# Special Study. Russia Small Business Fund, Russian Federation (extracts)

Project Evaluation Department, July 2003

## Preface

This Special Study presents the findings of the Bank's Project Evaluation Department (PED) on the evaluation of the Russia Small Business Fund (RSBF) in the Russian Federation (referred to throughout as "the programme"). The Study was prepared by William Keenan, senior evaluation manager, in association with PED colleagues, referred to as the "evaluation team", and with input from US resident industry experts – Ariel Ventures Inc.

The programme was originally approved by the Bank's Board of Directors on 28 June 1993 as a pilot project (BDS93-67) and the extended pilot project (BDS94-77) was approved on 7 June 1994. The full-scale operations (BDS95-146) were approved on 29 August 1995. PED carried out earlier reviews of the pilot project (PED94-11S, July 1994), the extended pilot project (PED95-24S, March 1995) and the full-scale operations (PED97-65S, July 1997). The objective of this Special Study is to evaluate the Programme as it reaches maturity.

Approval of the Full-Scale Operations in 1995 provided for total investment by the Bank of US$ 150 million, a sum that was to be matched by a total contribution of USS 150 million from G-7 contributors (donors) for technical assistance and investment funds. Investment funds were to be recycled for up to 10 years. On 24 July 2001 the Bank's Board approved the expansion and extension of the programme (BDS95-146 [addendum 1]), increasing the Bank's funding commitment by up to US$ 150 million, of which USD 50 million was made contingent upon the contributors commiting a further US$ 30 million in funding. The expansion and extension therefore increased aggregate commitments to a possible total of US$ 480 million. The life of the programme was extended from 2004 to 2010.

Material and data for this Special Study were gathered through interviews, research, two field visits and, in view of the wide geographical spread attained by the programme, a questionnaire designed to collect information from participating banks (PBs) and branches across the Russian Federation.

PED would like to note its appreciation of the cooperation extended by senior officials of the PBs, the programme consultants, the operation team (OT), staff of the Bank's Group for Small Business and other Bank staff involved in the preparation of this Special Study. However, the contents of
p. ii this report are based entirely on the independent judgement of PED.

Source: EBRD (2003) (European Bank of Reconstruction and Development), *Special Study. Russia Small Business Fund* (extracts), PED (Project Evaluation Department), July 2003, London, EBRD, pp. ii–viii, 22–27.

## Abbreviations

| | |
|---|---|
| BAS | Business Advisory Service |
| CBR | Central Bank of Russia |
| FOPC | Financial and Operations Policies Committee (EBRD) |
| IADB | Inter-American Development Bank |
| IFC | International Finance Corporation |
| IIC | Inter-American Investment Corporation |
| LTE | Long-term expert |
| MFI | Microfinance institution |
| MIS | Management information system |
| MSE | Micro and small enterprise(s) |
| MSME | Micro small and medium-sized enterprise(s) |
| NGO | Non-governmental organisation |
| OCE | Office of the Chief Economist (EBRD) |
| OGC | Office of the General Counsel (EBRD) |
| OT | Operation team |
| PB | Participating bank |
| PCR | Project completion report |
| RSBF | Russia Small Business Fund |
| RSBISF | Russia Small Business Investment Special Fund |
| SEEF | Small Enterprise Equity Fund |
| SME | Small and medium-sized enterprise(s) |
| TA | Technical assistance |
| TC | Technical cooperation |
| p. iii USAID | United States Agency for International Development |

## Executive summary

### RSBF – programme background and objectives

The Bank was requested to establish and administer a facility for financing small businesses in the Russian Federation following a meeting between the G-7 countries in Tokyo in April 1993 and in response to a request from the Russian Government. The EBRD Board approved a pilot project that started in 1994 and was followed by an extended pilot. The full-scale operations were approved in 1995 and comprised of commitments of

US$ 150 million from the Bank and a similar amount from G-7 contributors. In 2001 the Bank approved the expansion and extension of the programme to 2010 with the commitment of an additional US$ 150 million of Bank funds, of which US$ 50 million was contingent upon the contributors committing a further US$ 30 million in funding. The potential funding for the RSBF from the Bank and contributors combined totals US$ 480 million. The Board document approving the full-scale operations in 1995 set out the main objectives of the programme as follows:

> "This project has two interrelated aims: firstly, to provide short and medium-term financing to micro and small enterprises, and secondly, and most critically, to contribute to institution building within the Russian financial sector by providing training and technical cooperation to banks that will develop the long-term capability to provide small and micro firms with formal sector finance."

As well as MSE lending, the initial design of the programme included business advisory and small business equity components. These did not prove successful and have been discontinued. The programme has concentrated on expanding regional outreach and lending volume with increasing attention on microloans under US$ 10,000. A significant achievement has been the generally high quality of the sub-loan portfolios. The programme functions through selected existing commercial banks, as well as through a specialised microfinance institution (MFI) in which the EBRD is a shareholder. The differences in approach are described in the following box.

## Downscaling vs. Greenfield MFI

The RSBF applied the *downscaling* model exclusively in its initial years until the 1998 Russian financial crisis. The downscaling approach requires heavy TC input particularly in the early stages since it entails working with an existing bank institution; changing or developing management thinking and culture; building commitment to MSE finance; and training loan officers in MSE lending skills. In the aftermath of the crisis the Bank participated in the formation of a specialised microfinance institution, which, from 1999 onwards, became the primary engine of RSBF growth. Downscaling and MFI start-up are very different kinds of exercise. When a start-up MFI is formed, senior management is usually recruited from among experienced microfinance professionals who are already committed to the concept. Downscaling, on the other hand, frequently entails a rather steep learning curve for the partner bank's (PB) management and staff. Results in terms of loan numbers and volumes may be slower to come through in a downscaling bank than in a start-up MFI. However, a new MFI needs substantial TC input to help develop a branch network.

## Programme lending up to 31 December 2002

At 31 December 2002 cumulative disbursements under the RSBF amounted to US$ 1,068 million for a total of 115,962 loans in 116 towns and cities. This
p. iv is a noteworthy achievement for a programme that faced disruption and potential collapse in the wake of the August 1998 banking and financial crisis. Swift action at that time limited the losses suffered and enabled the programme to resume growth. At different stages up to 2001, some 21 banks participated in the programme. In the aftermath of the crisis, four active banks remained with two of these accounting for over 95% of new lending. Two regional banks, which survived the crisis, remained active participants. In 2002–2003 a further three regional banks have been accepted as programme participants. Since late 1998 one consulting firm has been the sole supplier of credit advisory services to the programme. By the end of 2002, approximately US$ 76 million in TC funds donated by RSBF contributors, the EU and other sources was used to fund over 70 TC operations.

## Overall assessment of programme performance

On the basis of PED's independent review, the Special Study assigns an overall assessment rating of *Partly Successful* to the RSBF programme as evidenced by performance to date.[1] This rating reflects the success of the programme in achieving growth in loan numbers and volume, particularly in the period after the 1998 crisis and the high quality of the sub-loan portfolio. However, there is as yet insufficient indication that the programme has been implemented in a manner that will prove to be sustainable. The final proof of sustainability will emerge only when the programme is completed and the present intention of the Bank and contributors is to continue the RSBF at least until 2010. Nevertheless, evaluating the progress made to date is crucial if the Bank is to achieve the desired goals by the end date.

A key measure is the institutionalisation of the programme's basic principles within the PBs. One PB in particular has declined to demonstrate commitment to the programme at head office level and has repaid the Bank US$ 20 million of US$ 50 million advanced for programme lending. While the long-term position of this partner remains to be clarified in negotiations, the resulting uncertainty in the interim threatens the achievements of the programme to date both within that bank and among micro-entrepreneurs, especially in the towns where it is currently the programme's only channel of distribution. In the downscaling banks, an indication that sustainability is likely to be achieved would be growth of MSE lending supported by counterpart finance. As a precursor to this, PBs need to regard MSE lending as a profit centre alongside other products and activities. A start has been made with some introduction of contribution analysis by the Programme consultants. However, further refinements are needed and targeted TC input may be required to give PB management the skills to cost out MSE lending as a product line. PBs would also benefit potentially from some flexibility in

[1] The following classifications are possible: *Highly Successful*, *Successful*, *Partly Successful*, *Unsuccessful*.

programme design to be able to respond to local market conditions in their region, subject always to adherence to sound banking principles. If the programme's institution building objectives are realised, the RSBF has the potential to achieve a *Successful* or *Highly Successful* performance rating over its remaining life.

The project evaluation department (PED) assigns a rating of *Partly Successful* to the overall performance to date[2] of TC within the RSBF. The programme has achieved rapid growth in loan numbers and volume and has maintained strong portfolio quality overall. However, this growth may have been achieved, to some degree, at the expense of institutionalising the programme within PBs and, consequently, at the expense of sustainability. In addition, the p. v Special Study findings indicate that TC resources should be used to make appropriate changes to the lending methodology and transfer the skills necessary to encourage a higher proportion of lending to production enterprises. It is recognised that the distribution of borrowers among production, service and trading activities will vary from region to region. In some, particularly remote areas, small-scale trading activities are likely to predominate until a production base begins to be formed. Any changes in the methodology must continue to adhere to the requirements of sound banking and are dependent on adequate staff training and capacity. The TC component is capable of achieving a *Successful* to *Highly Successful* rating over the life of the programme.

## Overall transition impact

Through the RSBF the Bank has addressed the key transition challenge of making commercial finance available to MSEs (a subset of the SME sector), and has contributed to policy dialogue with a view to creating a conducive environment for MSE lending. The Bank has worked with a significant player in the banking sector and has created a significant new player, although the original programme design did not envisage the creation of a specialised microfinance bank. In addition the Bank is continuing to build smaller operations in the sector. The RSBF team pursued a clear and effective plan of recovery after the 1998 financial crisis. Following recent repayments by one PB of RSBF credit lines totalling US$ 20 million, the allocation of funds for RSBF lending by branches has been scaled back. This is already reflected in the falling RSBF portfolio at this PB and in the cessation of the regional expansion of the programme through its branches. On the assumption that this bank intends to use RSBF-trained loan officers in ways that allow them to practice and disseminate the MSE lending skills they have acquired, while continuing to work with the RSBF target customer group, PED considers that an overall transition impact rating of *Satisfactory* (realised to date) would be appropriate. If, however, this bank turns away from the RSBF customer group and MSE lending skills are dissipated, a rating of *Marginal* would be

[2] TC performance in connection with crisis recovery efforts warrants a *Highly Successful* rating. Allowance must be made for the effects of the 1998 financial crisis and the process of recovery that diverted TC funds away from the direct aims of the programme. A further consequence of the crisis was that the RSBF lost PBs with branch networks that showed signs of responding well to the programme.

appropriate until the influence of the programme could be re-established. The programme has the potential to achieve a *Good* to *Excellent* TI but the risks to achieving this are assessed as *High*. The evaluation team considers that the following accomplishments would warrant a higher rating:

Indicating a *Good* TI rating –

- removing obstacles to the institutionalisation of the programme thus facilitating continued expansion;
- identifying and recruiting new credit-worthy regional PBs to the programme;
- introducing the appropriate new programme features and technologies.

Indicating an *Excellent* TI rating, in addition to the above –

- encouraging partner banks to commit to funding MSE lending from other sources at a level, which is at least equal to the funding provided by the programme.

## Summary of key issues and recommendations

The Special Study identifies a number of key issues and puts forward recommendations aimed at helping the programme achieve its intended objectives and maximise transition impact. The principal issues and recommendations are summarised below.

### RSBF strategy and plan of action

The RSBF faces a number of challenges, in particular:

- reducing dependency on a single consultant;
- exploring changes to the current methodology and the potential for
p. vi additional distribution channels;
- embedding MSE lending in downscaling banks, and encouraging counterpart finance;
- securing additional donor funding for TC.

The Special Study recommends a reappraisal and restatement of the programme's strategic purpose and the development of an action plan to achieve the strategic goals. The action plan should include targets for achieving institution building goals in each downscaling bank in addition to loan numbers and volumes.

### Programme management

It is recommended that the EBRD reviews the range of tasks and functions currently outsourced to consultants in order to identify those tasks and functions that could be returned directly to the Bank's control. The Bank should also consider a full review of the management resources allocated to the programme. It is important to note that a member of the Bank's staff has recently been assigned to coordinate policy dialogue relating to the MSE sector in Russia.

### TC monitoring

The absence of records of time spent by consultants with individual banks and branches is a deficiency in management information that hinders comparison of the performance of individual banks and branches within banks, as well as comparison of the performance of individual consultants. Therefore the Bank is recommended to encourage consultants to record the time spent with RSBF partner banks so that the EBRD can enhance performance monitoring (of consultants and partner banks). It is noted that, whether one consulting firm is working with several banks or branches, or whether more than one firm is involved, the monitoring of consultant time input is essential for performance assessment and costing purposes.

*Diversifying methodologies and improving systems*

PED recommends the following:

The programme's lending methodology should be reviewed with a view to incorporating changes in the methodology to attract a greater proportion of sound borrowers engaged in production activities.

The EBRD should continue dialogue with NGOs operating in Russia to enable the Bank to identify reliable NGO partners with whom it may be possible to work to expand the range of distribution channels for the programme.

The PB's within the programme should be permitted to tailor MSE loan products to meet the requirements of borrowers and the local competitive environment, while continuing to observe sound banking principles.

The RSBF should, instead of imposing software on PBs, define the reporting requirements of programme management that PBs will need to satisfy. Necessary additional technical assistance should be offered to PBs on a cost-sharing basis to enable them to integrate RSBF reporting with their existing systems or to select a suitable alternative MIS product. It is noted that this may, given time, lessen the degree of dependency on a single consulting firm and facilitate the introduction of other suitable consultants when identified.

*Commercial sustainability*

To date the performance of the downscaling programmes in PBs has been measured primarily in terms of loan numbers and volumes. Attention should be given to assessing the profitability of MSE lending operations in PBs on a full cost basis taking account of the cost of TC inputs. The scope of TC should
p. vii be extended to include targeted technical assistance to enable PBs to cost out their product lines. The introduction of cost sharing with PBs should be considered for targeted assistance of this nature.

To assist in gauging PB progress towards sustainability of MSE lending, *pro forma* financials should be developed to track the earnings of downscaling banks on their RSBF portfolios, offset by the full cost of the in-kind subsidy
p. viii represented by TC including consultant input. ...

## 4.2 Sustainability and graduation

Sustainability and graduation are two sides of the same coin. The RSBF cannot be sustainable unless PBs graduate in the sense that they become able and willing to continue MSE lending using their own resources and without the support of donor-funded TC. In this context, graduation implies several things:

### What makes a "graduated" MSE lending unit sustainable?

- An end to the need for technical cooperation grants and the ability to develop human resources internally or through market mechanisms;
- Corporate strategy that reflects a commitment to the target market, including the ability to develop appropriate financial products and services;
- Allocation of financial resources to back the strategic commitment; and
- The ability to verify, on a regular basis, the cost, pricing and profitability of
p. 22 financial products and services offered to the MSE market.

### 4.2.1 Graduating financial institutions – the role of counterpart funding

The RSBF's current approach for developing financial institutions is to provide training for credit officers and show them how to place credit lines using their new skills. Most FIs are happy to receive well-trained credit officers at no extra cost to them and many will allow these officers to use borrowed money to lend to the target market. Once the trainers have left and the credit line is repaid, some of these FIs will continue to lend to MSEs, having developed an appreciation for the size of this virtually untapped market. Other FIs will return to business as usual, with the added benefit of being able to advertise the EBRD affiliation.

Although there are limited circumstances in which specific instruments or contracts might be able to guarantee that an FI will maintain its commitment to the MSE market, there are steps that the RSBF could take to increase the level of FI buy-in and enhance the probability of sustainable interventions. One of the lessons learned at the Inter-American Development Bank (IADB) is that while many FIs will apply for a reasonably priced hard currency credit line, those that are primarily seeking an IADB "seal of approval" tend to lose interest when counterpart funding is required. While it is true that most IADB global lines are placed through sovereign institutions,[22] the IADB's

[22] It is worth noting that IADB frequently requires that the Ministry of Economy or Finance incorporate a purposely-designed credit programme implementation unit if neither the Central Bank nor a state-owned Development Bank is deemed acceptable. In such cases, IADB technical cooperation includes training public sector officials in all aspects of credit programme implementation and monitoring.

SME arm, the Inter-American Investment Corporation (IIC) works only with private sector companies and without government guarantees. The IIC also typically requires a commitment of counterpart funding and/or counterpart assumption of any technical cooperation requirements of a specific lending programme. Even grant funding offered by the IADB's multilateral investment fund includes a stipulation that 30 per cent of the cost of the technical assistance project be covered by the grant recipient.

**Table 8: Counterpart funding for micro and small enterprise loan programmes (amounts in US$ )**

| Country | Lender | Programme | Multilateral loan amt | Counterpart loan amount | Counterpart pct |
|---|---|---|---|---|---|
| Argentina (1997) | IADB | IADB small and micro global | 49,000,000 | 16,000,000 | 24.6% |
| Argentina (ongoing) | IADB | IADB small and micro global | 98,000,000 | 98,000,000 | 50.0% |
| Bosnia & Herzegovina | EBRD | Micro-enterprise bank | 2,338,223 | n.a. | n.a. |
| Brazil (1999) | IADB | Banco do Nordeste | 30,000,000 | 30,000,000 | 50.0% |
| Brazil (2000) | IADB | BNDES MSME Line | 980,000,000 | 980,000,000 | 50.0% |
| Colombia (1993) | IADB | IADB small business line 2 | 15,000,000 | 7,000,000 | 31.8% |
| Colombia (1997) | IADB | IADB small business line 3 | 30,600,000 | 20,210,000 | 39.8% |
| El Salvador (1997) | IADB | IADB micro global 1 | 24,000,000 | 6,000,000 | 20.0% |
| Georgia (2001) | EBRD | Microfinance bank - micro | 8,025,996 | n.a. | n.a. |
| Indonesia (1996) | n.a. | Bank Rakyat Indonesia | Micro Loans Financed via Deposits | | 100% |
| Paraguay (1999) | IADB | Micro global | 22,200,000 | 2,800,000 | 11.2% |
| Peru (1998) | IADB | Micro global | 27,750,000 | 11,900,000 | 30.0% |
| Peru (2001) | IADB | Micro global | 30,000,000 | 12,860,000 | 30.0% |
| Russia (2001) | EBRD | RSBF | 300,000,000 | n.a. | n.a. |

p. 23 Source: Ariel Ventures, Inc.

BNDES, the Brazilian National Bank for Economic and Social Development has developed an additional incentive to encourage qualified FIs to actively serve the MSME market. For every 1 million *reais*[23] that is on-lent through an

[23] Approximately US$ 433,000 as of 8 August 2002.

approved MSME programme, a partner bank may draw down 100,000 *reais* (10 per cent) to use at their own discretion for MSME lending.

The Russian financial crisis seriously hampered the ability of local banks to finance activities. Even today, when in the view of some commentators the Russian banking sector is stronger than it was before the crisis, banks generally lack medium-term rouble external funding. Nevertheless, some partner banks have been willing to lend to some extent from own funds to increase the MSE portfolios developed with the assistance of the RSBF. The evaluation team considers that the absence of the requirement for counterpart funding was a weakness in the design of the RSBF concept. A requirement after a certain time to commit at least a small amount of resource would mobilise additional funds for micro-lending and demonstrate the PBs' commitment, improving the prospects for programme sustainability.

### 4.2.2 Sustainability – staff retention and training

The RSBF provides thorough, expert credit training. Many of the basic tools and techniques are applicable to small business lending in general, making trainees a valuable commodity for participating banks. In fact, there appears to be a strong demand within the banking system for loan officers who have completed the RSBF training programme. There is still an insufficient number of well-trained bank staff in the sector, especially in the field of credit assessment. Retaining trained staff is an important concern. The incentive payment scheme is a step in the right direction. However, to the extent that it only applies to MSE credit officers, the possibility of friction with other PB staff members remains a threat. Furthermore, if other banks are luring staff away with higher salaries, it may be that RSBF credit officers receive too little income in the form of salary and too much linked to incentives. This is an area that should be monitored with some potential changes worth considering. The RSBF could require banks to reimburse all or part of the associated technical cooperation costs if an MSE credit officer is moved out of the MSE unit or leaves the bank before they have served at least a year. The banks, in turn, could give potential credit officers guaranteed positions (upon completion of credit training) in exchange for one or two-year commitments.

Appropriate training plays an important part in staff retention. Loan officers are trained within the programme on-the-job as well as attending training seminars. During the period 1999–2001, some 79 training seminars of varying lengths were held, attended by a total of 1,757 participants, for a total of 7,294 person/days of training. Russian credit experts contracted to work with the RSBF carry out the on-the-job training and participate in training seminars in addition to their normal supervisory and project implementation functions. In response to the programme's changing needs, the number of Russian credit experts hired has fallen from 30 in June 2002 (9 based in Moscow and 21 in the regions) to 21 in March 2003 (6 based in Moscow and 15 in the regions). In addition, PBs that are sufficiently advanced in the programme are encouraged to employ, at their own cost, a fully trained micro-credit expert to oversee MSE operations and provide for ongoing

training needs. The evaluation team considers that this is an effective means of organising the training function, creating a body of specialists in the PBs possessing technical expertise combined with the skills required to cultivate
p. 24 local staff.

Although outside the current scope of the RSBF, there is an opportunity to build a generation of trainers to work more widely with Russian banks to improve their understanding and practice of small business lending skills, not necessarily using the current methodology. To this end the Bank and donors may wish to consider setting up a stand-alone TC project to train the trainers, perhaps working with central or regional credit training agencies.

## 4.3 Institution building

The RSBF, which continues to lend to an increasing number of borrowers whilst maintaining very low arrears rates, clearly has found and/or developed certain strengths in dealing with partner institutions.

- Many partner bank branches in the regions have been enthusiastic participants in the RSBF;
- The creation of a specialised microfinance bank has had a significant positive effect on the RSBF's ability to lend to micro-enterprises;
- The market places a high value on RSBF credit training and to a lesser extent on RSBF credit policies and practices

However, a number of limitations of the institutional development activities to date should also be flagged

- Since the 1998 financial crisis, RSBF has depended in some regions on one lending channel which could not be replaced easily;
- While the recently-created specialised vehicle has proved successful at micro-lending, the question must be asked whether it can be considered a viable bank until it can develop more indigenous funding sources and a broader product line;
- Institutional development requires more than micro-lending credit policies and skills, but there is little evidence of a plan for adding other organisation development activities in the downscaling banks.

Partner bank loan agreements are specific to those institutions. It is in drafting these agreements that the EBRD has an opportunity to make individual diagnosis of technical cooperation needs and the prospects for counterpart funding. The regional banks have the potential to realise the true institutional development goals of the programme. With new regional banks joining the programme in 2002 and 2003, the scope for extending the demonstration effect of the RSBF is widened. As discussed below, the evaluation team considers that the introduction of some flexibility in certain aspects of the programme could widen its appeal to banks in the regions. The opportunities for the provision of counterpart funds by PBs should be investigated when assessing new PBs for admission to the programme. New entrants should be required to commit themselves in principle to the concept of counterpart funding, with due account taken of their liquidity position. Similarly, the opportunity to secure such commitments from existing PBs should be taken when extension of the EBRD's credit lines is being negotiated.

### 4.3.1 Management information systems

Even before the creation of regulated MFIs, micro-enterprise lending programmes struggled internationally to manage and present programme data in ways that met the needs of daily administration, donor concerns and
p. 25 strategic planning. The universe of micro-lending programmes consisted almost entirely of numerous, small not-for-profit organisations. Thus, while the need for customised software was great, the market characteristics were not sufficiently attractive to lure traditional software companies into developing and supporting micro-lending software. Every MFI uses software that has been customised, to a greater or lesser extent, to meet its specific requirements. While the software provided by the RSBF consultant may contain the same arrears alert features as other programmes, the platform (single user, desktop personal computers) is likely to be out of date.

One partner bank stated that the RSBF credit module, which is operated in isolation from its own MIS, is used only because it is a requirement of the programme. They would much prefer to be able to generate reports for the RSBF from within their own MIS. During PED's field visit, several PB branches stated that they carry out additional analysis of the RSBF data manually for their own purposes since the RSBF credit module is not capable of generating the reports that they require for local management. One PB is understood to have embarked on a major MIS development programme to overcome the processing and reporting limitations of the RSBF software.

RSBF interests may prove more useful in helping partner banks to identify the most appropriate software based on each bank's needs, circumstances and systems. As long as each bank can meet the programme reporting requirements, the RSBF should be indifferent as to which software package is used. Partner banks that have operating and reporting platforms that are not compatible with the RSBF software would be better off with a choice of alternative products. Further, some banks have different internal reporting and management priorities that might be served more effectively by using other MIS options.[24] The ability to exercise these options should be integrated within the RSBF framework. One partner bank, for example, does not use the software. Under current arrangements, this means that data from this bank is sometimes excluded from periodic RSBF reports. Nevertheless, imposing

[24] Responses to the special study questionnaire illustrate the differences in bank practices. At one bank, regular site visits are of primary importance, while for others visits are given higher priority after a late payment has occurred. All of the banks monitor profitability, but at two partner banks, "use of proceeds" was the second most important loan monitoring priority although it is not tracked well by the RSBF software. At two banks "loan terms and conditions" were of prime concern and here too, customised software would be useful.

the software on this bank would be counterproductive on balance, as it would expose the bank to the limitations of a product that is not integrated with the bank's core system. A more effective solution would be to determine detailed reporting requirements from the participating banks to the RSBF while assisting the banks in developing the systems modifications necessary to provide the information.

### 4.3.2 Central micro-creditor database

One of the major issues in micro and small enterprise lending is information sharing. Given its database of information on more than 38,000 MSEs, the RSBF has the opportunity to create a centralised credit-reporting database. In Bolivia, when the onset of consumer lending led clients to take on multiple loans and fall into arrears, several MFIs banded together to create a lenders database that ultimately was adopted by the entire banking system. The database contained the names of all individuals with outstanding loans, together with the status (current, in arrears, in default) of loan repayments. The best MFIs used the system to bring arrears down and avoid over-extending credit.

In Brazil, the Commercial Association of São Paulo was the first to recognise the effect that information sharing had on entrepreneurs. To combat bad
p. 26 cheques, the Association developed a database of credit information for individuals and businesses that interacted with its members. This system, Telecheque, is now in use throughout Brazil and is one of the most important credit reference sources available in the country.

In Peru, the Superintendency of Banks promised credit information but was extremely slow to update information. A private centralised micro-credit bureau was developed to encourage micro-lending by providing more timely information.

The RSBF could consider making use of the information it has developed. Creating a private credit information system with up-to-date information could have a strong and lasting impact on the Russian banking system and could significantly improve small enterprise access to loans of appropriate size and tenor. During PED's field visit it was observed that at least one RSBF regional office acts as an informal credit information agency for PB's who contact the RSBF office when they receive a fresh loan application to establish whether the applicant is known to the RSBF. In other words they check whether the applicant already has an RSBF loan with another bank. A more formal system would almost certainly benefit the RSBF and the sector.

### 4.3.3 Policy dialogue

Narrative reports on RSBF activities cite numerous examples of discussions with various bodies at the local and/or regional level (local governments, enterprise associations, large enterprises). Given the numerous legal, regulatory and fiscal policies cited by many sources as obstacles to small

business growth and development, there is a clear need for RSBF to build and maintain its relationships with government (at all levels), enterprise associations, trade groups and so forth. It is primarily at the level of EBRD that RSBF interests can be considered together with general financial sector interests, transition objectives and so forth. The evaluation team notes that from late 2002 a member of the Bank's Group for Small Business has been assigned to coordinate policy dialogue in Russia on issues relating to
p. 27 microfinance.[25]

[25] It should also be noted that over a number of years the EBRD Office of the Chief Economist (OCE) and Office of the General Counsel (OGC) have led policy dialogue with the Russian authorities on various matters relating to SME development and finance. The operation team (OT) advises that the operation leader (OL) has also been active in a number of discussions.