Developing financial services for SMEs in the Russian Federation: major trends, issues and perspectives.

Nadezhda Karisalova
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In the beginning of 2006, the volumes of consumer lending reached USD 44 billion, the volumes of funds obtained from individuals – USD 103 billion.

The volume of the market of credits and funds raised for investment in small businesses amounted to USD 7.8 billion and USD 6.3 billion, accordingly.

The retail market in Russia is the most profitable (as per asset performance) and dynamically developing segment of the national banking business. The growth rates for credits totalled 90%, and reached 39% for raised funds. This is way ahead of the paces of growth of the Russian economy on the whole (6.4%), and corporate business (25% for credits and 30% for funds raised).
The Russian retail services market is strongly fragmented. There are no apparent leaders except Sberbank servicing 40-50% of the retail market.

Competition on the market has noticeably intensified. An increasing number of banks focuses on development of the retail business. The positions of foreign banks’ subsidiaries have strengthened considerably both as a result of aggressive organic development (Citibank) and through M&A transactions (Raiffeisen).

Types of retail market players:

- **Product specialists** (Russky Standart Bank, HKF-Bank, Renaissance Capital)

- **Foreign banks** (Raiffeisenbank, Citibank, MMB, Kommerzbank)

- **Large (national) state and private banks** (VTB, Gazprombank, Sberbank, Transcapitalbank, etc.)

- **Medium-sized federal and regional banks**
The market volume for individuals is expected to grow by 2010 approximately 4 times for credits and 2 times for raised funds, while the pace of the market growth will slow down.

As a result, the volumes of consumer credits in 2010 are forecasted at the level of USD 180 billion, raised funds – USD 250 billion.

The main share (~70%) of the lending portfolio in the market currently accounts for consumer credits. Their share will be gradually decreasing due to the growing share of mortgage lending, credit cards and auto loans. In spite of the downward trend in the credit margin, its level will still be exceeding similar characteristics of other European markets.

A growth of the market of credits and raised funds in the small business sector is forecasted to reach the level of USD 34 billion and USD 20 billion, accordingly, in 2010, which is an annual increment of 35-40%.
Specifics of the Russian small business lending market:

- The share of SME lending in the overall lending volume does not exceed 10%

- Unevenness of SME lending banking services provision (most of the credit institutions (85.2%) are situated in the Central, North-Western, Southern and the Volga Federal Districts)

- The regulatory framework of the Russian Central Bank for governing the process of small business lending is at the stage of improvement
Main trends and perspectives of the small business lending market

- A considerable growth of the credit institutions’ interest in this service

- Entry of a number of federal-level banks with an extensive branch network into the small business lending market

- Growth of the network of regional branches of major credit institutions (VTB Group, Rosbank)

- Stepping up state support on the federal and regional level. The current support includes:
  - federal sources on the level of RUR 4 billion
  - regional budgets
Priorities of state support of small business in Russia

- creation and development of the small business support infrastructure (business-incubators)

- support of small businesses producing goods (jobs, services) for export

- development of the small business lending system, including micro-financing

- creation and development of the small business support infrastructure in the sphere of science and technology
• Imperfection of the regulatory framework
  (Russian Central Bank SME lending instructions)
• Insufficient state support
• Lack of start-up lending for small businesses
• Different SME criteria for state support measures and special bank programmes
  (As a result – Russia lacks SME lending volumes and dynamics)
• Unpreparedness of small enterprises to start up a business and work with banks
• Insufficient number of infrastructure facilities
  (business incubators and consultancies are only beginning to develop in Russia)
Main tasks for eliminating SME lending-related problems

• **Improvement of Central Bank regulations** (Russian CB Instruction No.254 п)
• **Improvement of state support measures** (performance bonds and pledge funds, start-up SME support)
• **Obligatory state participation in creating business support infrastructure facilities**
• **Clear legal definition of SME for all SME lending market participants** (definition of proceeds, assets according to EU criteria)
• **Joint special state and bank programmes for start-up SME**
• **Special regional small business support programmes, including the municipal level**
• **Development of public organisations defending the interests of small business (associations, unions)**
Main lines of modernisation of the banking system for improving SME lending

- Simplifying access to the small business lending service
- Offering pledge-free credits
- Providing credits against the guarantees of small business support infrastructure entities
- Extending lending periods to 7-10 years
- Introducing narrow specialisation products (against the pledge of vehicles, for trade companies, etc.)
- Applying scoring evaluation models
- Crediting start-up projects
• Interaction with Development Assistance Fund for Small Science and Technology Enterprises (Bortnik Fund)
• Lending to SMEs secured by infrastructural business support objects (warranty funds, business support funds)
• Active collaboration with venture companies
• Loans to residents of business incubators
• Programs for participation in direct investment funds established for crediting SME investment projects
- A 8.5-fold increase of the small business lending portfolio. The SME lending portfolio exceeds USD 1.35 billion.
- The quantity of credits increased 8 times to reach 15 thousand credits.
- New small business lending offices were opened at 44 sales outlets. The total number of POS reached 86.
Regional Structure of the Lending Portfolio

- Moscow & Moscow Region: 24%
- St. Petersburg: 4%
- Yaroslavl: 3%
- Tyumen: 3%
- Krasnoyarsk: 3%
- Belgorod: 4%
- Tomsk: 5%
- Rostov: 3%
- Penza: 3%
- Cheboksary: 3%
- Kuzbass: 3%
- Khabarovsk: 2%
- Altai: 4%
- Samara: 3%
- Nizhny Novgorod: 3%
- Others: 29%
Thank you for attention!

Nadezhda Karisalova,

Vice-President, Bank VTB 24