four:

- Once it has been demonstrated that credit cooperatives can lend effectively at market rates and they have obtained through good lending practices and governance policies a critical mass of resources, **that model can be replicated on a larger scale.**
- Wholesale lending to RCCs is a powerful catalyst to stimulating the growth of nascent RCCs. It allows RCCs to leverage their "sweat" capital after establishing a positive credit history.

- After critical issues preventing credit cooperatives from forming and growing are removed, the initiative of the cooperatives is the engine that drives the expansion of the private rural credit system not the donor nor the State. This hypothesis holds in an environment where the State is indifferent or mildly supportive of RCC development. In cases when the State embraces the development of RCCs and decides to do more than support an enabling environment, for example, by injecting large amounts of capital into RCCs or directly creating and managing RCCs, its embrace may harm the development of a healthy RCC system by replacing the traditional “bottom-up” development by a fiat driven “top-down” approach.
- Given that the State may decide at any moment to embrace rural credit cooperation as a development strategy and may support its development in a manner that is actually counterproductive, the outcome for development of a successful credit cooperative system is significantly influenced by the political adeptness of the credit cooperative system: if it has political contacts in the federal executive and legislative bodies and can work them to protect the interests of credit cooperative members, its lobby activity can provide some defense against arbitrary state policies that can hurt credit cooperatives.

The second hypothesis above is relevant to the forces shaping the development of the rural credit cooperative system in Russia. The initiative of the rural credit cooperatives has been a big factor in driving not just the expansion of the credit cooperative system but also the shape that it will take.<sup>31</sup> The vision of what the system should look like came from a study of Russia’s credit cooperative system prior to the 1917 Revolution as well as how credit cooperatives function in other countries, particularly European ones. The framework for development was established in 2001 by a working group of credit cooperative directors, RCCDF staff and scholars from agrarian research institutions who drew heavily from Russian credit cooperative history prior to 1917 as well as from the modern-day German credit cooperative system. Among the features it proposed for a future Russian system were:

1. A three-tiered system
  - National Credit Cooperative
  - Second Tier Credit Cooperatives
  - Local Credit Cooperatives
2. Mobilization of rural dwellers’ savings
3. State support for increased capital funding and improved legal/regulatory framework
4. Development of several support organizations for credit cooperatives (Audit Union, National Training Center, etc.)
5. Establishment ultimately of a Bank for Credit Cooperatives
6. Establishment of other financial institutions including mutual insurance companies

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<sup>31</sup> ACDI/VOCA has always believed that no *model* could be imposed on Russian credit cooperatives and that the leaders of the credit cooperative movement, mindful of other working systems, would adopt and mold practices best suited to Russia’s history and legal and regulatory environment.

**Attachment B: List of Accredited RCCs**

List of accredited RCCs							
	Supervisory Council Minutes #	Accreditation Date	Cooperative	Region	Accreditation Termination Date	RCC Tier	2nd Tier Assignment Date
1	2	19.08.1999	DOVERIE	Perm		2	20.12.2006
2	2	19.08.1999	DONSKOY FERMER	Rostov-on-Don		1	
3	2	19.08.1999	GARANT	Saratov		2	24.06.2003
4	2	19.08.1999	SODRUZHESTVO	Volgograd		2	06.02.2003
5	2	19.08.1999	NOVOANNINSKY	Volgograd		1	
6	2	19.08.1999	TOMSK REGIONAL	Tomsk		2	20.12.2006
7	4	03.12.1999	SODRUZHESTVO	Yaroslavl		1	
8	4	03.12.1999	NIVA PODMOSKOVIYA	Moscow		1	
9	6	16.02.2000	KIKVIDZENSKY	Volgograd		1	
10	6	16.02.2000	PODDERZHKA	Volgograd		1	
11	6	16.02.2000	ALEXEYEVSKY	Volgograd		1	
12	7	03.04.2000	SOGLACIE	Chuvashiya		2	20.12.2006
13	7	03.04.2000	NASH PUT	Tomsk		1	
14	7	03.04.2000	STIMUL	Saratov		1	
15	8	12.05.2000	MARYISKY CREDIT (FERMER-CREDIT)	Mary-El		2	23.03.2006
16	8	12.05.2000	SODEYSTVIE	St.Peterburg		1	
17	34	08.12.2004	USTYUZHENSKY OVK	Vologda		1	
18	10	09.08.2000	NASDEZHDA	Saratov		1	
19	11	22.09.2000	ZARDON (YAKSHUR-BODIYNSKY)	Udmurtiya		1	
20	12	15.12.2000	PODDERZHKA	Tomsk		1	
21	13	24.01.2001	ASIA-CREDIT	Altay		1	
22	15	16.03.2001	ORLOVSKY	Rostov-on-Don		1	
23	15	16.03.2001	YEGORLYKSKY FERMER	Rostov-on-Don		1	
24	15	16.03.2001	ISTOK YUG	Krasnodar		2	20.12.2006
25	15	16.03.2001	KOTELNIKOVSKY	Volgograd		1	
26	15	16.03.2001	FERMER	Yaroslavl		1	
27	16	20.04.2001	FERMER	Volgograd		1	
28	16	20.04.2001	KRESTYANIN	Saratov		1	
29	16	20.04.2001	TZELNETZ	Rostov-on-Don		1	
30	18	25.07.2001	VORONEZHSKY	Voronezh		1	
31	20	11.10.2001	AGROSOYUZ	Orenburg		2	20.12.2006
32	20	11.10.2001	AGROCREDIT	Rostov-on-Don		1	
33	20	11.10.2001	DOVERIE	Rostov-on-Don		1	
34	20	11.10.2001	MIUSSKY FERMER	Rostov-on-Don		1	
35	24	27.06.2002	SOGLACIE	Tula		1	
36	25	19.09.2002	NARODNY CREDIT	Astrakhan		2	23.03.2006
37	25	19.09.2002	FLORA	Ivanovo		1	
38	28	23.04.2003	VOLOGODSKY	Vologda		1	
39	28	23.04.2003	KONAKOVO	Tver		1	
40	28	23.04.2003	KRASNOCHIKOYSKY	Chita		1	
41	28	23.04.2003	NADEZHDA	Buryatiya		1	
42	28	23.04.2003	PARNER	Yaroslavl		2	14.11.2005
43	34	08.12.2004	GARANT-CREDIT	Saratov		1	
44	36	15.09.2005	SODRUZHESTVO	Stavropol		1	
45	37	14.10.2005	NARODNY CREDIT	Moscow		3	
46	40	23.03.2006	FISHT	Adygeya		2	20.12.2006
47	44	20.12.2006	NITZYAN	Kalmykiya		2	20.12.2006
48	45	27.04.2007	RUS'	Stavropol		1	
49	45	27.04.2007	KOLOS	Kabardino-Balkariya		1	
50	45	27.04.2007	KAVKAZAGROFINANCSE RVIS	Karachaevo-Cherkessiya		1	
51	45	27.04.2007	KARELAGRO	Karelya		2	27.04.2007
	20	11.10.2001	FERMER-99	Tomsk	20.12.2006		
	4	03.12.1999	KHOZYAIN	Saratov	08.12.2004		
	12	15.12.2000	UNIVERSAL	Tomsk	08.12.2004		
	8	12.05.2000	IOVK	Vologda	08.12.2004		
	7	03.04.2000	KRESTYANSKAYA SSUDA	Tomsk	23.03.2006		
	10	09.08.2000	SOYUZ	Chuvashiya	11.12.2006		

**Attachment C: Outstanding Loan Portfolio & RAL Utilization Chart**

## RAL Portfolio as of June 30,2007

Rural Credit Cooperatives	Oblast	Principal Repaid in 2007	Principal Outstanding
AGROCREDIT	Rostov	2 429 000	5 415 000
AGROSOYUZ	Orenburg	6 600 000	13 100 000
ALEXEYEVSKY	Volgograd	2 250 000	5 750 000
ASIA-CREDIT	Altay	0	836 000
DONSKOY FERMER	Rostov	0	4 571 262
DOVERIYE	Perm	13 180 000	24 050 000
DOVERIYE	Rostov	1 165 000	5 370 000
FERMER	Yaroslavl	2 960 000	4 790 000
FERMER	Volgograd	0	3 559 300
FISHT	Adygeya	500 000	2 300 000
FLORA	Ivanovo	2 400 000	6 700 000
GARANT	Saratov	9 400 000	19 000 000
GARANT-Credit	Saratov	2 790 000	5 003 607
ISTOK YUG	Krasnodar	700 000	8 800 000
KARELAGRO	Petrozavodsk	0	1 000 000
KAVFINSERVIS	Uchkeken	0	0
KIKVIDZENSKY	Volgograd	3 200 000	10 000 000
KOLOS	Chegem	0	0
KONAKOVO	Tver	1 812 200	3 799 500
KOTELNIKOVSKEY	Volgograd	600 000	0
KRASNOCHIKOVSKEY	Chita	0	0
KRESTYANIN	Saratov	560 000	10 000 000
MARYISKY CREDIT	Mary El	3 164 000	11 710 500
MIUSSKY FERMER	Rostov	300 000	2 800 000
NADEZHDA	Saratov	2 950 000	5 300 000
NADEZHDA	Buriatiya	2 400 000	8 800 000
NARODNY CREDIT	Astrakhan	0	2 000 000
NARODNY CREDIT	Moscow	9 541 000	20 680 000
NASH PUT	Tomsk	3 200 000	2 800 000
NIITZYAN	Elista	0	1 000 000
NIVA PODMOSKOVIYA	Moscow	2 355 000	4 930 000
NOVOANNINSKY	Volgograd	3 550 000	12 015 000
ORLOVSKY	Rostov	3 430 000	11 195 000
PARTNER	Yaroslavl	1 110 000	6 140 000
PODDERZHKA	Volgograd	2 650 000	6 400 000
PODDERZHKA	Tomsk	5 545 000	6 355 000
RUS	Stavropol	0	0
SODEYSTVIYE	Leningrad	1 680 000	3 835 000
SODRUZHESTVO	Volgograd	11 510 000	19 825 000
SODRUZHESTVO	Stavropol	0	2 180 000
SODRUZHESTVO	Yaroslavl	4 900 000	10 182 000
SOGLACIE	Chuvashiya	1 355 000	4 815 000
SOGLACIE	Tula	1 530 000	4 515 000
STIMUL	Saratov	1 058 263	7 531 737
TOMSK	Tomsk	3 886 400	4 008 600
TZELINETS	Rostov	0	4 000 000
USTYZHNA OVK	Vologda	0	1 068 000
VOLOGODSKY	Vologda	2 450 000	1 630 000
VORONEZHSKY	Voronezh	0	550 000
YEGORLYKSKY FERMER	Rostov	500 000	6 150 000
ZARDON	Udmurtiya	2 200 000	8 700 000
<b>TOTAL</b>		<b>121 810 863</b>	<b>315 160 506</b>

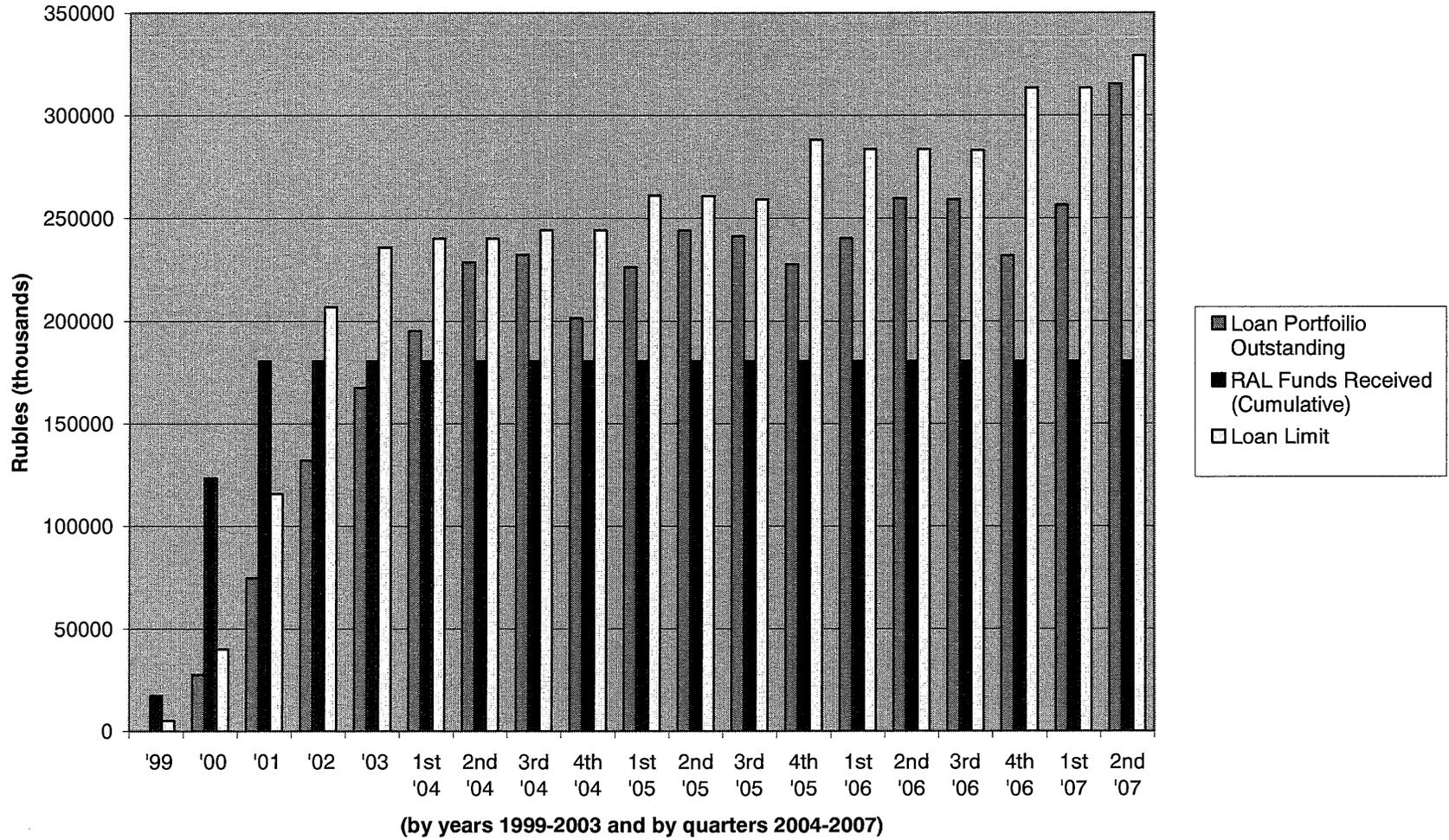
No.	Cooperative	Oblast	Loan Limit 1999	Loan Limit 2000a	Loan Limit 2000b	Loan Limit 2001a	Loan Limit 2001b	Loan Limit 2002a	Loan Limit 2002b	Loan Limit 2002c	Loan Limit 2002d	Loan Limit 2002e
1	Sodruzhestvo	Volgograd	680 000	1 480 000	2 700 000	4 400 000	8 500 000	9 500 000	9 750 000	10 000 000	10 250 000	10 500 000
2	Novoanninskiy	Volgograd	380 000	1 200 000	2 000 000	6 250 000	8 500 000	9 500 000	9 750 000	10 000 000	10 250 000	10 500 000
3	Garant	Saratov	850 000	1 800 000	3 915 000	5 600 000	8 000 000	9 500 000	9 500 000	10 000 000	10 000 000	10 500 000
4	Doveriye	Parm	600 000	1 800 000	3 915 000	6 500 000	8 500 000	9 500 000	9 750 000	10 000 000	10 250 000	10 500 000
5	Tomsk	Tomsk	600 000	1 800 000	3 915 000	6 500 000	6 500 000	9 500 000	9 750 000	10 000 000	10 250 000	10 500 000
6	Donskoy Farmer	Rostov-on-Don	750 000	1 400 000	3 915 000	6 500 000	8 500 000	9 500 000	9 750 000	10 000 000	10 000 000	10 000 000
7	Niva Podmoskovia	Moscow	580 000	1 800 000	3 915 000	2 800 000	2 500 000	2 500 000	2 500 000	2 500 000	2 500 000	2 700 000
8	Sodruzhestvo	Yaroslavl	500 000	800 000	2 600 000	4 000 000	4 000 000	6 000 000	6 500 000	7 000 000	7 250 000	7 250 000
9	Podderzhka	Volgograd		320 000	620 000	1 260 000	2 200 000	5 000 000	4 700 000	4 700 000	5 000 000	5 400 000
10	Alekseevskiy	Volgograd		300 000	700 000	1 650 000	3 000 000	4 000 000	4 300 000	4 500 000	4 750 000	5 000 000
11	Kikidzenskiy	Volgograd		700 000	1 490 000	4 000 000	7 000 000	9 500 000	9 500 000	10 000 000	10 250 000	10 500 000
12	Nash Put	Tomsk		460 000	1 000 000	900 000	1 000 000	1 000 000	2 000 000	2 500 000	2 500 000	2 700 000
13	Krestyanskaya Ssuda	Tomsk		300 000	1 000 000	1 780 000	2 200 000	2 200 000	3 500 000	3 500 000	3 500 000	3 500 000
14	Soglaclie	Chuvashia		420 000	1 700 000	3 000 000	2 000 000	6 500 000	7 500 000	7 500 000	7 800 000	7 800 000
15	Stimul	Saratov		365 000	1 100 000	1 650 000	2 100 000	2 400 000	3 900 000	4 800 000	5 100 000	5 100 000
16	Uslyuzhensky	Vologda										
17	Sodeystviye	Leningrad		500 000	500 000	1 390 000	1 800 000	2 000 000	2 500 000	3 000 000	3 000 000	3 350 000
18	Maryisky-Credit	Mary-El		800 000	1 400 000	2 500 000	3 500 000	3 500 000	4 800 000	4 500 000	4 750 000	4 750 000
19	Soyuz	Chuvashia			500 000	1 000 000	500 000	500 000	500 000	500 000	500 000	500 000
20	Nadezhda	Saratov			400 000	1 000 000	2 000 000	2 000 000	2 600 000	3 000 000	3 250 000	3 500 000
21	Zardon	Udmurtiya				1 300 000	2 500 000	5 000 000	6 500 000	7 500 000	7 785 000	8 100 000
22	Universal	Tomsk				600 000	1 000 000	2 500 000	1 500 000	1 000 000	765 000	765 000
23	Podderzhka	Tomsk				1 500 000	3 500 000	5 000 000	6 000 000	7 000 000	7 300 000	7 800 000
24	Asia-Credit	Altay				500 000	1 500 000	3 500 000	3 500 000	4 000 000	4 300 000	4 500 000
25	Orlovsky	Rostov-on-Don				2 560 000	3 600 000	5 600 000	7 000 000	7 500 000	7 750 000	8 000 000
26	Yegorlyksky Farmer	Rostov-on-Don				475 000	1 500 000	1 500 000	2 000 000	2 500 000	2 650 000	3 000 000
27	Istok-Yug	Krasnodar				500 000	2 000 000	6 000 000	6 000 000	6 000 000	6 250 000	6 500 000
28	Kotelnikovskiy	Volgograd				600 000	1 000 000	2 500 000	2 850 000	3 000 000	3 300 000	3 600 000
29	Farmer	Yaroslavl				600 000	1 000 000	2 000 000	2 400 000	3 000 000	3 000 000	3 200 000
30	Farmer	Volgograd					1 000 000	1 800 000	2 400 000	3 000 000	3 150 000	3 250 000
31	Tzelinetz	Rostov-on-Don					600 000	1 600 000	1 900 000	2 000 000	2 000 000	2 300 000
32	Krestyanin	Saratov					1 500 000	3 500 000	4 500 000	5 500 000	5 800 000	6 200 000
33	Voronezh	Voronezh					500 000	500 000	500 000	500 000	500 000	500 000
34	Farmer-99	Tomsk					500 000	1 500 000	1 500 000	1 500 000	1 750 000	1 750 000
35	Agrosoyuz	Orenburg					1 500 000	2 500 000	3 500 000	4 500 000	4 800 000	5 100 000
36	Agrocredit	Rostov-on-Don					500 000	1 500 000	2 000 000	2 500 000	2 650 000	3 000 000
37	Doveriye	Rostov-on-Don					1 000 000	1 500 000	1 700 000	2 000 000	2 250 000	2 650 000
38	Miussky Farmer	Rostov-on-Don					300 000	350 000	1 000 000	1 500 000	1 500 000	1 500 000
39	Soglaclie	Tula									350 000	400 000
40	Flora	Ivanovo									400 000	400 000
41	Narodny Credit	Astrakhan									600 000	600 000
42	Vologodsky	Vologda										
43	Konakovo	Tver										
44	Krasnochikoysk	Chita										
45	Nadezhda	Buryatia										
46	Partner	Yaroslavl										
47	Garant Credit	Saratov										
49	Sodruzhestvo	Stavropol										
50	Narodny Credit	Moscow										
51	Fisht	Adygeya										
53	Kavinservis	Uchkeken										
54	Karelagro	Petrozavods										
55	Kolos	Chegem										
56	Niitzyan	Elista										
57	Rus	Stavropol										
	<b>TOTAL</b>		<b>4 940 000</b>	<b>16 245 000</b>	<b>37 285 000</b>	<b>71 315 000</b>	<b>109 500 000</b>	<b>152 350 000</b>	<b>169 700 000</b>	<b>182 500 000</b>	<b>190 200 000</b>	<b>197 865 000</b>

Universal, IOVK, Krestyansskaya Ssuda and Soyuz lost their accreditation with RAL Program

Continued

Loan Limit	Loan Limit	%											
2003a	2003b	2003c	2004a	2004b	2004b	2005a	2005b	2006a	2006b	2006c	2007b		variance
11 880 000	12 945 000	13 330 000	13 440 000	13 650 000	13 650 000	17 000 000	20 850 000	19 250 000	19 460 000	19 250 000	22 000 000		13%
10 800 000	11 000 000	11 305 000	11 400 000	11 400 000	11 400 000	11 500 000	11 687 000	11 687 000	11 980 000	10 875 000	12 015 000		9%
10 800 000	10 800 000	11 600 000	11 900 000	13 650 000	13 650 000	17 000 000	19 500 000	19 256 000	19 256 000	19 250 000	19 000 000		-1%
10 800 000	10 800 000	11 305 000	11 400 000	11 400 000	11 400 000	11 500 000	11 730 000	11 687 000	11 687 500	18 330 000	24 050 000		24%
10 800 000	10 800 000	11 305 000	11 400 000	11 400 000	11 400 000	11 500 000	11 687 000	11 687 000	10 337 500	10 000 000	4 378 000		-128%
10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	10 000 000	4 600 000	4 571 262		-1%
2 500 000	2 600 000	2 700 000	2 850 000	2 860 000	2 860 000	3 200 000	3 200 000	3 200 000	3 200 000	3 745 000	5 200 000		28%
7 500 000	7 550 000	7 900 000	8 000 000	8 300 000	8 300 000	9 450 000	10 361 000	10 059 000	10 232 000	10 875 000	11 750 000		7%
5 650 000	5 645 000	6 000 000	6 150 000	6 150 000	6 150 000	6 250 000	6 400 000	6 400 000	6 400 000	6 400 000	6 400 000		0%
5 250 000	5 200 000	5 400 000	5 550 000	5 550 000	5 550 000	5 650 000	5 750 000	5 750 000	5 750 000	5 750 000	5 750 000		0%
10 800 000	10 700 000	11 000 000	11 100 000	11 100 000	11 100 000	11 100 000	11 500 000	11 500 000	11 500 000	10 675 000	10 000 000		-9%
2 400 000	2 400 000	2 550 000	2 700 000	2 800 000	2 800 000	3 200 000	3 200 000	3 200 000	3 200 000	3 200 000	3 200 000		0%
3 200 000	2 906 000	2 906 000	2 191 000	2 181 000	2 181 000	2 181 000	2 181 000	0	0	0	0		0%
7 800 000	7 800 000	8 000 000	8 200 000	5 150 000	5 150 000	6 000 000	6 200 000	6 200 000	6 200 000	6 200 000	5 000 000		-24%
5 350 000	5 400 000	5 700 000	5 800 000	5 900 000	5 900 000	6 000 000	6 000 000	6 000 000	6 000 000	6 000 000	7 532 000		20%
3 700 000	4 185 000	4 600 000	4 750 000	4 900 000	4 900 000	5 200 000	5 300 000	5 300 000	5 300 000	5 300 000	5 000 000		-6%
4 750 000	4 530 000	4 700 000	4 700 000	6 670 000	6 670 000	6 000 000	7 233 000	7 005 000	7 308 500	8 900 000	11 800 000		25%
500 000	500 000	500 000	400 000	145 000	145 000	300 000	300 000	300 000	300 000	0	0		0%
3 750 000	4 000 000	4 400 000	4 550 000	4 700 000	4 700 000	4 800 000	5 300 000	5 300 000	5 300 000	5 450 000	5 450 000		0%
9 000 000	9 000 000	9 400 000	9 500 000	9 500 000	9 500 000	9 750 000	9 900 000	9 900 000	9 900 000	9 900 000	9 900 000		0%
0	760 000	780 000	760 000	760 000	760 000	759 000	758 559	0	0	0	0		0%
8 100 000	8 000 000	8 400 000	8 500 000	8 700 000	8 700 000	8 800 000	9 000 000	9 000 000	9 000 000	9 400 000	9 400 000		0%
4 800 000	4 900 000	5 250 000	5 250 000	5 250 000	5 250 000	3 000 000	3 000 000	3 000 000	2 140 000	2 500 000	836 000		-199%
8 300 000	8 830 000	9 200 000	9 350 000	9 500 000	9 500 000	9 600 000	10 000 000	10 135 000	10 470 000	10 470 000	12 000 000		13%
3 250 000	3 575 000	4 000 000	4 100 000	4 300 000	4 300 000	4 500 000	4 650 000	4 650 000	4 730 000	4 650 000	6 150 000		24%
7 000 000	7 000 000	7 400 000	7 600 000	7 860 000	7 860 000	8 350 000	8 500 000	8 500 000	8 500 000	8 500 000	8 500 000		0%
3 600 000	3 600 000	4 000 000	4 000 000	4 000 000	4 000 000	4 100 000	4 100 000	4 100 000	4 100 000	4 100 000	0		0%
3 500 000	3 600 000	4 100 000	4 250 000	4 400 000	4 400 000	4 800 000	5 100 000	4 700 000	4 700 000	4 700 000	5 200 000		10%
3 500 000	3 700 000	3 700 000	3 700 000	3 700 000	3 700 000	3 559 301	3 620 000	3 559 301	3 559 301	3 559 300	3 559 301		0%
2 300 000	2 500 000	2 850 000	3 000 000	3 150 000	3 150 000	3 400 000	3 450 000	3 450 000	3 450 000	3 450 000	4 000 000		14%
6 500 000	6 810 000	7 200 000	7 350 000	7 350 000	7 350 000	8 700 000	9 400 000	8 900 000	8 900 000	8 900 000	10 000 000		11%
1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 000 000	1 300 000	1 150 000	1 150 000	1 150 000	1 100 000	550 000		-100%
1 450 000	1 450 000	1 408 000	1 408 000	1 408 000	1 408 000	1 408 000	1 377 795	1 377 795	1 377 795	0	0		0%
6 000 000	5 700 000	6 150 000	6 300 000	6 500 000	6 500 000	8 100 000	10 500 000	8 300 000	9 400 000	11 100 000	13 100 000		15%
3 250 000	3 265 000	3 700 000	3 850 000	4 000 000	4 000 000	4 100 000	4 275 000	4 445 000	4 818 000	4 275 000	5 415 000		21%
3 000 000	3 200 000	3 600 000	3 775 000	3 900 000	3 900 000	4 100 000	4 250 000	4 250 000	4 350 000	4 250 000	5 370 000		21%
1 750 000	1 770 000	2 160 000	2 300 000	2 400 000	2 400 000	2 750 000	2 800 000	2 800 000	2 800 000	2 800 000	2 800 000		0%
700 000	800 000	1 150 000	1 380 000	1 500 000	1 500 000	2 000 000	2 200 000	2 700 000	3 400 000	3 570 000	5 025 000		29%
400 000	400 000	300 000	400 000	600 000	600 000	1 650 000	2 830 000	2 500 000	4 050 000	5 730 000	7 000 000		18%
1 100 000	1 394 000	2 000 000	2 300 000	2 400 000	2 400 000	3 500 000	4 500 000	50 000	0	2 000 000	2 000 000		0%
	400 000	700 000	900 000	1 500 000	1 500 000	1 500 000	2 150 000	1 800 000	1 800 000	3 050 000	1 630 000		-87%
	300 000	400 000	600 000	800 000	800 000	1 500 000	2 000 000	1 950 000	2 600 000	2 959 700	4 000 000		26%
	400 000	400 000	295 000	300 000	300 000	300 000	0	0	0	0	0		0%
	400 000	600 000	800 000	1 709 000	1 709 000	1 500 000	2 650 000	3 046 000	4 751 000	7 300 000	8 800 000		17%
	600 000	1 000 000	1 300 000	1 540 000	1 540 000	2 200 000	3 000 000	3 150 000	3 350 000	5 550 000	6 240 000		11%
						2 672 000	4 200 000	5 000 000	5 000 000	5 000 000	5 000 000		0%
						0	680 000	680 000	680 000	2 180 000	2 680 000		19%
						0	8 500 000	8 500 000	8 800 000	25 000 000	23 400 000		-7%
								500 000	500 000	1 500 000	1 420 000		-6%
											0		0%
											1 000 000		100%
											0		0%
											0		0%
											0		0%
206 730 000	213 515 000	226 039 000	230 449 000	234 933 000	234 933 000	255 529 301	288 188 354	277 142 096	282 955 596	313 562 000	329 139 563		5%

**UTILIZATION OF RUSSIAN-AMERICAN LOAN PROGRAM FUNDS**



## **Attachment D: Delinquent & Rescheduled Loans**

## Rescheduled Loans as of 01.07.07

Cooperative	Loan Agrmnt #	Loan Principal	Original Due Date	Number of extensions	New Due date	Currently Outstanding Loan Amount	Successful Repayment Probability	100%	50%	25%	Potential Losses, rubles.
Azia-Credit	5-5-267	700000	22.07.2006	3	20.12.2007	650000	Low	0	0	162500	487500
Azia-Credit	5-5-353	250000	13.10.2006	2	20.12.2007	186000	Medium	0	93000	0	93000
Donskoy Fermer	344-02п	285000	24.12.2003	3	20.12.2010	255000	Low	0	0	63750	191250
Donskoy Fermer	17-03п	370000	13.02.2004	4	26.12.2007	330000	Low	0	0	82500	247500
Donskoy Fermer	54-03п	250000	26.03.2004	4	26.12.2007	107000	Low	0	0	26750	80250
Donskoy Fermer	359-03п	620000	27.10.2004	4	28.12.2007	220000	Low	0	0	55000	165000
Donskoy Fermer	367-03п	500000	12.11.2004	5	26.12.2007	236413	Low	0	0	59103	177310
Donskoy Fermer	376-03п	250000	20.11.2004	3	26.12.2007	30000	Low	0	0	7500	22500
Donskoy Fermer	377-03п	230000	20.11.2004	3	26.12.2007	148005	Low	0	0	37001	111004
Donskoy Fermer	411-03п	400000	18.12.2004	4	26.12.2007	41200	Low	0	0	10300	30900
Donskoy Fermer	4-1-7п	170000	19.01.2005	5	26.12.2007	93500	Low	0	0	23375	70125
Donskoy Fermer	4-1-26п	500000	08.02.2005	4	26.12.2007	500000	Low	0	0	125000	375000
Donskoy Fermer	4-1-27п	270000	09.01.2005	4	26.12.2007	40000	Low	0	0	10000	30000
Donskoy Fermer	4-1-38	70000	09.03.2005	4	26.12.2007	43700	Low	0	0	10925	32775
Donskoy Fermer	4-1-359	300000	28.10.2005	3	26.12.2007	300000	Low	0	0	75000	225000
Donskoy Fermer	4-1-168	150000	09.11.2005	3	26.12.2007	50000	Low	0	0	12500	37500
Donskoy Fermer	4-1-169	250000	09.11.2005	3	26.12.2007	250000	Low	0	0	62500	187500
Donskoy Fermer	4-1-411	980000	07.12.2005	3	26.12.2007	980000	Low	0	0	245000	735000
Donskoy Fermer	4-1-412	290000	08.12.2005	3	26.12.2007	154150	Low	0	0	38538	115613
Donskoy Fermer	4-1-433	480000	16.12.2005	3	26.12.2007	109880	Low	0	0	27470	82410
Donskoy Fermer	5-1-42	250000	14.02.2006	1	26.12.2007	250000	High	250000	0	0	0
Donskoy Fermer	5-1-43	270000	07.02.2006	1	26.12.2007	52414	High	52414	0	0	0
Donskoy Fermer	5-5-308	630000	02.11.2006	1	26.12.2007	380000	High	380000	0	0	0
Ustyuzhna OVK	155-03п	255000	20.04.2004	4	30.12.2007	350000	Low	0	0	87500	262500
Ustyuzhna OVK	198-03п	456000	26.05.2004	4	30.12.2007	320000	Low	0	0	80000	240000
Ustyuzhna OVK	236-03п	560000	13.07.2004	4	30.12.2007	398000	Low	0	0	99500	298500
Fermer Uryupinsk	248-02п	500000	26.05.2003	>5	31.07.2009	441000	Low	0	0	110250	330750
Fermer Uryupinsk	321-02п	1500000	17.02.2003	>5	22.10.2009	1418300	Low	0	0	354575	1063725
Fermer Uryupinsk	87-03п	850000	37.03.2004	>5	29.01.2010	850000	Low	0	0	212500	637500
Fermer Uryupinsk	201-03п	850000	26.05.2004	>5	31.03.2010	850000	Low	0	0	212500	637500
Sodeisvie Leningradskaya oblast	6-1-64	125000	28.02.2007	1	30.09.2007	125000	High	125000	0	0	0
Sodeisvie Leningradskaya oblast	6-1-156	300000	25.04.2007	1	30.09.2007	300000	High	300000	0	0	0
Niva Podmoskovia	6-1-170	100000	18.05.2007	1	18.08.2007	20000	High	20000	0	0	0
Zardon Udmurtiya	6-1-124	1000000	06.04.2007	1	n/a	350000	High	350000	0	0	0
Zardon Udmurtiya	6-1-134	1000000	17.04.2007	1	n/a	1000000	High	1000000	0	0	0
Zardon Udmurtiya	6-1-135	1100000	25.04.2007	1	n/a	1000000	High	1000000	0	0	0
Zardon Udmurtiya	6-1-158	750000	27.04.2007	1	n/a	750000	High	750000	0	0	0
Zardon Udmurtiya	6-1-167	1250000	16.05.2007	1	n/a	1250000	High	1250000	0	0	0
Zardon Udmurtiya	6-1-168	660000	01.06.2007	1	n/a	660000	High	660000	0	0	0
Итого		19721000				15489562		6137414	93000	2291537	6967611
<b>Portfolio</b>											<b>315160506</b>
<b>PAR %</b>											<b>2,21</b>

## Past Due Loans as of 01.07.07

Cooperative	Loan Agreement #	Original Due Date	PAR 30 days	PAR 31-60 days	PAR 61-90 days	PAR over 90 days	Total	Successful Repayment Probability	100%	50%	25%	Potential Losses, rubles.
Voronezhsky	4-5-207	02.06.2005				400000	400000	medium		200000		200000
Voronezhsky	5-1-73	24.02.2006				150000	150000	medium			37500	112500
<b>Total</b>			0	0	0	550000	550000		0	200000	37500	312500
<b>Portfolio</b>												<b>315160506</b>
<b>PAR %</b>												<b>0,10</b>