

CLASSIFICATION **RESTRICTED** **RESTRICTED** STAT

CENTRAL INTELLIGENCE AGENCY REPORT

INFORMATION FROM CD NO.

FOREIGN DOCUMENTS OR RADIO BROADCASTS

COUNTRY USSR DATE OF INFORMATION 1947

SUBJECT Economic - Finance, settlement payments

HOW PUBLISHED Book DATE DIST. 2 MAR 1951

WHERE PUBLISHED Moscow NO. OF PAGES 16

DATE PUBLISHED 1947 SUPPLEMENT TO REPORT NO.

LANGUAGE Russian

THIS DOCUMENT CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF ESPIONAGE ACT 50 U. S. C. 31 AND 32, AS AMENDED. ITS TRANSMISSION OR THE REVELATION OF ITS CONTENTS IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW. REPRODUCTION OF THIS FORM IS PROHIBITED.

THIS IS UNEVALUATED INFORMATION

SOURCE Denezhnoye Obrashcheniye i Kredit SSSR, edited by Z. V. Atlas, and E. Ya. Bregel, Gosfinizdat, 1947, pp 250-274.

CREDIT AND MONETARY POLICIES IN THE USSR:
II. SETTLEMENT PAYMENTS

Organization of Settlement Payments and the Significance of Cashless Settlements

One of the principal tasks of Gosbank (State Bank), according to a directive of the Council of People's Commissars, USSR, dated 20 March 1931, is "to develop a system of settlement payments which will facilitate the production and distribution of goods."

The sale of goods and the rendering of services involve cash settlement payments between socialist enterprises. In addition, enterprises make settlement payments to higher financial organs (the budget, special banks, and Gosbank) through the distribution and redistribution of monetary resources among enterprises and branches of industry.

The principal function of Gosbank as a clearing center consists in the supervision of settlement payments arising from commercial operations between production and supply organizations.

In a socialist economy the six principal tasks involved in the organization of settlement payments are as follows:

1. The insurance of mutual control of economic organizations in matters relating to cost accounting and contract regulations.
2. The assistance of the bank in promoting a more rapid turnover of goods which, in turn, increases the monetary turnover.
3. The anticipation and liquidation of cases of nonpayment which result in the redistribution of turnover capital in a manner not foreseen by the current plan.

CLASSIFICATION **RESTRICTED** **RESTRICTED**

STATE	<input checked="" type="checkbox"/> NAV	<input checked="" type="checkbox"/> NSRB	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ARMY	<input checked="" type="checkbox"/> AIR	<input checked="" type="checkbox"/> FBI	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

RESTRICTED

RESTRICTED

STAT

4. The greatest possible conservation of cash.
5. The acceleration of paper work involved in settlement payments and the conservation of funds necessary for the uninterrupted payment of such obligations.
6. The adaptation of settlement payment techniques to the peculiarities of the various branches of the national economy and characteristic transactions of economic organizations.

Most settlement payments between enterprises are completed without the use of cash. The bank simply credits the account of the creditor and debits the account of the debtor, if the sum involved is more than 1,000 rubles (250 rubles in some cases).

The development of settlement payments without use of cash was made possible as a result of the credit reform which liquidated commercial credit, and established direct relations between banks and individual enterprises.

The higher the proportion of noncash settlements to the total volume of payments, the smaller the amount of actual cash which changes hands, and the greater the control exercised by the bank over economic organizations. It should be noted that noncash settlements are not necessarily nonmonetary settlements. Under noncash settlements, there are placed at the disposal of enterprises funds, which may be utilized by the enterprises for payment by means of transfer, or as cash if the situation seems to warrant it. Noncash settlements are, in effect, monetary settlements.

Settlement Payments and Contracts as Methods of Control by the Ruble

Through its control of settlement payments and credit, Gosbank is in a position to insure the fulfillment of production and accumulation plans by enterprises as well as the observance of contractual obligations and price policies.

Some enterprises which keep their funds in settlement and current accounts in Gosbank do not receive bank credits. The only authority the bank exercises over such enterprises is through its control over their settlement payments and the funds deposited in their settlement and current accounts.

If the bank's control over an enterprise is based on the fact that credit was extended to that enterprise, the bank exercises its control over the enterprise's settlement payments on a day-to-day basis.

Part of Gosbank's function is to insure prompt payment of all obligations by the enterprise. To this end the bank hinders the growth of mutual indebtedness between economic organizations. On the other hand, it promotes the conservation of turnover capital allotted an enterprise, and the fulfillment of planned accumulation norms.

Adherence to payment regulations and control over the rapid turnover of settlement payment funds improves monetary circulation. The bank's control over the payments of economic organizations is achieved through its control of settlement payments. This is a necessary condition for the effectiveness of the whole system of economic settlements.

At the beginning of each new fiscal year, state and cooperative organizations are obliged to draw up contracts in conformity to the national economic plan and the plans of individual enterprises. Plan goals are anticipated in these contracts which are also essential prerequisites for the effectiveness of cost accounting in interenterprise transactions.

- 2 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

The contract usually specifies the method in which the settlement payments are made. Gosbank keeps a close watch on the methods of settlement payments specified in contracts, and has the authority to advise the use of one or another method of payment. However, this authority is only advisory.

Disagreements between economic organizations and breaches of contracts are not settled by Gosbank. Special governmental arbitration bodies handle such cases.

Concentration of Resources in Gosbank

All state cost accounting enterprises and cooperative organizations are obligated to keep their free funds in the bank (kolkhozes may do so if they wish, and have the choice of either Gosbank or a savings bank).

Cash receipts of an enterprise (from the sale of goods, etc.) must be deposited with Gosbank. The enterprise keeps only a specified amount of cash on hand. Money withdrawn for wage payments, and for some reason not utilized, must likewise be returned to Gosbank.

Special banks maintain correspondent accounts with Gosbank, through which their entire monetary turnover passes. State and local budget funds are also deposited with Gosbank, which implements all budgetary allocations. In towns possessing communal banks, part of the local budget funds are deposited with the local bank.

The concentration of monetary resources in a single state bank is possible only under the socialist system. Gosbank is the center of all financial activity: it is the only center of settlement payments, and the only center for short-term credit. Gosbank attracts all monetary resources, and stimulates the rapid turnover of the funds of the national economy. In this manner it accumulates large reserve funds which it manipulates on a state-wide scale.

Settlement Accounts and Current Accounts

Enterprise funds are kept in Gosbank in either settlement or current accounts. The balances of these accounts represent the funds available to an enterprise or institution in Gosbank. The settlement account is usually maintained by enterprises engaged in economic activity (with their own turnover capital). Current accounts are usually maintained by budget-financed institutions, professional and social organizations, and kolkhozes.

There is a different set of regulations for meeting charges against settlement and current accounts, if the funds of the account are insufficient to cover them. If a current account has insufficient funds to meet the charges of a creditor, his note is returned to him. If the same problem arises with regard to a settlement account, the creditor's note is held until such time as the account funds are replenished. The note is then paid in order of priority. Moreover, funds can only be withdrawn from current accounts of social organizations (and kolkhozes) with special written permission (polozhitel'nyy aktsept).

Every independent cost-accounting enterprises has one settlement account in Gosbank. This account is the essential prerequisite for determining the monetary resources of an enterprise, and for settling its accounts with contractors. The settlement account also enables Gosbank to control the monetary turnover of an enterprise. All amortization deductions, the director's fund, and above-limit capital construction are handled through the settlement account.

Financial regulations in the USSR draw a sharp distinction between funds allocated an enterprise for its operational (productive) activities, and funds allocated for capital construction. Funds allocated for one of these purposes cannot

- 3 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED

STAT

be used for the other. Therefore, the enterprise maintains two distinct accounts -- one for operational expenses and one for capital construction. The latter account is maintained in one of the special banks. The only exception to this rule concerns above-limit capital construction which enterprises are authorized to undertake in accordance with the law of 19 September 1935.

In addition to the settlement account, enterprises maintain special accounts in Gosbank for the financing of capital repairs. A part of the funds accumulated from amortization deductions is transferred to this account from the enterprise's settlement account. Another part of these funds is transferred to one of the special banks for the financing of capital construction.

In addition to the various accounts already listed, economic organizations and enterprises maintain what are known as transit accounts. Funds accumulated in these accounts are designated for transfer to higher organizations.

Transit accounts are maintained by a number of trusts and main administrations, and they represent funds realized by enterprises as a result of the difference between the factory price (raschetnaya tsena) of finished goods and their selling price.

The factory price is the price used by trusts, administrations, and their marketing organizations for settlement with enterprises for goods delivered. This price represents the planned cost of production and sometimes includes part of the profits which remain at the disposal of the enterprise. The selling price of an article includes the factory price, profits, the turnover tax, price increases, etc. Both factory and selling prices appear in the account-invoice.

The importance of the transit account is that it permits a centralized use of all funds which do not belong to individual enterprises and cannot therefore be utilized locally. These funds are placed at the disposal of higher authorities.

All funds available for utilization by an enterprise, including loans, are credited to the enterprise's settlement account through which all the enterprise's financial transactions pass.

In some cases the receipts of an enterprise are transferred directly to a special loan account without reference to the settlement account. This practice is followed when the bank has advanced to the enterprise substantial working capital. The receipts are then used to insure the prompt repayment of the loan to the bank. If the bank grants a loan to an enterprise which already owes it money, the amount of the old loan is deducted from the new loan -- again without reference to the settlement account. Further, bank loans are not included in the settlement account of an enterprise when they are granted (in the form of a letter of credit, etc.) for the specific purpose of prolonging the payment period of a previous loan, or of changing from one type of credit to another. Finally, when settlements between two enterprises cancel one another, the transaction is not reflected in their settlement accounts.

Utilization of Settlement Account Funds

The enterprise has at its disposal all funds which have accumulated in its settlement account provided that it adheres to its production plan and financial regulations. It may utilize these funds as it sees fit, and the bank must honor all drafts on settlement accounts.

- 4 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

However, there are some activities of the enterprise over which the bank exercises preliminary control. These include wages, overhead expenditures, amortization deductions, and advance payments and purchases of an enterprise's goods by the retail trade network. Before delivering money for wage payments, the bank makes sure that the amount requested corresponds to the amount officially approved. The sum which the bank actually delivers is in proportion to the amount of work performed. Sums paid by enterprises and other institutions for overhead expenses are verified by a special section of the bank with reference to the legal limits set for such expenses. If an enterprise does not transfer funds for amortization at the proper time, Gosbank or the special bank (acting in accord with Gosbank) has the right to transfer such funds to the amortization account even without the permission of the enterprise. Gosbank permits economic organizations to make advance payments only to industrial co-operative artels, and then only within limits sufficient to cover the artel's shortage in turnover funds. When a noncash settlement is made between an enterprise and a trade organization, the bank sees to it that the enterprise does not receive goods designated for consumer use.

Enterprises must maintain sufficient funds to insure prompt settlement payments. Reserve funds kept in settlement accounts to guarantee payment by an enterprise are drawn from its internal resources, from above-plan profits, budgetary funds, or short-term credit. The fact that an enterprise is not provided with special resources for the formation of a reserve fund, compels it to expedite the turnover of its material funds and mobilize its internal reserves.

Another system is employed for trade organizations: they are obliged to maintain specified cash funds. The large and continuous turnover resulting from trade operations necessitates the maintenance of a fixed minimum cash reserve which constitutes a significant share in the over-all turnover.

Regulations Governing Failure to Meet Obligations

The enterprise has the full right to dispose of the funds in its settlement account in any manner it sees fit as long as it pays its debts and obligations in full and on time. If the enterprise should, for any reason, prove unable to meet its legal obligations, it loses the right to control the disposition of its settlement account (in banking terminology the account is "arrested"). Until the enterprise is again able to meet its obligations, payments made from its settlement account follow an obligatory, legally prescribed priority system.

The priority for the satisfaction of claims is as follows:

1. Wages and similar demands (fees, and sickness, accident, and death compensation payments).
2. Tax payments.
3. Amortization deductions, capital construction, and capital repairs.
4. Payments to Gosbank on overdue loans.
5. Payments for goods, and all other payments.

Thus the law gives first priority to wage claims and social insurance over those of Gosbank and the budget. Gosbank is assigned priority over budgetary claims in the following cases: if Gosbank itself sells the enterprise's material assets which have been deposited with it, Gosbank is entitled to use the funds received to settle overdue loans after wage claims are met; or if the bank is recovering a loan made to an organization engaged in procurement of agricultural raw materials. In these instances, the enterprise's receipts are directly channeled to Gosbank for the settlement of the obligation without being entered on the enterprise's settlement account.

- 5 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

If the debtor enterprise which failed to meet its obligations were deprived of all control over the funds in its settlement account, its current activity would be paralyzed. Therefore, the debtor enterprise (unless it is a retail trade organization) is allowed to dispense up to 5 percent of the cash funds coming into its settlement account for unavoidable expenses irrespective of current claims. In the case of retail and wholesale trade organizations, this limit is lower (2 percent of daily income), since if the monetary turnover is very large, the proportional size of expenses which cannot be postponed is smaller than in the case of producing enterprises.

The right to spend up to 5 percent of the cash funds coming into the settlement account to meet pressing needs lends a substantial flexibility to the established system without violating priority payments in principle.

Principles and Classification of Settlement Payments

Organization of settlement payments in the socialist economy is based on the following principles:

1. Payments are made for economic operations after they have been completed.
2. Payments are made only with the consent of the payer and from free funds he has on hand.
3. The majority of payments are arranged by noncash settlements through, and controlled by, Gosbank.

The first of these principles arises from the demand for economic settlement payments, and the liquidation of commercial credit. The system of central allocation of turnover capital and the dedication of bank credit to the purpose of guaranteeing the uninterrupted flow of production necessitate prompt monetary compensation for goods furnished or services rendered. Nonpayment disorganizes cost accounting.

The second principle also has its origin in the demands of cost accounting. It provides for strict observance by the payer of all obligations due to the supplier by the terms of the contract.

The third principle is predicated on the bank's control of the flow of production and circulation. It has a very important bearing on the improvement of monetary circulation.

The various types of settlement payments involving trading operations may be classified as follows:

1. Basic types of settlement payments legally established by the credit reform and most widely used in the economy (acceptance, letter of credit, or special account), and specialized types of settlement payments adapted to conditions in individual branches of the economy (transit, planned, etc.).
2. Settlements between economic organizations not in the same town (intertown), and local settlements within the limits of one town (intratown). Intertown settlements are subdivided into settlements carried out by the bank in the locality of the payer, and those carried out by the bank in the locality of the supplier.
3. Settlement payments entirely handled through a bank (this includes the basic types of settlement payments listed above), those frequently handled through banks (some types of reciprocal settlements), and those handled by direct cash payments (small payments) without reference to a bank.

- 6 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED

STAT

Basic Settlement Payment Documents

Payment demands and bills of lading, presented by the supplier, are the main documents involved in intertown settlement payments for trading operations and services. Payment demands contain the minimum data necessary for implementation of the settlement: address, date of shipment of goods, date and number of transport document, number of the settlement account, name and address of the branch bank servicing the supplier, and amount due. A bill of lading contains, in addition to this general information, a specific description of the goods dispatched -- the catalogue name, quantity, and price of each item, the total value and its itemization, etc.

Payment demands are written up on the basis of bills of lading. Originals of the documents confirming dispatch and receipt of goods are appended to both types of bill.

Intratown settlement payments are made by settlement checks made out by the purchaser.

The division of settlement payment documents into payment demands and bills of lading is made to facilitate the work of the bank, which executes its operations chiefly by payment demands (Gosbank receives up to 1.5 million of these a day from its branch banks). The bill of lading is an essential prerequisite for verification by the buyer of the quantity, type, and price of goods delivered as compared with the specifications of the order.

Acceptance as a Type of Settlement Payment

A decree of the Council of People's Commissars dated 20 March 1931 stated that, of the three principal types of settlement payments -- acceptance, letter of credit, and special account -- "acceptance is the preferable type of settlement payment, under given conditions." Acceptance is at present the principal type of settlement payment: a large part of intertown settlement payments are implemented by the use of acceptance; and acceptance is also used in intratown settlement payments.

Acceptance is intended for use in economic operations (sale of goods and rendering of services) involving permanent contractual relations. Its essence lies in the fact that payment is implemented at the buyer's place of business: with his consent, within a given period, and when he has the necessary funds on hand. This type of payment and the paper work involved are based on the so-called bank collection (inkasso) payment documents introduced in 1936.

Until 1936, acceptance type settlement payment documents were sent by the supplier to the payer and to the branch bank located near the buyer's place of business. The branch bank servicing the supplier performed only the limited function of crediting the settlement account of the supplier on receipt of word that the payer had honored the demand for payment. The supplier's bank did not share in checking on the prompt arrival in full of the payment, and its entry on the settlement account of the supplier. As a result, the supplier was obliged to have relations with a branch bank in the town of each buyer with whom he dealt. This situation weakened bank control, worsened the supplier's position, and complicated settlement payments.

After the introduction of collection in 1936, payments have been handled in the following manner: the supplier, on dispatch of goods to the buyer, gives his own branch bank a payment demand and an account-invoice "on collection." The supplier's branch bank transfers these documents to the branch of Gosbank which services the buyer. Here they are presented the buyer for payment. Within a specified time after payment, the funds are transferred by the buyer's bank to the supplier's

- 7 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED

STAT

bank for entry on the latter's settlement account. The bank handles "on collection" payment demands which involve sums exceeding 1,000 rubles. Payment for certain types of goods which are usually dispatched in small shipments, or whose value is relatively low (such as coal, timber, oil products, matches, cultural goods, etc.), is handled by the bank if the sum involved exceeds 250 rubles.

Collection of payments is not only a technical operation; it is also closely linked with the functions of control. The branch of Gosbank servicing the supplier sees to it that charges levied were for goods actually delivered, that charges were levied not later than 3 days after dispatch of the goods (to avoid covert extension of commercial credit to the buyer), and also that the payment was transferred promptly to the supplier's account.

The bank servicing the supplier handles settlement payments from all branch banks located at the places of business of the buyers with whom the supplier deals. The bank servicing the buyer sees to it that payment demands are met promptly by the buyers, ascertains the explanation of a refusal to pay, and insures prompt transfer of funds to the supplier's account when payment is made.

Thus, the collection system for the movement of documents insures reciprocal control by the bank, streamlines organization of settlement payments, and insures the work of economic supplier-organizations. The chief advantage of the acceptance type of settlement payment is that it offers maximum supervision of contract fulfillment on the part of the buyer.

The predominant use of acceptance does not exclude the necessity of differentiating the types of settlement payments adapted to economic peculiarities, and settlement payment relations of various branches of the economy.

Acceptance (agreement to pay) is given by the buyer in the case of inter-town settlement payments, on the basis of verification of documents received, and not on the basis of verification of goods received, since the goods usually arrive after the papers.

As a rule, the legal period for acceptance is three working days. This is the time necessary to the buyer to verify the contents of the documents presented to see that they are fully and correctly made out as to quantity and price of the goods, the sum due, and to compare the assortment, date of shipment, etc., with the terms of the contract.

In the vast majority of cases, the buyer agrees to accept the payment demand. Therefore, to insure maximum possible simplification of acceptance, there has been established the so-called negative acceptance.

When the negative acceptance is used, the economic organization must notify the bank in writing only of its refusal to pay, that is, in the event it refuses to accept part or all of the charges. If the bank does not receive such a refusal to pay, it is assumed that the payer has accepted the charges levied. This practice simplifies the work of the bank and the payer. Written positive acceptance for every payment demand presented is required only of kolkhozes, sovkhoses, and trade-union and party organizations.

If the supplier violates the terms of the contract, the buyer is empowered to refuse the charges presented. In practice, at least part of the account-invoice is frequently illegal, although the total charges presented may be correct. Therefore, the right to refuse acceptance is established in two forms: complete refusal, and partial refusal.

- 8 -

RESTRICTED

RESTRICTED

RESTRICTED
RESTRICTED

STAT

Full refusal to accept charges is permissible only in the following cases: if payment demands are illegal, if the goods have been paid for previously, or if legal or contractual provisions have been directly violated. Partial refusal to accept charges is permissible in the following cases: if the supplier raises the contract prices; if part of the goods are of a type not ordered, if the shipments exceed the volume contracted for in a given quartile or month, or if a mistake has been made in arithmetic on the account-invoice.

The buyer is not empowered completely to refuse payment if there exists a possibility of partial refusal to pay. Neither is he empowered to refuse payment if he has previously used the goods received. The bank servicing the buyer promptly notifies the bank servicing the supplier of all the facts involved in a refusal to accept charges, or in a case of delayed payment, so that the proper measures may be taken.

If a payer does not pay a bill in the allotted period of time owing to lack of funds, but does not refuse acceptance of the charges, the unpaid bill is paid in accordance with the legally established priority. Penalty for overdue payment is exacted from the buyer in these cases by the bank. The system of keeping settlement payment documents in the bank facilitates the task of control. One group consists of all incoming documents not yet overdue, and not refused acceptance (the so-called card index No 1). A second group consists of payment demands accepted, but not paid in full on time (the so-called card index No 2, which indicates the volume of nonpayment, and is especially valuable in operational relations). A third group consists of payment demands which the buyer has refused to accept.

The right to refuse acceptance is a powerful weapon, and therefore every refusal must be well-founded. The buyer is materially responsible for losses caused the supplier by the unwarranted use of this right. The bank checks the basis of every refusal by a buyer to accept charges, and will not recognize the refusal if it is not well-founded, or if the basis for refusal is clearly contrary to those permitted by law.

Neither buyer nor supplier is prevented by acceptance or refusal from pressing further legal claims by arbitration or lawsuit. For example, if, after acceptance and payment, the goods upon arrival fail to correspond quantitatively or qualitatively to their description in the account-invoice or contractual specifications, the buyer makes claims (and if they are not satisfied, brings suit) against the supplier or railroad. On the other hand, the supplier may bring suit against the buyer if the buyer has refused acceptance without good cause.

Compulsory payment [literally, payment without acceptance] is used in some operations which are by nature not liable to claims; that is, the buyer is denied the privilege of refusing acceptance. This system is used in settlement payments involving electrical energy, use of communal services, telephone or radio, if the payment is subject to a heavy tariff. Justification of compulsory payment in these cases lies in the fact that the services or energy supplied have already been used by the payer, and also that the sum demanded cannot be disputed. When compulsory payment is used, payment must be made on the day following receipt of the payment demand from the bank.

It was established by a decree of the Council of People's Commissars USSR dated 4 June 1936 that payment must follow acceptance within 7 days; and acceptance had to follow receipt of the payment demand within 3 days. The bank is empowered further to extend the acceptance deadline up to 7 days for economic organizations located at some distance from the branch bank servicing them. In general, however, 10 days is the legal limit for payment after receipt of the payment demand.

- 9 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

Payment deferment was introduced to give economic organizations time and opportunity to regulate their expenses, and to set up a so-called payment schedule with information concerning payment demands to be presented in the approaching 10-day period on one side, and income expected on the other.

Payment deferment necessitated a change in the right to utilize goods arriving in the meantime. When the period of acceptance and payment deferment coincide, the buyer legally cannot use the goods until payment is made; when this period is prolonged prompt use of the goods on arrival may be economically expedient in many cases. Delay may tie up a considerable volume of goods. Consequently, the buyer may decide to use the goods before payment. Legally the goods belong to him as soon as he declares acceptance.

If, owing to insufficient funds, payment is delayed beyond 10 days after receipt of the bill, the payment demand is filed in card index No 2, and paid by the bank as funds accrue in the buyer's settlement account according to the legally established priority. The penalty paid the supplier by the buyer for overdue commitments is 0.05 percent of the amount due per day (18 percent per year).

Payment regulations call for payment of a bill within 10 days of receipt of goods. However, a buyer may pay a bill before the appointed time if he so wishes (and if he has no outstanding overdue obligations). Often this takes the form of a partial payment.

If acceptance is refused and the goods have arrived, the buyer, though unable to dispose of them, is made responsible for their custody until such time as they are resold or reshipped on instructions from the supplier. If it is established that refusal to accept the charges was without good cause, regulations provide that responsible custody be automatically terminated, and that the bank must withdraw the amount of the charges from the buyer's account and place the goods at his disposal. In the case of partial refusal to accept charges, regulations provide that responsible custody be established for that portion of the goods which the buyer has refused to accept. In practice, Gosbank has not yet established adequate control over regulations providing for responsible custody.

Payment deferment is not used in regard to some types of goods, for example, grain and oil products and grain wines, because of the rapid turnover and owing to budgetary considerations (acceleration of turnover tax receipts).

Payment deferment is not applied to settlement payments of budgetary and social organizations, industrial marketing organizations, and clients contracting for construction work. Budgetary and social organizations (and to a considerable extent clients contracting for construction work) do not require payment deferment, since they settle accounts with the supplier on the basis of fixed budget allowances.

Industrial marketing organizations do not need payment deferment because they settle accounts chiefly with bank credit, and short payment periods curtail the volume of credit tied up in settlement payments in progress at one time.

When the acceptance type of settlement payment is used, payment is made after the goods are already sent off to the buyer. Consequently, nonpayment is a frequent result. However, this cannot be attributed to any inherent shortcoming of the acceptance as a type of settlement payment.

- 10 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

Letter of Credit and Special Account

Letters of credit and the special account were introduced as types of settlement payments by a decree of the Council of People's Commissars dated 20 March 1931. Settlement payments implemented by use of these two forms are characterized by the fact that payment takes place at the supplier's place of business. The purpose of this type of settlement payment is to insure payment immediately after shipment.

The letter of credit is an order from the bank servicing the buyer to the bank servicing the supplier (given on instructions by the buyer) which provides payment to a single specified supplier for specified goods or services; these specifications usually reflect contract provisions. The minimum sum for which a letter of credit is drawn is 1,000 rubles. The letter of credit is backed either by a previous deposit by the buyer or by bank credit. Deposit of funds for settlement payments by letter of credit does not constitute extension of credit to the supplier, since payment is not made until the goods are actually shipped. The letter of credit is valid only for a definite period, 25 days. (The bank is empowered to lengthen this period to 45 days on necessity.) This is an essential condition for stimulating prompt shipment by the supplier. Further, it limits the period that the sum involved is tied up in the settlement. The letter of credit and the special account differ from acceptance in that when they are used, all movement of documents is initiated and concluded by the buyer.

In the absence of the payer, his interests are defended by the bank servicing the supplier: it pays for freight only after verifying dispatch of the goods, and after checking to see that the supplier has fulfilled all conditions called for in the letter of credit (certificate of inspection of quality, use of stipulated means of transportation, etc.).

Use of the letter of credit may be adjudged expedient as a result of various economic circumstances:

1. When it is necessary to insure prompt payment from an organization with which it is undesirable to establish payment relations on the basis of acceptance; for example, settlements with the machine building industry for machines and individual pieces of equipment, and settlements for fuel, timber, capital construction, etc.
2. In the case of absence of regular commercial relations between the contracting parties and the consequent absence of contracts.
3. When preliminary control over the quality of goods to be shipped is essential.
4. As a form of sanctions against a chronic nonpayer.

The relative proportion of settlements made by letter of credit is insufficient at present, and its use may be expanded both for other types of accounts (for example, capital construction) and in the capacity of normal sanctions against an undependable payer.

The special account is organized in the same manner as the letter of credit insofar as the paper work involved and the purpose are concerned. Settlement by the special account is distinguished from the letter of credit in that it is not applied sporadically, but used for systematic payment to one or several suppliers located in one town with whom a buyer has consistent business relations. In view of its expected permanent nature, and the relatively large sums of money involved, a special account may only be opened when the buyer installs a representative authorized to receive and pay for goods in the town where the supplier is located.

- 11 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED

STAT

Regulations governing special accounts are more flexible than those controlling letters of credit. Special accounts may be used to pay several suppliers. They have no time limit on their validity, and they may be regularly replenished by the buyer. Payments made from a special account may be used not only to pay for the goods themselves, but also for expenses involved in their shipment. Within certain limits indicated by the buyer, cash settlements may be made from the special account. The special account, like the letter of credit, may be recalled on demand by the buyer. At present special accounts are used principally in connection with the centralization of settlement payments through industrial marketing organizations.

Intratown Settlement Payments

Intratown payments are made between economic organizations which have settlement accounts in the same town -- in the same branch bank, or in two branches of the bank in the same town. Intratown settlements were not satisfactorily organized until 1936: the bank did not participate in control over payment, and the supplier's interests were not adequately protected. This situation resulted in obstacles to commercial operations and settlement payments.

A collection system involving positive acceptance for every shipment was established in 1936 for intratown settlement payments. However, this system proved complicated and unsatisfactory. A special decree of the Council of People's Commissars dated 31 August 1937 established for intratown settlements a new set of regulations which corrected these shortcomings.

The following types of settlement payments were established: settlement checks, promissory notes, and acceptance through the collection system.

In addition, the use of planned settlement payments was anticipated in intratown commercial operations.

Economic organizations engaging in intratown commercial operations are allowed to make cash settlement payments. However, such cash settlements are more limited by restrictions than similar settlements in intertown operations. Payment of all settlements of less than 100 rubles may be made in cash. The bank is empowered to extend this limit to 500 rubles.

Payment checks and promissory notes are orders from the buyer to his bank to withdraw the sum involved from his settlement account to pay the supplier. They facilitate the implementation of settlement payment turnover without collection and bank control.

If a buyer has insufficient funds to back a promissory note he has given in return for a shipment of goods, the note is held by the bank and paid off in accordance with established priority regulations. Settlement checks are used less widely as a method of settlement payment because if the funds in the buyer's settlement account are insufficient to cover such a check, the bank simply returns it to the supplier. Settlement checks are valid only for 10 days, and this further aggravates their inconvenience for the supplier.

Payment of sums over 1,000 rubles [in intratown commercial operations] may also be accomplished by use of acceptance and the usual collection regulations and control by the bank. However, the period of acceptance is 2 days, and the period allowed for payment 2 days more. Payment deferment is not used in intratown commercial operations, since the buyer may arrange payment to coincide with delivery of goods by direct contact with the supplier. The buyer maintains the right of full or partial refusal of acceptance in accordance with the usual regulations.

- 12 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

It is the bank's function to see to it that the type of settlement payment chosen by an economic organization engaged in intratown commercial operations is best suited to its economic peculiarities and that it holds nonpayment to a minimum.

Marketing Organizations and Transit Shipments

The basic types of settlement payments presuppose direct, mutual relations between buyer and supplier. Still there are many branches of the economy in which a third link is necessary in these relations -- marketing organizations.

The marketing organizations maintain local sales offices which plan and regulate the marketing of enterprises' products. They are linked by contracts to both supplier and buyer.

If an enterprise ships its products directly to the warehouse of its marketing organization instead of directly to the buyer, settlement between the enterprise and the marketing organization is based on the usual acceptance procedure, and the marketing organization acts as buyer. But such a system leads to an increase in the number of links involved in commercial operations, impedes the realization of merchandise, and increases the cost of marketing.

Therefore the so-called transit shipment plays an important role in marketing operations. Under this system, the enterprise ships goods directly to the buyer, using the facilities of the marketing organization, but by-passing the warehouse. The transit shipment is economically expedient, and is used in all cases when delivery of goods to the warehouse is not mandatory (for purposes of sorting, etc.). It is especially widely used in heavy industry (metal, coal, coke, cement, chemical products, etc.) where a large quantity of one type of goods is involved. Transit shipments minimize transportation and storage costs and hasten trade turnover. To insure its control over the movement of goods and the regulation of their exchange, the marketing organization combines organization of movement of merchandise and implementation of settlement payments between buyer and supplier when transit shipment is used.

Local Sales Organizations

Settlement payments for transit shipments in the food, light, and textile industries are made with participation of marketing organizations. These settlements are implemented on the basis of acceptance.

The oblast sales office of the marketing organization located at the buyer's place of business organizes the settlement. It enters into relations with the buyer as supplier, and acts as buyer in relation to the supplier enterprise (even though the goods themselves go by transit without delivery to the market's warehouse).

Payment demands are written out by the supplier enterprise in the name of the oblast sales office, which is given disposition of the goods, and which is to receive payment from the buyer. These payment demands are sent by the bank servicing the supplier enterprise to the banks servicing the buyer and the local sales office. The local sales office collects the amount involved from the buyer in accordance with the usual conditions of acceptance. Simultaneously, the supplier enterprise sends the local sales office identical payment demands and an account invoice. The local sales office settles with the supplier enterprise on the basis of these documents -- also through acceptance procedures.

The supplier enterprise is credited by the bank in accordance with the usual routine for settlement documents in process. The local sales office receives the same credit in the period between payment to the supplier enterprise and receipt of payment from the buyer.

- 13 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

Settlement payments for transit shipments implemented by marketing organizations offer the following advantages:

1. They hasten settlement payments. Accounts are written up directly by a small number of large local sales offices and this frees the supplier enterprise from the paper work involved in settling accounts with the many buyers of its products.
2. They facilitate the work of local sales offices. Implementation of settlement payments provides them with the opportunity to control movement of merchandise, to study consumer needs, and to supervise the quality and variety of goods dispatched.
3. Concentration of settlement payments in local sales offices close to the buyer permits closer control of nonpayment and application of sanctions.

The buyer's adherence to contractual regulations is maintained by acceptance regulations. The bank's control over the supplier is maintained through the extension of credit for settlement payment accounts in process. The local sales office is materially interested in prompt payment by the buyer so that it may settle with the supplier on time. Failure to meet its obligations results in fines and forfeits.

Centralization of Settlements by Marketing Organizations

Settlement payments for transit shipments through marketing organizations in heavy industries are centralized. The central section or administration of the marketing organization acts as a buying unit for all the products of its enterprises. Settlements between central administrations of the marketing organization and supplier enterprises are implemented through special accounts opened by the marketing organization (on bank credit) at the supplier's place of business.

Settlement payments between supplier, local sales office, and buyer are implemented in the manner described previously with regard to transit shipments but the supplier receives payment promptly after shipment of goods. The bank servicing the supplier promptly pays him the sum involved, charging it to the special account which is opened and replenished by the central administration of the marketing organization in accordance with the planned volume of shipments by the supplier enterprise. Oblast sales offices located at the buyer's place of business conduct all settlements with the latter. Therefore, when settlement payments are centralized by marketing organizations, local sales offices do not act as buyer in relation to the supplier enterprise, which has already received payment for the goods shipped. It does act as supplier in relation to the buyer, and is linked to him and to the central section of the marketing organization with regard to settlement payments -- acting as a mediate link between them.

The exact sums received are added to the oblast sales office's settlement account by the bank, and periodically transferred to the account of the central administration of the marketing organization. With these sums, the central administration of the marketing organization replenishes special accounts located at the supplier enterprises' places of business.

This system preserves the buyer's right to refuse acceptance of goods in accordance with the customary regulations, even though the supplier has already received payment. If such refusal is justified, the oblast sales office orders the bank servicing the supplier enterprise to recover the sum unjustly received (full and partial refund); these sums are restored to the special account.

- 14 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

Centralization of settlement payments for transit shipments by marketing organizations offers basically the same advantages as those provided by settlement payments which are implemented through oblast sales offices. They are particularly advantageous to the supplier, since they guarantee him quick settlement for goods dispatched. However, this system has the following shortcomings:

1. The oblast sales office is not materially interested in prompt and exact payment by the buyer, since its financial position is in no way affected by nonpayment.
2. Control by the bank and the local sales office over supplier's shipments is weakened, since the local sales office is excluded from settlement payment relations between supplier and buyer, and the bank under this system does not credit the supplier for settlement payment documents in process.
3. The turnover of funds tied up in settlement payments is somewhat slowed as the result of the introduction of an extra link (the central office of the marketing organization).

Planned Settlement Payments

All types of settlement payments examined previously are based on the assumption of separate and exact payment for each shipment of goods. However, it is possible to base payment on planned shipments with subsequent readjustment.

When planned payments are used, the buyer gives the bank authorization for periodic withdrawal of sums in favor of the supplier in accordance with planned shipments of goods. Every several days (not less than once a month) readjustment is made: underpayment for goods delivered is corrected, and overpayment is returned or credited against further supply. If necessary, the size of the planned payment is reviewed and adjusted.

Planned settlement payments are expedient, given two conditions: systematic shipments and consistently equal volume of shipments in a given time period. Therefore, planned settlement payments are used between trading organizations and suppliers dealing in a consistently equal quantity of goods such as bread, meat, vegetables, milk products, beer, finished linen goods, and leather goods; that is, chiefly in settlement payments for goods in the food and light industries. They are also used in settlements between industrial enterprises, and between industrial enterprises and suppliers regularly furnishing raw materials. Planned settlement payments are also used in settlements between marketing organizations and industries if the products of the industry are completely and regularly marketed by the marketing organization.

Planned settlement payments offer the following advantages:

1. The buyer's payment schedule is regularized, since he knows in advance the size of payments that will be due.
2. The process of settlement is hastened and funds of economic organizations tied up in settlement payments are curtailed.
3. The paper work and technical aspects of settlement payments are considerably simplified.

At present planned settlement payments are used principally in intratown commercial operations (chiefly in large towns), because it is easier to organize them, and advantageous to use them as a consequence of the rapid turnover of goods and direct contacts between supplier and buyer.

- 15 -

RESTRICTED

RESTRICTED

RESTRICTED

RESTRICTED



STAT

The application of planned settlement payments must be broadened to include intertown commercial operations. The more equitable disposition of industry in relation to raw materials and centers of demand will make feasible a broader application of planned settlement payments.

- E N D -

- 16 -

RESTRICTED

RESTRICTED