

Formation and Development of the System of Cooperative Banks in Russia

The article presents the historical development of cooperative banks in Russia. The author analysis the legal situation of cooperative banks and its founders in the Russian Empire, in Soviet Russia and after the fall of USSR, in the Russian market economy. In particular, the article considers state policy in creating, functioning and associating of Russian cooperative banks, and influence of cooperative banks on Russian financial system.

Igor Petrovich Antonov

*PhD of Juridical Science,
Associate Professor at the Department
of Commodity Research and Customs,
Krasnodar Cooperative Institute (branch)
of the Russian University of Cooperation*

Oksana Vladimirovna Martynenko

*PhD of Economic Science,
Associate Professor,
Director Kaliningrad Branch of Russian
University of Cooperation*

Key words:
cooperative banks, financial system,
historical development, Russia

<https://doi.org/10.36128/priw.vi4.58>

The system of cooperative banks in Russia has a complex and centuries-old history. Analysis of the literature and the study of issues related to the formation and development of this category of banks in the Russian state allow us (with a certain degree of conditionality) to distinguish the following historical stages:

- the first stage (the second half of the nineteenth to the beginning of the twentieth centuries) – the establishment of loan cooperatives and the formation of the legal foundations for their activity;
- the second stage (1917-1921) – the reorganization of the banking system of Czar Russia and the nationalization of private commercial banks;

- the third stage (1921-1928) – the activity of cooperative banks under the conditions of the new economic policy (NEP);
- the fourth stage (1929-1987) – the functioning of the cooperative bank under the conditions of the socialist banking system;
- the fifth stage (1988 to the present) – the formation of cooperative banks in the market economy.

The formation and development of cooperative banks was determined by the conditions of the historical period of each of the above stages.

In Russia, the idea of creating loan cooperatives was first exported from Germany by Russian landowners. In 1871, at the initiative of well-known zemstvo (state) figures A.V. Vasilchikova, V.F. Luginina, A.V. Yakovlev, and others at the Moscow Society of Agriculture, a special Committee on rural savings and loan associations as well as industrial partnerships was formed. Later, its Petersburg branch was established with the goal of popularizing savings and loan associations¹.

By the beginning of the twentieth century, thanks to the efforts of the leaders of these commercial organizations, the activity of rural loan cooperatives acquired a wide scope, creating favorable conditions for the conversion of the subsistence peasant economy into a monetary economy. The adoption of the law of 07.06.1904 On the structure of a small loan played a great role in this process. The norms of the law determined the system of organizing small-scale land loan, and regulated the provision of tax deductions to rural savings and loan companies and loan partnerships. They also established state guarantees for lending to small-scale loan institutions from the funds of the State Bank, its local offices and branches. In accordance with the law, territorial (provincial and regional) small-scale loan committees headed by the governors were established at the local level. All loan cooperative organizations operated under the auspices of the Moscow National Bank. The main responsibilities of loan cooperatives consisted of lending to farms, taking deposits, supplying its members with domestic and foreign agricultural machines, building materials, varietal seeds, fuel, household goods, and raw materials for the handicraft industry.

The development of rural loan cooperation revealed the need to establish, according to the experience of the countries of Western Europe, cooperative banks, unions of small-scale loan institutions, and state funds which had somewhat the same functions. One of the activities of these institutions was to unite the efforts of the public and the state in the development of the loan sector, establishing links between Russian and foreign money and commodities markets.

1 M. L. Heysin, *Кредитная кооперация в России [Loan Cooperation in Russia]*, Пг 1918, p. 226-234.

The results of the management of loan cooperative organizations were impressive. Whereas as of January 1, 1910, 48 partnerships represented loan cooperatives, between 1914-1917 (i.e., during the First World War) more than 70 allied cooperative associations were opened in Russia. To communicate with them, the Moscow National Bank used a wide network of branches, which functioned in 25 cities of Russia. This circumstance contributed to a significant expansion of the bank's operations with funds raised by foreign partners. The offices in London and New York liaised Russian cooperators with cooperators from Western Europe and America. From January 1, 1914, to January 1, 1917, deposits of the Moscow National Bank increased by 16 times².

However, with the installation of the Bolshevik government, the cooperative movement was beginning to be gradually suppressed. The new government applied a system of punitive measures, since it considered loan cooperation as a helper of the capitalist economy” and its enthusiasts as enemies of people's power.

In December 1917, the All-Russian Central Executive Committee adopted a decree on the nationalization of banks. Subsequently, nationalization was extended to all private loan institutions of the country: joint-stock commercial banking firms, mutual loan associations and joint-stock land banks. The decree provided for a government monopoly of banking, i.e., the exclusive right of the government to conduct banking business, to reorganize or liquidate banks, and to create new banks.

Simultaneously with the decree on the nationalization of banks, a decree on the revision of bank vaults was adopted, which also had a destructive effect. According to this decree, all the money that was kept in the vaults was to be put into the client's current accounts in the national bank. In addition, to support this decree, a decree of the People's Commissariat of Finance was issued, according to which all values per person, valued at over 10,000 rubles, were unconditionally turned into treasury income. This as well played an important role in weakening the bourgeois classes.

The actual object of nationalization was the most powerful and mobile banking capital, subordinating industry and trade to its influence. Therefore, these decrees were of great importance in their consequences not only economically, but also politically.

In January 1918, another government decree was adopted, according to which all joint-stock capital of private banks was transferred to the national bank on the basis of complete confiscation. All bank shares were canceled, i.e., private property expropriated. The owners of the shares, under the threat of repressive measures, had to immediately hand them over to the nearest

2 A. N. Antsyferov, *Московский народный банк. Изд. 2-е. [Moscow National Bank]*, Москва 1917, p. 22.

branch of the bank. In this way, the last communications of the owners of the banks with their property were destroyed.

The strongest blow to cooperation was struck in the autumn of 1922, when several dozen prominent Russian co-operators turned out to be passengers of the notorious „Philosophical Steamer”, while another part of progressive-minded entrepreneurs were repressed.

Describing the stage of the reorganization of the banking system of Czar Russia and the nationalization of private commercial banks, one cannot but say that in 1918-1920 the policy of „war communism” was implemented in the country, which lasted until the transition to a new economic policy. The key directions of the policy of „war communism” were food dictatorship and surplus appropriation system, which were expressed:

- a) in direct product exchange between industry and agriculture;
- b) in the replacement of private trade by the state distribution of products by cards.

Such a policy has led to the fact that the industrial production of consumer goods has practically ceased. All Russian industry has fallen into decay. By the beginning of 1924, industrial output amounted to 17% of the 1913 level³. To get out of the crisis and boost the economy, it was necessary to switch from centralized methods of economic management to regional ones. And in March 1921, the government decided to move to a new economic policy.

The restoration and development of trade required the extensive use of commodity-money instruments: money and loan in all sectors of the country’s economic life. It was necessary to achieve the sustainability of money and organize loans for the to-be-restored economy. To this end, in October 1922, the government established the State Bank, which was designed to support, with the help of loan, to develop the productive forces of cities and villages, to develop trade and establish the right money circulation. When the State Bank of Russia was created, it was assumed that it would be the only loan institution in Russia. However, the first year of the NEP showed that the rapid and comprehensive development of commodity-money relations in the country dictated the need to create a number of loan organizations in order to accommodate the needs of the economy, together with the State Bank.

3 E. V. Illarionova, *Становление кредитно-банковской системы в советский период (1917-1926 годы)* [Formation of the banking and loan system in the Soviet Union period (1917-1926)], „Научно-аналитический журнал «Обозреватель – Observer»” No. 12, 2008, p. 50-59.

This need was due to the following circumstances:

- a) attracting all the free funds of cooperation and the population for crediting the economy, since the State Bank alone could not cope with this enormous task;
- b) the creation of loan organizations through the formation of their capital through the sale of shares and the creation of loan cooperation organizations.

An important element of the loan system of the times of the NEP was the cooperative banks. In order to promote the development of consumer cooperatives with the help of loans by decree of the Central Executive Committee and the Council of People's Commissars of February 6, 1922, the Bank of Consumer Cooperatives (Pokobank) was established. The bank was established for lending and payment servicing to enterprises and organizations of consumer cooperation. The fixed capital of 1 million rubles was formed from the share contributions of consumer cooperatives. Supervision over the activities of the bank and the coordination of its loan and payment operations was carried out by the State Bank of the USSR. Significant growth of all types of cooperation led to the reorganization of the bank, and in 1923 the All-Russian Cooperative Bank (Vsekobank) was created on its basis.

All cooperative enterprises and organizations could become shareholders of Vsekobank. By the end of 1926, the bank issued a quarter of the loans received by the cooperatives. As the role of the State Bank of the USSR increased and it became the main institution of short-term lending, the share of Vsekobank loans in the total amount of borrowed funds of cooperatives decreased.

In 1932, the bank was transformed into the All-Union Bank for Financing Capital Construction and Cooperation (Vsekobank USSR), which was charged with long-term lending to all types of capital construction cooperation, except for the housing sector. From January 1, 1933, the bank was entrusted with non-repayable financing for the capital construction of labor supply departments and organizations of the Workpiece Committee.

The development of the technical base of state trade and cooperation, the need to strengthen control required a change in the nature of banking operations. In 1936, Vsekobank was liquidated, its assets and liabilities were transferred to the newly created All-Union Bank for Financing the Capital Construction of Trade and Cooperation (Torgbank USSR), which was abolished on August 7, 1956.

In the period between 1922-1925 a number of specialized banks were established in the USSR:

1. joint-stock banks – Industrial Bank, Electrobank, Vneshtorgbank, Central Asian Bank;
2. cooperative banks – Vsekobank and Ukrainbank;

3. utility banks – Tsekbank;
4. agricultural loan system – Central Agricultural Bank and agricultural loan societies;
5. mutual loan associations.

Banks in the years of the NEP and the recovery period were characterized by a desire for independence. Often, they went in violation of their charters. For instance, if initially the charters of commercial special banks stipulated a strict restriction of their activities to certain sectors of the economy or economic regions, now the banks themselves began to expand the circle of their activities and serve the enterprises of non-related sectors of the economy, based on mutual interests. The State Bank, which strictly monitored the state of affairs in the loan system on behalf of the state, saw such a situation as undermining its authority, its controlling role, and sharply limited the scope of activities of commercial banks, rigidly tying them to a certain industry, eliminating unnecessary (in the monopolistic bank's view) links in the network of loan institutions. Commercial banks were becoming predominantly long-term lending banks, their short-term operations were significantly reduced, this led, for example, to the fact that an industrial enterprise located in a region with predominantly agricultural production was not able to use banking services in a nearby bank servicing only agricultural enterprises.

Table 1. The loan system of the USSR in 1923-1925⁴.

Loan Organizations	October 1, 1923	October 1, 1925
total	516	1201
including		
loan network of the State Bank	251	448
joint-stock commercial banks	50	127
community loan institutions	29	161
cooperative banks	57	98
agricultural loan societies	75	191
mutual loan societies	54	176

The fight against private property became state policy. The largest part of loans that banks issued were to state-owned enterprises. The size of

4 A. M. Aleksandrov, *Финансовая система СССР [Financial system of the USSR]*, Moscow 1956, p. 124.

the loans provided by the loan system to private capital was comparatively insignificant. Of the total amount of loan investments in the economy of the country on October 10, 1925 to the amount of 2,558 million rubles the share of state-owned enterprises accounted for 1,901 million rubles or 75%⁵.

This situation was created artificially. The strict attachment of commercial banks in the years of the NEP only to their industry led to the fact that it was necessary to open several dozen branches of various banks with specialization in the same region. Instead the national economy of the region could have had several independent, free in the choice of clients, methods and forms of lending, as well as servicing universal commercial banks. The prohibition for the industry-specific banks to provide loan services to enterprises and organizations of foreign industries completely eradicated the desire for competition in banking, thereby the interest of commercial banks in doing the work on commercial principles was suppressed. The so-called struggle for liabilities was banned, the inflow of liabilities in banks was limited, and commercial banks were turned into institutions that pursued government policy essentially through mediation in the budget financing of the national economy.

Thus, in Soviet Russia the revival of a multi-level banking system began, created by analogy of pre-revolutionary, which included:

- the State Bank, performing the functions of the issuing and cash and settlement center, it also performed as a center for short-term crediting of the national economy;
- long-term lending and financing of capital investments banks.

In the years 1930-1932, the process of centralization of the banking system of the USSR was completed. So, according the Council of People's Commissars of the USSR Decree of January 30, 1930 On Credit Reform:

1. Commercial loan was banned and replaced by direct bank lending.
2. Only the State Bank of the USSR was engaged in short-term lending and all short-term loans which remained in other banks were transferred to it.
3. All-Russian and All-Ukrainian Cooperative Banks were liquidated in favor of the USSR State Bank.

The Soviet banking system, which was formed in the 1930s, functioned until 1987. Its structure was represented by the following banks:

The State Bank of the USSR – performed issue, management, and control functions, as well as carrying out cash and settlement services and short-term lending. The bank consisted of three units: the board, offices, and

5 E. V. Illarionova, *Становление кредитно-банковской...*, op. cit., p. 50-59.

branches. The board functioned as the central unit, which managed the entire banking system through offices - republican, city, and regional.

Stroybank of the USSR – carried out the functions of financing and lending of the capital investments in the economy of the USSR. The board of the bank managed its institutions through republican and regional offices, totaling 180.

State savings funds (Gostrudsbekassa) – as of 1986, there were 78,500 savings banks. The general management of their activities was carried out by the State Bank of the USSR. In turn, the Gostrudsbekassa system was headed by the board to which the main administrations of the Union Republics were subordinated. On the territory of the autonomous republics, regions, and territories, the work of the savings banks was carried out, respectively, by republican, regional and provincial administrations.

Vneshtorgbank of the USSR had a small network of institutions – 17 branches in the country and one in Switzerland. In its work it made extensive use of correspondent relations: in 131 countries the bank maintained contacts with 1835 correspondent banks from various countries of the world.

Soviet foreign banks (foreign banks established with the participation of Soviet institutions) were subordinate to it:

- Commercial Bank for Northern Europe (Paris);
- Moscow National Bank (London) with offices in Lebanon (Beirut) and Singapore;
- Ost-West Handelsbank (Frankfurt am Main, Germany);
- East-West United Bank (Luxembourg);
- Donau Bank (Vienna).

They carried out deposit, loan, cash and settlement, currency, and other operations on the instructions of their clients (enterprises and organizations of the USSR and socialist countries) in the international financial markets. They also served as training centers for the banking system of the USSR and served as sources of information on international capital markets.

In 1988, the banking system underwent some changes. It consisted of:

Industry and Construction Bank (Promstroibank of the USSR) – was in charge of loan and payment services for current activities, financing and lending of capital investments of industry, construction industry, transport, communications, and the logistics system.

Agro-Industrial Bank (Agroprombank) of the USSR – specialized in lending for agricultural operations, financing and lending of capital expenditures, accounting for agricultural associations, enterprises and organizations of the agro-industrial complex and consumer cooperatives. The agricultural complex, which included agricultural enterprises (collective farms, state farms), the food industry, and other organizations, was the most

credit-intensive customer – it accounted for more than half of all short-term and 70% of long-term loans provided for the national economy. A quarter of capital investments in the national economy were concentrated in this bank⁶.

The Bank of Housing and Communal Services and Social Development (Zhilsotsbank) of the USSR – was in charge of operations on loan and payment services and financing of enterprises of the housing and utilities sector, state and cooperative trade, consumer services, light and local industry, social and cultural facilities (schools, hospitals, boarding houses, clubs, etc.), as well as cooperative and individual labor activity.

After the collapse of the Soviet Union and the transition to the market economy, the banking system in Russia was reformed. The final stage of the reform was to create a system of commercial banks, which took over the functions of loan and payment services for enterprises and the public.

The main trends in the structure and activities of commercial banks are:

1. Small and medium banks prevail.
2. According to the form of ownership, banks are divided into mutual, joint-stock and mixed.
3. The majority of the banks are still concentrated in the central region.
4. The number of branches and representative offices is increasing, both in Russia and abroad.
5. In the Russian Federation, universal banks are more common. The network of specialized banks, for example, such as mortgage banks, is practically not developed.
6. The main purpose of the banking system is lending of the economy represented by three economic agents – the population, entrepreneurs and the state. In this regard, the domestic banking system is far behind the western one. Only the savings bank is engaged in lending to the public. Lending to enterprises takes a relatively small place in the operations of commercial banks.
7. In the structure of passive operations, the main share is made up of ruble deposits of the population and legal entities.

Gradually improving, the banking system of the Russian Federation is increasingly beginning to become a developed system, and not only externally, but in regard to operations as well. The network of branches and representative offices is expanding both domestically and abroad, and the network of non-bank loan institutions is growing. The policy of the Central Bank of the Russian Federation aimed at increasing the stability and reliability of the

6 E. F. Zhukova, N. D. Eriashvili, *Банковское дело. Учебник. [Banking. Textbook]*, Moscow 2016, p. 432.

banking system should lead to the development of large, competitive, stable banks, and the gradual ousting of small ones.

Bibliography

1. Aleksandrov A.M., *Финансовая система СССР [Financial system of the USSR]*, Moscow 1956.
2. Antsyferov, A. N., *Московский народный банк. Изд. 2-е. [Moscow National Bank]*, Moscow 1917.
3. Heysin, M. L., *Кредитная кооперация в России [Loan Cooperation in Russia]*, Пг 1918.
4. Шарionova E. V., *Становление кредитно-банковской системы в советский период (1917-1926 годы) [Formation of the banking and loan system in the Soviet Union period (1917-1926)]*, „Научно-аналитический журнал «Обозреватель – Observer»” No.12, 2008.
5. Zhukova E.F., Eriashvili N.D., *Банковское дело. Учебник. [Banking. Textbook]*, Moscow 2016.