

Cooperative Savings and Credit Unions in Latvia

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Abstract Cooperative Savings and Credit Unions (CSCUs) in Latvia are formal cooperative financial institutions operating on financial market. CSCUs provide basic financial services—savings, loans and money transferring—to their members at reasonable price. CSCUs are mutual help organizations, which mostly serve unbankable people. CSCUs are the key social enterprises and microfinance institutions on Latvian financial market. Financial cooperation in Latvia has long history. CSCUs (historically also called savings societies, credit cooperatives) were widely spread and well developed in Latvia before the II World War, but in 1940 had to cease their operation. CSCUs network was renewed in 1995 after Latvia had regained its independence. Since that time, CSCUs provide necessary services to the people who are not interested or able to obtain financial services in other credit and financial institutions. At the end of 2014 Latvian CSCUs network united 32 CSCUs, more than 26,000 members and almost 23 MEUR in assets.

1 Establishment and Evolution of Latvian CSCUs

1.1 *Latvian CSCUs Before II World War*

CSCUs in nowadays Latvia continue traditions established by the first German credit cooperatives in the nineteenth century. Credit cooperatives were organized by people to ensure access of small farmers and entrepreneurs to financial resources, accumulating members' savings and providing loans to the ones in need. Credit cooperatives could offer better rates because of low costs of operation. They could operate in farmers' premises and use volunteers' work; costs of gathering information about borrowers were low because members knew each other very well. Cooperatives followed the idea of mutual help and got broad recognition both in rural and urban areas (Caprio and Vittas 1997: 155–156). Nowadays

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financial cooperatives continue to follow the same traditions and operation principles as their ancestors. Today there are several definitions of CSCUs, but all of them have roots in operation principles of the first cooperative organizations. CSCU is a democratically managed member-owned, not-for-profit cooperative financial institution. Its members pool their savings, lend money to each other, and obtain other related financial services. CSCU is a mutual help organization with the main goals to provide necessary financial services to their members, to educate members in wise and economic use of their funds, to assist members in improvement of their life quality (Lee 1990: 1–3; Jerving et al. 1994: 1–3; Grace and Branch 2000: 16; Kučinskis 2004: 18; Witzeling 1993: 17).

Similar to other European countries, first attempts to organize CSCUs in Latvia appeared in the end of nineteenth century. However, in the beginning growth of the first credit cooperatives was very slow. Demand for cooperative credits increased because of repurchasing of houses and unbearable interest rates demanded by other informal lenders. Latvian CSCUs have shown successful growth and in the beginning of 1914 there were already 236 CSCUs with 112,000 members. In the following years, CSCUs continued their fast growth. In 1913–1914, Riga—the capital of Latvia—became financial centre of the Baltic States. Local banks, mutual credit societies, CSCUs, branches of big Russian banks provided lending services to production, trade and construction fields; broad number and high volume of financial services helped to bust economic growth in the country. The same institutions managed to attract the most part of savings of Latvian people (Aizsilnieks 1968: 37). Historical events, changes of political power in the country, struggle for state independence—all this unrest in external environment strongly affected financial and credit market. In 1918, when Latvia regained its independence and German troops left the country, people were afraid of threats coming from the East, and big volume of money and valuables left the country (Aizsilnieks 1968: 125). In 1919, after occupation of Latvia by the Soviets, the People's Bank of Soviet Socialist Republic of Latvia was established and all other financial and credit institutions were nationalized, transferring all their assets to the People's Bank, which became the state monopolist in provision of financial and credit services in the country. All savings exceeding 10,000 Rubls were nationalized, smaller savers still could take out their savings not exceeding 400 Rubls per month. Despite the rather independent position of Latvian People's Bank, it still was considered a regional department of Soviet Russia's People's Bank (Aizsilnieks 1968: 94). The year of 1920 again was considered the rebirth year of CSCUs. A new state has restarted its growth and needed financial resources to heat economy of the country. After all political collusions all these resources had to be accumulated from the beginning (Aizsilnieks 1968: 208). Development of Latvian CSCUs in 1923–1940 is shown on Figs. 1 and 2 [developed by the author based on (Aizsilnieks 1968: 319, 469,663)].

Figure 1 shows that number of CSCUs in Latvia was growing fast until 1927, then growth became very slow and starting from the year 1933 number of CSCUs went down from 634 CSCUs to 419 in 1940. Number of CSCUs members was growing fast until 1931, and then stayed almost unchangeable. The biggest number

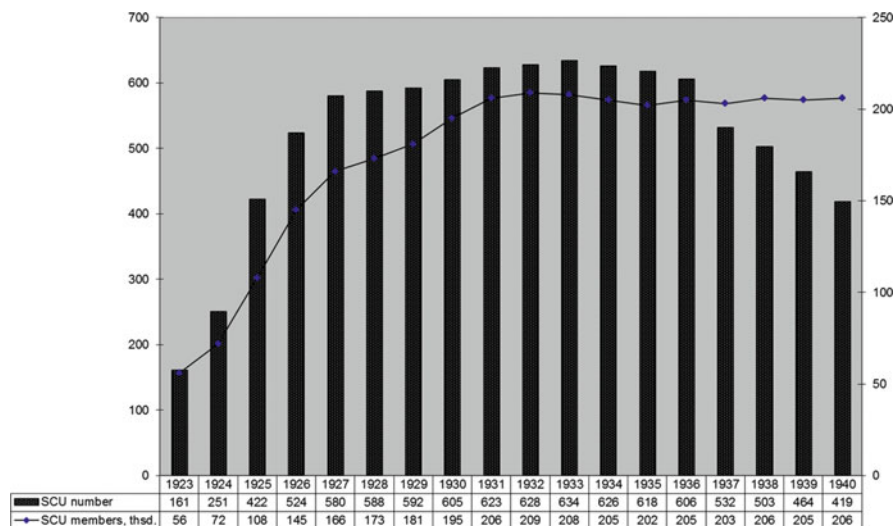


Fig. 1 Development of Latvian CSCUs in 1923–1940 (data on 01.01.xx.): Number of members and CSCUs [based on Aizsilnieks (1968: 319, 469,663)]

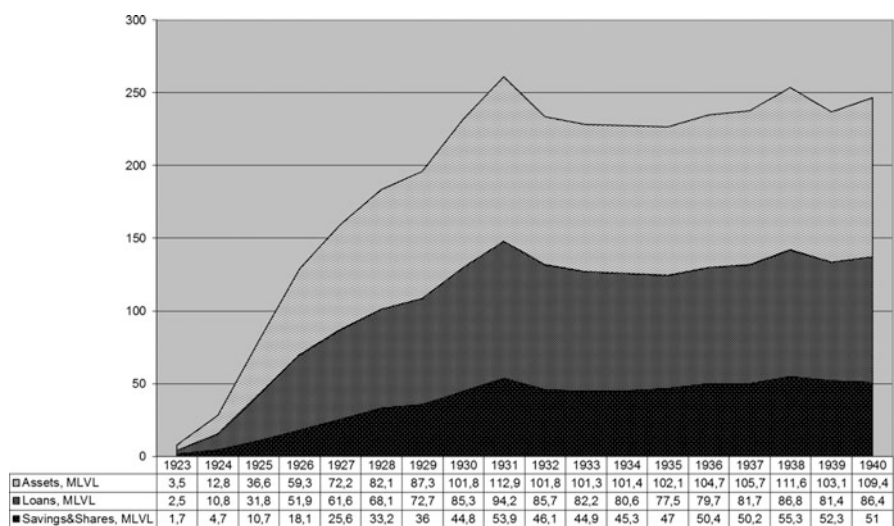


Fig. 2 Development of Latvian CSCUs in 1923–1940 (data on 01.01.xx.), LVL: Financial Statistics [based on Aizsilnieks (1968: 319, 469,663); to recalculate to EUR use exchange rate 1 EUR = 0.702804 LVL]

of CSCUs—634—was operating in 1933, but the biggest number of members—209,000—was achieved already a year before, in 1932.

Financial statistics of Latvian CSCUs in 1923–1940 is shown in Fig. 2.

Figure 2 shows that savings and shares, loans and assets of Latvian CSCUs were growing fast until 1931, when total amounts achieved the maximum volumes—112.9 MLVL (160.6 MEUR) in assets, 94.2 MLVL (134.0 MEUR) in outstanding loans and 53.9 MLVL (76.7 MEUR) in attracted savings and shares. In 1932 all positions decreased to 101.8 MLVL (144.8 MEUR) in assets, 85.7 MLVL (121.9 MEUR) in outstanding loans, 46.1 MLVL (65.6 MEUR) in savings and shares. In the next years level of assets, loans, savings and shares was rather constant without any big fluctuations. In 1940, when all CSCUs had to cease their operation because of the new political regime, CSCUs network represented very strong national financial and social capital: 419 CSCUs united 206,000 of members, 109.4 LVL (155.7 MEUR) in assets, 86.4 LVL (122.9 MEUR) in outstanding loans and 51 MLVL (72.6 MEUR) in savings and shares.

1.2 Latvian CSCUs After 1991

After more than 50 years-long gap new attempts to re-establish financial cooperatives in Latvia appeared in 1992, when the I Congress of Railroad Trade Union supported the idea to re-establish Railroad CSCU, continuing traditions of the previous Railroad CSCU, which was successfully operating before 1940. Latvia regained its independence from Soviet Union in 1991, and in 1992, there still was no legal basis for establishing and operation of CSCUs. Railroad CSCU got license to its operation on 9 February 1995. This date is considered the rebirth date of the modern network of CSCUs in Latvia. Credit Institution Law was approved on 5 October 1995 and came into force on 24 October 1995 (Law on Credit Institutions of the Republic of Latvia 1995). The law regulated operation of both banks and CSCUs. Banks became the key credit institutions in newly independent Latvia and in the following years were strongly supported and lobbied by the state. CSCUs were organized by initiative groups of volunteers, who did huge work to continue Railroad CSCU tradition and bring public interest to opportunities provided by CSCUs. Reestablishment of CSCUs in Latvia was strongly supported by international aid organizations and leading global CSCUs networks. In July 1994 World Council of Credit Unions with funding provided by United States Agency for International Development (USAID) started to implement CSCUs supporting project “Introducing Democratic Financial Institutions into the Latvian and Lithuanian Marketplace”, which until September 1997 assisted initiative groups in formation of CSCUs and building of capability of local CSCUs by providing training, technical assistance and supervision (WOCCU 1996). During the mentioned project, five more CSCUs were started in Latvia and at the end of 1997 CSCU network already united 3.24 thousands members and 0.50 millions EUR in assets (see Figs. 3 and 4). Major banking crisis of 1995 has forced interest of people about alternative credit and financial institutions. The crisis was caused by fraud and low control in banking sector and resulted in bankruptcy of 15 commercial banks, accounting up to 40 % of the banking assets and 53 % of household deposits (Aaslund and

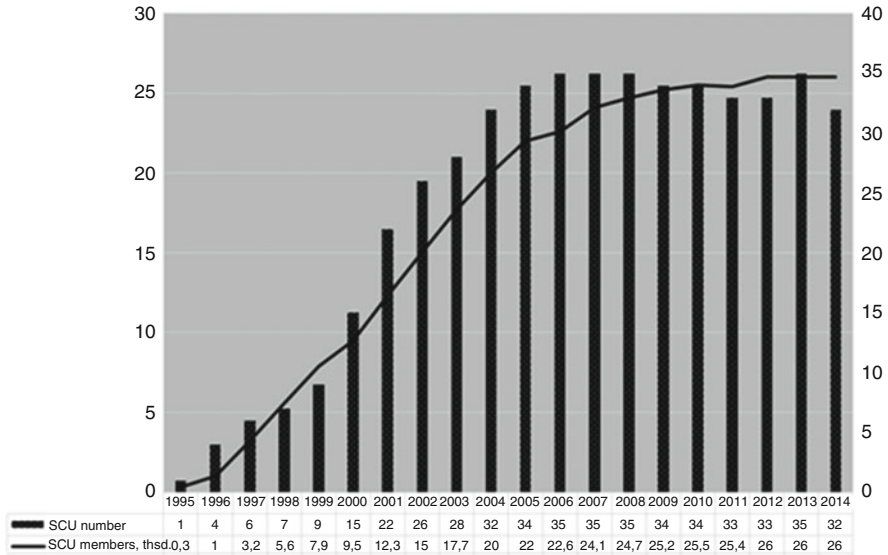


Fig. 3 Development of Latvian CSCUs in 1995–2014 (data on 31.12.xx.): Number of members and CSCUs (developed by the author based on [Quarterly Statistics of Latvian CSCUs and Banks](#), and [Statistics of Latvian CSCUs—members of LACSCU](#))

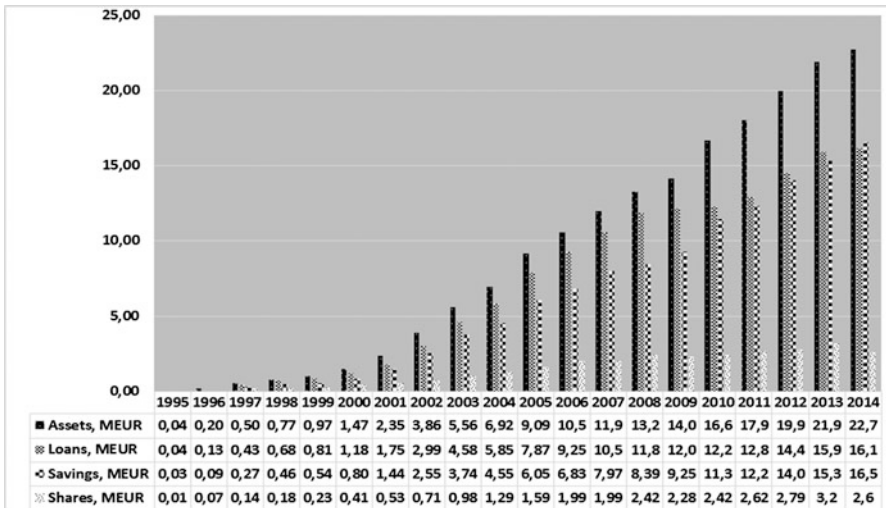


Fig. 4 Development of Latvian CSCUs in 1995–2014 (data on 31.12.xx.): Financial statistics (developed by the author based on [Quarterly Statistics of Latvian CSCUs and Banks](#), and [Statistics of Latvian CSCUs—members of LACSCU](#))

Dombrovskis 2011: 11). It caused high mistrust of population to the banks and gave chance to foster development of CSCUs. Initiative of World Council of Credit Unions was continued by Development International Desjardins. This international

division of Desjardins CSCUs network in Quebec, with funding provided by Canadian International Development Agency, in 1998–2002 implemented CSCUs technical assistance project “Strengthening of Savings and Credit Cooperatives in Latvia” with the major goal to contribute to mobilizing the economic potential of the population by providing Latvians with access to secure cooperative financial services (DID 2011). Canadian financial and technical aid helped Latvian CSCUS network to grow from 7 CSCUs with 5.55 thousands members and 0.77 millions EUR in assets in 1998 to 26 CSCUs with 14.96 thousands of members and 3.86 millions EUR in assets in 2002 (see Figs. 3 and 4). Then foreign aid to Latvian CSCUs was ceased. The country did big progress in development and was preparing itself to enter the European Union.

Development of Latvian CSCUs in 1995–2014 is shown on Figs. 3 and 4 (developed by author based on statistic data provided by Financial and Capital Market Commission of Latvia (FCMC) and Latvian Association of Cooperative Savings and Credit Unions (LACSCU)).

Figure 3 shows that number of CSCUs in Latvia was growing fast during the periods of both foreign aid projects. Increase in number of CSCUs in 2003–2005 was also mostly based on the initial work done during Development International Desjardins Project. Project staff met initiative groups all around the country, provided awareness meetings, specific training, and financial resources for lending services. Starting with the year 2005 number of CSCUs in Latvia is rather constant—33–35 CSCUs. One CSCU started its operation and decided not to continue it because of very limited potential membership. Another CSCU ceased its operation during the crisis 2008–2010. Three new CSCUs started operation, two of them did not succeed in development. One employer-based CSCU has ceased its operation because of bankruptcy situation in the members uniting company. Number of CSCU members was constantly growing and achieved ~26,000 in the end of 2014. Financial growth of Latvian CSCUs is shown on Fig. 4.

Figure 4 shows constant growth of CSCUs assets, loans and total amount of members’ savings and shares during all 20 years of operation. Total CSCUs assets increased from 0.04 MEUR in 1995 up to 22.7 MEUR in 2014, total outstanding loans increased from 0.04 MEUR in 1995 up to 16.1 MEUR in 2014, total members savings from 0.03 MEUR in 1995 up to 16.5 MEUR in 2014, total shares—from 0.01 MEUR up to 2.6 MEUR. Despite constant annual growth in all positions, growth rate was different from year to year (see Fig. 5).

Figure 5 shows that the highest growth rates were in the beginning of establishing of CSCU network in Latvia and in the following years of foreign aid projects. Total assets of the CSCU network had grown by 366.7 % in the first year 1996, and then growth rate decreased to 150 % in 1997, 54.3 % in 1998. The next highest growth rate in total CSCU assets was in 2001–2002, relatively 60.2 % and 64.2 %. Later increase in assets varied between 3.7 % (2014) and 44.3 % (2003). Number of CSCUs continued to grow significantly up to the year 2004, and then number of CSCUs became rather constant. Increase in membership was extremely high in the first years of operation, starting from 233.3 % in 1996 and finishing with 22 % in 2002. Later growth in membership was lower than 20 % per year. In the last 2 years change in total number of members was insignificant. Increase in total

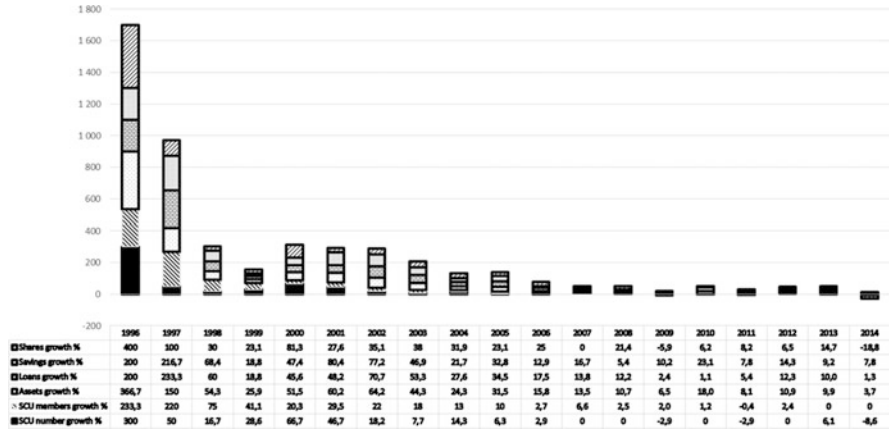


Fig. 5 CSCU growth, % to previous year, 1996–2014

outstanding loans was extremely high in the first years of operation, achieved 233.3 % in 1997 and 53.33 % in 2003. In other years, growth of outstanding loans fluctuated below 20 %. Total savings were growing since the first CSCU, starting with 200 % in 1996 and finishing with 7.8 % in 2014. Increase in share capital varied from year to year, starting from growth 400 % in 1996 and finishing with decrease 18.8 % in 2014. CSCUs growth dynamic leads to both positive and negative conclusions. The positive one makes it obvious that existing CSCUs have shown stable growth also without any external aid. It proves that Latvian CSCUs were not established just because of foreign aid of US and Canadian CSCUs networks, but it was real local initiative and local demand for cooperative financial services. That is why Latvian CSCUs continue their operation and show increase in financial statistics. The negative conclusion is that existing Latvian CSCUs are not ambitious in their growth and new CSCUs are not established in the country.

2 Current Model and Operation of CSCUs in Latvia

Latvian CSCUs are the part of Latvian Financial and Capital Market (LFCM) and are licensed, regulated and supervised by Financial and Capital Market Commission (FCMC). Figure 6 shows position of CSCUs among participants of LFCM.

Banks and CSCUs are the only institutions in Latvia, who are eligible to attract clients’ deposits. Both institutions also provide credit and payment services. While banks are providing broader number of services in bigger scale, CSCUs are involved in provision of basic financial services—savings, credits, and payment services—to people with low income. CSCUs compete with banks in provision of savings and credit services, with insurance and financial market companies—in

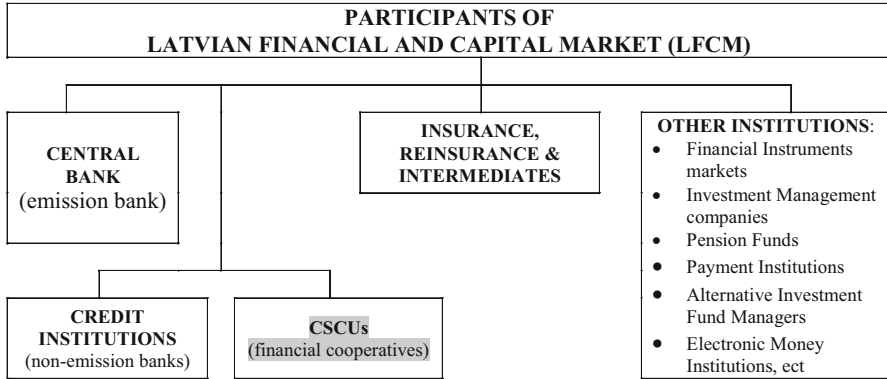


Fig. 6 CSCUs position on Latvian financial and capital market [developed by the author based on [Participants of the Financial and Capital Market of Latvia](#) (2015)]

attraction of people savings. There are few more institutions, which are operating outside LFCM but provide high competition to CSCUs. These institutions are leasing and factoring companies, credit companies, lombards, special lending programs. CSCUs play important role in provision of financial and credit services to people who are unable or not interested to use services of banks, other financial institutions, leasing or credit companies.

Taking into account huge difference in capital level of banks and CSCUs, on 29 March 2001 Latvian Parliament—Saeima—has approved a special Law on Savings and Credit Unions of the Republic of Latvia, which came into force on 1 January 2002. This legal act was developed in order to enforce access to financial resources and to foster regional development, activating participation of individuals in the economic processes of the country ([Law on Savings and Credit Unions](#) §1).

The Law defines CSCU as a cooperative organization with changing number of members and volume of capital, which provides the following services to its members: attract savings and deposits, issue credits, provide money transferring and payment services, upon member's request buy and sell financial instruments and currencies, provide guarantees for members in the face of creditors; keep members' valuables, consult members in financial questions, provide information about members' loans repayment capability, provide other services defined by Financial and Capital Market Commission ([Law on Savings and Credit Unions](#), §2.1). The Law defines such main goals of CSCUs as development of members' capability to work jointly in order to foster their wealth through mutual help and self-government principles, accumulation of resources for lending purposes to members, satisfaction of individual and entrepreneurial needs of CSCU members ([Law on Savings and Credit Unions](#), §2.2). The main features of CSCU operation are: democratic structure, fair interest rates, constant education and training possibilities, financial stability, fostering of social goals, and social responsibility.

CSCUs are serving clients related to the definite membership, which is defined in CSCU Law and CSCU By-Laws. The main types of CSCU membership, defined in the Law on CSCUs, are the following:

- based on territory principle: all members live, work or have property on the definite territory of the definite self-government(s),
- based on employment principle: all members are employed by the same employer,
- based on interest unity principle: all members of CSCU are members of the related trade union, non-government organization, professional or sports association.

In Latvia, CSCUs serve only individuals within the definite membership, but in case, if it is approved by CSCU Law and CSCU Bay-Laws, CSCUs can serve also legal entities, for example, micro, small and medium enterprises, where CSCU members are owners. Spouses of CSCUs members are also eligible to join CSCUs. CSCUs, based on territory principle, can accept members-uniting self-government as a member. CSCUs, which are based on interest unity principle, can accept members-uniting organization as a member ([Law on Savings and Credit Unions](#), §4–5).

To start an CSCU in Latvia at least 20 members and 2500 EUR in share capital are required ([Law on Savings and Credit Unions](#), §8.1, 15.1). This number of members and amount of start capital is affordable not to limit CSCUs establishing opportunities, but it is not sufficient to satisfy demand for loans in local communities. One of the primary goals of the start-up CSCUs is to ensure growth-oriented operating and financial plans, and strictly follow them.

Organization structure of Latvian CSCUs is based on cooperative organization principles. To become a CSCU member it is enough to buy at least one share. CSCU members are owners, clients and managers of their financial cooperative. Number of shares owned by a member does not influence his or her participation in decision making. The main principle is one member—one vote. Members come together at least once a year to the general assembly, where they discuss and approve all key decisions. Members take decisions about main fields of operation and management of CSCU: development policy, budget, evaluation of performance, changes in By-Laws, election of Credit Committee, Supervisory Committee, Information and Training (I&T) Committee, Board of Directors. CSCU organization structure is shown in Fig. 7.

CSCU Board represents and manages CSCU operation between Members General Assemblies. Credit Committee reviews loan applications and takes decision about lending based on CSCU Credit Policy approved by Members General Assembly. Supervisory Committee is an internal audit of CSCU. Information and Training Committee informs members about existing and new CSCU services, promotes financial cooperation idea and fulfils marketing function of CSCU. Members are elected in all committees and this is the main reason why CSCU is called the most democratic institution on financial market—members are involved in daily decision-making. Volunteer work is highly appreciated and broadly used in CSCU, very often elected bodies are volunteers; mostly employees are paid for the work.

CSCU financial mechanism is shown on Fig. 8. CSCUs accumulate members resources in savings and shares, then lend out to the members for definite purposes.

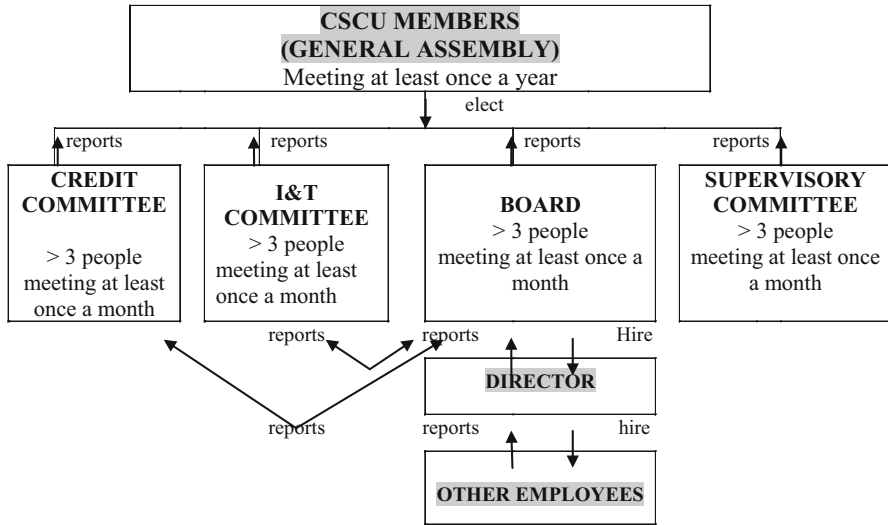


Fig. 7 CSCU organization structure [Developed by Author based on Lee (1990: 5), [Law on Cooperative Organizations of the Republic of Latvia](#), Mavrenko (2002: 209)]

It is important that CSCU is self-sufficient and can operate only with internal resources of its members. It means that 80–95 % of CSCUs funds should be lent out to the members, and attracted savings should be 55–70 % of total funds of the CSCUs (LACSCU). Very often CSCUs are forced to attract external funds from banks to satisfy demand for loans. Some CSCUs may suffer from exceed of cash and in this case can lend to other SCUs, deposit in the bank, CSCU or invest in state bonds. Latvian CSCUs can get profit, but this is not the main goal. The main goal of any CSCU is to satisfy members' needs with financial services. Usually interest rates for savings and loans are defined in the way, that CSCU earns enough to cover resource costs and operation costs without any profit goal. Latvian CSCUs have no any exemption from taxes.

Organization structure of Latvian CSCUs very often consists of Board, Credit Committee, and Supervisory Committee, but Information and Training Committee is not elected. In big CSCUs training and marketing function is fulfilled by employees, in territory based and interest unity based CSCUs this role may be played by self-government or uniting organization.

Network of Latvian CSCUs has all preconditions for stable growth and niche in the country. Law on CSCUs was developed to regulate operation of CSCUs in the country in accordance with all CSCU peculiarities. Latvian CSCUs are included in the formal financial market, are eligible to attract savings. Savings in CSCUs are guaranteed by the state in accordance with Deposit Guarantee Law (DGL) with the maximum amount 100,000 EUR per depositor (DGL §3). 29 of 32 Latvian CSCUs are united by Latvian Association of Cooperative Savings and Credit Unions (LACSCU), which represents CSCUs interests and rights on national and international levels. All these mentioned factors construct the basis of any successful CSCUs network in any country. But there are still some unsolved issues. There is no Central

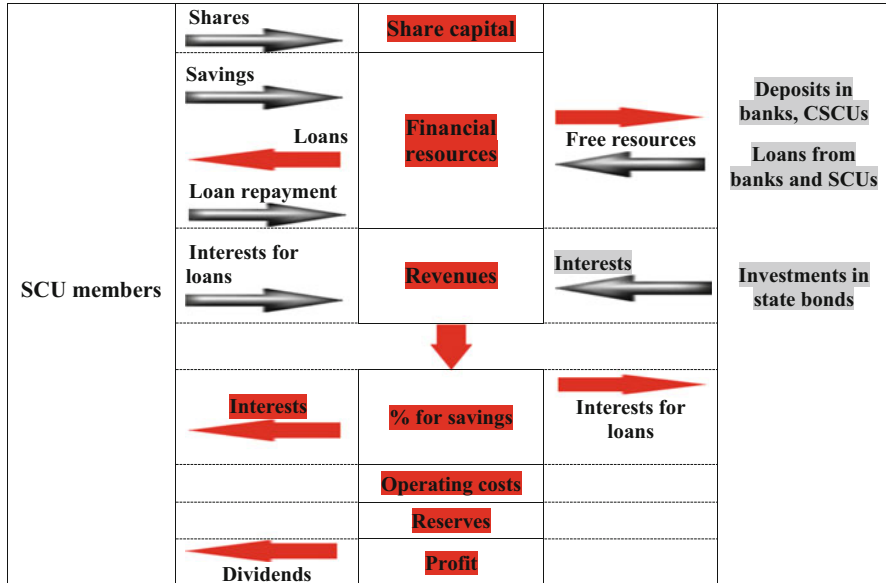


Fig. 8 CSCU financial mechanism [developed by Author based on Latvian Law on Savings and Credit Unions and Law on Cooperative Organizations of the Republic of Latvia, (Mavrenko 2002: 209)]

CSCU for CSCUs in Latvia, and in case of lack or exceed of cash CSCUs cannot solve this problem using centralizes approach in the network. They need to use services of the external institutions or use direct communication and negotiations with each other. At this moment it is difficult to forecast when Central CSCU may appear on Latvian market, CSCUs do not put much effort in this direction.

LACSCU is non-government organization, which was established on 10 October 1997 as a uniting organization of Latvian CSCUs. The main goal of LACSCU is to foster CSCUs operating and development policy in the country. LACSCU unites knowledge and experience of all Latvian CSCUs, represents and protects CSCUs interests and rights, foster development of CSCUs legal basis. LACSCU provides consultancies to initiative groups in establishment of their CSCUs, ensures consultancies and training to existing CSCUs, provides information about Latvian and international CSCU networks, organizes experience exchange events for CSCUs. LACSCU has good cooperation with Latvian CSCUs abroad—12 in USA, 1 in Canada and 1 in Australia. Since 10 February 2000, LACSCU has close cooperation with Mortgage Bank of Latvia, which is involved in different development projects in the country (LACSCU).

Operation statistics of Latvian CSCUs—members of LACSCU at the end of the 3rd quarter of 2014 is shown in Table 1. 29 from 32 CSCUs are members of LACSCU. There are only two types of CSCU membership represented in Latvian network—interest unity and territory basis (see Table 1).

Table 1 Operation results of CSCUs members of LACSCU, 31 December 2014

<i>Nr.</i>	<i>Trade union based CSCUs</i>	<i>Members persons</i>	<i>Assets EUR</i>	<i>Loans EUR</i>	<i>Shares EUR</i>	<i>Savings EUR</i>
1	Seaman CSCU	2,544	9,288,417	6,133,415	872,175	7,531,189
2	Railroad CSCU	12,877	8,728,045	6,222,281	1,767,772	6,356,527
3	CSCU "LAKRS KS" (public service and transport industry employees)	538	136,966	89,516	32,227	76,958
4	Teachers CSCU	922	126,995	90,297	24,497	83,571
5	LABA CSCU	1,116	48,827	7,216	32,715	6713
6	LVSAD CSCU (Medicine and Health Care Industry employees)	302	42,408	29,964	20,351	21,562
7	Cesu CSCU (retailing employees)	17	21,352	20,669	14,549	6000
	TOTAL trade union based CSCUs	18,316	18,393,010	12,593,358	2,764,286	14,082,520
	% from total	71 %	81 %	78 %	73 %	86 %
<i>Nr.</i>	<i>Regional (rural) CSCUs</i>	<i>Members</i>	<i>Assets</i>	<i>Loans</i>	<i>Shares</i>	<i>Savings</i>
1	CSCU "Allazu saime"	851	992,421	785,175	236,081	525,186
2	CSCU "Dzese pluss"	264	597,831	478,779	266,132	190,099
3	Kandava CSCU	611	449,754	384,522	69,659	272,579
4	Zoseni CSCU	552	409,939	370,425	53,805	301,062
5	Kauguri CSCU*	635	355,603	295,660	51,138	100,653
6	CSCU "Ligatnes druva"	440	249,414	233,086	41,967	156,568
7	Pure CSCU	509	239,296	184,662	51,982	163,639
8	Taurene CSCU	514	214,140	201,527	32,602	118,918
9	CSCU "Avots 37"	158	148,486	140,088	31,816	95,097
10	Nitaure CSCU	237	127,862	122,013	34,285	74,960
11	Punu CSCU	416	90,564	80,923	8,152	2,432
12	Veselava CSCU	181	67,080	49,121	21,516	45,424
13	Straupe CSCU	129	65,413	47,303	19,650	34,706
14	Vecpiebalga CSCU	286	59,163	47,008	16,080	43,953
15	Sala CSCU	328	51,688	36,320	12,395	37,888
16	Rundale CSCU	286	54,965	27,053	7,969	27,359
17	Lielvarde CSCU	253	44,667	42,403	16,717	26,720
18	Rujiena CSCU	406	38,025	36,275	8,537	14,452
19	Rucava CSCU	214	19,110	15,715	11,434	7,180
20	CSCU "Nigrande"*	92	9,038	7,890	3,913	4,126
21	CSCU "Skilbeni"	89	8,308	5,717	4,155	449
22	CSCU "AlfaBeta"*	21	5,391	4,059	4,091	0

(continued)

Table 1 (continued)

TOTAL regional CSCUs	7,472	4,298,158	3,595,724	1,004,076	2,243,450
% from total	29 %	19 %	22 %	27 %	14 %
TOTAL CSCUs— LACSCUs members	25,788	22,691,168	16,189,082	3,768,362	16,325,970

*Data on December 2013

Developed by the author based on [Statistics of Latvian CSCUs—members of LACSCU](#), for year 2014

There is obvious disproportion in development of CSCUs inside the LACSCU network. 7 CSCUs, which are based on interest unity, represent 71 % of the total membership, 81 % of total assets, 78 % of total outstanding loans, 73 % of total shares and 86 % of total savings. 22 territory-based CSCUs represent only 29 % of the total membership of the network, 19 % of total assets, 22 % of total outstanding loans, 27 % of total share capital and 14 % of total savings. The first group of CSCUs is mostly represented by trade union-based CSCUs, including two the biggest ones of the network—Seamen and Railroad CSCUs in Riga. The second group is represented mostly by rural CSCUs. Big difference in size, location, membership peculiarities, growth strategies and future potential development—all these factors do not let Latvian CSCUs to get united in goals and common development strategy. The biggest CSCU by assets is Seamen CSCU with 9.3 MEUR, the smallest one—CSCU AlfaBeta with only 5391 EUR in assets. In attempt to find an optimal size of CSCU, the Author has calculated that in order to be self-sufficient and to work full time, CSCU should have around 800,000 EUR in outstanding loans. In this case CSCU will be able to keep four full-time employees, pay market price for the rent of premises, acquire its own equipment and software, and afford marketing costs and employee training. As it is shown in Table 1, only two—the biggest ones SCUs—are able to fulfil this requirement. Other CSCUs have to cut costs. Usually they are open just few days a week, benefit from support of the uniting organization or self-government, for example, use their premises, equipment, labour force at low or without costs (Mavrenko 2011: 95).

The Author provides SWOT analysis of Latvian CSCUs at the end of 2014 in Table 2.

Despite positive development of CSCUs in Latvia in 2005–2014 (see Figs. 3 and 4), impact of the existing CSCUs to the economy of the country in absolute numbers is still insignificant. At the same time, Latvian CSCUs have good opportunities to strengthen their positions, being a part of microfinance market and providing a serious alternative to banks and other credit and financial institutions. Still broad political support is needed to foster development of CSCUs network all around the country both on macro and mezzo levels. CSCUs need to grow faster, plan higher growth and become self-sufficient as soon as possible, ensuring stability on micro level. On Author's opinion, all mentioned threats and weaknesses, mentioned in Table 2, can be diminished step by step, if CSCUs will get more

Table 2 SWOT analysis of Latvian CSCUs, 2014

External environment	
Opportunities	Threats
<ul style="list-style-type: none"> – Political and financial support to microfinance all around the world and especially in EU – Positioning of CSCUs as Microfinance Institutions – Strong global CSCUs network – Strong lobby of CSCUs on international level – Separate law on CSCUs in Latvia – European Investment Fund is providing financing to Microfinance development – State strategic development program recognizes necessity for solving social problems and development of microenterprises – Overall support of CSCUs in Latvia from government and public institutions – Strong regulation and supervision outside the network: Commission on Financial and Capital Market – Fast loan market becomes more regulated 	<ul style="list-style-type: none"> – Strong lobby of banks in the country – Society is oriented on profit maximization and development of cooperative organizations is not so popular anymore – Broad emigration opportunities, which more motivate people to go abroad than to organize cooperatives – CSCUs are not members of interbank payment system and can do payments only with bank intermediation – Risk of fraudulent operation of newcomers trying to benefit from network's assets and cooperative status – High competition with fast loan companies
Internal environment	
Strengths	Weaknesses
<ul style="list-style-type: none"> – Latvian CSCU network has long history, constant growth trend since re-establishing of the network in 1995, good reputation – LACSCU unites 29 CSCUs from 32, represents most of the network – WOCCU and International Development Desjardins institutional development and technical assistance projects were implemented in Latvia, providing support and training to staff, elected bodies and members of CSCUs – Savings in CSCUs are guaranteed by the state based on Deposit Guarantee Law (Law on Deposit Guarantees of the Republic of Latvia) – Low risk of CSCUs operation 	<ul style="list-style-type: none"> – Latvian CSCUs network is not homogenous, there are 2 big CSCUs and 30 small CSCUs – Trade Union- based CSCUs and rural CSCUs have different strategic goals and work scale – There is no strong leader in Latvian CSCUs network to unite all of them – CSCU network is so different by members and interests, that it is not possible to launch a uniting Central CSCU – Poor CSCUs marketing and lack of strategic goals in regional CSCUs – Low funding of LACSCU, and in the result limited training and promotion activities – There is rather slow growth in CSCUs' membership and assets, CSCUs are poor in growth-oriented planning – CSCUs are not fully self-sufficient and need to cut costs because of low scale of operation and income; usually cuts affect marketing, training and representation – Low technical basis in most CSCUs

serious support from the government, self-governments and other united organizations, as also put their own efforts in pro-growth planning and marketing.

3 Latvian CSCUs and Financial Crisis 2008–2010

Latvia is one of the countries which were hit the most by the financial crisis 2008–2010. Financial shocks and economic downturn had impact on Latvian CSCUs, too. Many CSCUs finished the year 2010 with losses. One regional CSCU was forced to cease operation. Nevertheless, at the same time, comparing operation of CSCUs with operation of banks and leasing companies, it is obvious that CSCUs did much better than competing for-profit institutions and kept their supportive function also in difficult times. Operation of CSCUs in 2005–2010, which was shown on Figs. 3 and 4, should be compared with the performance of banks and leasing companies in the same period, which is shown on Figs. 9 and 10 (developed by the author based on statistic data 2005–2010 provided by CFCM).

Figure 9 shows that in 2005–2010, number of banks and branches of foreign banks in Latvia increased from 23 up to 29. Total assets of banks continued to grow until 2008, starting with 15,570 MEUR in 2005 and achieving 33,072 MEUR in 2008. Then in 2009 total banking assets decreased until 30,845 MEUR and showed small growth in 2010 up to 31,256 MEUR. Banking outstanding loans were growing during economic boom period from 9903 MEUR in 2005 until 23,604 MEUR in 2008. Affected by deep financial crisis banks strongly diminished lending, and volume of outstanding loans in 2010 decreased to 20,395 MEUR. At

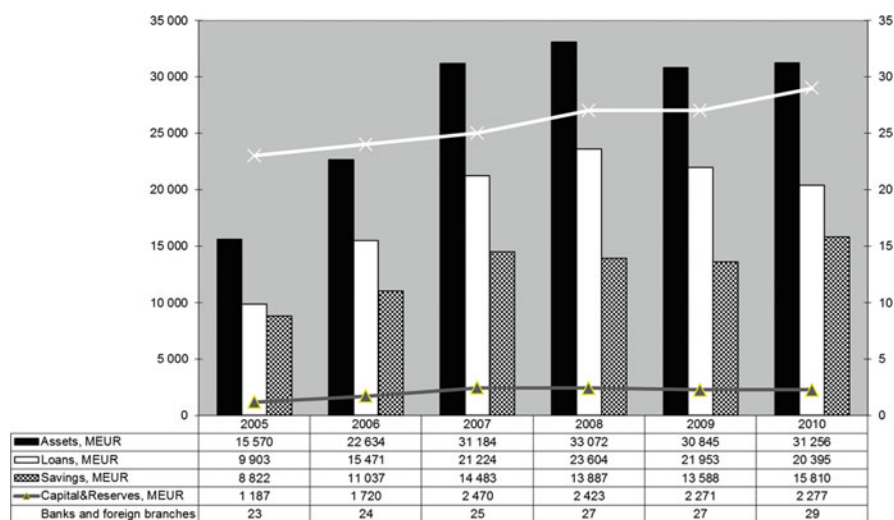


Fig. 9 Operation Statistics of Banks and Branches of Foreign Banks in Latvia, 2005–2010 (developed by the author based on [Quarterly Statistics of Latvian CSCUs and Banks](#), and [Statistics of Latvian CSCUs—members of LACSCU](#), statistical data 2005–2010) (Mavrenko 2011: 89)

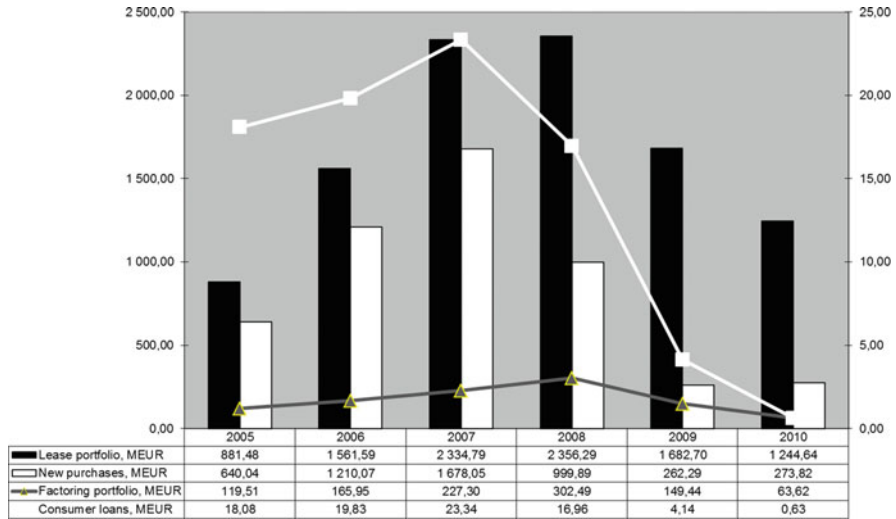


Fig. 10 Operation Statistics of Members of Latvian Association of Leasing Companies, 2005–2010 (developed by the author based on Statistics of Members of the Latvian Association of Leasing Companies 2005–2010) (Mavrenko 2011: 90)

the same time volume of attracted savings was constantly growing and achieved 14,483 MEUR in 2007, then in 2009 decreased until 13,588 MEUR and started to grow again, achieving 15,810 MEUR in 2010. Total capital and reserves did not show significant fluctuation, staying close to 2271 MEUR during the whole period. In the growing phase of economy, banks were very active in lending and caused overheating of the economy. However, when their funds became the most needed to support economy in crisis time, banks have chosen distance position. When savings are growing, but lending is decreasing is a bad situation in the economy of the country, money is collected but not used for the growing purpose, in other words, money is not working (Mavrenko 2011: 88).

Similar situation can be viewed in leasing and factoring business. Figure 10, which is based on data provided by Latvian Association of Leasing Companies about its members, shows that leasing companies followed the banks' example. During the crisis leasing companies stopped to finance new purchases at all; and lease portfolio has diminished from 2356.29 MEUR in 2008 till 1244.64 MEUR in 2010, almost getting back to the result of 2005—881.48 MEUR in lease portfolio. Consumer loans diminished until 0.33 MEUR, new purchases decreased till 273.82 MEUR, factoring portfolio—till 63.62 MEUR (Mavrenko 2011: 89).

How it can be seen on Figs. 3 and 4, operation statistics of Latvian CSCUs in the same period 2005–2010 had very different dynamics. Operation of CSCUs was rather stable both in economic boom and in crisis. CSCUs with their conservative policy, social goals, not-for-profit principle and high risk aversion could survive during the crisis and showed low dependence between their operation results and macroeconomic situation, causing less shocks to their members. CSCUs were the

only institutions, which during 2005–2010 showed growth both in attraction of savings and provision of loans (Mavrenko 2011: 89).

4 Conclusions

CSCU financial statistics data looks rather insignificant in comparison with banking sector. At the same time, it is important to see the difference in clientele of both types of institutions. CSCUs serve unbankable or financially excluded people. Services provided by CSCUs are the only opportunity for these people not to stay outside economic and social processes in the country. Based on definite membership, CSCUs serve local society; accumulate national capital to benefit regional development and social welfare in the country. There is a huge potential hidden in CSCUs, but still big work should be done to strengthen and broaden CSCUs network in Latvia. Successful growth is possible only in case if CSCUs will get strong support on all three levels—macro, mezo and micro. Political support is needed to strengthen the idea of financial cooperation on the national level. Involvement of self-governments is necessary to position and use CSCUs as a tool for regional development. CSCUs themselves should be pro-active in planning of their operation and put higher goals for future development.

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