

КРЕДИТ УСТОЙЧИВОГО РАЗВИТИЯ: МЕСТНЫЕ СООБЩЕСТВА, РАЦИОНАЛЬНОСТЬ И ЭКОНОМИЧЕСКАЯ ПОЛИТИКА

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Как показал обзор последних исследований в области устойчивого местного развития сквозь призму проблемы финансовой инклюзии, существует пробел в охвате проблематики разработки кредитных продуктов для населения в контексте гармонизации интересов всех акторов системы потребительского кредитования. Рассматриваемый в качестве инструмента финансовой инклюзии, кредит устойчивого развития, согласно авторской концепции, должен в первую очередь подразумевать разработку и внедрение в банковскую практику новых рациональных кредитных продуктов, соответствующих рациональным практик потребительского кредитования. Предложена теоретическая модель устойчивого потребительского кредитования, в качестве необходимого институционального элемента которой предлагается вовлечение местных сообществ. При этом рациональный потребительский кредит рассматривается как неотъемлемая характеристика данной модели. Обосновано, что экономическая политика на региональном и местном уровнях должна быть направлена на согласование интересов заёмщиков и кредиторов как непосредственных участников системы потребительского кредитования с целями и задачами устойчивого социально-экономического развития территорий их проживания. Малые монопромышленные города Российской Федерации предлагается рассматривать в качестве площадок для внедрения и воспроизводства, при поддержке со стороны органов региональной власти и местного самоуправления, практик устойчивого потребительского кредитования.

Ключевые слова: *потребительское кредитование; устойчивое развитие; финансовая инклюзия; местные сообщества; рациональность; институты; региональная и муниципальная экономическая политика.*

SUSTAINABLE CONSUMER LENDING: LOCAL COMMUNITIES, RATIONALITY, AND ECONOMIC POLICY

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As recent studies on issues related to sustainable local development in context of financial inclusion have shown, a research gap exists showing the lack of attention to retail product and service development aimed at harmonization of interests among all the parties involved in consumer lending system. Discussed in terms of financial inclusion,

sustainable consumer lending is proposed to start with development and introduction of new, rational, consumer loans and credit practices. A sustainable consumer lending model is suggested as involving, in institutional perspective, local communities as its essential element, rational consumer loan being considered as a feature of the model. Regional and municipal economic policies aimed at alignment of the interests of borrowers and lenders, along with sustainable territorial development priorities, are proposed to induce community-oriented product development in retail banking. Small mono-industrial towns of the Russian Federation are viewed as the testing areas for regional or municipal authorities to support practical implementation and replication of such sustainable practices.

Keywords: *consumer lending; sustainable development; financial inclusion; local communities; rationality; institutions; regional and municipal economic policy.*

JEL: *G21, G28, R51.*

Introduction

Consequences of credit boom, growing competition in a consumer loan market, increasing society demand for socially responsible financial services to eliminate disparities and improve social efficiency of consumer lending, in particular (*Shafirov, 2013a; 2013c*), confirm relevance and topicality of research related to differences of group of borrowers and their interests.

New consumer loan products development and implementation are the usual subject for studies on banking and finance. As a rule, the focus is on interactions between a lender (financial intermediary) and a borrower (individual) in the credit process (see for example *Friexas and Rochet, 1999*). Credit risks, including those both of the lender and of the borrower, are studied primarily in the context of different designs of credit agreements, and transaction costs related to the lending process – completing and servicing a loan by the lender – and to liabilities that are to be fulfilled by the borrower.

Looking for ways to reduce their own credit risks, along with expenses, lenders, in the process of product development, generally do not consider it important to focus on issues related to financial inclusion, especially of the poor, low-income, and disadvantaged people. As a result, other things being equal, part of the population, in particular those who live in remote rural areas and depressed territories, often have difficulties in accessing affordable and available credit. Certain types of loans may be high-cost because of their territorial remoteness or lack of necessary documents (*Demirguc-Kunt and Klapper, 2012*).

In our previous paper (*Shafirov, 2014b*) selected works on the issues of possibilities for harmonizing interests of consumer lending system participants through product development were analyzed. The article provided a review of literature on microfinance, relationship banking, social banking, community banking, and group lending practices in context of achieving financial sustainability by both borrowers and lenders having their interests harmonized with those of sustainable territorial development. Discussed in the context of financial inclusion, these practices are generally associated with opportunities for different social groups, especially low- and medium-income ones, to get involved in mainstream banking. Having all the above dimensions taken separately covered by existing literature, the research gap was identified, showing the lack of attention to retail product and service development aimed at harmonization of interests of consumer lending system participants (*Shafirov, 2014b*).

In the present paper, we suggest a sustainable consumer lending model to be viewed in institutional perspective as involving local communities as its essential element, rational consumer loan being considered as a feature of the model. Economic policy aimed at alignment of the interests of borrowers and lenders, along with sustainable territorial development priorities, is proposed to induce community-oriented product development in retail banking.

Consumer purpose loan as a tool for financial inclusion

Is important to note that conceptions of consumer lending reviewed in (*Shafirov, 2014b*), generally focus on the interests of the key parties involved in the credit relations, namely, lender's and borrower's ones. As a rule, social or community interests are taken into account indirectly. When engaging of low-income and socially vulnerable groups in credit activities, researchers appeal for the interests of "society as a whole" including weakening of discrimination, equalization of rights and opportunities for citizens. However, research findings are misrepresented by the fact that personal features and constraints are not taken into account.

Thus, on the one hand non-purpose short-term unsecured loans, provided by banks and microfinance institutions to the Russian households, fit for the poor, low- and medium income groups, improving their access to credit or financial inclusion. But on the other hand excessively high interest rates, combined with the lack of transparency of accrual of interest for financially illiterate people, cause, in turn, excessively high debt burden, make the loan a predatory loan, and forcing the borrower to apply for credit again in order to pay previously incurred liabilities and obligations. At that, purposes and ways borrowed resources are spent generally remain unharmonized with those of borrowing households' well-being in a long-term perspective.

Financial inclusion of that kind would at best raise current consumption of the household (eventually leading to its reduction as a consequence of the requirement to repay the loan borrowed and the interest accrued thereon); at worst – it would promote conspicuous consumption and irrational spending, i.e., borrowed resources wasting.

Evidence from Russian consumer lending market suggests that borrowed resources are used by households primarily for non-investment spending: about 80 percent of new loans today are taken out to pay old debts. Date of first delinquency is now nearly twice sooner, compared with year and a half ago (*Noskova, 2014*).

In turn, achieving true financial inclusion rather should start with the development and introduction of new consumer loans and credit practices. These should include purpose consumer loans designed for different types of borrowers classified by income levels. An essential requirement is that loan purpose, that is ways of spending borrowed resources, should be at least harmonized with interests of the local communities related to sustainable development. If otherwise, one can assume that increased access to consumer credit will benefit only those borrowers who is well-aware of his own interests and understands its rationality. The rest of the borrowers are likely to experience serious negative effects of injudicious lending (*Shafirov, 2013a; 2013c*).

Sustainable lending model: the role of local communities

Recently, research of the local communities and their important role in financial system became subjects of study. Evidence suggests that in the USA, so-called "community banks" have been grown fast since 1984 (*Federal Deposit Insurance Corporation, 2012*). Instead, in Russia the reduction of small local (regional) banks is observed, accompanied with the federal banks' branch network expansion (*Rodnina, 2014*). However, in our opinion, this tendency cannot be regarded as an impediment to the joint participation of lenders and community leaders in new consumer lending products development. To substantiate this assumption, large banks' potential capability to develop relationship banking, proven, for example, in (*Uchida, Udell and Yamori, 2008; de la Torre, Pería and Schmukler, 2010*), can be considered.

Considering increasing role of local communities, it seems appropriate to view them as full-fledged participants in the sustainable consumer lending system (see for instance *Volchik, Shafirov and Oganessian, 2013; Shafirov and Oganessian, 2013b*).

In this context, a new model for the interaction between the participants of consumer lending process is suggested (see Figure 1). This model implies that local communities will become an immediate participant of the consumer lending process, fulfilling both the organizing and regulatory functions to observe interests of citizens which are to be harmonized with those of sustainable local development.

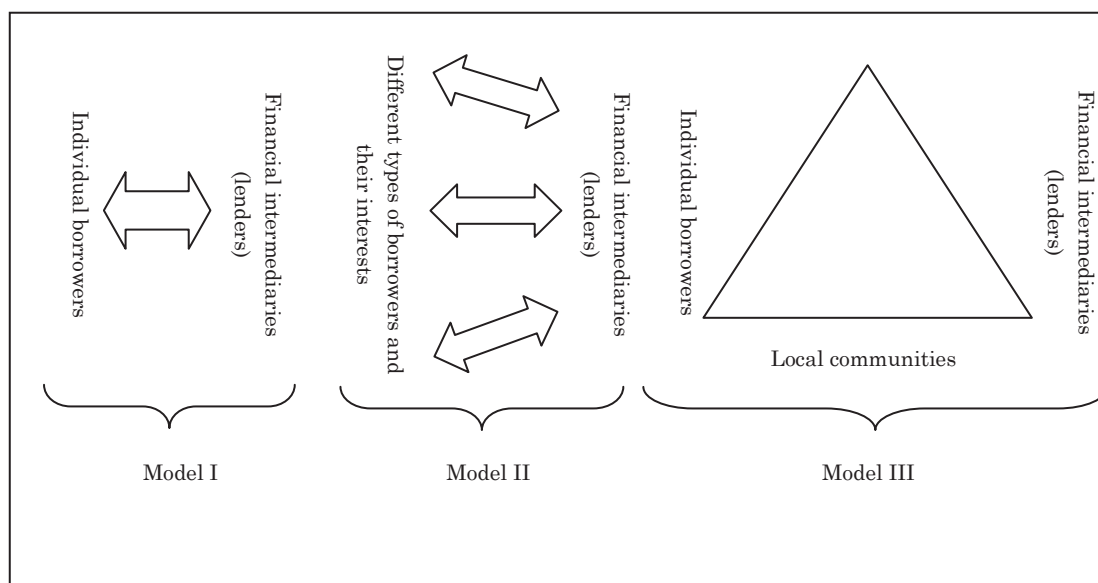


Figure 1. Three models of interaction between the participants in consumer lending process (theoretical aspect).

Source: (Shafirov, 2014b).

The first model refers to the «traditional» view of interactions between the lender and the borrower, focusing mainly on terms of the loan agreement and its possible financial consequences related to credit risks estimation for the parties involved. The second model reflects inclusive, socially-oriented, “relationship” lending, group lending, and other similar lending schemes. Under this model, in addition to the direct interests of the lenders seeking increase in consumer loans sales with the maximum profit, lenders are supposed to take into account the external and long-term effects caused by lending, including influence of the ways borrowed resources are spent, on borrower’s and lender’s financial position. The third model, in turn, is supposed to include local communities as an additional full-fledged actor of the consumer lending system. At that, an important role of local communities is to contribute to reduction of lending and borrowing risks, by reducing information asymmetry between the parties involved, ensuring that best interests of the individual borrowers or borrowing households are protected, individual borrowers’ interests being harmonized with those of local sustainable development.

The described model of lending process implies harmonization of interests of all three sides involved. For the local communities, sustainable development is a major priority for harmonizing the interests of its members. Despite different interpretations of sustainable development (see for instance *Peterson, 2008*), as well as related concepts, including ecological economics (measuring the contribution of four types of capital: natural, economic, social, and human), the Genuine Progress Indicator (GPI, positioned as an alternative to GDP), and the “ecological footprint” (measuring the biological power needed to maintain the community's lifestyle), the healthy environment, prosperous economy and social well-being are defined as the priorities for sustainable communities (*Power, 2004*).

It is an institutional perspective, however, which treats essential to work out accommodation among citizens with different interests (*Bromley, 1997 [Op. cit.: Schmid, P. 4]*). In this way, the very notion of sustainable lending in the context of local development is suggested to be initially associated with the harmonization of the interests of communities’ members.

According to the author’s concept, the local communities’ interests related to sustainable development, are quite consistent with the perspectives of sustainable consumer lending products development and implementation. In terms of sustainable

lending, we suggest a notion of rational consumer loan¹, rationality being considered as a feature of a sustainable loan. In two next sections, characteristics of rational loan will be discussed in more detail.

Institutionalized rationality as the underlying principle for sustainable lending practices

Problem of rational consumer behavior influenced by the social context initially refers to original institutionalist tradition (*Veblen, 1984; Bush, 1987*). While in neoclassical economics one must separate the context of socialization from the context of choice, institutionalist tradition treats economic rationality as socially and culturally determined (*Mirowski, 2013. P. 76*).

In turn, household consumption patterns influence credit behavior. Thus, lending and borrowing behavior are subject to institutional analytical framework to the extent in which results of credit activities are influenced or determined by beliefs and habits underlying existing institutions. As noted by A. Schmidt, "Individuals stick to certain customs even if costly because of their emotional commitment and self-identity" (*Schmid, 2004. P. 8*).

Both rationality in praxeological sense (*Mises, 2000*) and instrumental notion of rationality focus on the means appropriate for achieving the goals, with goals and purposes of economic activity left aside (*Koslowski, 2000*). However, institutionalist tradition, namely, that of historical school, had initially presumed to include actors' purposes into the scope of economic analysis (*Ibid*).

Rationality viewing as the behavioral assumption, of voluntary individual economic choice between the given alternatives to provide better satisfaction at the least possible cost, can serve as an argument virtually justifying so-called "predatory", "asocial" lending practices.

From the perspectives of the borrower's behavioral motives, the key qualitative characteristic of credit behavior is the desire to meet the current needs, to overcome current financial pledge at the expense of future earnings, on the basis of his own perception of rationality. In fact, however, striving to meet the immediate needs may have nothing to do with the priorities of long-term sustainable development. As T. Veblen had shown, «serviceability» might actually be consistent with waste» (*Mirowski, 2013*).

Besides, ways of spending that are considered as appropriate and rational for the person who belongs to a certain social group or community, taking into account correspondence between the person's income and the purpose of spending, can be inappropriate and irrational for the person who belongs to another social group or community.

In this way, the very notion of sustainable rational lending closely tied with the borrower's expenditures financed by the borrowed money, in so far as these irrational expenditures can potentially cause negative effects, resulting in social and economic plight for households: risks of over-indebtedness, threats to local (territorial) development and risks for overall economic system via significant change of consumption patterns towards rejections of the investments or satisfying basic needs but towards consumption more fashionable imported goods.

To develop an analogy with J. Commons' definition of an institution as a collective action constraining, liberating, and expanding individual action, it is reasonable to treat an institution as "collective rationality aimed at achieving, individual rationality" (*Mirowski, 2013*). Viewing institutions as order of community functioning which serves particular purposes of its members (*Schmoller, 1920. P. 61 [Op. cit.: Yefimov, 2013]*), we can suggest the term "institutionalized rationality" to

¹ Examples of rational consumer loans include: education loans used to pay for the expenses related to knowledge, skills and abilities required for working in local businesses; home improvement loans used to pay for home-related expenses (such as buying a home, gas central heating and insulation services); agricultural development loans for any purposes connected with agriculture, horticulture, market gardening; loans for collective purchasing (group buying) of fuel, clothes, and essentials; loans to pay for medical services, etc. (*Shafirov, 2013b; 2013d*).

describe a form of rationality which emphasizes that decision-making process should be aimed at long-term financial sustainability of the parties involved, not just to ensure need satisfaction in short-term perspective². At that, replication of best practices demonstrated by members of the community, by other potential borrowers can serve as a factor stimulating endogenous behavioral change.

Necessity of shifting the research focus of economic theory from an “individual” toward a “citizen” as a member of certain communities, with his or her interests, rights and liabilities, is argued by V. Yefimov (*Yefimov, 2013*). According to G. Hodgson, it is unacceptable to treat an individual as a passive maximizer of “given” utility function who mechanically reacts under exogenous preferences between “given” alternatives (*Hodgson, 2013*). Meanwhile, the concept of given preferences neglects the possibility of development, implementation, and active promotion of the same alternatives.

For the potential borrowers, thereby, availability and affordability of credit products and services tailored as harmonized with the goals of both borrowing households’ and local communities’ sustainable development, is an important context of rationality as a feature of sustainable lending and borrowing practices.

It seems reasonable, in the light of the aforesaid, to suggest a set of principles to be to be regarded as key points in understanding the concept of institutionalized rationality³ as the underlying principle for sustainable lending practices (*Shafirov and Oganessian, 2013b*):

- viewing preferences as endogenous implies importance of learning processes, relevant information acquisition, and its interpretation by the parties involved (including not only financial and legal literacy level improving, but as well measures aimed at promotion and replication of successful sustainable credit practices);

- analyzing the borrower’s creditworthiness as involving expected flows of incomes and expenses, estimation of assets and liabilities;

- positive effects of externalized benefits of credit practices on local development;
- arguments for government regulatory measures to be implemented by regional and municipal authorities for involving and harmonizing the interests of local banking community, entrepreneurial community, consumers’ community and regional and municipal authorities (*Shafirov, 2013d*);

- orientation of financial intermediaries toward positive impact of their lending activity on well-being of different social groups of borrowers through creation and active promotion of alternative – sustainable – loan products and credit practices.

The latter includes creation of rules promoting rational spending of borrowed resources, their institutionalization through habituation among local communities’ members, and further replication. We consider rational strategies of credit behavior of individual borrowers to be based on principles of sustainable lending and borrowing. Such consumer credit should be regarded as financial source for local sustainable development (*Shafirov and Oganessian, 2013b; 2013e; Shafirov, 2014a*). Thus, *rational credit practices are those which are more likely to have a positive impact on sustainable local development.*

² The origins of the concept, in our view, are rooted in the old institutionalist tradition, according to which socio-economic system is not just a mechanic sum of utility/profit maximizing agents, but a result of agents’ interaction, in which harmonization of individual benefit with the goals related to socio-economic development should become an imperative. J. Commons pointed out that economics, proceeding from the principle of scarce resources, examines the process of individual and society’s welfare increase due to the best proportion of limiting and complementary factors combined – as a result of mutual services rendered by different classes to each other (*Commons, 2011. P. 385*).

³ One should note that it is a focus on local community benefit that distinguishes between the concept of institutionalized rationality and that of bounded rationality (*Simon, 1978*). While the latter focuses on individual maximizing behavior under fundamental uncertainty and cognitive restrictions, institutionalized rationality as a behavioral assumption emphasizes economic choice not in terms of expected utility maximizing individual, but with an accent on citizen’s decisions perceived in context of rights and liabilities resulting from repeated transactions. In turn, within the concept of adaptive rationality suggested by V. Volchik (*Volchik and Zotova, 2013*), seeking to choose the best variant is not even implied by the acting person, as this variant cannot be determined depending on other social or economic exchanges. As compared to the latter, concept of institutionalized rationality presupposes that the “best variant” is to be looked for, promoting the decision-making favorable for all community members in terms of sustainable development principles (including interests of the parties directly involved, aligned with the interests of other beneficiaries) (for more detail, see *Shafirov and Oganessian, 2013b*).

Rational loan as an element for sustainable consumer lending

In connection with the foregoing, one can conclude that financial intermediaries might use lending potential more intensively if designing and supplying new consumer loan products and credit practices. These, if harmonized, in terms and purposes, with the interests of local communities, can be transformed into the financial source of sustainable local development.

Previously we suggested (*Shafirov, 2013b*), that negative or positive effect of consumer lending depends on the households' motives for involvement in borrowing, procedures and purposes associated with using borrowed money, as well as price and non-price terms of the loan, and transaction costs related to the loan contract.

Consumer loan can be treated as having features of irrational, from both households' welfare and local sustainable development perspectives, if it is characterized at least by one of the features listed below:

1) price and non-price terms of consumer loans (including transaction costs) are worse than the market average in the borrower's territory of residence (non-marketability of loan terms);

2) households do not use borrowed money received under the loan agreement to cover the expenses related to the acquisition of merit goods⁴, or acquisition of goods, properties and materials necessary meet households' daily requirements (if any) (micro-level irrationality of borrowers' spending caused by lack of relevant information or information asymmetry, or due to social influence⁵);

3) households use borrowed money received under the loan agreement primarily to cover the expenses related to the acquisition of goods, services or works produced outside the region they are living in (meso-level irrationality of borrowers' spending) and/or if households' consumption expenditures do not correspond to the priorities the local sustainable development priorities (defined in accordance with the strategic documents);

4) households use borrowed money received under the loan agreement primarily to cover the expenses related to the acquisition of goods, services or works produced outside the territory of the Russian Federation (macro-level irrationality of borrowers' spending);

5) household uses borrowed money received under the loan agreement to acquire income producing assets (either tangible or intangible), or to cover the expenses ensuring cost-savings in the future, but household's monthly payments on a loan exceed household income or exceed cost savings which had been planned before the loan was taken (loan as an inefficient investment);

6) household's debt burden is the reason that excessively low discretionary income left over is too small to cover the minimum subsistence level (households' over-indebtedness).

Figure 2 illustrates the concept of generation of positive and negative effects of consumer lending depending on rationality of a loan purpose.

If number of households implementing irrational credit practices in a given area, region, or country, is sufficiently large, then the negative effect of such practices, other things being equal, under the influence of negative externalities effect, can spread to other households and to the entire economy.

In this way, the research on institutionalization of rational lending and borrowing principles as the elements of sustainable lending and borrowing, implies not only studying existing lending and borrowing patterns, but as well possible influences on them, – by involving groups of citizens in the rational lending process and transforming consumer loan products to avoid and prevent irrational spending.

Russian depressed mono-towns as the testing areas for implementing pilot sustainable lending programs

According to the planned research, initiating the development and implementation of rational consumer loans, harmonized with the priorities of local

⁴ See (*Musgrave, 1959*).

⁵ See (*Leibenstein, 1993*).

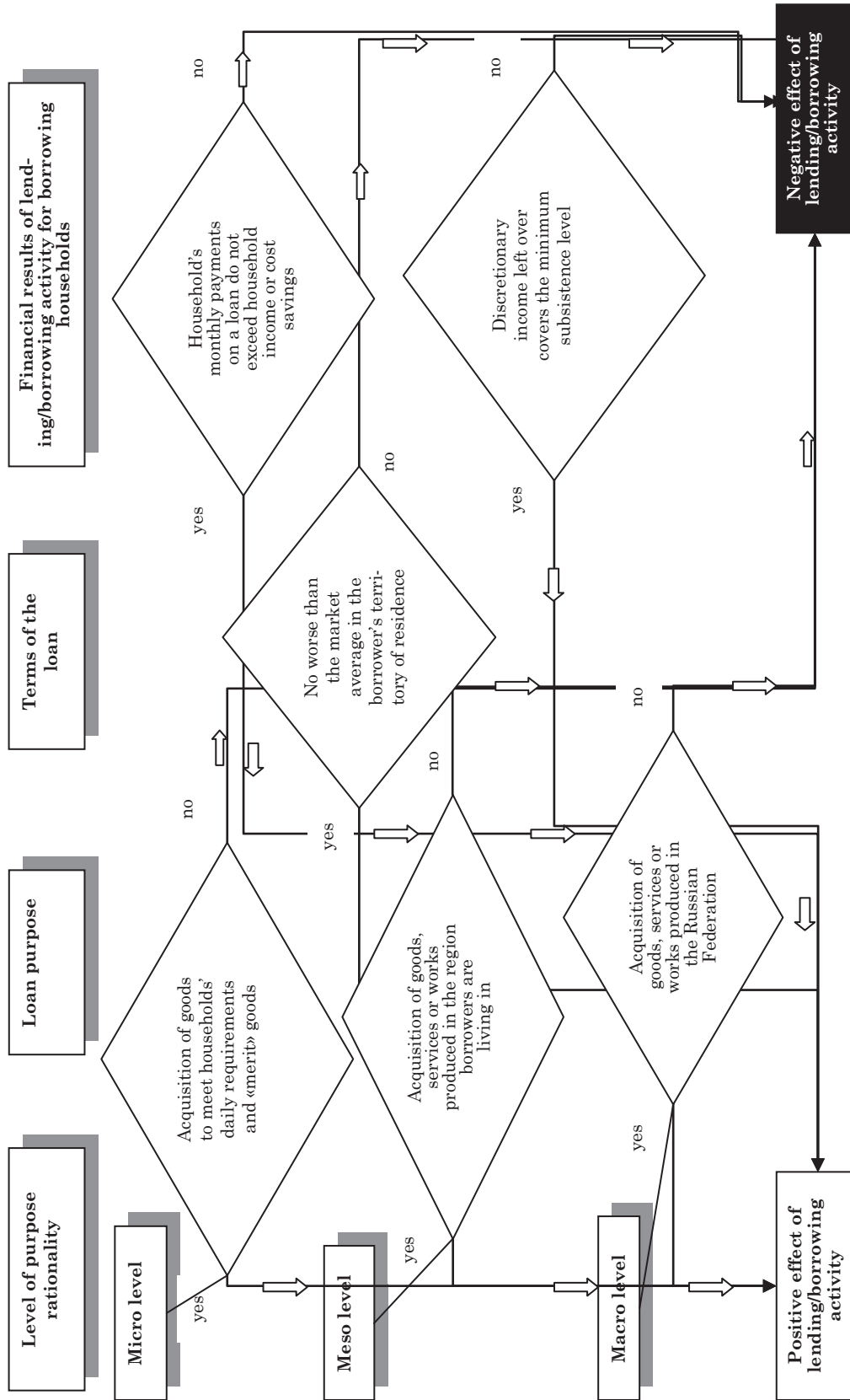


Figure 2. Positive and negative effects of consumer lending caused by rationality of a loan purpose
Source: (Shafirov, 2013b).

sustainable development, is proposed to begin with low-income people, in particular, living in small depressed Russia's monotowns (*Shafirov, 2013b; 2013e; 2014a*). Monotowns residents are to be considered as including certain local communities.

In an earlier paper (*Shafirov, 2013e*) we have argued for existence of the credit potential among the population of small mono-towns of the Russian Federation which can be transformed in the future into consumer demand for the appropriate credit products; in (*Shafirov, 2013b*) preliminary findings shown that the residents of small Russia's mono-towns have the sustainable lending potential related to satisfaction of basic needs in the improvement of their living conditions. In addition, research results of D. Ibragimova (*Ibragimova, 2008*) revealed that more than a third of Russians have borrowing experience.

Research findings on financial behavior of Russians (*Kuzina, 2014*) show that people living in small settlements and remote areas demonstrate the greatest interest in the credit services, as well involvement in borrowing processes. Among them, high level of debt load is revealed⁶: 41 percent of borrowers, having monthly loan payments met, note their discretionary income below the minimum subsistence level for able-bodied citizens, 58 percent of the Russian households consider their own debt burden as excessive (*Ibid*).

Previously we discussed (*Shafirov, 2014a; Shafirov and Oganessian, 2013a*) a number of features related to property and financial status of Russia's small towns residents, with special attention paid to small depressed mono-industrial towns of the Russian Federation, that can be viewed as constraining factors impeding redirection of household spending financed through borrowing from irrational toward rational practices.

In addition, borrowing patterns in Russia's remote areas are largely determined by the imitative consumer model (*Grigoryev and Salmina, 2011. P. 216*) which is, in turn, follows consumption patterns entrenched in big cities and based primarily on the desire to maintain or advance one's social status, stimulated by aggressive advertising, through certain images and symbols (*Radaev, 2005*). These features form the basis for economic behavior, as well as irrational decision-making related to the loan purpose. As a result, over-indebtedness of the residents in Russia's small towns and rural areas occurs.

To activate households' demand for rational loan products (that are lacking features of irrationality), it seems very important to change behavioral norms, which influence, in particular, borrowing patterns. Findings by D. Thatcher, University of Michigan (*Thacher, 2006*) indirectly suggest feasibility of changing embedded borrowing patterns through popularization and replication of the best practices of rational consumer lending. Regional and municipal authorities, being interested in promoting the best practices of rational consumer lending, have necessary financial and information resources at their disposal.

For small mono-industrial towns of the Russian Federation, sustainable lending concept is needed, regional and municipal authorities to develop and implement the concept in assistance with local communities of financial intermediaries, entrepreneurs and consumers. Role of regional and municipal authorities, especially – in depressive areas, under municipal budget deficits, – is to coordinate actions of the participants of consumer lending system, to assist them in acquiring relevant information on price and non-price terms of the loans to make a rational choice. One of the possible directions for regional or municipal authorities is to support practical implementation and replication of such sustainable practices within the testing areas (see for instance experience of demonstration-technological ground in town of Gukovo, Rostov region (*Donchevsky, Shafirov and Ustina, 2013*)).

Economic policies to institutionalize sustainable lending in depressed areas

Designing and implementing elements of institutional policies, particularly by

⁶ The corresponding share of the debt has doubled, reaching 38 percent (*Center for Macroeconomic Research ..., 2013. P. 4*).

the regional and municipal authorities, considering their motivating interests and a possible coordinative role (*Shafirov, 2013d*), it is possible to correct irrational borrowing patterns through implementing pilot sustainable loans to finance households projects in depressed areas.

The concept we should proceed from is that of affordable credit (*Deeming, Collard and Hayes, 2011. P. 12*), defined as one of the key elements of “financial inclusion”, involves both affordability and appropriateness of the loan for people on low and minimum incomes, implying:

- 1) availability of loans, offered by financial intermediaries, specially suited to livelihood needs of the poor, low-income and excluded families;
- 2) adequacy, correspondence of price and non-price terms of the loan with financial abilities of the poor, low-income and excluded families, “feasibility” of debt burden.

It is essential therefore to overcome factors constraining access to credit of the poor, low-income and disadvantaged groups living in depressed areas (*United Nations..., 2008*). Among supply side constraints are:

- doubtful profitability of lending to the low-income groups, high transaction costs related to loan servicing and contract enforcement, high information asymmetry, poor or non-verifiable credit history;
- low stimulus to design new financial products and services to help meet the need of low-income citizens;
- lack of personnel qualifications and motivation to improve it which is likely to result in poor understanding of needs of low-income groups;
- poor geographic coverage, low suitability of existing delivery channels to achieve disadvantaged groups, underdeveloped infrastructure;
- imperfect laws (high capital requirements for banks and other financial intermediaries, etc.).

In turn, demand side constraints are the following:

- need for specific financial services and its price and non-price terms, due to the lack of available consumer goods, caused by specificity of financial and property status (*Shafirov, 2014a; Shafirov and Oganesyan, 2013a*), “imitative” consumption model (*Grigoryev and Salmina, 2011. P. 216*) determining prevalent borrowing behavior patterns;
- characteristics of human capital that cause difficulties in accessing financial services and their use (low levels of financial and legal literacy, difficulties in the interpretation of relevant information resulting in inadequate risks assessment, lack of incentives and motives for personal development, risks of “social default”; factors for self exclusion related to perceptions about complexity of procedures, skills of bank staff, inadequate social status);
- infrastructure constraints, causing difficulties in getting access to financial services provided by banks and other financial intermediaries, as well as to information on the services;
- increased lender's requirements (including minimum credit score requirements, i.e., good credit history, high down payment requirements, collateral requirements etc.);
- imperfect laws (limited range of assets as eligible collateral, other prohibitions and restrictions).

A realistic and practical approach to implementing regional and municipal policies for institutionalizing sustainable lending in depressed mono-towns implies applying strategies to overcome both the supply and demand side constraints listed above to develop and promote rational consumer loans and credit practices.

At that, regional and municipal authorities are to support the implementation of policies aimed at developing and promoting sustainable loans and practices to increase consumer credit availability and affordability for population in depressed mono-towns, as Figure 3 illustrates.

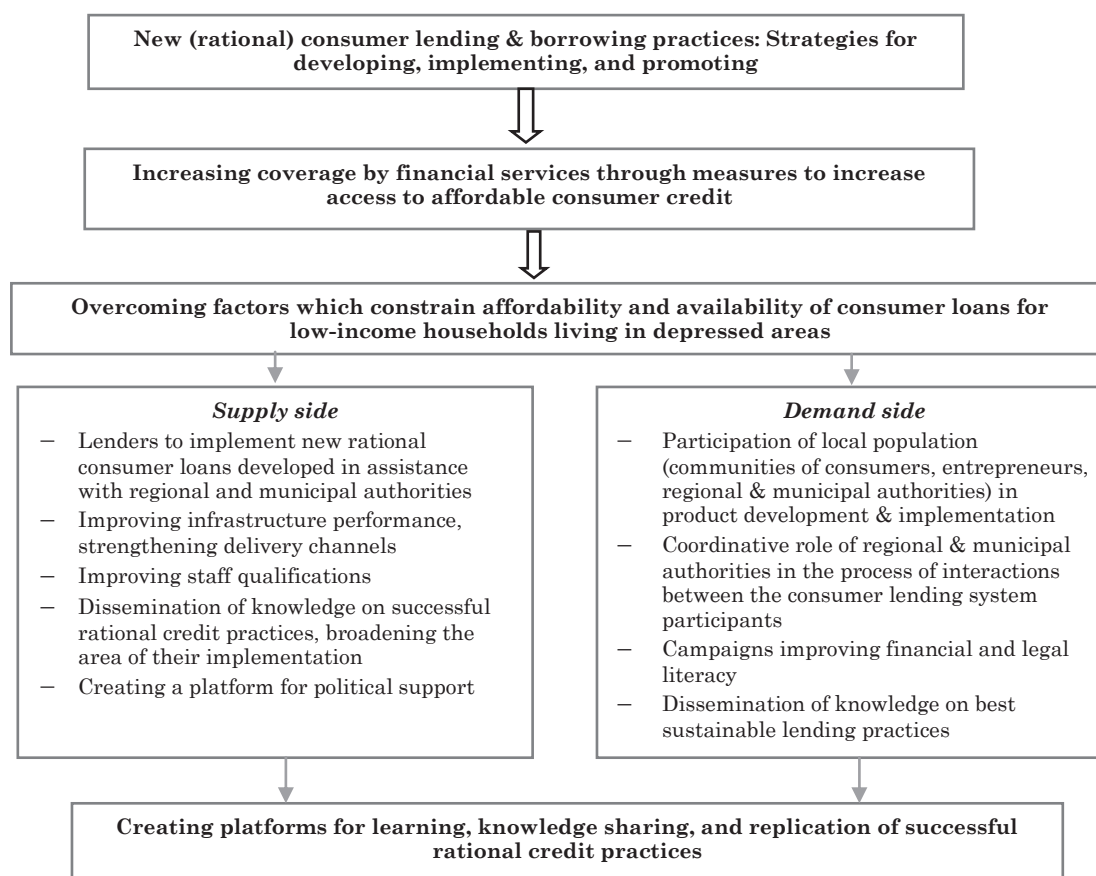


Figure 3. Implementing and promoting sustainable lending: regional and municipal policies

Conclusions and suggestions for future research

The research gap shows the lack of attention of studies on differences of group of borrowers and their interests, to retail product and service development aimed at harmonization of interests of consumer lending system participants. Meanwhile, achieving true financial inclusion should start with the development and introduction of new consumer lending products and practices of sustainable lending and borrowing.

A new model for the interaction between the participants of consumer lending process is suggested, implying local communities to become an immediate participant of the consumer lending process, fulfilling both the organizing and regulatory functions to observe interests of citizens which are to be harmonized with those of sustainable local development.

Rational strategies of credit behavior of individual borrowers, considered as based on principles of sustainable lending and borrowing, should be regarded as financial source for local sustainable development.

Institutionalization of rational lending and borrowing principles as the elements of sustainable lending and borrowing implies altering existing irrational credit practices and transforming consumer loan products to avoid and prevent irrational spending.

Russian mono-industrial towns could be viewed as the testing areas for such projects. Regional or municipal authorities should provide support to practical implementation and replication of such sustainable lending and borrowing practices. At that, both the supply and demand side constraints should be overcome.

It seems reasonable to assume that development, successful implementation and promotion of such rational loans could potentially be viewed as one of the important instruments for sustainable development of borrowers (including their human and social capital) and local communities, suggesting ways to help mono-towns inhabitants overcome chronic poverty⁷ and reduce social tension, increasing both the effectiveness of

⁷ Examples of such programs see for example in (UN-HABITAT, undated).

regional and municipal authorities' activities and the confidence of citizens in their public institutions.

Since there is a lack of studies and official statistics on Russian municipalities concerning households' debt burden, it seems very important to suggest statistical data collection and cross-municipal comparisons as the areas for further research. Furthermore, perspectives on implementing sustainable lending and borrowing practices include identification of institutions (and "working rules" related to them) which impede consumer lending rationalization, in particular, in small depressed mono-industrial towns.

A series of cross-country comparisons which could provide information on levels of overindebtedness and loan purposes can be as much useful. Such studies should be aimed at revealing the influence of lending activity on local economic development and interregional disparities, as well as perspectives of implementation of rational lending and borrowing practices to promote sustainable local economic development in different countries.

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