

DEVELOPMENT OF MICROFINANCE IN LATVIA: NEW LOOK AT SAVINGS AND CREDIT UNIONS

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Abstract

Purpose – Up to nowadays, microfinance was mostly associated with developing countries, but the global financial crisis 2008-2010 has brought developed and developing worlds together, facing growing poverty and social inequality. Microfinance promotes everyone's access to safe financial services as a key solution to financial and social problems. The author proposes to apply microfinance principles to Latvian conditions, using unique role and status of savings and credit unions (SCU).

Design/Methodology/Approach – The main structure of the paper is as follows:

1. Analysis of microfinance essence and its application to Latvian conditions;
2. Analysis of operation and members' profile of Latvian SCUs.

The paper is based on analysis of the latest literature and research papers in microfinance and financial cooperation fields; statistical and social research methods. In July-December 2010, the author has conducted a survey of SCUs' members (241 respondent) targeted to understand members' profile and opinion about SCUs operation.

Findings –

1. There is a broad niche for microfinance services in Latvia.
2. SCUs operation peculiarities, deep regional penetration and social goals are key features to occupy the microfinance niche on the market.
3. SCUs sustainable development in Latvia is possible only in case of strong support at macro and mezo levels; and well-organised and planned work at micro level.

Practical and social implications – The proposed microfinance platform can become a key tool to combat poverty and social exclusion in the country.

Originality/Value – The proposed microfinance platform is developed by the author especially for Latvian conditions and is based on unique primary data received from Latvian SCUs network.

Keywords: microfinance, savings and credit union, cooperative finance, poverty, social exclusion.

Introduction

Since money was introduced into everyday life people continue to reform financial systems in order to find the best way of money transfer from savers to borrowers. Financial history is full of both positive and negative examples, including free banking system in Scotland of 18-19 centuries and strictly regulated banking system in USA and Canada in 19-20 centuries (Caprio and Vittas, 1997). A crisis historically was treated as a key driver for changes and improvements in financial systems. Global crisis 2008-2010 has proved that the world is not ready for high liberalism in financial systems and moved developed and developing worlds closer, deepening such problems as poverty, social inequality and exclusion. Today many countries face sharp necessity for radical changes both in provision of financial services and mindset of society. Necessary changes should be done in order to strengthen sustainability of local and global financial systems, where inclusive and participatory finance can play highly important role.

Microfinance essence and evolution

Microfinance step by step is entering financial sectors of the developed world. It was called the social revolution (Yunus, 2007), phenomenon (McGuire and Conroy, 2000), financial miracle (Banerjee, 2009), innovation in financial system, revolution in finance (Robinson, 2003), panacea from poverty; finance with human side (Shinn, 2009). All these epithets emphasise the ultimate role of microfinance services in improvement of life conditions of poor and low income people. Microfinance is used as a development tool in developing countries already for more than forty years, but it became globally famous only in 2006, when Muhammad Yunus together with Grameen Bank were granted the Nobel Peace Prize for great achievements in poverty reduction in Bangladesh (Yunus, 2007) (Bayulgen, 2008). United Nations have announced the year 2005 to be the year of microcredit, reflecting the ultimate role of microcredit in development of society. Conventional financial systems typically exclude the poor, but in developing countries microfinance

institutions have demonstrated the opposite approach, successfully delivering full range of commercial financial services to unbankable micro-entrepreneurs and poor families (Bayulgen, 2008).

Researches and microfinance specialists provide different definitions of microfinance, but still all of them connect microfinance with serving poor and low-income people. J.Ledgerwood’s treats microfinance as a development tool and defines it as a provision of financial services to low-income clients, including the self-employed. Financial services generally include savings and credit, but may be broadened by insurance and payment services. Social intermediation may be added to financial intermediation, covering the most needs of the clients with low income (Ledgerwood, 1999). M.S.Robinson defines microfinance as the process, through which financial services for the economically active poor are implemented in a large scale by multiple, competing, financially self-sufficient institutions (Robinson, 2003). K. Rao does not distinguish microfinance from microcredit and defines microfinance as a provision of small loans to unbankable individuals, households and economical entities (Rao, 2003). Khandakar Qudrat-I Elahi and M.Lutfor Rahman see big difference between microfinance and microcredit, defining microfinance as a development approach to provision of financial and social intermediation. Financial intermediation consists of savings, loans and insurance, but social intermediation motivates people for mutual help and policy influence (Elahi and Rahman, 2006). S.Wisniewski defines microfinance as a part of financial market that provides financial services to households and enterprises, which are not able to get these services from other formal financial institutions (Wisniewski, 2004). N.Felder-Kuzu defines microfinance as a provision of financial services in small amounts on commercial basis to microenterprises, stressing the link between households and family business (Felder-Kuzu, 2004). S.Sundaresan agrees that microfinance is a provision of financial services – savings, loans and insurance – to the people with small income, emphasising that these services should be for the reasonable price (Sundaresan ed., 2008). J. Fairbourne, S.W. Gibson and W.G. Dyer define position of microfinance in the spectrum of relief and economic development work between *microcredit* and *microenterprise* development, which is followed by development of *microenterprises and microfranchising* (Fairbourne et al., 2007). Summarising the above mentioned definitions, the author can define microfinance as a provision of formal basic financial services – savings, loans and insurance – at low-cost in small amounts to the households and microenterprises with small income, using intermediation of formal self-sustainable microfinance institutions. At the same time financial intermediation may be broaden by social intermediation.

Big number of microfinance definitions can be caused by constant evolution of microfinance principles, which is shown in Figure 1 (developed by the Author based on (Ledgerwood, 1999; Daley-Harris, 2009; Robinson, 2003; Yunus and Jolis, 2007)).

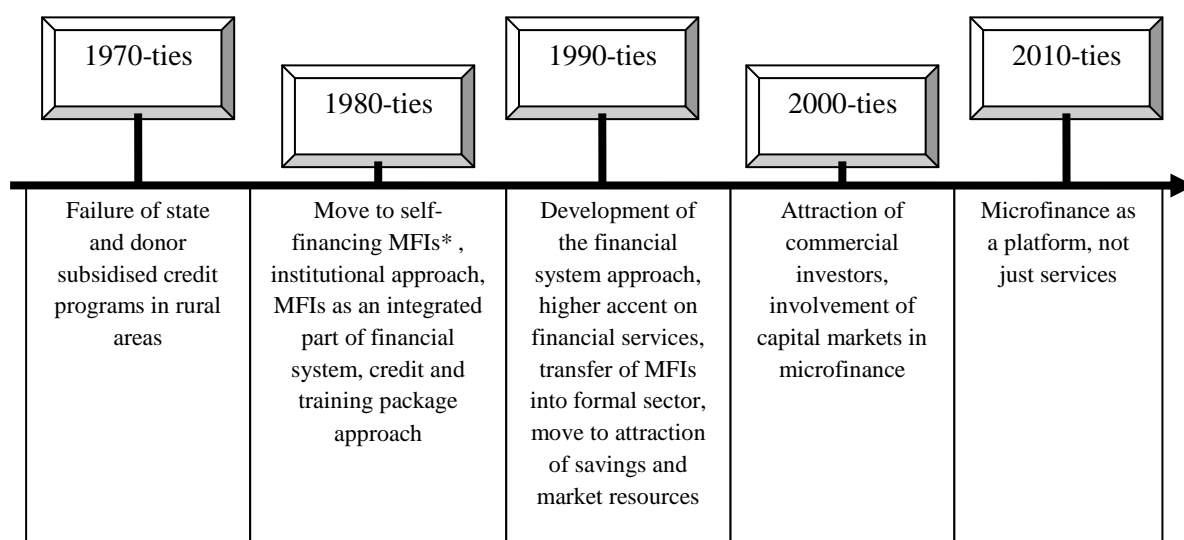


Figure 1. Evolution of microfinance in 1970 – 2010 (*MFIs – microfinance institutions)

In 1970-ties governments believed, that poor people needed cheap loans, and together with donor institutions subsidised microloans and interest rates. In 1980-ties this model was highly criticised for being non-productive – clients did not see motivation to repay their loans. A new approach based on market

principles was needed. Microfinance started to be treated as an integrated part of existing financial systems, stressing self-sustainability of microfinance institutions. Microfinance continued its high-speed development, but still could not satisfy needs for loans of all poor people in the world. Starting from 1990-ties microfinance institutions moved into formal sector of financial market in order to attract savings and investments from capital markets (Ledgerwood, 1999) (Hulme and Arun, 2009). The latest approach in microfinance evolution treats microfinance not just as a service, but as a platform, facilitating provision of services and goods to low-income clients (Daley-Harris, 2009). Today microfinance is broadly used in politics, emphasising its highly valuable moral and social goals. At the same time its operation becomes more and more commercialised and standardised (Hannig, 1999). It became obvious, that success story of microfinance institutions in one country may not fit traditions and life conditions of other countries. T.Shabbir compares microfinance with plants, that plants from hot countries do not grow well in colder climate². That is why in each case of launching microfinance services regional peculiarities should be taken into account. Deep analysis of existing supply of financial services, potential demand for microfinance, state economical situation and development policies can help to choose the best form of microfinance institution to operate in definite region. In this paper the Author uses the macroeconomic approach suggested by World Bank specialists, which places microfinance in the overall context of a country. Figure 2 shows the structured scheme of state contextual analysis for Latvian conditions (developed by the Author based on (Ledgerwood (1999))).

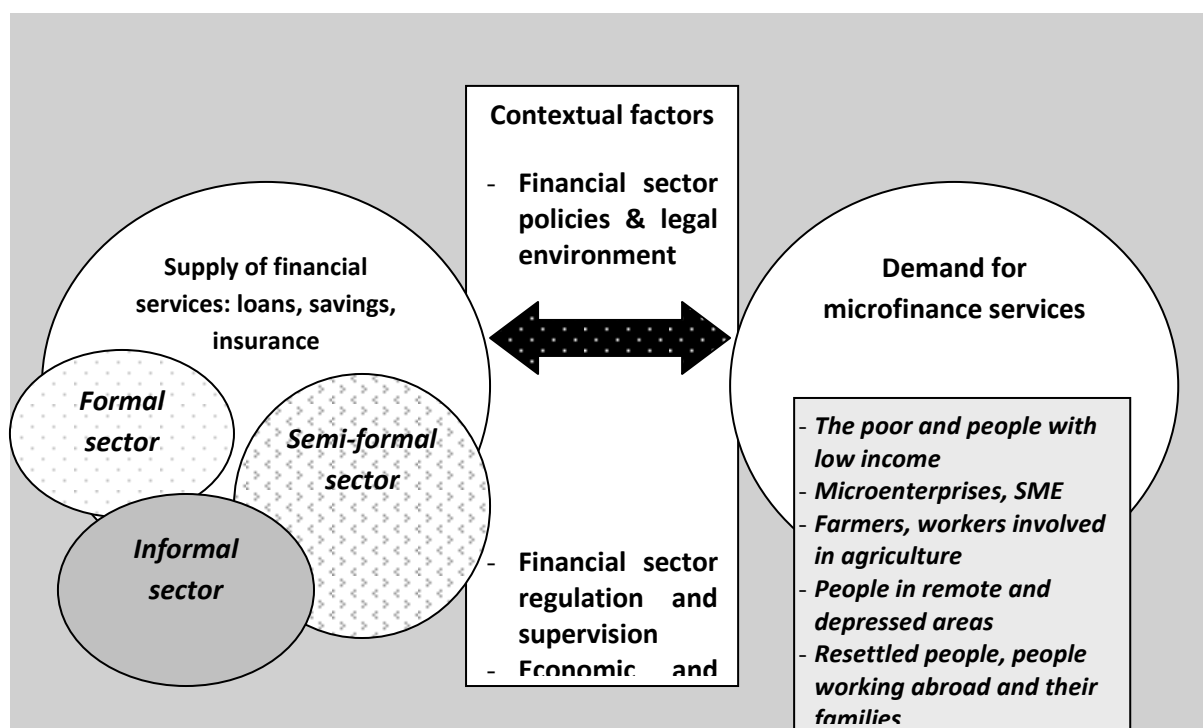


Figure 2. Analysis of potential demand for microfinance services: State Contextual Approach

Potential supply of microfinance services in Latvia

Definition of microfinance emphasises the formal status of microfinance institutions. They should be chartered by the government and are subject to banking regulations and supervision. The formal status allows microfinance institutions to attract savings and broaden range of their services. Semi-formal and informal sectors indicate existence of unbankable people and demand for microfinance services in the country (Ledgerwood, 1999).

Savings, loans and insurance are the key microfinance services. The data of Commission on Finance and Capital Markets (CFCM) shows that at the end of 2010 in Latvia 29 banks and branches of foreign banks, 3 life insurance companies and 9 non-life insurance companies, 34 SCUs, 16 investment management

² Shabbir, T. (cited) (2011), "American Offshoots: WILL Microfinance Ever Really Take Root in the U.S.?", available at: <http://knowledge.wharton.upenn.edu/article.cfm?articleid=2797> (viewed: 28 June 2011)

companies, 37 investment funds, 7 pensions funds and 10 state funded pension scheme asset managers were operating (CFCM, 2010). Semi-formal sector in Latvia is represented by leasing, factoring and credit companies. These organisations are not under supervision of CFCM, there are no strictly defined requirements for their establishing. Their main operation is mostly connected with provision of different types of loans. Unfortunately there is no official data about this sector. At the end of 2010, 11 lease companies (8 of them were united by Association of Leasing Companies of Latvia (ALCL)), and 32 credit companies promoted their services at lending portals³. But the total number of credit companies in the country unofficially was valued already around 2164. The big number of semi-formal lending institutions in Latvia indicates that there are still unbankable people, who cannot receive necessary services in the bank.

Banks, SCUs, lease and credit companies are oriented to lending services. Insurance companies occupy rather unshared niche and willingly provide insurance services in cooperation with banks or SCUs. Only banks and SCUs are eligible to attract savings from their clients, competing with possibilities provided by investment companies and funds. Households with small income are not well acquainted with possibilities of long-term investments or are not able to invest long-term. They give preference to short-term or medium-term savings or investments in their own micro and small enterprises. From this point of view, only banks and SCUs potentially may become leading microfinance institutions in the country, providing basic microfinance services.

Operational principles of banks and SCUs are radically different. Banks are interested in shareholders' value and profit maximisation and are not interested to serve unbankable people. During the economic boom profit-oriented companies did their best to get maximum profit from short-term situation, being broadly involved in subprime lending. Subprime lending should not be mixed with provision of loans to low-income households. The main difference is in risk control. In the first case companies are involved in high-risk deal, in the second case – risks are mitigated via social collateral or special lending program. M.Yunus said, that poor people guarantee their loans with their lives, as they are extremely dependable on further lending opportunities and are afraid not to repay loan in time (Yunus and Jolis, 2007). With the first signs of crisis banks stopped lending, asked to repay loans before term, increased interest rates, as a result earned high critics and mistrust from public. Loans became available only for the limited number of well-situated clients. SCUs are working on totally different operating principles. SCUs are cooperative institutions, which are oriented on provision of safe financial services on reasonable price to their members, and not just to profit maximisation. Members of SCUs are owners, rulers and clients of their financial cooperatives. They define services, membership and prices themselves, offering better services and prices to members (Jerving et al. (ed.), 1994). Difference in operating principles caused also different operating trends during economic boom and crisis periods. Dynamics of operation of different types of financial and credit institutions in 2005-2010 is shown in figures No.3-5: operating statistics of banks; lease and factoring companies; and SCUs (developed by the Author based on statistical data 2005-2010 of CFCM and Latvian Association of Cooperative SCUs (LACSCU)).

Figure 3 shows that during the years 2005-2010 the number of banks and branches of foreign banks in Latvia has grown from 23 up to 29. Total assets continued to grow until 2008, starting with 10 943 MLVL in 2005 and achieving 23 243 MLVL in 2008. Then total banking assets decreased till 21 678 MLVL in 2009, but in 2010 again started to grow - 21 967 MLVL. Banking outstanding loans were growing during economic boom period from 6 960 MLVL in 2005 till 16 589 MLVL in 2008. Affected by deep financial crisis banks strongly diminished lending, and volume of outstanding loans decreased down to 14 334 MLVL in 2010. At the same time volume of attracted savings was constantly growing and achieved 10 179 MLVL in 2007, then in 2009 decreased till 9 550 MLVL and started to grow again, achieving 11 111 MLVL in 2010. Total capital and reserves did not show significant fluctuation, staying close to 1 600 MLVL. Main trends in banking sector cannot be positively evaluated. In the growing phase of economy banks were extremely active in lending, causing overheating of the economy. But when their assistance became the most needed – to support economy in recession period – it was not extremely profitable for banks anymore and they kept distance position. Situation, when savings are growing, but lending is going down, shows that there is something wrong in the economy of the country, money is collected but not used for the growing purpose, money is not working.

³ <http://www.kreditiem.lv> (viewed: 10 February 2011)

⁴ „Beidzot sāk sakārtot nebanku kredīta tirgu”, available at: <http://www.credit.lv/krediti/beidzot-sak-sakartot-nebanku-kreditu-tirgu/> (viewed: 10 February 2011)

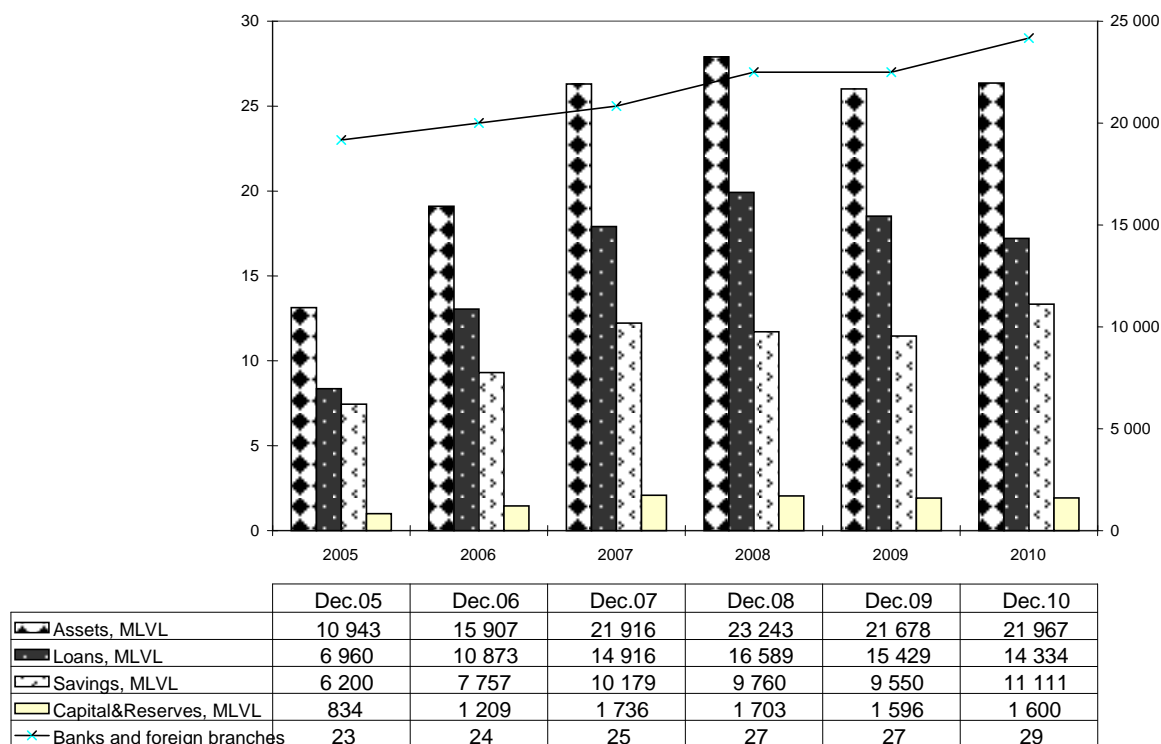


Figure 3. Operation statistics of banks and branches of foreign banks in Latvia, 2005-2010

The same situation can be viewed in leasing and factoring business. Figure 4 shows, that, based on data provided by ALCL, leasing companies stopped to finance new purchases at all and lease portfolio has diminished from 1 640,9 MLVL in 2008 till 874,7 MLVL in 2010, almost achieving the result of 2005 – 619,5 MLVL in lease portfolio.

Operation of SCUs (see Figure 5) was rather conservative but stable during the whole 6-year period – both in economic boom and crisis phases. Number of SCUs in Latvia is rather constant – 34 SCUs. At the end of 2010, SCUs network united 25,52 thousands members, 11,68 MLVL in total assets, 8,59 MLVL in outstanding loans, 9,70 MLVL in attracted savings and shares. These amounts are rather insignificant in comparison with banking sector: total assets of SCUs are equal only to 0,05% of total banking assets. But SCU members because of some reasons do not use bank services, and mentioned amounts could stay out of economic processes in the country. SCUs provide services only to the local people and their accumulated resources are called the national capital, which is linked to the definite region or organisation. SCUs with their conservative policy, social goals, not-for-profit principle and risk aversion could survive during the crisis and showed low correlation between their operation results and macroeconomic situation, causing less and smaller shocks to their members. SCUs are the only institutions among above mentioned ones, which showed stable growth both in attraction of savings and provision of loans during 2005-2010.

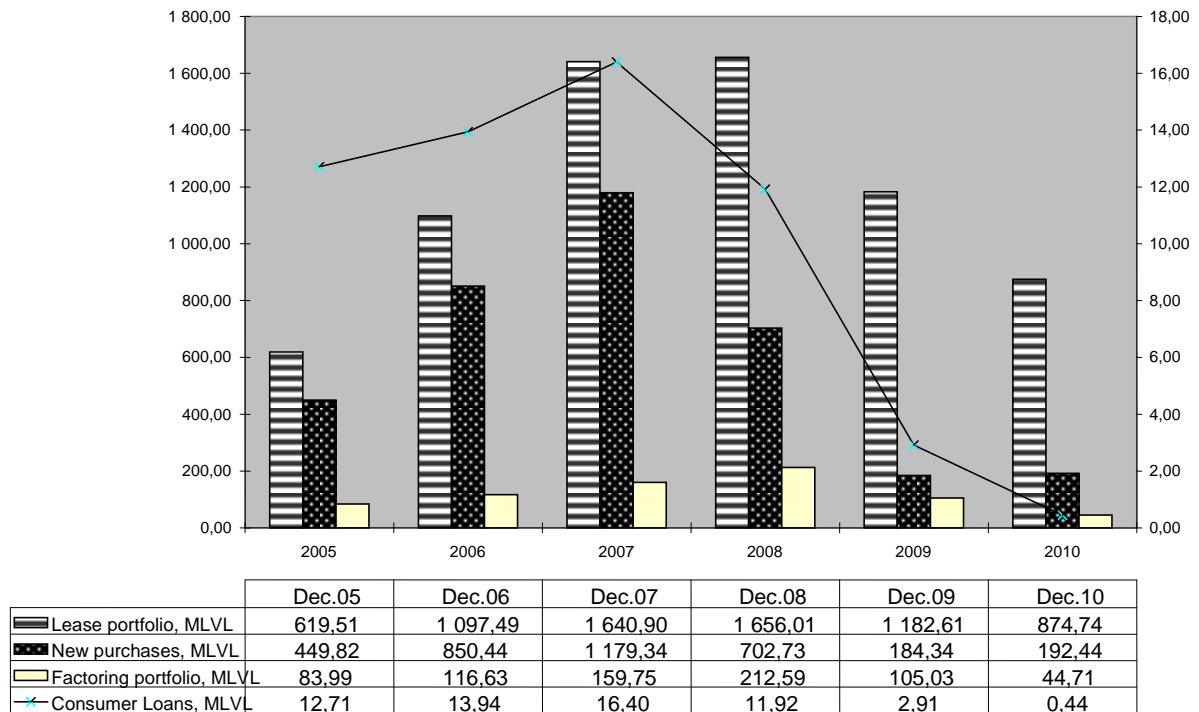


Figure 4. Operation statistics of members of Latvian Association of Leasing Companies, 2005-2010

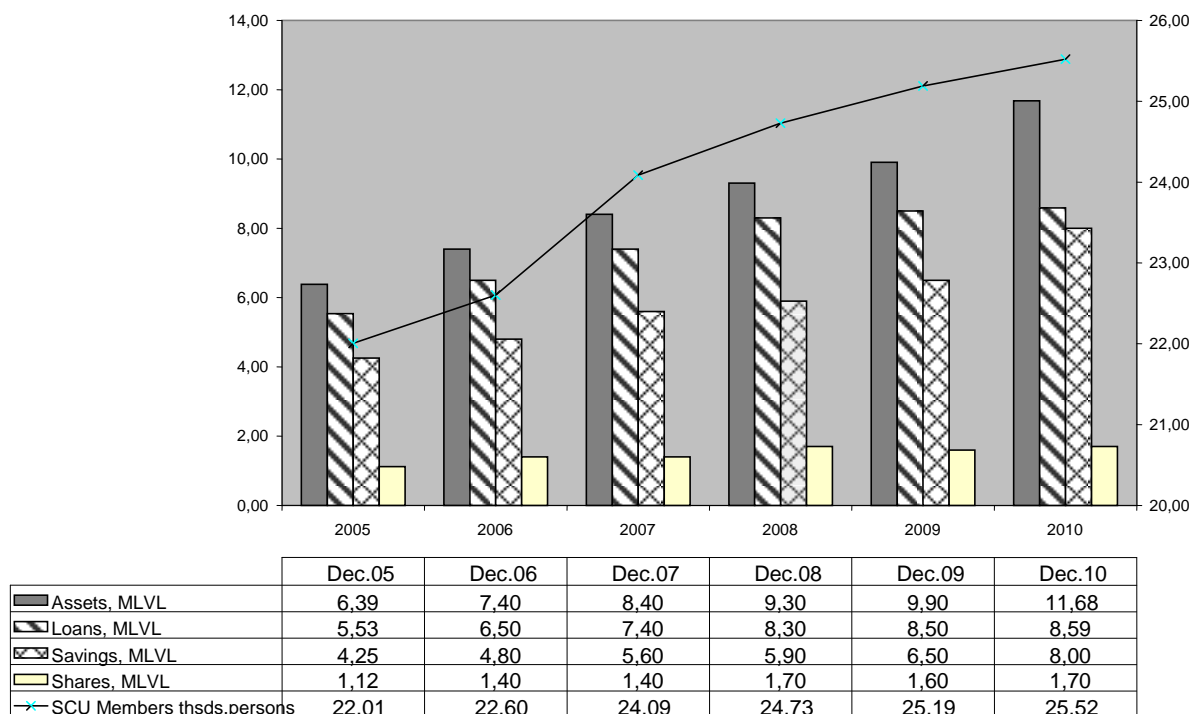


Figure 5. Operation statistics of SCUs in Latvia, 2005-2010

Figures 3-5 show that it is not enough for the economic growth, when only for-profit institutions are ruling the financial market. There is a definite need for stable formal alternative institution or network of institutions, which can provide the same financial services but based on different operating principles, social goals and values. In Latvian case SCUs can serve as a good alternative to banks and occupy microfinance niche on the financial and capital market. SCUs usually provide services to individuals in small amounts for

consumption or micro business needs. Very often it is difficult to distinguish, is it consumption or productive loan. Big SCUs provide also mortgage loans to their members. The hottest competition between banks, credit companies and SCUs is directly in lending for consumption needs.

Analysing consumer lending interest rates offered by banks, SCUs and credit companies in their web sites or lending portals, SCUs survey, the author has found out the following information:

- banks provide consumer loans from 100 LVL up to 8000 LVL for the period 3-60 months, interest rates from 16% up to 30%, service fee 1-5% from loan amount;
- SCUs provide consumer loans from 5 LVL up to 5000 LVL for the period up to 60 months, interest rates 15% - 36%, service fee 0,3% - 4% from loan amount;
- credit companies provide consumer loans from 50 up to 1000 LVL for the period 2 weeks – 24 months, interest rates 25% - 937%5.

Savings opportunities again are different in Latvian banks and SCUs. At the end of 2010 – beginning of 2011, banks offered interest rates for savings and term deposits from 0,05% (savings account on demand) per year up to 4,06% (5-years deposit). Banks follow the principle – longer the period better the rate. But people with low income are mostly interested in savings of rather small amount for a short period – up to 2 years, as they may need this money for definite purposes. SCUs offer annual interest rates for savings and deposits minimum 0,25% for saving accounts on demand up to 10% for term deposits. SCUs do not have high administrative costs and can offer much better rates for attracted capital than other credit and financial institutions⁶.

Analysis of interest rates shows that credit companies cannot be qualified as microfinance institutions, because their provided interest rates cannot be treated as reasonable ones for clients. Banks and SCUs provide rather similar savings and lending terms and conditions, but there is still an open question – how far banks are ready to work with households and microenterprises with low income, if it is not profitable for banks. One more problem – banks do not know their clients so well, as all of them are more or less random people. It causes additional costs related to the analysis of the clients. At the same time SCUs know their members very well, membership provides opportunity of social collateral and mutual cooperation. SCUs are organised not just for profit, but for serving their members. In the author's opinion, at this moment SCUs are the best option to become the key microfinance institutions in Latvia.

Potential demand for microfinance services in Latvia

Potential microfinance clients are poor people, households with low income, micro and small enterprises, farmers and seasonal agriculture workers, self-employed people, labour emigrants, whose families stay in Latvia. The latest available statistics of EU 27 countries shows, that in 2009 16.3% of the EU population were assessed to be at-risk-of -poverty, but in Latvia this rate was the highest one – 25,7%. Each fourth person in Latvia was at risk of poverty. Latvia showed also the highest income inequality rate in EU - 7,3. Latvian elder people lived on 60% less income than other people in the country. 40% of Latvian inhabitants suffered from material deprivation and 22% were severely deprived. All these rates were calculated based on income after social transfers!⁷ Recovery from crisis is very slow and difficult, and it deepens social problems in the country. Eurobarometer data shows that 89% of Latvian inhabitants are sure, that poverty in Latvia is broadly represented (Eurobarometer 2009). Sharp social problems demand urgent use of relief and development tools and ensure broad niche for microfinance services in Latvia.

⁵ Developed by the Author based on: http://www.kreditiem.lv/lv/privatpersonam/paterina_kredits/, <http://www.opencredit.lv/lv/opencredit-atrais-kredits>, <http://www.crediton.lv/gada-procentu-likme>, <http://www.icredit.lv>, <http://www.atraiskredits.lv/pakalpojumucenas/>, <http://www.credit24.lv>, <http://www.vivus.lv>, <http://www.ferratum.lv>, <http://www.goldcredit.lv> (viewed: 10 February 2011); SCUs survey results

⁶ Developed by the Author based on: <http://www.dzks.lv/?q=noguldijumi>, <http://www.citadele.lv/lv/private/deposits/>, <http://www.dnbnord.lv/lv/private>, <http://www.dnbnord.lv/lv/private/>, <http://www.nordea.lv/Privatpersonam/Uzkrājumi+un+investīcijas/67672.html>, <http://www.norvik.lv/lv/private/deposits/>, <http://www.seb.lv/lv/private/services/investments/>, http://www.swedbank.lv/pakalp/pr_4.php (viewed: 02-16 February 2011); SCUs survey results (SCU Ligatnes draiva, Nitaures SCU, Metalurgu SCI, Pures SCU, Rundales SCU, Veselavas SCU, Zosenu SCU)

⁷ „Community Statistics on Income and Life Conditions, 2009”, available at: http://eeurostat.ec.europa.eu/statistics_explained/index.php/Living_conditions_statistics (viewed: 15 March 2011)

The analysis of regulation and state policies in Latvia

Financial and credit sector in Latvia is strongly regulated and controlled by separate independent bodies. The roles of CFCM and Bank of Latvia are highly important, but at the same time both institutions are not able to totally control all the processes on the market. Such a passive behaviour of regulators has partly caused deep financial and economic crisis in the country and both institutions have deserved high critics from politicians and society. But overall legislative basis in financial sector of Latvia is developed in accordance with EU directives and is considered to be stable and well-developed. Banks, SCUs, insurance companies, investment companies and funds are under supervision and regulation of CFCM. All these institutions are considered to be the formal ones. Unfortunately microfinance and microfinance institution are not defined in Latvian legislative acts yet. Microfinance is mostly used in the context of EU special programs – lending of microfinance funds for microenterprises and self-employed people.

At the same time inhabitants' wellbeing and social protection are included in Latvian state policies and could be found in all strategic documents developed by the government since Latvia regained its independence. Short historical overview of state developed strategic documents shows, that the same problems and goals are mentioned from year to year. „Evaluation of Opportunities of Economic Development of Latvia” (Ministry of Economics of RL, 1999), „Latvian Long-term Economic Strategy” (Cabinet of Ministers of the RL, 2001), „United Economic Strategy” (Project of Ministry of Economics of RL, 2004), “Latvian National Lisbon Program 2005-2008” (Ministry of Economics of RL, 2005), „Latvian Growth Model: a Human at the first Place” (Saeima, 2005), “Latvian National Development Plan 2007-2013” (Saeima, 2006), „Informative report on directions of economical recovery in the middle term” (Ministry of Economics of RL, 2009), „Latvian Sustainable Development Strategy till 2030” (Saeima, 2010) – all these documents continuously indicate necessity for development of civic society, fostering economic growth and social protection through diminishing regional and social disproportions, stimulation of business activities and development of small and medium business, growth of middle class, decrease of poverty and social exclusion, stimulation of employment and self-employment, availability of financial resources for business, development of rural areas, development of social capital and increase of quality of human life, cooperation between public, non-government and private sectors. Time is passing by, but social problems stay the same from year to year. Lack of positive results in solution of social problems may be caused by insufficient efforts or funds, wrong or inefficient tools. At this moment microfinance is not included in any of state policies or strategies as a tool to solve poverty and social exclusion. Political support is extremely needed to achieve the broad use of microfinance in the country. SCUs with their independent mutual-help approach, social goals and low-income clientele already work in the fields mentioned in state strategic documents, but still their potential is not fully recognised and evaluated by the state.

SCU essence and operation principles

SCU is a group of people who join together to pool their savings and make loans to each other at reasonable rates of interest. The group also aims to educate its members on the wise use of money so they can improve their lives. To make the process easier, the group maintains a business structure – a cooperative – which functions as an intermediary between savers and borrowers. The members of the group own and control the organisation (Jerving et al (ed.), 1994). History of SCUs usually is connected with operation of credit cooperatives in Europe in the end of 19th century – beginning of 20th century. Despite the name, credit cooperatives were active in savings attraction, they were established in rural and urban areas and helped their members to survive in difficult times, educated them in savings and borrowing culture, were linked to the local society and got broaden support from philanthropists, politicians and church. Today credit cooperatives continue their operation all around the world and demand for their services is proved by 150 years of successful operation (Caprio and Vittas, 1997). SCUs main goal is not profit maximisation, but provision of safe qualitative services to their members on reasonable price. SCUs promote education of their members and high social responsibility (Jerving et al. (ed.), 1994), (Witzeling (ed.) 1993). SCUs membership usually is defined by SCU Law and is based on territory, employment or interest unity principle (Latvian Law on SCUs).

In Latvia, SCUs serve mostly individuals within the definite membership. The Latvian Law on SCUs 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. To start a SCU in Latvia at least 20 members and 2000 LVL in share capital are needed (Latvian Law on SCUs). This amount is affordable and does not limit SCU establishing opportunities. SCUs accumulate members resources in savings and shares, then lend out to the members for definite purposes. The ideal way of financial operation

is when cooperative institution is self-sufficient and can operate only with internal resources of its members. It means that 80-95% of SCUs funds should be lent out to the members, and attracted savings should be 55-70% of total funds of the SCUs (LACSCU). But very often SCUs are forced to attract external funds from banks to satisfy demand for loans. Traditionally SCUs play highly important role in regional development, in case if they are supported by local self-governments, inhabitants and enterprises. Usually SCU is established by local initiative group and from the beginning gets positive attitude from local people as their own local entity. At the same time development of regional SCU can be fostered by local officials, positioning SCU as a local financial and social centre. The author shows potential position of SCU in a regional community in Figure 6, (Mavrenko, 2002). SCU can unite the three parts – inhabitants, self-governments with their special funds and programs, and local business as employers and investors. Involvement of all three parts in the development of their region can help to fulfil government plans in regional development, diminishing of regional disproportions, promotion of inclusive and participatory finance, decrease of poverty and social exclusion via affordable and safe access to financial services.

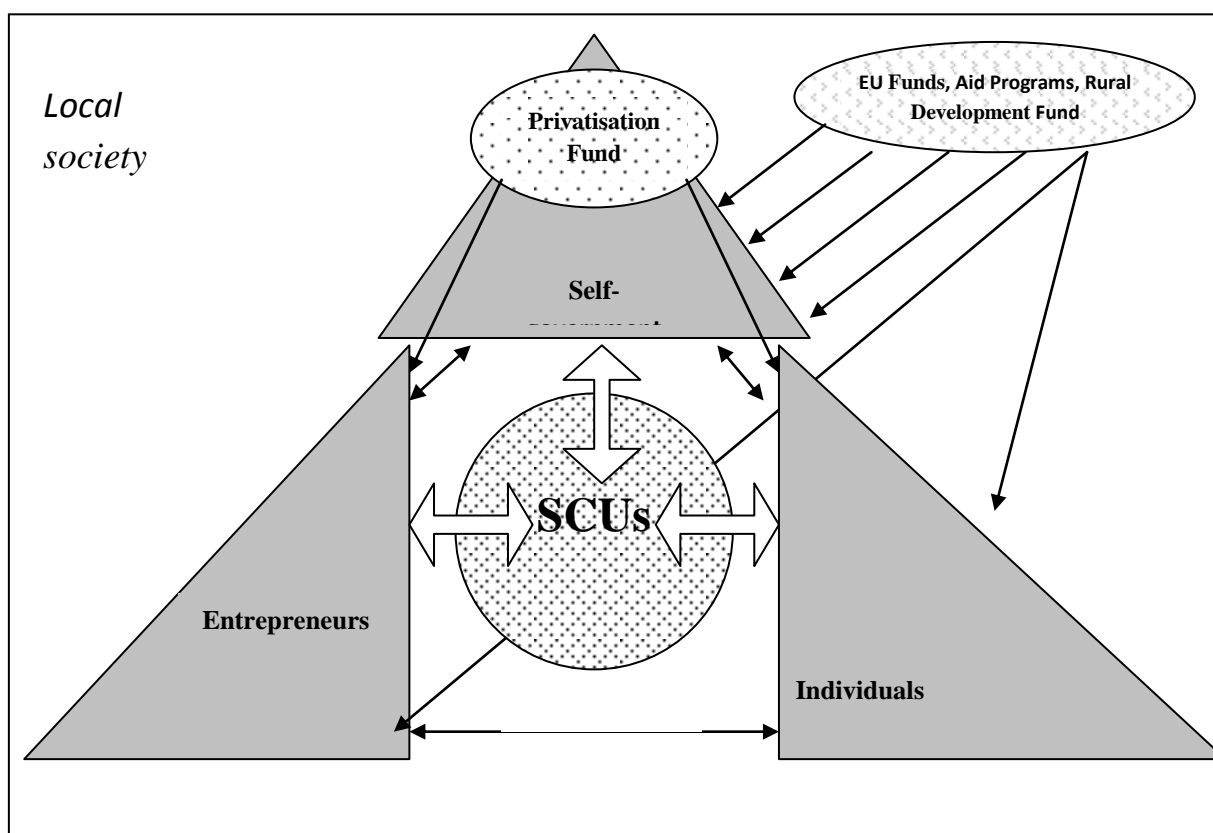


Figure 6. SCUs relationship with local society

Operation of SCUs in Latvia

Despite positive development dynamics of SCUs in Latvia in 2005-2010 (see Figure 5), the impact of the existing SCUs on the economy of Latvia in absolute numbers is rather insignificant. There is a huge potential in SCUs, but still big work should be done to strengthen and broaden SCUs network in the country. Fast growth is possible only in case if SCUs will be formally approved to be the key microfinance institutions in the country and will get strong political support as a tool to combat poverty and social inequality. Thirty from thirty four SCUs are members of LACSCU. There are only two types of membership represented in Latvian network of SCUs – interest unity and territory basis (see Table 1).

Table 1

Operation Statistics of SCUs – LACSCU members, LVL, 31.12.2010 (LACSCU)

No	SCU	Members	Assets	Loans	Shares	Reserves	Savings	P/L
SCUs based on interest unity principle								
1	LTFJA KKS "Jurnieku forums" (Seamen SCU)	2 474	4 863 588	3 362 334	541 300	262 530	3 789 767	43 433
2	KKS "Dzelzcelnieks KS" (Railroad SCU)	12 394	4 047 432	3 016 794	631 595	176 134	2 829 562	81 629
3	Metalurgu KKS (Metallurgist SCU)	635	228 599	167 968	49 150	7 241	157 720	-1 561
4	KKS "Dzese pluss"	198	157 641	156 155	55 541	2 545	18 000	1 165
4	KKS "LAKRS KS"	569	127 127	95 025	23 465	5 238	83 726	-2 496
6	KS "Skolu KS" (Teachers SCU)	891	80 964	55 518	8 663	5 224	68 878	-603
7	LPNA KKS	1 327	38 658	6 727	26 735	2 680	5 366	11 717
8	LVSADA KKS	285	32 370	26 776	11 590	1 324	17 346	-280
	Subtotal (SCUs based on interest principle):	18 773	9 576 379	6 887 297	1 348 039	462 916	6 970 365	133 004
	% from Total	74	83	81	81	83	88	84
SCUs based on territory principle								
1	KKS "Allazu saime"	657	463 999	403 489	40 595	18 023	202 636	24 643
2	Kauguru KKS	600	287 453	237 169	17 490	13 917	75 740	-2 422
3	Kandavas novada KKS	509	178 709	132 394	24 740	2 680	108 609	1 210
4	Zosenu KKS	439	174 269	113 229	20 424	10 868	80 401	-916
5	KKS "Ligatnes druva"	396	163 099	135 076	24 340	9 534	86 850	-1 407
6	Pures KKS	451	149 936	116 293	21 150	70	107 303	-2 339
7	KKS "Avots 37"	126	109 038	90 048	16 960	-	85 779	-
8	Taurenes KKS	466	84 473	75 973	19 395	4 082	31 859	381
9	Raunas KKS	287	80 576	61 659	23 970	-	23 881	6 889
10	Punu KKS	374	45 109	44 560	5 690	20 090	2 900	4 764
11	Veselavas KKS	177	42 735	31 916	14 400	859	25 250	1 662
12	Vecpiebalgas KKS	230	36 177	31 426	6 370	2 300	23 210	-702
13	Nitares KKS	198	33 177	32 354	7 870	3 096	14 272	-1 366
14	Lielvardes KKS	240	31 246	25 938	11 410	562	19 886	-3 911
15	Straupes KKS	120	26 593	23 279	9 570	1 438	12 661	848
16	Rundales KKS	224	25 546	19 889	4 560	689	17 830	1 033
17	Vecumnieku KKS	313	23 576	20 953	4 940	0	20 597	-1 697
18	Cesu KKS	181	22 935	22 660	12 536	1 086	8 290	95
19	Rujienas KKS	390	22 736	22 736	5 880	1 507	10 437	-1 817
20	KS "Rucavas KS"	208	13 196	9 669	10 093	-	5 200	-402
21	KKS "Nigrande"	73	7 820	6 875	2 670	425	2 415	24
22	KKS "Skilbeni"	91	6 395	5 240	2 910	1 371	259	18
	Subtotal (SCUs based on territory principle):	6 750	2 028 793	1 662 825	307 963	92 597	966 265	24 588
	% from Total	26	17	19	19	17	12	16
	Total LACSCU SCUs	25 523	11 605 172	8 550 122	1 656 002	555 513	7 936 630	157 592

There is an obvious disproportion in development of SCUs inside the network. 8 interest unity-based SCUs represent 74% of the total membership, 83% of total assets, 81% of total outstanding loans and total shares, 83% of total reserves and 88% of total savings. 22 territory-based SCUs represent only 26% of the total membership of the network, 17% of total assets and total reserves, 19% of total outstanding loans and total share capital, 12% of total savings. The first group of SCUs is mostly represented by trade union SCUs, including two the biggest ones in the network – Seamen and Railroad SCUs in Riga; the second group is represented mostly by rural SCUs. Big difference in size, location, membership peculiarities, growth strategies and future potential development – all these factors do not let Latvian SCUs to get really united, in the result each SCU is mostly working on its own, and role of LACSCU is rather weak and just formal. The biggest SCU by assets is Seamen SCU with 4,8 MLVL, the smallest one – KKS Skilbeni with only 6395 LVL in assets. 14 from 30 SCUs have closed the year 2010 with losses. The author has calculated that in order to be self-sufficient, to work full-time and without losses, SCU should have at least 500 000 LVL in outstanding loans. In this case SCU will be able to keep 4 full-time employees, pay market price for the rent of premises, acquire its own equipment and software, and afford marketing and employee training. As it is shown in Table 1, only two – the biggest ones SCUs – are able to fulfil this minimum requirement. Other SCUs have to cut costs. Usually they are open just 1 or 2 days a week, benefit from support of the uniting organisation or self-government, for example, use their premises, equipment, labour force at low or with no costs.

The author has developed SWOT analysis of Latvian SCU network, based on information received from LACSCU and SCU members' survey, which is shown in Table 2.

Table 2

SWOT Analysis of Latvian SCUs, December 2010

External Environment	
Opportunities	Threats
<ul style="list-style-type: none"> - Political and financial support to microfinance all around the world - Strong global SCUs network - Strong lobby of SCUs on international level - Separate law on SCUs in Latvia - Constant search for new tools in combating social problems - EU is promoting and financing Microfinance activities - European Investment Fund is providing financing to Microfinance development - State strategic development documents include necessity for solving social problems, development of social capital, development of Microenterprises 	<ul style="list-style-type: none"> - There is no strong support to Microfinance and Social Economy among Latvian politicians - There is a difficult economic and social situation in Latvia - Strong lobby of banks in the country - Society is oriented to profit maximisation and development of cooperative organisations is not popular anymore - SCUs are not included in state strategic documents as a tool to combat social problems and foster development of micro enterprises - Broad emigration opportunities, which more motivate people to go abroad than to organise cooperatives - SCUs are not members of interbank payment system and can do payments only with bank intermediation
Internal Environment	
Strengths	Weaknesses
<ul style="list-style-type: none"> - Latvian SCU network has long history, constant growth trend since re-establishing of the network in 1995, good reputation - Latvian Association of Cooperative SCUs unites 30 SCUs from 34, represents most of the network - SCUs are regulated by Commission on Financial and Capital Market - Savings in SCUs are guaranteed by the state - WOCCU and International Development Desjardins institutional development and technical assistance projects were implemented in Latvia, providing support and training for staff, elected bodies 	<ul style="list-style-type: none"> - Latvian SCUs network is not homogenous, there are 2 big SCUs and 32 small SCUs - Trade Union- based SCUs and rural SCUs are not able to put and move forward common goals, as their work volumes and development goals are extremely different - There is no one strong leader in Latvian SCUs who could be followed by most number of SCUs - 14 SCUs from ACSCU members finished the year 2010 with losses - SCU network is so different by members, that at this moment it was not possible to launch a uniting

and members of the SCUs	<p>Central SCU</p> <ul style="list-style-type: none"> - Poor SCU marketing - There is rather slow growth in SCUs membership and assets, SCUs are poor in growth-oriented planning - SCUs are not fully self-sufficient and need to cut costs because of low income, usually cuts affect marketing, training and representation - Low technical basis - There was no possibility so far to introduce debit and credit cards to SCUs' member
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Latvian SCUs have good opportunities to strengthen their positions and be involved in microfinance, as also network has enough strength to be a serious player on financial market. Still broad political support is needed to foster development of SCUs network all around the country. SCUs need to grow faster, plan higher growth and become self-sufficient as soon as possible. In the author's opinion all mentioned threats and weaknesses can be diminished if SCUs will get serious support from government, self-governments and other uniting organisations, as also put their own efforts in pro-growth planning and marketing.

Results of SCU members' survey

First time LACSCU evaluated income of SCU members in 2002. Results of the survey 2002 showed that monthly net income per family member was very low. 64.1% respondents indicated monthly net income less than 100 LVL per family member. 39.9% with monthly net income 50-70 LVL were already living at poverty line. 30.9% members indicated monthly net income 101-300 LVL per family member, 1% showed more than 301 LVL, 4% of respondents preferred not to indicate their income in the survey (LACSCU survey 2002). Results of the author's survey conducted in July-December 2010 show that income level of SCU members is growing. In 2010 only 8% of respondent indicated monthly net income less than 100 LVL per family member; 64% showed 101-300 LVL, 27% - more than 301 LVL, 1% did not answer the question. Income level of SCU members is growing, but in comparison with 2002, costs of life became higher and still these amounts are considered to be at the survival minimum level. SCUs were and are still serving people with low income and can be treated as real microfinance institutions.

The results of Survey 2010 helped the author to get and understand the profile of SCU members and main trends inside the SCU network. Families involved in SCU network are closely linked to their SCUs. 22% respondents have more than 1 SCU member in the family, at the same time 75% respondents are the only SCU members in their families, and they use SCU services for the needs of the whole family. 11% of respondents live alone, 33% live in families of two people, and 54% live in families of three and more people. 32% respondents have children, 11% - pensioners, 47% are working people, 4% need to take care about other family member. SCU first of all is associated with borrowing opportunities for 14% of respondents, with savings opportunities – for 2% of respondents, both borrowing and savings opportunities – for 17%, emergency help in hard time – for 22%, 10% of respondents treat their SCU as their own bank, 7% - as a members' organisation, 1% is sure that SCU is a people-oriented organisation. 62% of respondents first time got information about SCU from membership defining organisations – self-governments, initiative groups and trade unions, while 26% of respondents have got to know about SCU from their friends, and only 1% of respondents have got information about SCUs from advertisement. As a reason to join SCU 64% of respondents mentioned necessity to borrow for consumption needs, 2% wanted to borrow for entrepreneurship needs, 9% of respondents wanted to start savings, 8% wanted to be socially active, 8% believed in cooperation values, 1% wanted to receive salary to account in SCU. As the main reason why they have chosen SCU, not other credit institution or financial organisation, 26% of respondents mentioned mistrust to banks, 12% liked that SCU is situated close to their place of work or living, for 25% it was important that they are personally acquainted with SCU employees and elected bodies, 18% appreciated the opportunity to be involved in SCU decision-making, 4% find interest rates in SCU more profitable, 6% liked the quality of services, 1% felt strongly related to the membership of SCU. 68% members as a priority use consumer credit opportunities, 2% - mortgage loans, 17% - savings opportunities, 6% - consultations, 2% - other services, 2% have salary account in SCU. At the same time 55% of respondents have no idea what kind of other services they would like to have at SCU. In the closest future 9% of respondents were going to borrow, 2% - both borrow and save, 11% - just save, 2% would like to use debit and credit cards, 15% will continue to use already existing services, 2% would like to get mortgage loan, 1% would like to use internet bank. Satisfaction ratio with SCU services was very high. 88% of respondents were totally satisfied with

lending services in their SCUs, 91% was satisfied with lending process, 87% were satisfied with loan amount, 90% were satisfied with loan repayment procedure, 92% liked the working style of SCU employees, 91% was satisfied with availability of information about their SCUs services, 64% of respondents were satisfied with savings opportunities in SCU (36% did not use yet this service). Traditionally SCU members need funds for improvement of their life conditions. 2% of respondents needed funds for agriculture purposes, 32% - for construction, purchasing or maintenance of dwelling, 30% - purchasing of furniture, equipment, PC or car, 1% - to pay for facilities, 9% - to pay for studies, 8% - for travelling, 3% for family events and 9% for medical services. 29% of respondents would like to borrow for the above mentioned needs, 18% - to save for these purposes, 22% - both to save and to borrow, 27% - still do not know how to finance their needs, 4% do not need anything in the closest future. As additional SCU services 27% respondents would like to get insurance services, 26% - credit and debit cards, 27% - financial consultations. Summarising the survey results, it can be said that SCU members are family people with low income, who are interested to use financial services, but mistrust banks and prefer to use services at "their own banks" – SCUs. They like to be involved in SCU decision-making, they want to be socially active, to improve their living conditions, spending funds in change, purchasing or maintenance of dwelling, buying necessary equipment, paying for travelling, studies and medical services. They feel safe and trust their SCU, highly evaluate quality of SCU services. They are not interested only to borrow; they like to save for definite purposes or use both possibilities – save and borrow. SCU members are also interested to use insurance and financial consultancies. SCU members are active clients, who know what they want and they are definite in their choice – to use SCU services. This is valuable information for SCUs. They should continue the work they do, keep the same high standards of services, but simultaneously be more active in marketing their services, developing special products and providing their members with additional training and consultations. To foster development of SCUs in Latvia, the big work should be done on three levels – macro or national, mezo or self-governments, micro or SCU level. Only joint work on all three levels will give positive and sustainable results.

Key conclusions and suggestion

The author has made the following key conclusions:

Microfinance is a development tool, which promotes provision of safe basic financial services – loans, savings and insurance – by formal financial institution at reasonable price to households or micro and small enterprises with low or unstable income.

Microfinance institution should be self-sufficient and socially-oriented at the same time.

SCU is the best option to become a microfinance institution in the country because it is a formal institution, serves definite membership with low income, accumulates the so called "national capital" and lend it inside the country; is socially oriented and promotes mutual help, participatory and inclusive financial principles.

The Latvian SCU network is stable, but not homogeneous, it hides huge potential, which is still not fully recognised and used.

The Latvian SCUs are operating on their own, but more coordinated pro-growth development is needed.

The SCUs members use their services because of big trust to SCUs, deep believe in cooperative values and high satisfaction with SCU services.

If strong support will not be provided to SCUs on macro, mezo and micro level, SCUs will continue their operations in the current level and will not achieve significant changes in economy and social development of the country.

The author provides the following suggestions for the further development of SCUs as microfinance institutions in Latvia:

Microfinance as a development tool should be included in the state strategic documents and legal acts.

The Latvian SCUs should be legally recognised to be microfinance institutions and necessary corrections should be made in the state strategic documents and legal acts.

Self-governments should support SCUs operating on their territories with official positioning of SCUs as local financial and social centres.

Self-governments should continue to support their SCUs with provision of premises, equipment, and workforce until SCUs will become self-sufficient institutions.

Association of Cooperative Savings and Credit Unions should be more active in promotion of SCUs in the country, develop SCUs network's development plan, how the network will expand in the next years.

SCUs should develop pro-growth plans and enforce their marketing activities to grow faster and become self-sufficient.

SCU network should attract EU funds for microfinance needs in the country.

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