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EVALUATION OF DCA GUARANTEE TO CENTER-INVEST BANK, RUSSIA

FINAL REPORT

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On the Cover: The city of Rostov-on-Don

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This evaluation could not have happened without you!

ACRONYMS

CMS	Credit Management System
DCA	Development Credit Authority
EBRD	European Bank for Reconstruction and Development
EGAT/DC	Bureau for Economic Growth, Agriculture, and Trade/Office of Development Credit
FSVC	Financial Services Volunteer Corps
GDP	Gross Domestic Product
IFC	International Finance Corporation
IR	Intermediate Result
LPG	Loan Portfolio Guarantee
MSEs	Micro and small enterprises
MSED	Micro and Small Enterprise Development
MSMEs	Micro, small, and medium enterprises
NPL	Non-performing loan
PR	Public relations
RBD	Russian Bank for Development
SMEs	Small and medium enterprises
SO	Strategic Objective
USAID	U.S. Agency for International Development

EXECUTIVE SUMMARY

In 2003, small and medium enterprises (SMEs) in Russia accounted for 94 percent of the total number of businesses in the country. However, despite their numbers, SMEs produced only 13 percent of gross domestic product (GDP) in 2004 and commercial credit available to help SMEs grow met only 1 percent of demand. High transaction costs, perceived riskiness of commercial lending to SMEs, lack of sound risk assessment methodology, and unfavorable regulations governing collateral possession in case of default discouraged banks from lending to this important sector.

For their part, SMEs were skittish about borrowing commercially because doing so attracts the attention of the tax authorities, who impose a tremendous tax reporting burden. SMEs that wanted to borrow did not have sufficient collateral to meet the high bank requirements and faced burdensome interest rates.

The number of entrepreneurs per 1,000 people in 2003 was most concentrated in the Southern Federal District, at 83. However, lack of sufficient regulation and local authorities' abuse of power combined to make profitable small business finance in the region difficult at best.

The U.S. Agency for International Development (USAID) responded to the lack of SME finance in 2004 by providing a $6 million, five-year loan portfolio guarantee (LPG) to a regional bank in the Southern Federal District, Bank Center-Invest.[1] USAID had discovered that Center-Invest was planning to expand its SME lending to Krasnodar and other oblasts in the Southern Federal District, and agreed to support the bank's endeavors with an LPG under the Agency's Development Credit Authority (DCA). The program proposed to cover 50 percent of Center-Invest's principal losses on a portfolio of loans made to SMEs through its new branches in Krasnodar and Volgograd, with the objective of providing credit to SMEs who would not otherwise have access to formal financial markets.
Key characteristics of the DCA guarantee are summarized in the table below.

TABLE 1. DCA LPG TO CENTER-INVEST, SUMMARY OF DATA

Starting Year	Ending Year	Ceiling Amount ($)	Number of Loans	Aggregate Amount ($)	Utilization Rate	Median Loan Size ($)	Average Loan Tenor (months)
2004	2009	6 million	137	4,570,886	76.18 percent	17,809	9

Source: USAID Credit Management System (CMS)

[1] USAID's relationship with Center-Invest began in 2002 with a Micro and Small Enterprise Development (MSED) LPG. Center-Invest has also benefitted from a variety of USAID-sponsored financial sector trainings over the years.

In May 2009, USAID's Bureau for Economic Growth, Agriculture and Trade/Office of Development Credit (EGAT/DC), which manages the USAID guarantees under the DCA, contracted SEGURA/IP3 Partners LLC to conduct an evaluation of the DCA guarantee provided to Center-Invest. This evaluation is the fourth in a series of 20 evaluations of DCA guarantees planned for the next 4 years to assess the outputs, outcomes, and impacts of these guarantees. Individually and together, these evaluations are meant to provide EGAT/DC with information to

1. Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results;
2. Contribute to the dialogue about how to engage financial sector institutions as partners in development;
3. Strengthen USAID's application of DCA as a tool for achieving development results; and
4. Influence the design of new guarantees.

The scope of work for this evaluation asks the evaluators to examine the results of the DCA guarantee to Center-Invest at three levels: output, outcome, and impact. At the output level, USAID has asked the evaluators to examine the additionality of the guaranteed loans; that is, what differentiates these loans and the way the bank uses them from business as usual at the partner bank. Outcome-level questions focus on determining the extent to which use of the guarantee has produced changes in Center-Invest's non-guaranteed lending. Impact-level assessment seeks to determine whether changes in Center-Invest's behavior have encouraged other, non-partner banks to increase lending to the target sector. In addition, EGAT/DC asked the evaluation team to analyze the effects of exogenous factors on changes observed at the three levels. The evaluator wove the exogenous factors through the report's findings, as appropriate.

Evaluation Questions in Brief

Output level—How did Bank Center-Invest use the guarantee?

Outcome level—Did Center-Invest's experience with the guarantee help improve access to credit for SMEs through its lending outside the guarantee coverage?

Impact level—Did the guarantee have a demonstration effect that resulted in other lenders improving access to credit for target SMEs?

Exogenous factors—What exogenous factors have affected the performance of the DCA guarantee at the output, outcome, and impact levels?

This evaluation used a mixed methods approach, including statistical analysis of loan data, key informant and group interviews, and document review. The evaluation began in May 2009 with initial discussions with EGAT/DC to obtain a better understanding of the guarantee, its objectives and context, and key players with whom the team should meet while in Russia. After reviewing background documents on the guarantee (see Annex IV) from EGAT/DC, the evaluator revised the generic evaluation framework for all of the DCA evaluations to fit the Center-Invest guarantee objectives and context, and developed indicators to measure the outputs, outcomes, and impacts of the guarantee.

The evaluation continued in Russia from June 15 to 26 with semi-structured interviews with Bank Center-Invest staff and clients, the USAID Mission in Moscow, and other financial sector experts, including other SME lenders. The evaluation team also collected additional documents from interviewees, as well as lending data from Center-Invest.

Back in the United States, the lead evaluator collected additional data as needed using internet searches and used a combination of comparative analysis, statistical analysis, and content pattern analysis to draw findings from all of the collected data, from which conclusions were drawn.

Data limitations included: (1) unavailability of and non-response from several Center-Invest staff members; (2) lack of disaggregated data on Center-Invest's non-guaranteed lending; and (3) no interviews with recipients of guaranteed loans. However, the evaluator does not believe these limitations significantly impact the conclusions presented in this report, though their absence could have enriched the findings.

The global financial crisis hit Russia in late 2008 and has had a predictably significant effect on banks and lending, including to SMEs. Throughout our data collection, we differentiated as much as possible between the period prior to the financial crisis and during the crisis, since any effects of the DCA guarantee on Bank Center-Invest and other SME lenders became diluted with the fallout of the banking crisis.

Output-level Conclusions and Findings

Evaluation Question 1: How did the DCA guarantee fit into Center-Invest Bank's ongoing strategy? What market potential did the DCA guarantee help open for Center-Invest? How did Center-Invest implement the programs, which the loan guarantee was targeted to support? And why?

Conclusions:

The DCA guarantee purpose—to expand lending to Krasnodar and Volgograd—fit perfectly within Center-Invest's business strategy. However, due to its risk aversion and more challenging SME environments in Krasnodar and Volgograd, the bank decided it was not ready to engage in riskier lending to these markets right away and therefore ended up using most of the guarantee funds to loan to collateral-poor SMEs in the Rostov region. The bank made no changes in loan terms under the DCA guarantee, nor did it change any of its operational processes to accommodate the guarantee because it had processes that worked.

Findings:

- The Purpose of the signed Guarantee Agreement between USAID and Center-Invest was "To strengthen the Guaranteed Party's ability to expand its SME loan portfolio through its newly opened branches in two Russian regions: Krasnodar and Volgograd, thereby stimulating economic growth." This purpose is consistent with Center-Invest's stated objective for the guarantee: developing relationships with clients in Krasnodar and Volgograd, which was also part of Center-Invest's 2003-2008 business plan.
- Center-Invest provided 8 of its 137 DCA guaranteed loans to businesses in the Krasnodar region and 5 in the Volgograd region. Together, these loans made up 9 percent of all 137 guaranteed loans and 12 percent of their value.
- Center-Invest's Head of the SME Lending Department explained that Center-Invest had not yet properly scrutinized the markets in Krasnodar and Volgograd prior to receiving the DCA guarantee and was hesitant to accept the risk inherent in undersecured lending to unknown markets. By the time Center-Invest felt more comfortable with the Krasnodar and Volgograd markets, it had already come to within 76 percent of the maximum portfolio amount allowed under the guarantee.
- Representatives of Center-Invest and the European Bank for Reconstruction and Development (EBRD) in Rostov said that since the SME sector in Krasnodar and Volgograd does not receive as much government support as in Rostov, the environment is less conducive for SME lending.
- The Center-Invest principals with whom the evaluation team spoke emphasized that the DCA guarantee supported the bank's overall goal of increasing the volume of lending to SMEs, by increasing the number of credit products available to SMEs. The bank used the guarantee to offer a new product: lending with relaxed collateral requirements.
- Center-Invest used its standard processes to assess the creditworthiness of SMEs and to calculate the collateral requirement for each loan for which an SME applied. If an SME was a solid business but lacked sufficient collateral to cover the size of loan for which it applied, Center-Invest asked the SME to provide at least 50 percent of the calculated collateral requirement and used the DCA guarantee to make up the difference.
- Center-Invest's average collateral requirement is 150 percent of the value of the loan. The average collateral percentage among DCA guaranteed loans was 111 percent.
- Although Center-Invest stated prior to the beginning of the DCA guarantee that it wanted to use the guarantee partially to grant larger loans to clients in Rostov, bank principals said this was not a bank goal. Although the average size of guaranteed loans increased over time, the bank said that the growth was due to growth of the borrowers' businesses because the regional economy was booming.

- The Head of SME Lending at Center-Invest said that the bank did not differentiate between guaranteed and non-guaranteed loans when deciding terms and conditions, nor did it use different borrower assessment criteria. The Guarantee Agreement did not envision such changes, either.

Evaluation Question 2: How have partner bank portfolios in the target sector performed? What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?

Conclusions:

Center-Invest's lending portfolio has performed well, demonstrating rapid growth and a low percentage of non-performing loans (NPLs). The guarantee's influence on Center-Invest's portfolio characteristics was minimal at best, simply because the guaranteed loans represented such a small proportion of the Bank's SME portfolio and the bank made no procedural changes to accommodate the guarantee. The bank's careful assessment policy for its borrowers and individual approach to dealing with overdue payments have resulted in a low percentage of NPLs.

Findings:

- The value of Center-Invest's SME portfolio increased from RUR 3,206 million in 2003 to RUR 10,045 million in 2008, a 213 percent growth.
- Together, the total value of the DCA guaranteed loans represented 1 percent of Center-Invest's SME portfolio value as of January 1, 2009. Guaranteed loans represented 0.48 percent of the number of SME loans in the Center-Invest portfolio during the period of the guarantee.
- Interest rates did not differ between guaranteed and non-guaranteed loans and were on par with the average in the region, just as the Guarantee Agreement envisioned.
- Only one of the guaranteed loans was in arrears, amounting to 0.15 percent. As of January 1, 2008, the total percent of NPLs was less than 1 percent of the bank's SME portfolio, reflecting the bank's detailed assessment of borrowers and individual approach to handling NPLs.
- The bank's procedures for dealing with loans in arrears are the same for guaranteed and non-guaranteed loans, according to the Head of SME Lending, and include working closely with the customer.

Outcome-level Conclusions and Findings

Evaluation Question 3: To what extent were desired outcomes achieved, and sustained, as intended in the Action Package and/or Legal Agreement, outside the protection of the DCA guarantee? What factors at the partner bank level can be associated with achievement of desired outcomes?

Desired outcomes according to the Action Package and Legal Agreement were as follows:

1. Strengthen Center-Invest's ability to expand its SME loan portfolio through its newly opened branches in Krasnodar and Volgograd
2. Grant larger loan sizes to clients in Rostov
3. Extend loan terms beyond 1 year

Conclusion:

While Center-Invest definitely expanded its SME portfolio and number of clients in both Krasnodar and Volgograd, this expansion was due to the bank's own efforts, rather than to its experience with the DCA guarantee.

Findings:

- Both the Krasnodar and Volgograd branches were established prior to the DCA guarantee and formed part of the bank's ongoing expansion of its branch network, which also included Pyatigorsk and Stavropol.
- While Center-Invest's lending to clients in Krasnodar and Volgograd grew between 2004 and 2009, the number and amounts of DCA guaranteed loans to these regions was negligible, both within the portfolio of DCA guaranteed loans as well as within the bank's overall loan portfolios in these regions.
- Center-Invest's Head of SME Lending said that Center-Invest's expansion into Krasnodar and Volgograd was in no way due to the DCA guarantee.

Conclusion:

The average size of Center-Invest's loans to SMEs grew between 2003 and 2008 because the banks' clients' businesses expanded.

Findings:

- The average SME loan size at Center-Invest has grown 67 percent between 2003 and 2008, from $47,000 to $78,424. However, as of April 2008, 49 percent of the bank's SME loans were worth less than $50,000.
- Center-Invest's Head of SME Lending said that this growth was due to the bank's clients' growth, rather than the bank's experience with the DCA guarantees. The bank's goal is not to increase the amounts of individual loans, she said, but rather to increase the overall volume of loans in the bank's portfolio.
- The booming Rostov economy and financial assistance from the regional administration encouraged SMEs to grow during the period of the guarantee.

Conclusions:

Center-Invest's SME loan tenors increased on average between 2004 and 2008, but it does not appear that this growth was due to the DCA guarantee. Market conditions and the European Bank for Reconstruction and Development's (EBRD's) investment in the bank were likely responsible for the growth of loan tenors.

Findings:

- The average non-guaranteed Center-Invest SME loan was 19.4 months in duration from the period 2004 to 2009, an 81 percent increase over the baseline of 10.7 months. By 2008, a minimum of 42 percent and a maximum of 76 percent of loans were more than a year in duration, a significant increase over the baseline of 21 percent.
- The average DCA guaranteed loan, by contrast, was 9 months in duration.
- The Head of SME Lending at Center-Invest attributed the growth in average loan tenor to funding from EBRD. Guaranteed, long-term cash through EBRD's 27 percent stake in the bank would certainly provide the bank with the financial comfort to engage in longer term lending.
- One can surmise that the growth of the bank's clients' businesses may have qualified them for longer-term loans.

Conclusion:

Most of the SMEs that received guaranteed loans remained Center-Invest clients after their guaranteed loans ended, thereby gaining access to a longer-term source of financing. These clients' increased access to finance appears sustainable.

Findings:

- The Head of SME Lending explained that clients who received DCA guaranteed loans would not likely have become Center-Invest clients in the absence of the guarantee because they could not meet the collateral requirements.
- All but three or four of these clients remained with Center-Invest.

Conclusions:

The bank's comfort level with guaranteed lending to clients short of collateral possibly influenced its engagement in additional guarantee agreements. Center-Invest expanded SME access to finance by increasing its SME credit product line between 2001 and 2007. Together, the MSED and DCA guarantees may have supported the bank's creative thinking and devising new products, but there is not sufficient evidence to support a solid conclusion.

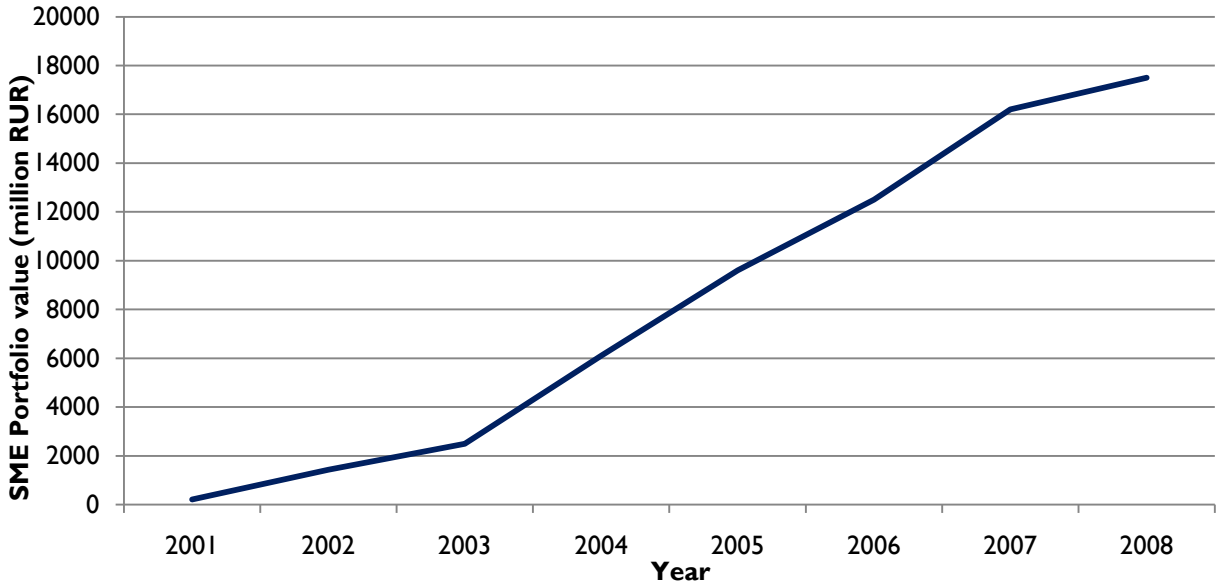
Findings:

- The bank did not continue to lend at less than 100 percent collateral without the DCA guarantee, but it is accepting inventory and receivables as collateral, which is unusual for Russian banks.
- The bank intends to participate in an upcoming tender from the Rostov regional government for a guarantee fund that backs loans to clients with insufficient collateral. The bank also signed an agreement with the Regional Guarantee Fund of the Volgograd Region for guaranteeing loans to SMEs short of collateral.
- Center-Invest has been a beneficiary of the Rostov Regional State Fund for Small Business Support since 2001, which has provided credit guarantees and subsidized interest rates.
- Center-Invest greatly expanded its credit product offerings for SMEs between 2003 and 2009 from fewer than 6 identifiable loan products to 13.
- The Head of SME Lending at Center-Invest said that prior to the guarantees, the bank had "conservative, standardized products." The DCA guarantee, she said, "implied a substantial deviation from our standard rules" and inspired the bank to extend its credit product line.
- The DCA guarantee to Center-Invest does not appear to have directly funded any of the new products rolled out during its use.

Conclusions:

The full impact of the guarantee on Center-Invest's non-guaranteed lending business is assuredly larger than the 1 percent it directly contributed to the bank's growth, but we do not have sufficient data to make a reasonably accurate estimate. Larger factors in Center-Invest's successful growth include its relations with international funders and partners, political connections within Russia, and a highly successful PR strategy. The DCA guarantee has, however, contributed to the bank's increased access to credit for borrowers.

FIGURE 1. CENTER-INVEST BANK SME LOAN PORTFOLIO, 2001-2008



Source: Center-Invest Bank Annual Reports. Annual figures are based on the calendar year.

Findings:

- The bank's client base grew an estimated 1015 percent between 2000 and March 31, 2009, rising to 36,000 SME clients.
- Center-Invest is now the largest provider of SME loans in the Rostov region, in terms of volume, overtaking the previously dominant, state-owned Sberbank.
- The DCA guarantee's direct contribution to Center-Invest's SME loan portfolio was 122.7 million rubles, or approximately 1 percent of the bank's total active SME portfolio during the period of the guarantee. Since clients who received a guaranteed loan went on to receive additional loans from the bank, the multiplier effect pushes this percentage higher. Unfortunately, since the bank was not able to provide any data on individual loan recipients and their progress after receiving a DCA guaranteed loan, we cannot estimate the value of this multiplier.
- The evaluation's information sources offered a few reasons why Center-Invest has been so successful in the SME market in the Rostov region: effective public relations, ties with the local administration and international partners, and an unwavering focus on the needs of regional SMEs, along with strong community ties.

Evaluation Question 4: Has Bank Center-Invest moved into any new sectors/industries and types of borrowers after the guarantees began? If so, have DCA guarantees, as a demonstration model, played any role in these bank decisions?

Conclusions:

The bank has moved into two new regions—Krasnodar and Volgograd, but the DCA guarantees did not play any role in this expansion. Center-Invest has also begun to lend to start-up companies, but given the bank's consistent focus on growing SMEs and its recent request for an additional USAID guarantee specifically for start-up loans, it is unlikely that the existing USAID guarantees played a significant role in the bank's start-up financing, which began in 2005.

Findings:

- According to the Head of SME Lending at Center-Invest, the only new "sectors" into which Center-Invest has moved are the SME markets in Krasnodar and Volgograd. She emphasized, however, that this expansion had nothing to do with the bank's experience with the DCA guarantee, and the bank's very limited use of the guarantees in these places supports her assertion.
- Center-Invest has continued to target the same sectors/industries because these have not changed in the Rostov region and consist primarily of trade and agriculture. Sectors varied neither between guaranteed and non-guaranteed loans, nor between 2006, at which point the bank had used most of its DCA guarantee, and 2008.
- The bank would like to expand lending to start-ups, and has asked USAID for a new credit guarantee to help it do so. Center-Invest already provides significant support to budding entrepreneurs in the form of scholarships, trainings, a computer center, and beginning in 2005, start-up financing.

Impact-level Conclusions and Findings

Evaluation Question 5: Did other, non-partner banks initiate or increase lending to SMEs/ Rostov/ Krasnodar/ Volgograd? If so, what role did Center-Invest's activities in SME lending play as a demonstration model?

Conclusions:

Banks did, indeed, increase lending to SMEs since 2004, especially in the Southern Federal District, because of a combination of favorable economic and infrastructure conditions that fueled SME development, government programs encouraging lending to SMEs, and experience with SMEs as profitable customers. Center-Invest does not appear to have had any direct impact on the entry of other banks into the Rostov region SME lending market, but it has improved the environment for SME lending. The bank has also successfully connected international investors and sources of government funds with small businesses in the Southern Federal District. Although the DCA guarantee did not produce this impact, it certainly supported the ongoing activities of a socially responsible bank.

Findings:

- All interviewees, including Center-Invest clients, agreed that banks have increased lending to SMEs in Russia in general and in Rostov specifically since 2003.
- Reasons cited for this increase include: (1) expectations of SME lending to grow; (2) SME loans provide good yields; (3) a rapidly growing Russian economy; (4) unmet demand in the market for SME credit; (5) banks' experience with SMEs as reliable borrowers; (6) the regional Rostov administration's support to SMEs through subsidies; and (7) the favorable economy in Rostov attracted more SMEs and the growth in SMEs, in turn, attracted banks to lend to them.
- Center-Invest has supported SMEs in the Southern Federal District from its founding, through a variety of charitable and financial projects, as well as influence with the local administration. Since 2006, the bank has been providing free legal advice to clients via a hotline. With funding from the IFC, the bank introduced an energy efficiency program in 2005, which finances energy efficiency projects that reduce companies' operating costs and promote a greener economy.
- The bank's syndicated loan brought Chinese, Japanese, and Nigerian banks into the region. In 2002, a guarantee from Hermes allowed Center-Invest to finance the purchase of 10 German harvesters for bank clients. In 2006, the bank hosted its second international conference, "Russian and German Day for SME financing," in which it connected its SME customers with entrepreneurs and financiers in Germany.
- The Deputy Minister from the Ministry of Economy, Trade and International Relations in Rostov esteems Mr. Vysokov and is actively pursuing a variety of measures to support SMEs in the region. The bank hosted a workshop to instruct SMEs on how to obtain government contracts.

Evaluation Question 6: Did loan access and/ or terms improve for SMEs in Rostov? If so, how and why? What role did Center-Invest activities play as a demonstration model?

Conclusions:

Despite the proliferation of banks offering SME credit, access to credit has not significantly improved since 2004. Banking and other related government regulations, high collateral requirements and interest rates, short tenors, and small loan sizes have made commercial SME lending unattainable or insufficient for many businesses. Center-Invest seems to be unique in its concerted efforts to make financing accessible to small businesses in the Southern Federal District.

Findings:

- Between 2007 and April 2009, the percent of respondents to a small business association survey that named access to credit as a key obstacle to SME growth jumped from 15 percent to 76 percent, with 87 percent stressing the burden of high interest rates.

- SMEs have said that it is still very difficult to obtain start-up finance in Rostov and collateral requirements can be as high as 400 percent.
- The European Bank for Reconstruction and Development said that banks still see crediting SMEs as risky and therefore do not offer terms the SMEs can actually afford, or treat SMEs as corporate clients, with documentation, accounting, and collateral requirements that are too high for SMEs to attain.
- Between 2003 and 2007, banks had to pay 10-14 percent deposit interest rates because inflation in Russia averaged 11 percent. The high deposit rates translated into higher lending rates, to cover the high cost of funds.
- The hefty tax reporting burden on SMEs and strict Central Bank regulations regarding reserve requirements when lending to businesses without a loan history have combined to reduce both supply of and demand for SME finance.
- Center-Invest clients told us that they had difficulty obtaining financing on favorable terms from other banks, which is why they ended up at Center-Invest.

INTRODUCTION

The Development Problem

Small and medium enterprises (SMEs) in Russia have been active contributors to the Russian economy. According to a report by the Russian SME Resource Center with support from USAID, in 2003, SMEs accounted for 94 percent of the total number of enterprises in the country.[2] They also employed 48.8 percent of Russian workers.[3]

Despite their numbers, SMEs produced only 13 percent of GDP in 2004, compared to 50 percent or more in developed countries.[4] Moreover, although the Russian Government emphasized the importance of SMEs to the Russian economy, government support amounted to only $4.5 million in SME lending programs in 2003. The Resource Center for SME Development estimated in October 2003 that credit available to SMEs met only 1 percent of demand. Reasons for this lack of credit supply included high transaction costs, perceived riskiness of commercial lending to SMEs, lack of sound risk assessment methodology, and unfavorable regulations governing collateral possession in case of default.

In addition, under Russian Central Bank regulations, a bank lending to businesses without credit histories has to reserve against the loans as if they were poor quality, reducing the bank's liquidity. Therefore, many banks prefer to provide individual, rather than business loans to such businesses.[5] Banks also lacked understanding of SMEs and did not know how to read a business plan to determine whether a planned investment is sound. SMEs, for their part, did not know how to present their case to a bank.[6]

Combined with undercapitalization of the banking system, these factors discouraged Russian banks from lending to SMEs and, when they do, they charged high interest rates. Lack of interest rate controls allowed banks to make loan terms individually-based, resulting in widely variant rates between banks.[7]

SMEs also faced a large tax reporting burden, discouraging them from attracting the attention of the tax authorities. Taking out a loan immediately alerts the tax authority, reducing SMEs' demand for small business loans. Russian regulations do not count receivables as collateral, which means that

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[2] *Analysis of the Role and Place of Small and Medium-Sized Enterprises in Russia*, Russian SME Resource Center and USAID, Moscow, 2004. "SMEs" are defined here as enterprises with fewer than 250 employees.
[3] According to Russian regulations at the time, an individual entrepreneur could hire an unlimited number of people and still retain the individual entrepreneur status.
[4] USAID Action Package, August 26, 2004.
[5] Richard Hainsworth, General Director of RusRating, which rates Russian banks. Also Tim O'Brien, Director of Russia and CIS, Financial Services Volunteer Corps (FSVC).
[6] Tim O'Brien
[7] Ibid.

many small businesses and individual entrepreneurs cannot meet the collateral requirements. Therefore, most SMEs and entrepreneurs obtain credit from friends and family.[8]

Consistent with countrywide trends, most (62.5 percent) of the SMEs in the Southern Federal District were actually individual entrepreneurs. By the end of 2003, the number of individual entrepreneurs per 1,000 people was most concentrated in the Southern Federal District, at 83, compared to a national average of 118. Few banks offered credit to SMEs in Rostov prior to 2004[9]. However, lack of sufficient regulation and local authorities' abuse of power combined to make profitable small business finance in the region difficult at best.[10]

USAID's Response[11]

The U.S. Agency for International Development (USAID) has been extending partial credit guarantees to private Russian banks through multiple initiatives since 1997.[12] As of June 2009, the Agency counted nine partner banks in five regions, including a South Federal District bank named Bank Center-Invest (Center-Invest), headquartered in Rostov.

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[8] Ibid.
[9] Yevchenko Yuri Aleksandrovich, Deputy Director of OPORA Rostov.
[10] Dmitry Larionov, Head of the Southern Federal District, EBRD/Rostov. Medoev, V. "Development of Micro, Small and Medium-sized Enterprises (MSMEs) in Russia."
[11] Data in this section are from the Guarantee Agreement between USAID and Center-Invest, USAID's Action Package requesting approval of the guarantee, and interviews with USAID/Russia staff involved in both the MSED and the DCA guarantees.
[12] USAID has mobilized $32.8 million in private financing for SME lending in Russia. Its nine partner banks have made a total of 762 loans to SME borrowers since the program began. Per information from Regional Portfolio Manager Sandra Goshgarian.

USAID's relationship with Center-Invest began in 2002 with a $2 million Micro and Small Enterprise Development (MSED)[13] loan portfolio guarantee (LPG). USAID increased the maximum disbursement amount under the guarantee to $6 million in the same year at Center-Invest's request based upon the bank's active and successful utilization of the guarantee. By the end of calendar year 2003, Center-Invest had come within 93 percent of its utilization ceiling under the MSED guarantee.

Center-Invest has also benefitted from a variety of USAID-sponsored financial sector trainings over the years, particularly on using international accounting standards.

In early 2004, USAID discovered that Center-Invest was planning to expand its SME lending to Krasnodar and other oblasts in the Southern Federal District, and agreed to support the bank's endeavors with another $6 million, 5-year LPG, under the Agency's Development Credit Authority (DCA). (Center-Invest had been planning to establish a branch in Krasnodar since at least 2002, according to its annual report of that year.) The program proposed to cover 50 percent of Center-Invest's principal losses on a portfolio of loans made to micro and small enterprises (MSEs) through its new branches in Krasnodar and Volgograd,[14] with the objective of providing credit to MSEs who would not otherwise have access to formal financial markets. Key parameters of the guarantee are shown in the table below.

TABLE 2. SUMMARY OF CENTER-INVEST GUARANTEE AGREEMENT

Authority	USAID DCA
Type	Loan Portfolio Guarantee
Guaranteed party	Center-Invest Bank
Guarantee purpose	To strengthen the Guaranteed Party's ability to expand its SME[15] loan portfolio through its newly opened branches in two Russian regions—Krasnodar and Volgograd, thereby stimulating economic growth.
Maximum portfolio amount	$6 million
Maximum cumulative disbursements	$6 million
USAID guarantee percentage	50 percent
Guarantee ceiling	$3 million
Term of guarantee	September 24, 2004 – September 23, 2009
Origination fee	$15,000 (0.50 percent of Guarantee Ceiling)
Utilization fee	0.75 percent per annum of average outstanding principal amount guaranteed by USAID.

[13] MSED and USAID's other credit initiatives were consolidated under its Development Credit Authority in 2001, per an EGAT Trip Report to Russia, February 1-14, 2004.
[14] USAID Action Package and EGAT Trip Report February 2004.
[15] Note that the Guarantee Agreement and Action Package refer to two slightly different types of borrowers. The action package refers to MSEs, while the Guarantee Agreement refers to SMEs.

Maximum cumulative principal amount of qualifying loans made to any one qualifying borrower	$10,000 for microenterprise loans $200,000 for small business loans
Terms	• Interest rates on terms consistent with those generally prevailing among private commercial lenders in borrower's country • Must be funded from Guaranteed Party's capital or funds acquired by GP on market basis, not from subsidized loan capital • Must not be made in connection with refinancing, repayment, repurchase of an existing loan
Qualifying Borrowers	Russian micro and small enterprises Microenterprise: no more than 5 full-time employees Small enterprise: total assets excluding land, buildings, equipment are less than $300,000 and average monthly turn over less than $500,000. No more than 100 full-time employees
Qualifying Loan	• Finances Investments designed to encourage growth of Qualifying Borrowers.

According to the USAID Action Package recommending approval of the DCA guarantee to Center-Invest, Center-Invest defined microenterprises and small businesses even more strictly than the LPG agreement with USAID, as shown in the table below.

TABLE 3. CENTER-INVEST DEFINITIONS OF MSES

	Target Market	Max. loan size	Repayment	Cost
Microenterprises	Individuals; small traders and manufacturers	RR 150,000 ($5,172)	Maximum 3 months	28 percent p.a.
Small Businesses	Agribusinesses; family farms; food production; trade	RR 500,000 ($17,241)	Maximum 12 months	28 percent p.a.

**Ruble and dollar values are from the Action Package.*

According to Russian Government definitions, a small business has 100 employees or less; a medium business has 250 employees or less; and a microenterprise has a maximum of 15 employees.[16]

The Action Package also mentions that the guarantee is expected to contribute to USAID/Russia's Strategic Objectives (SOs) 1.3 and 1.4, as follows:

- SO 1.3: Small and Medium Size Enterprise Sector Strengthened and Expanded
  - Intermediate Result (IR) 1.3.2: Access to Finance for Small and Medium Enterprises Increased

[16] Sergey Borisov, President of OPORA, as quoted in "Development of Micro, Small and Medium-sized Enterprises in Russia"

        - Performance indicator: Cumulative number of loans to SMEs made by Center-Invest Bank
        - Performance indicator: Dollar amount of loans to SMEs made by Center-Invest Bank
- SO 1.4: Market-Oriented Reforms Developed and Implemented in Selected Sectors
    - IR 1.4.2: Resources to Russian Businesses and Enterprises Efficiently Channeled by Banking Sector

The Action Package estimates that the number of loans guaranteed would total 250 and that the estimated average loan maturity would be 1 year, resulting in an average loan size of $24,000. As shown in Table 4 under Outputs, as of March 31, 2009, Center-Invest had made 137 loans worth an average of $33,364 each.

PURPOSE OF THE EVALUATION

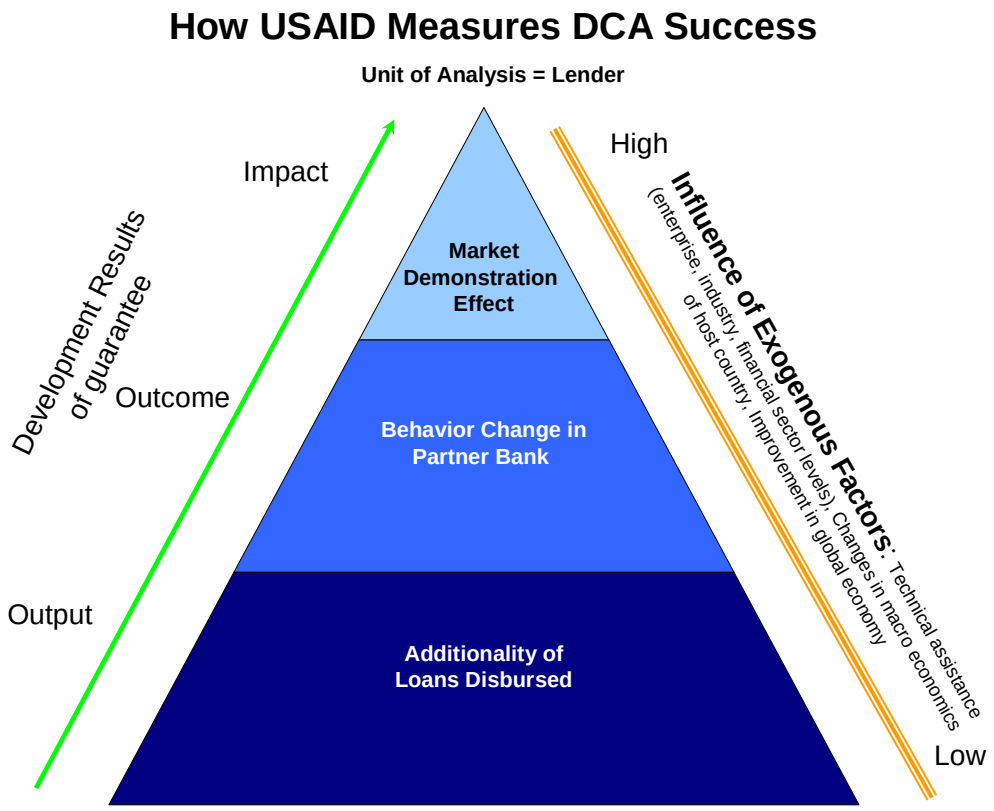
In May 2009, USAID's Bureau for Economic Growth, Agriculture and Trade/Office of Development Credit (EGAT/DC), which manages the USAID guarantees under the Development Credit Authority (DCA), contracted SEGURA/IP3 Partners LLC to conduct an evaluation of the DCA guarantee provided to Bank Center-Invest. This evaluation is the fourth in a series of 20 evaluations[17] of DCA guarantees planned for the next 4 years to assess the outputs, outcomes, and impacts of these guarantees. Each individual evaluation addresses the performance of a particular guarantee or set of guarantees. An annual meta-evaluation will synthesize results from the individual evaluations to address broader questions about the performance of the DCA guarantee program. According to a generic evaluation framework which EGAT/DC officials and contractor staff developed in late 2008, each individual and meta-evaluation should provide EGAT/DC with information to:

1. Demonstrate and communicate to DCA stakeholders the contributions of DCA loan guarantees to the achievement of development results in countries in which guarantees are provided;
2. Contribute to the dialogue about how to engage financial sector institutions as partners in development;
3. Strengthen USAID's application of DCA as a tool for achieving development results; and
4. Influence the design of new guarantees.

The scope of work for this evaluation asks the evaluators to examine the results of the DCA guarantee to Bank Center-Invest at three levels: output, outcome, and impact (see Figure below). At the **output level**, USAID has asked evaluators to examine the additionality of the guaranteed loans

[17] The first three were in Ghana, Honduras, and Indonesia.

in Center-Invest's behavior; that is, what differentiates these loans and the way they are administered from business as usual at the bank. **Outcome-level** questions focus on determining the extent to which use of the guarantee has produced changes in Center-Invest's non-guaranteed lending. **Impact-level** assessment seeks to determine whether changes in Center-Invest's behavior have encouraged other, nonpartner banks to increase lending to the target sector. In addition, EGAT/DC asked the evaluation team to analyze the effects of exogenous factors (e.g., macroeconomic changes, government regulations) on changes observed at the three levels.



Although the DCA LPG to Bank Center-Invest has not yet concluded, the bank has not put any new loans under the guarantee since March 2007 and most loans were made in 2005 and 2006. Therefore, USAID's intervention (i.e., guaranteed loans) effectively ended more than 2 years ago, making the present time appropriate for assessing the guarantee's outcomes and impacts.

Consistent with direction from EGAT/DC, the scope of the evaluation did not include assessment of USAID/Russia's or EGAT/DC's management of the guarantee, nor did it examine the impact of loans made on borrowers or USAID Russia's strategic objectives. EGAT/DC requested that the evaluation include findings and conclusions, but not recommendations or lessons learned.

EVALUATION METHODOLOGY

This evaluation used a mixed-methods approach, including statistical analysis of loan data, key informant and group interviews, and document review. The evaluation team, led by Katharine Hoffman, Evaluation Specialist, worked closely with Sandra Goshgarian, EGAT/DC Regional Portfolio Manager, who also accompanied the Team on interviews during the first week of data collection in Russia.

The evaluation began in May 2009 with initial discussions with Ms. Goshgarian to obtain a better understanding of the guarantee, its objectives and context, and key players with whom the team should meet while in Russia. After reviewing background documents on the guarantee (see Annex IV) from EGAT/DC, Ms. Hoffman revised the generic evaluation framework for all of the DCA evaluations to fit the Center-Invest guarantee objectives and context, and developed indicators to measure the outputs, outcomes, and impacts of the guarantee. A copy of the tailored framework and indicators can be found in Annex II. Based upon the evaluation questions and indicators, Ms. Hoffman also developed interview guides to frame the planned semi-structured interviews in Russia. Those interview guides are in Annex VIII. Prior to embarking for Russia, a request for information to was emailed to Bank Center-Invest in order to allow them to begin preparing data the team needed to answer the evaluation questions. A copy of that request is in Annex III.

The evaluation team began data collection in Moscow on June 15, and flew to Rostov on June 17.[18] Ms. Hoffman returned to Moscow on June 25th and conducted a remaining interview with the EBRD the following day. The team had initially planned to visit Krasnodar and / or Volgograd since the Center-Invest branches there were to be the focus of the DCA guarantee. However, just prior to arriving in Russia, Center-Invest, through USAID Mission in Moscow, informed the team that Volgograd is difficult and time consuming to reach and very few loans were made through that branch. After discussions with Center-Invest in Rostov the Team also discovered that the Krasnodar branch had only made eight loans under the guarantee. Therefore, the team decided to focus site visits primarily in Rostov.

The Russia phase of the evaluation included semi-structured interviews with nine key informants, a group interview with USAID/ Russia and U.S. Embassy officials involved with the Center-Invest guarantee, a group interview with top officials of the Russian small business association OPORA, a group interview with seven Center-Invest borrowers, and site visits to four additional Center-Invest borrowers in Rostov. The evaluation team also collected additional documents from interviewees, as well as lending data from Center-Invest.

Back in the United States, the Team Leader collected additional data as needed using internet searches. Ms. Hoffman used a combination of comparative analysis, statistical analysis, and content

[18] The final Russia trip schedule is in Annex V. A full list of interviewees from both Moscow and Rostov is in Annex VI.

pattern analysis to draw findings from all of the collected data, from which she drew conclusions. In cases in which she converted loan data from rubles to dollars, she used Oanda's historical foreign exchange calculator (http://www.oanda.com/convert/classic) to make conversions appropriate to the original time periods of the loan data.

Data Limitations

Although Center-Invest's SME Department Head, Ms. Elena Pontankova, did her best to accommodate the evaluation team's requests, she had neither the time nor the resources to provide everything we asked for.[19] Missing items include: (1) disaggregated, non-guaranteed loan data by year for the years prior to 2006; (2) loan product information on non-guaranteed loans; and (3) borrowing history for each of the Center-Invest clients that received a DCA guaranteed loan. Without these data, it was not possible to track changes in Center-Invest non-guaranteed lending by year, as we had only aggregate figures for the years 2004-2006 and no data from prior to September 2004. Nor was it possible to calculate the impact of the guarantee on individual borrowers and growth of the bank's portfolio.

In addition, the only knowledgeable people with whom we were able to have detailed interviews were Ms. Pontankova and Bank Chairman Mr. Vasily Vysokov. We met briefly with Deputy Chairman Vladimir Glushko as part of a larger group introduction, but he was not available for an individual interview. Although we requested an interview with Ms. Pontankova's supervisor, he was not available during our stay and he did not respond to our emailed request for information. The original Center-Invest manager of the DCA guaranteed portfolio, Mr. Andrey Tuchkov, had taken a job with another bank and was not in town during our trip to Rostov. Although we emailed questions to him, we never received a response. Ms. Pontankova started working for the bank in 2004. Finally, although we requested interviews with Center-Invest loan officers, Ms. Pontankova assured us that no one would remember the DCA guarantee, as it was used primarily in 2004 and 2005, almost 4 years ago. Because of these limitations, we were not able to obtain a range of perspectives from Center-Invest, limiting our ability to triangulate Bank-specific information.

None of the borrowers with whom we spoke had received a DCA guaranteed loan. Although not crucial to our analysis, views from direct beneficiaries of the guaranteed loans would have enriched our findings. Ms. Pontankova selected the borrowers we interviewed according to (a) their proximity to the center of Rostov, thereby limiting our traveling time (upon our request) and (b) their willingness to speak with us about their loan experience. In addition, a Center-Invest loan officer was present during every interview. While we do believe that the borrowers provided honest answers to our questions, judging by the mix of both positive and negative comments about Center-

[19] Ms. Pontankova is a key member of the three-person team that manages SME lending in Center-Invest's headquarters. In addition, a meeting of the bank's Credit Committee and Board were happening during the time we were in Rostov, soaking up much of the bank staff's time.

Invest, they are not a representative sample of Center-Invest borrowers. Nevertheless, their views were largely consistent with those of other interviewees and personalize our findings.

We attempted to secure meetings with Mr. Anatoly G. Aksakov, President of the Association of Regional Banks of Russia and Member of Parliament, neither Mr. Aksakov nor a representative of his office was available. We suspect he could have provided some useful information on the differences between and changes in Russian banks lending to SMEs, including statistics, but we do not know how much more that information would have added to our findings. We already obtained substantial information on these topics from our other interviewees, including the EBRD, OPORA, FSVC, and other banks, as well as written documents.

The rest of this report proceeds as follows: the next chapter provides background information on the history of Bank Center-Invest, followed by a chapter on the effect of the global financial crisis on Russian finance. The subsequent chapter presents findings and conclusions to answer each of the evaluation questions from the evaluation framework, organized into separate sub-chapters for Outputs, Outcomes, and Impacts. Indicator data are woven through the report's findings as appropriate, and summarized in Annex VII. The report finishes with a summary of conclusions.

BACKGROUND ON BANK CENTER-INVEST[20]

Bank Center-Invest was created in 1992 by a group of academics and directors of newly privatized Russian enterprises. The bank received its license as a joint stock company commercial bank from the Central Bank of the Russian Federation on January 26, 1993 and launched its SME support program in 1997. Since then, the Rostov-based bank has grown and diversified, adding new loan products, approaches, technologies, branches, and staff; but has maintained its focus on serving small businesses in the Southern Federal District. In 2001, it shifted its SME portfolio from the Credit Department to a newly created Department for Small Business Crediting and Mortgage.[21] By January 1, 2002, the bank's small business loan portfolio had reached 210 million rubles (approx. $6.9 million based on the exchange rate at that time).

Center-Invest has been a popular vehicle for both international and domestic organizations supporting the Russian SME sector. A sample of the programs in which Center-Invest has been involved is as follows:[22]

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[20] Unless otherwise noted, the data in this section are from Center-Invest's annual reports and other information available on its website, http://www.centrinvest.ru/en/about.html

[21] USAID Action Package, p. 25.

[22] The effects of these programs on Center-Invest's lending are discussed as appropriate throughout Findings and Conclusions on Outcomes.

- *2001*: Center-Invest signed an agreement with the *Ministry of Economics and International Economic Relations* of the Rostov region to participate in the *Rostov Regional State Fund for Small Business Support*.
- *2002*: Center-Invest embarked upon its first LPG agreement with *USAID* and signed additional loan agreements with the *World Bank* ($8 million for refinancing investment projects)*, the European Bank for Reconstruction and Development (EBRD)* ($2 million loan agreement and $5 million trade finance agreement)*, the International Finance Corporation (IFC)* ($2 million loan agreement for credits to small businesses)*, and HERMES* of Germany (€2.69 million guarantee for purchasing 10 harvesters for Center-Invest clients), totaling more than $9 million. It also received a 2-year, $1.5 million credit line for lending to SMEs from the *Russian Bank for Development* (RBD).
- *2003*: Center-Invest received an extension of its credit line from the *RBD*.
- *2004*: Center-Invest signed its second LPG agreement with *USAID*. It also received a €6.5 million credit line from *KfW Bank Group* for lending to service and trade businesses. *EBRD* approved an $8.5 million equity investment into ordinary shares of Center-Invest. [23] RBD extended a credit line of 90 million rubles for lending to SMEs in industrial and construction industries.
- *2005*: The bank received a 5-year, $7.5 million credit line from Deutsche Investitions- und Entwicklungsgesellschaft (*DEG)* for small business and mortgage lending. EBRD provided $20 million in trade finance guarantees for exporting grain and oil-bearing crops.
- *2006*: *EBRD* provided technical assistance to improve the Bank's control procedures, risk management procedures, and begin implementing a new automated SAP system. The bank became the first in the South of Russia to receive an international syndicated loan from EBRD in the amount of $45 million. The bank signed an agreement with *IFC* for a $4 million credit line for financing small business projects in the energy efficiency sector.
- *2007*: The *EBRD* extended Center-Invest credit lines totaling RUR 510 million for financing SMEs.
- *2008*: The *RBD* extended credit lines totaling RUR 350 million for financing SMEs. Center-Invest received a credit guarantee from the *Regional Guarantee Fund of Volgograd Region* for lending to SMEs that lack sufficient collateral. EBRD provided a 600 million ruble credit line for financing the agriculture sector.
- *2009*: The EBRD extended a €25 million, five-year loan to Center-Invest. The bank will use the funding for on-lending to SMEs for projects that will help build the region's post-crisis economy. The lending program will emphasize introduction of energy efficiency technologies, modernizing production, and developing agriculture and trade finance.

As of April 1, 2004, Center-Invest's largest individual shareholders were Russian companies. By the first quarter of 2009, the bank's ownership had become decidedly international. EBRD is its primary

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[23] USAID Action Package.

shareholder, with a 27.45 percent stake. Close seconds are DEG with 22.45 percent and Vasily and Tatyana Vysokov with a total share of 17.84 percent. Other major shareholders include Firebird Investment Fund, Erste Group, Renaissance Capital, and Raiffaisenlandesbank. As of 2007, USAID recognized Center-Invest as "the largest among locally registered banks in the south of Russia."[24]

By the end of 2008, Center-Invest had spread to 132 branches and sub-branches in the oblasts of Rostov, Volgograd, Krasnodar, Stavropol, and Pyatigorsk. In the first quarter of 2009, the bank made 1,135 SME loans, totaling 3.2 billion rubles ($94.7 million). Center-Invest is the largest of the banks participating in the government-funded Rostov Region SME Development Program, in terms of number of loans made to SMEs. The bank holds 41.5 percent of the number of SME loans made in the region, and 30.2 percent of their combined value. Compared to all Russian banks, Center-Invest is the 7th largest SME lender by number of clients and 9th largest by total value of SME lending. As of May 21, 2009, the bank was serving more than 36,000 SME clients.

Under the dynamic leadership of Center-Invest Chairman and former Vice President, Professor Vasily Vysokov, and his wife, Tatiana (Chairman of the Audit and Compliance Committee and former Chairman of the Board), Center-Invest has not only grown, but has also engaged in concerted outreach to small businesses and the community. Its SME Support Programme provides technological, financial, and managerial support to SMEs in Rostov. In 2002, the bank sponsored scholarships for 50 students in 5 Rostov region universities. In 2003, Chairman Vysokov led the Interdepartmental Committee for Small Business by Plenipotentiary of the President of the Russian Federation in the Southern Federal District, a working group developing a financial and property facility for SMEs. In 2004, the bank established a hot line to provide free legal consultation to entrepreneurs; and established a "Partner" program that provides international partners with access to a database of SMEs in the Rostov region. By 2004, the bank had established an internet center for entrepreneurs and an assistance program for small businesses in preparing business plans to present to potential creditors. In 2007, Center-Invest established an endowment fund for Education and Science in the Southern Federal District to support higher education teachers, undergraduate and postgraduate students. [25]

The bank and its key staff, especially Professor Vysokov, have received international and national prizes, including one from the forum "Euromarket 2005" (Brussels, Belgium) "for the development of the financial services market in the South of Russia." Bank Center-Invest is a conservative institution with a low risk tolerance. We heard this characterization from senior bank officers, including Mr. Vysokov, as well as an EBRD representative in Rostov. This

> We are quite conservative. It is set forth in our lending policy. We are not apt to take excessively high risks. We stick to our practices and strategies.
> –Elena Pontankova, Head of the SME Lending Department, Bank Center-Invest

[24] DCA 2007 Biannual Review
[25] USAID Action Package.

trait makes it attractive for investors like the EBRD, but it also affects every aspect of the bank's lending, including collateral requirements, interest rates, and borrower assessment procedures.

THE GLOBAL FINANCIAL CRISIS AND RUSSIA

The global financial crisis hit Russia in late 2008 and has had a predictably significant effect on banks and lending, including to SMEs. Throughout our data collection, we differentiated as much as possible between prior to the financial crisis and post-crisis, since any effects of the DCA guarantee on Bank Center-Invest and other SME lenders became diluted with the fallout of the banking crisis. We provide here a brief history of the crisis in Russia and its impact on SME lending.

The global financial crisis blew into Russia with a dramatic drop in the stock market, problems in the banking system related to mortgage schemes, and appreciation of the dollar against the ruble.[26] Russian consumers reduced their spending, banks cut employment, and interest rates rose. The Russian Central Bank worked quickly to put liquidity into the banks, but it has not reached consumers.[27]

Whereas previously Russia's oil wealth produced fat banks competing for borrowers, customers are now desperate for credit at any cost, but few institutions will lend to them.[28] With boatloads of cheap, foreign money in the Russian market prior to the crisis, banks made many revolving loans, but this practice stopped in August 2008 as interbank rates became more expensive. Banks' non-performing loans (NPLs) increased, as have overdue payments.

Since the ruble used to appreciate against the dollar, many Russians took their credit in dollars. Now that the dollar is appreciating against the ruble, they prefer to borrow in rubles. As a result of this reversal in exchange rates, banks find that their liabilities are in more expensive dollars, but their assets are in rubles, causing a credit crunch. Some of the large banks have allowed their borrowers to convert their loans to rubles.[29]

At the end of the year in Russia, all loan contracts end. Since the financial crisis came at the end of 2008, businesses asked to extend their loans because they knew they could not pay. Banks allowed the extension, but it caused an asset/liability mismatch. When every bank could not pay at the end of last year, no borrower could refinance with another bank because no one was relending. Analysts fear a "second wave" of the crisis when rescheduled loans come due again at the end of 2009.[30]

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[26] Olga Selivanova, USAID.
[27] Richard Hainsworth, CEO of RusRating
[28] Olga Selivanova and Alexey Kriyakov, Deputy Head of Small Business Servicing Department at VTB 24 Bank.
[29] Olga Selivanova and Richard Hainsworth
[30] Richard Hainsworth

Banks have responded to borrowers' defaults by becoming more conservative, which has particularly hurt SMEs, which were already struggling to obtain financing. Loan terms are shorter and interest rates have skyrocketed because of inflation. Banks are no longer accepting real estate as collateral because values dropped dramatically. Average SME loan amounts have sunk an estimated $15,000. Even the EBRD-supported KMB Bank stopped lending to SMEs in May 2009, at which point 8.2 percent of its SME portfolio was 30 days in arrears[31].

Banks that made extensive consumer loans to entrepreneurs (see Impacts for details) are especially suffering because entrepreneurs who took multiple small loans (up to $10,000) from various banks lost the ability to determine whether they could repay the loans, resulting in defaults. The high competition for bank staff prior to the crisis meant that many banks hired inexperienced people as managers, who built poor loan portfolios that crashed during the crisis.[32]

Nevertheless, the Director of Russia and CIS of the Financial Services Volunteer Corps (FSVC) told us that NPLs for SME banks in Russia are still minimal—6 to 8 percent. He explained that SME lending is a safer area during the financial crisis because SMEs tend to pay back sooner than large companies, in part because they have shorter loan terms.

In Rostov, many SMEs say that interest rates have increased, banks that previously provided unguaranteed loans are now requiring guarantees, and banks take longer now to review credit applications. The executive director of the Rostov office of the Russian small business association OPORA told the evaluators that he does not know a single SME that has applied for a loan in the last year, because the interest rates have become prohibitively expensive. SMEs, themselves, are facing lower consumer demand, and those that are highly dependent on credit are particularly struggling.

Crisis Effects on Bank Center-Invest

It appears that Center-Invest has weathered the storm better than most. Although the bank has reduced staff and likely cut salaries, it does not serve the sectors which the crisis hit hardest—metallurgy, machine building, and automobiles.[33] The bank's Chairman of the Board, Mr. Vasily Vysokov, told the evaluation team that he began preparing for the crisis a year before it hit Russia by studying its effects in Germany. He prepared a program, titled Southern Russia versus Global Crisis (a copy of which is on Center-Invest's website), which "encourages companies to manage their liquidity, become more socially responsible, monitor markets, reconsider their business processes in the light of the changing economic situation, and establish new mechanisms for financing" (Annual

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[31] Heike Nonnenberg, EBRD Russia Small Business Fund Programme Coordinator
[32] Heike Nonnenberg.
[33] Olga Selivanova, USAID and Dmitry Larionov, EBRD.

Report 2008). The bank maintained adequate capital and funding levels, with help from international investment. It prevented capital flight by ensuring plenty of cash was available in all of its branches and keeping its cash machines stocked and operating 24 hours per day. "Because our clients know they can get money out," Mr. Vysokov told *The Banker*, "there has been no deposit outflow, in fact we win clients from other banks who shut their doors."[34]

The Center-Invest borrowers with whom we spoke, while still credited, have felt the impact of the crisis on their loan terms. One mentioned that loan tenors have shrunk, leaving him with a 5-month credit line and a 4-month overdraft. In August 2008, he said, loans became more expensive by 10-12 percent. His current interest rate is 26 percent, up from 15 percent last year. Prior to the crisis, his interest rate was decreasing and tenors were growing. Another client confirmed that loan tenors are shrinking and said he must spend 20 percent of his time seeking new credit. He added, though, that his interest rate is improving now and the bank recently extended his loan by 2 months. A third borrower praised Center-Invest for honoring the interest rate in his contract, even when other banks were raising their interest rates. One client told us that substantially larger interest rates have made it difficult for him to compete with foreign companies that enjoy lower rates. Another said that the standard tenor is now 6 to 8 months.

None of the clients with whom we spoke had businesses that were truly suffering from the crisis, although some said orders were down. A man with a print shop that manufactures labels said that orders have actually grown since the crisis because 70-80 percent of his business is with vodka and wine companies and when times are bad in Russia, people drink more alcohol. A sausage maker said he is adapting to the crisis by introducing lower-priced products. A hotel owner said she hasn't really felt the crisis and the evaluator's own observation found the hotel was at capacity.

Center-Invest's Head of the SME Lending Department added that the bank has responded to the financial crisis by holding seminars for its clients on how to cope. During the previous session held on June 16th, the bank invited representatives of the local administration to discuss how SMEs can access the 30 percent of federal government procurement set aside for them. Many SMEs, she explained, are not aware of this provision and they do not know how to participate in tenders. The local officials on hand answered the clients' questions. In addition, the bank has worked closely with its clients to revise loan terms as necessary to create conditions under which the clients can repay. As of December 2008, 7 percent of Center-Invest's business clients had requested debt rescheduling or restructuring.[35]

The remainder of this report focuses on the years 2003 (a year prior to the DCA guarantee to Center-Invest) to mid-2008, just before the crisis hit Russia. Although some discussion of crisis effects is inevitable in places, we concluded that we could not accurately estimate the guarantee's

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[34] "Keeping Funds to Regions Flowing," *The Banker*, April 2009, p. 95.
[35] Ibid.

outcomes and impacts during a period of financial upheaval that caused market distortions such as those discussed above.

CONCLUSIONS AND FINDINGS

This section presents findings and conclusions for seven evaluation questions and nine sub-questions. It is organized by result level—outputs (four questions), outcomes (five questions), and impacts (five questions). The remaining two questions in the evaluation framework address exogenous factors influencing observed results and are therefore cross-cutting. Findings and conclusions for these questions are embedded within the findings and conclusions for outputs, outcomes, and impacts, as appropriate. Each subsection below addresses a result level and begins with a summary of the evaluation questions at that level. The subsections proceed to address each question separately or in closely related pairs, stating first the conclusions and then presenting the findings that support the conclusions.

Outputs

At the output level, the evaluation examined whether and to what extent Center-Invest used the DCA guarantee to increase access to credit for SMEs in the Southern Federal District, above and beyond what the bank was doing without the guarantee. The evaluation framework includes two questions, each divided into two sub-questions, at the output level, as follows:

1. Question 1.a: How did the DCA guarantee fit into Center-Invest Bank's ongoing strategy? What market potential did the DCA guarantee help open for Center-Invest?
2. Question 1.b: How did Center-Invest implement the programs which the loan guarantee was targeted to support (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why?
3. Question 2.a: How have partner bank portfolios in the target sector performed (i.e., comparing baseline with performance during DCA guarantee, as well as guaranteed to non-guaranteed loans)?
4. Question 2.b: What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?

The table below displays the status of Center-Invest's use of the DCA guarantee from its inception in September 2004 through the present. Most of the loans were made between October 1, 2005 and March 31, 2006. No new loans have been put under the DCA guarantee since March 28, 2007.

TABLE 4. SUMMARY OF UTILIZATION STATISTICS

From Biennial Review	
Review date	January 2007; update August 2007
Cumulative utilization rate	74.87 percent
Status	Active
From USAID's Credit Management System (CMS)	
Date of data collection	June 8, 2009
Cumulative utilization amount	$4,570,886
Cumulative utilization percent	76.18 percent
Number of loans	137
Average loan size	$33,364.13
Average loan tenure (approx.)	9 months
Number of claims	0
Value of claims	0

Basic Utilization Data for Center-Invest Bank's Guarantee (Start Date 9/24/04)

Date of Posted New Activity—Quarter ending…	Cumulative Number of Loans	Cumulative Utilization	Cumulative Utilization percent
03/31/2005	64	$1,721,236	28.69%
09/30/2005	80	$2,617,150	43.62%
03/31/2006	117	$3,729,488	62.16%
09/30/2006	131	$4,213,184	70.22%
03/31/2007	137	$4,492,009	74.875
09/30/2007	137	$4,557,149	75.95%
03/31/2008	137	$4,570,886	76.18%
09/30/2008	137	$4,570,886	76.18%
03/31/2009	137	$4,570,886	76.18%
06/30/2009	137	$4,570,886	76.18%

Source: USAID Credit Management System (CMS) database

The evaluation team asked Center-Invest's Head of the SME Department, Ms. Elena Pontankova, why the bank did not place any additional loans under the guarantee after March 2007, with more than 2 years and almost $1.5 million left before hitting the maximum utilization amount. She explained that, "After our bank had extended the line of SME lending products, there were a lot of opportunities for getting credits, so DCA guaranteed credits were unactual" [not needed]. (We discuss the relationship between the DCA guarantee and increased SME lending products below.)

Conclusions and Findings for Question 1.a

How did the DCA guarantee fit into Center-Invest Bank's ongoing strategy? What market potential did the DCA guarantee help open for Center-Invest?

Conclusions:

The DCA guarantee purpose—to expand lending to Krasnodar and Volgograd—fit perfectly within Center-Invest's business strategy, as articulated in its business plans and described by its senior officers. The bank applied the same principle from its MSED loan to its DCA loan: lending to clients with insufficient collateral. However, apparently due to its risk aversion and less SME support in Krasnodar and Volgograd, the bank decided it was not ready to lend to these markets right away and therefore used most of the guarantee funds to loan to collateral-poor SMEs in the Rostov region. The DCA guarantee therefore resulted in greater access to finance for Rostov-region SMEs lacking collateral.

Findings:

The Action Package for the DCA guarantee to Center-Invest described the bank's primary goal as an institution as the following:

- "To be recognized as the leading regional bank in this area and to provide efficient, modern banking services 'according to international standards' and using the most modern banking technologies."[36]

The bank's business plan in 2002 specifically called for "doubling the bank's capital each year until 2005" and *expanding its "banking relationship with individuals and SMEs* by working with facilities offered by multi-national entities and by developing expertise in *new credit products and services*."[37]

According to the Action Package[38] for the DCA guarantee to Center-Invest, the bank had three objectives for the guarantee, as follows:

1. Develop relationships with clients in two new regions—Krasnodar and Volgograd. Expansion into new geographic regions, according to the Action Package (p. 31), was also part of Center-Invest's 2003-2008 business plan.
2. Grant larger loan sizes to clients in Rostov who want to expand their businesses.
3. Extend loan terms beyond 1 year.

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[36] USAID Action Package, p. 26
[37] *Ibid*, p. 31.
[38] *Ibid,* p. 34

By comparison, the Purpose of the signed Guarantee Agreement between USAID and Center-Invest was as follows:[39]

- "To strengthen the Guaranteed Party's ability to *expand its SME loan portfolio* through its newly opened branches in two Russian regions: *Krasnodar and Volgograd*, thereby stimulating economic growth."

This purpose is consistent with Center-Invest's first objective, stated above. Expanding Center-Invest's SME loan portfolio is also consistent with the bank's desire to grow its SME business. Mr. Vladimir Medoev, former USAID manager of the MSED guarantees from 1998-2003 and current Economic Specialist at the U.S. Embassy in Moscow, confirmed that Center-Invest said it would use the DCA guarantee to open new branches.

The Center-Invest principals with whom the evaluation team spoke emphasized that the DCA guarantee supported the bank's primary goal of increasing the volume of lending to SMEs.

> For us, it was important to realize there are other possibilities other than our standard procedures.
>
> –Elena Pontankova, Head of the SME Credit Department, Center-Invest Bank

Ms. Pontankova asserted that both the MSED and the DCA guarantees helped Center-Invest to accomplish this growth through increasing the number of credit products available to SMEs. Prior to the guarantees, the bank had conservative, standardized products. The guarantees, she said, implied a substantial deviation from the bank's standard credit rules (the bank's expanding product line is further discussed in Outcomes). According to Ms. Pontankova, Center-Invest used the guarantee to offer a new product: lending with relaxed collateral requirements.

Prior to the USAID guarantees, said Ms. Pontankova, the bank was investigating the demands and needs of SMEs and discovered that the basic problem was lack of collateral. Center-Invest's policy at that time was not to make loans to clients who could not provide collateral equal at least to 100 percent of the value of the loan plus interest and bank fees. According to Russian Central Bank regulations, all loans had to be backed with *at least* 100 percent collateral,[40] although some banks have circumvented this requirement by breaking loan amounts into smaller tranches, making consumer loans, or using credit guarantees from Russian Government Regional Funds or international organizations to make up the difference.[41] Making an exception to the Central Bank rule requires filing an application, an expensive process for the bank. In addition, recovering collateral in case of a default was a difficult and expensive process, with the cost of asset recovery

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[39] As noted in Table 2, Qualifying Loans were defined simply as those made to Russian MSEs in general, without specific reference to a geographical area.

[40] Elena Pontankova and Dmitry Larionov. The Deputy Head of Small Business Servicing Department of VTB 24 Bank, Mr. Alexey Kriyakov, said that while banks are allowed to make unsecured loans, restrictions on these loans apply when banks register their reserves.

[41] Barre. X. Problems of SME Finance in Russia

amounting to 40 percent of the value of the asset (5 percent for court expenses, 15 percent for cost of court recovery services, 20 percent VAT).[42] To cover these expenses, the bank would either have to increase the interest rate or not provide credit at all to the client with insufficient collateral.

Mr. Medoev told the evaluation team that the objective of the *MSED* guarantee to Center-Invest was to reach borrowers with insufficient collateral. In his opinion, Center-Invest had accomplished this objective. Ms. Pontankova confirmed this impression and said that Center-Invest used the guarantees to back loans made to clients who would otherwise not qualify for a loan or would not have qualified for the size of the loan they received because they lacked collateral. Using the guarantees, the bank developed a product for small businesses lacking collateral and thereby attracted clients. While many of the guaranteed loans went to new clients, Ms. Pontankova said the bank also provided guaranteed loans to existing Center-Invest clients to increase the amount of credit they received.[43] Although 3 or 4 of the guaranteed clients did not remain so after their guaranteed loans ended, the remaining 133-134 did.

However, examination of each guaranteed borrower's collateral value showed that it ranged from 51 percent to 300 percent of the value of the loan they received. The average was 111 percent, with a median of 104 percent. Only eight loans carried less than 100 percent collateral.

TABLE 5. AVERAGE COLLATERAL PERCENTAGES BY SIZE OF DCA GUARANTEED LOAN

	Size of Loan						
	Under $10,000	$10,000-$19,999	$20,000-$29,999	$30,000-$39,999	$40,000-$69,999	$70,000-$99,999	$100,000 and up
Average Collateral as percent of Loan Value	122 percent	108 percent	119 percent	125 percent	114 percent	121 percent	113 percent

Source: CMS data

Ms. Pontankova explained that the collateral amount depends on several factors. First, collateral must cover not only the loan value but also interest and fees, resulting in an average size of 150 percent of the value of the loan. Second, higher credit risk increases the amount of collateral required. Third, the type of collateral influences the required percentage. As the Action Memo states, Center-Invest prefers collateral that is in the form of reasonably liquid assets, including real estate. Ms. Pontankova said that if inventory, for example, is pledged as collateral, the required percentage is double the value of the loan. Center-Invest is not alone in this thinking. Banks have difficulty obtaining the full rights to SME collateral if there is a default and merchandise and equipment values are volatile, further increasing risk.[44]

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[42] *Ibid,* p. 11.
[43] Ms. Pontankova was not able to estimate the percentage of borrowers in this category.
[44] Study of SME finance conducted by FSVC and Barre 2005.

The Action Memo, as part of its risk assessment, specifies that guaranteed loans "would continue to be extended under the bank's existing credit policies, including the requirement that acceptable collateral be provided." Therefore, it is not surprising that the bank's procedure for assessment of the percentage of collateral required was the same for both DCA guaranteed and non-guaranteed loans. The difference, according to Ms. Pontankova, was that if Center-Invest estimated that an otherwise creditworthy client needed to provide 150 percent collateral, for example, but did not have that much, the bank used the DCA guarantee to make up the difference. The CMS data support this statement, as the average collateral size was 111 percent of the loan value, rather than the average non-guaranteed amount of 150 percent.

According to data Center-Invest provided, types of collateral for SMEs generally include real estate, property, vehicles, inventory, and guarantees from third parties. According to Ms. Pontankova, the most common types are currently vehicles and inventory. This latter type is unusual for Russian banks, as is using receivables as collateral, which Center-Invest accepts.[45] These choices presumably increase access to credit for SMEs who lack other, more typical types of collateral. Ms. Pontankova told us that the exact choice of collateral for a client depends upon the borrower's credit risk. The higher the risk, the more liquid the collateral should be (e.g., real estate, vehicles). The bank did not differentiate between guaranteed and non-guaranteed loans when deciding collateral requirements.

Over time, the types and mix of collateral the bank accepted shifted to incorporate more types of collateral, as shown in the figures below. However, Ms. Pontankova said that the choice of collateral did not vary between guaranteed and non-guaranteed loans.

[45] "Assessment of Obstacles to SME Finance in Russia," June 2008

FIGURE 2. TYPES OF COLLATERAL ACCEPTED, AS PERCENT OF SME PORTFOLIO VALUE, 2006

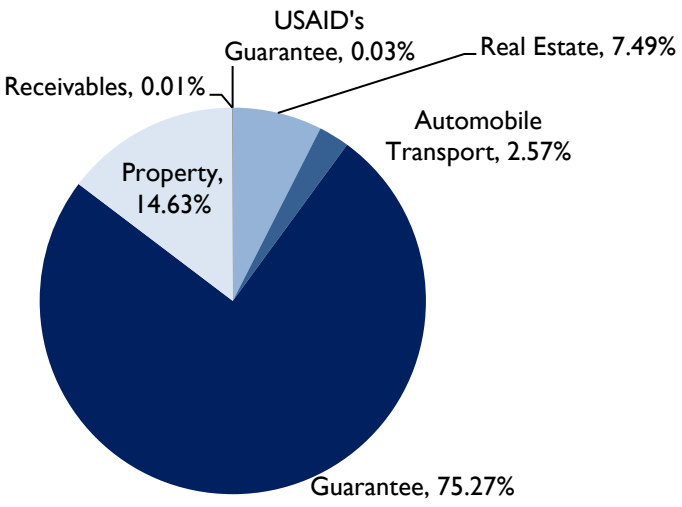
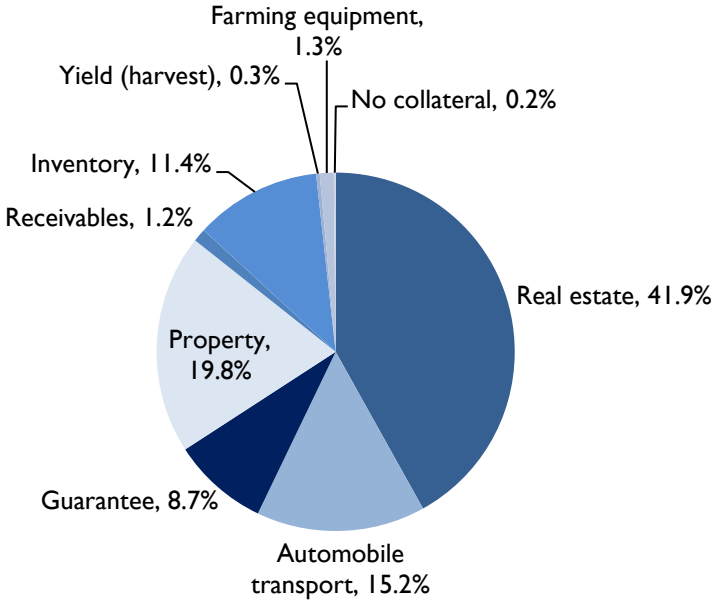


FIGURE 3. TYPES OF COLLATERAL ACCEPTED, AS PERCENT OF SME PORTFOLIO VALUE, 2007



Source: Center-Invest, June 2009

Center-Invest Objective 1: Develop Relationships with Clients in Krasnodar and Volgograd

As stated above, Center-Invest had intended to use the DCA guarantee to enter the SME markets in Krasnodar and Volgograd. The Krasnodar branch began operating in 2003, when it lent 181.5 million rubles (approximately $6.2 million, or 7 percent of the bank's total SME portfolio in 2003).[46] This expansion had been in the works since at least 2002, when Center-Invest's annual report mentioned it. The bank opened its Volgograd branch in 2004.

According to the CMS data and additional data which the evaluation team obtained from the bank, Center-Invest gave 8 DCA guaranteed loans to businesses in the Krasnodar region, averaging $37,219 each, between November 2004 and September 2006. Seven were term loans and one was a line of credit. Together, these loans made up 0.17 percent of all SME loans from Center-Invest's Krasnodar branch between 2004 and 2009 (the guarantee period). In terms of value, guaranteed loans in Krasnodar were 0.42 percent of the total SME loan portfolio in that branch during this time.

Center-Invest applied the guarantee to 5 loans in the Volgograd region, averaging $56,118 each, between November 2004 and September 2005. Four were term loans and one was a line of credit. These loans made up 0.35 percent of all loans made from the Volgograd branch between 2004 and 2009. They were worth 1.6 percent of the total SME loan portfolio value in Volgograd during those years.

Taken together, guaranteed loans in Krasnodar and Volgograd made up 9 percent of all 137 loans made under the DCA guarantee and 12 percent of their value. Although the primary objective of the guarantee was to help Center-Invest expand to Krasnodar and Volgograd, loans made in these regions actually made up a small portion of the bank's guaranteed loans.

TABLE 6. SME DATA FOR CENTER-INVEST BANK

Loan Characteristics (for SMEs)	During Guarantee (September 2004-September March 2009)			
	Overall	Rostov	Krasnodar	Volgograd
Number of Borrowers	Loans with the guarantee: 137 Loans without the guarantee: 21,933	Loans with the guarantee: 124 Loans without the guarantee: 17,107	Loans with the guarantee: 8 Loans without the guarantee: 3,728	Loans with the guarantee: 5 Loans without the guarantee: 1,098
Loan Portfolio Value	Loans with the guarantee: 122.7	Loans with the guarantee: 107.4	Loans with the guarantee: 7.2	Loans with the guarantee: 8.1

[46] Center-Invest Bank Annual Report for 2003, p. 57.

Loan Characteristics (for SMEs)	During Guarantee (September 2004-September March 2009)			
	Overall	Rostov	Krasnodar	Volgograd
(rubles, millions)	Loans without the guarantee: 10,045	Loans without the guarantee: 7,835	Loans without the guarantee: 1707	Loans without the guarantee: 502

Source: CMS and Center-Invest

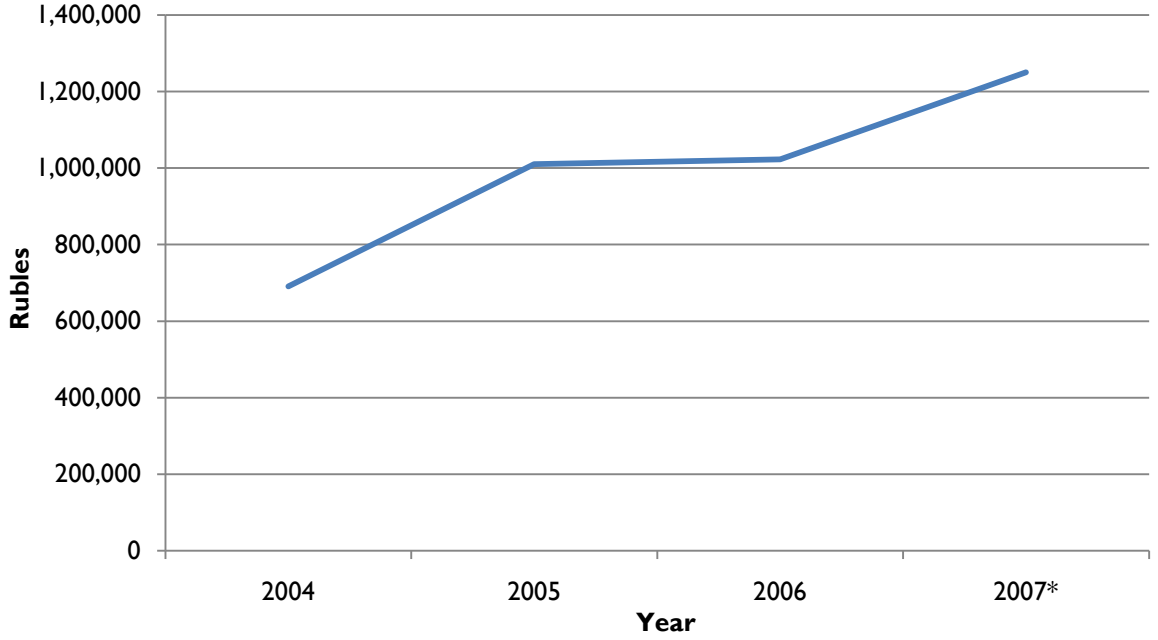
Ms. Pontankova explained to the evaluation team that Center-Invest had not yet properly scrutinized the markets in Krasnodar and Volgograd prior to receiving the DCA guarantee. The bank did not know the potential clients and was hesitant to accept the risk inherent in under-secured lending to unknown markets. Therefore, it primarily sought highly qualified borrowers able to provide full collateral, and reserved most of the DCA guaranteed funds for lending to Rostov SMEs the bank knew to be solid businesses. By the time Center-Invest felt more comfortable with the Krasnodar and Volgograd markets, it had already come to within 76 percent of the maximum portfolio amount allowed under the guarantee.

In addition, Ms. Goshgarian described a conversation she had with Ms. Pontankova, in which the bank employee explained that since the SME sector in Krasnodar and Volgograd does not receive as much government support as in Rostov, the environment is less conducive for SME lending. The Head of the Southern Federal District for EBRD, Mr. Larionov, supported this view by explaining that because Volgograd is dominated by large industrial enterprises, the regulatory regime has to be simplified before SME growth takes hold. Politicians are loath to close inefficient industries because doing so would put thousands of people out of work. SMEs have difficulty competing with state-supported, large companies. As for Krasnodar, the governor there is in full control of all business because he is the largest landowner and uses his influence to determine which companies prosper. For example, all Rostov companies at one time were forced to buy paving stones from the mayor's brother's factory to create sidewalks in front of their shops. While this practice was stopped in Rostov, similar transactions continue in Krasnodar.

Center-Invest Objective 2: Grant Larger Loans to Clients in Rostov

Center-Invest applied the guarantee to 124 loans to businesses in the Rostov region, averaging RUR 866,169 ($30,536). The average value of guaranteed loans did increase over the life of the guarantee, as depicted in the figure below.

FIGURE 4. AVERAGE DCA GUARANTEED LOAN AMOUNT



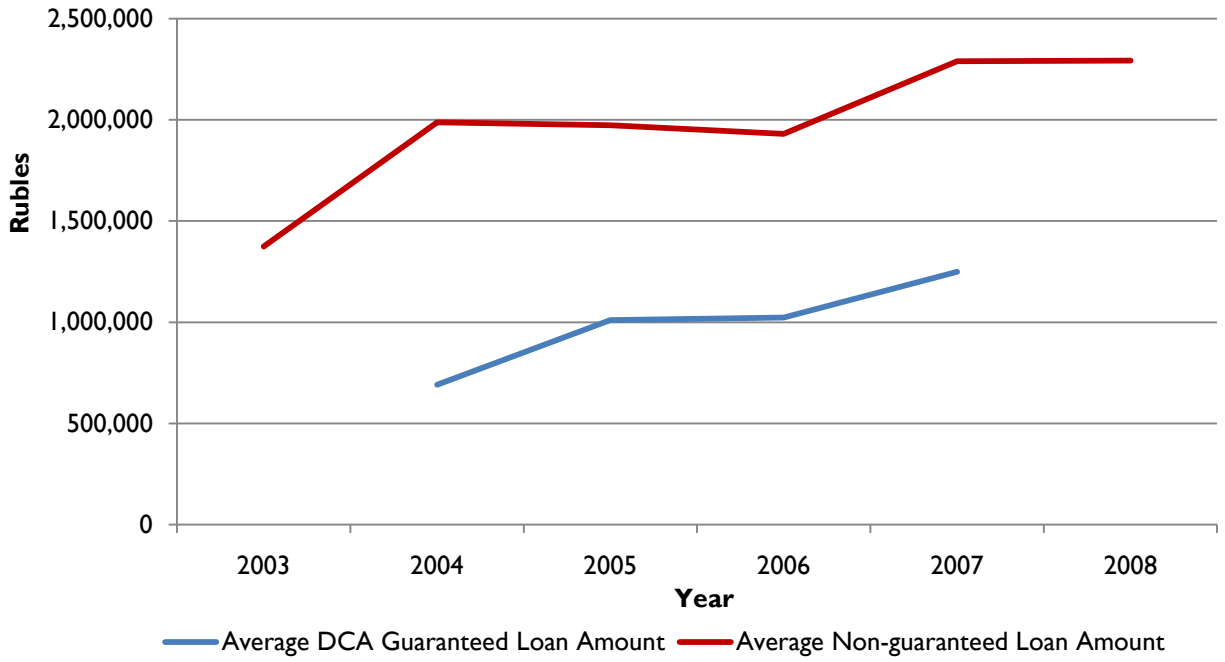
Source: CMS
**Center-Invest made only two loans under the guarantee in 2007.*

However, Ms. Pontankova told the evaluation team that increasing the size of loans provided to Rostov customers was not a Center-Invest objective for the DCA guarantee. Although the average size of guaranteed loans grew over time, Ms. Pontankova explained that the bank's clients' businesses were growing, so the loan amounts grew. She did say, however, that some guaranteed loans increased the amount of credit provided to existing Center-Invest clients, simply because they did not have enough collateral to qualify for larger loans without the guarantee.

The average guaranteed loan was more than two times smaller than the average non-guaranteed loan during the guarantee period, which Ms. Pontankova explained was because the guaranteed loans were mostly granted in 2004 and 2005, when Center-Invest's loan sizes were smaller in general. The bank granted larger loans on average in 2007 and 2008, before the financial crisis hit Russia.[47] However, the bank's SME data reported in its annual reports do not support this explanation. As shown in the figure below, although guaranteed and non-guaranteed loan sizes followed the same growth trend, the average guaranteed loan amount in 2004 and 2005 was still half the size of the average non-guaranteed loan during those years. In addition, the average non-guaranteed loan amount in 2007 and 2008 was only 16 percent higher than the average non-guaranteed loan in 2004 and 2005. The average guaranteed loan amount in 2007 was 24 percent higher than the average guaranteed loan in 2005.

[47] Although we asked her for loan data by year for loans not under the guarantee, Ms. Pontankova said that pulling together such data would take considerable time and take her away from her other responsibilities as a bank manager.

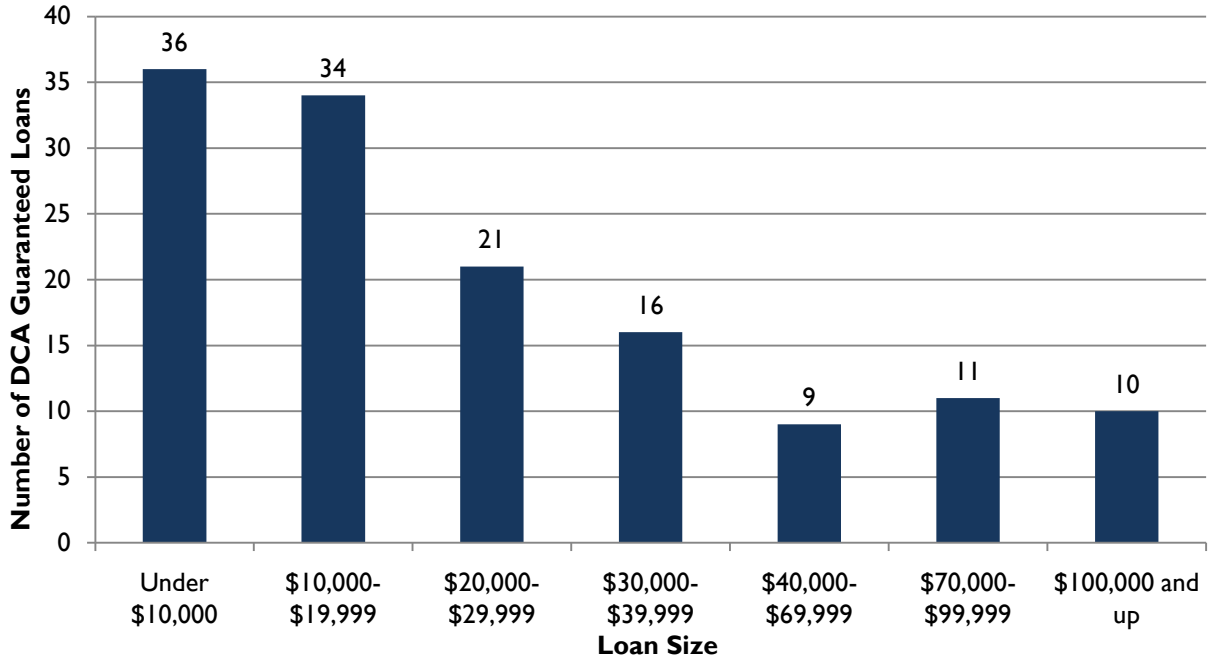
FIGURE 5. COMPARISON OF AVERAGE GUARANTEED AND NON-GUARANTEED LOAN SIZES



Sources: Center-Invest annual reports 2003-2008 and CMS data

Another, more plausible, explanation is that since Center-Invest granted the guaranteed loans to clients with insufficient collateral, it kept the loan sizes low to reduce the risk of default. As shown in the figure below, 66 percent of the loans made under the DCA guarantee were smaller than the average guaranteed loan size of $31,860. These low numbers support the assertion that Center-Invest used the guarantee to make riskier loans than it did without the guarantee.

FIGURE 6. NUMBER OF DCA GUARANTEED LOANS BY SIZE



Source: CMS

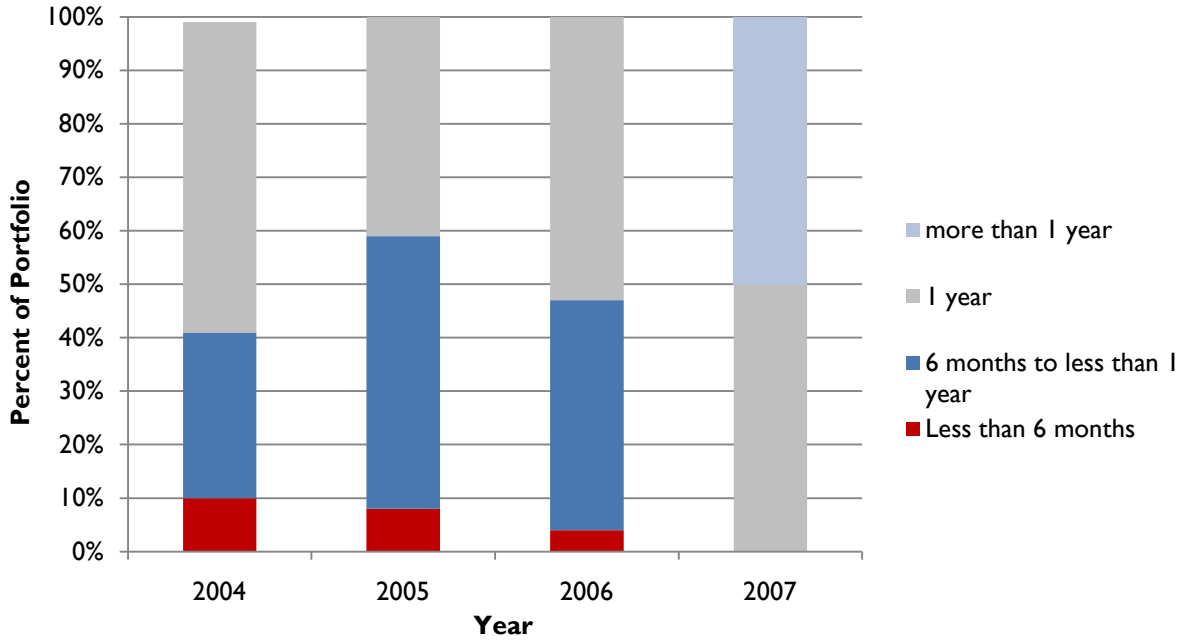
Center-Invest Objective 3: Extend Loan Terms beyond 1 Year

As of the end of 2003, the average length of Center-Invest's SME loans was 10.7 months and 21 percent of the bank's overall loan portfolio extended beyond 1 year.[48]

According to CMS data, loan tenors among DCA guaranteed loans varied between 3 months and 2 years (one loan), with the average being 9 months. There was little variation between regions. The average loan tenor in Volgograd was 7.8 months, while in Krasnodar it was 11.25 months and in Rostov, 9 months. As shown in the figure below, guaranteed loans did not show any clear trend towards increased tenor over the years of the guarantee, though the percent of loans less than 6 months in duration steadily decreased. The percent of loans 1 year long actually *decreased* slightly over the period of the guarantee.

[48] USAID Action Package

FIGURE 7. PERCENT OF GUARANTEED LOAN PORTFOLIO, BY TENOR



Source: Center-Invest data. Calculated based upon the number of SME loans.
NOTE: only two loans were made in 2007.

Comparing guaranteed with non-guaranteed loans during the period of the guarantee, the average non-guaranteed loan was more than twice as long as the average guaranteed loan. In fact, the average non-guaranteed loan was just over 19 months[49], an 81 percent increase over the 10.7 month average in 2003.

Ms. Pontankova explained that while most of the guaranteed loans were made in 2004 and 2005 when the bank's loan tenors were shorter, Center-Invest was making 3-year (non-guaranteed) loans in 2007 and 2008, which pushed up the non-guaranteed loan average tenor. In 2006, only 9 percent of loan tenors were longer than a year. In 2007, that figure jumped to 43 percent of the bank's active SME portfolio.[50] (See Outcomes for details on why tenors expanded).

Conclusions and Findings for Question 1.b

How did Center-Invest implement the programs which the loan guarantee was targeted to support? And why?

Conclusions:

[49] 19.4 months, per data obtained from Center-Invest.
[50] Data obtained from Center-Invest in June 2009.

Center-Invest treated the DCA guarantee just as it treats the rest of its programs with international organizations, including advertising it. Because the bank intended to use the guarantee to support loans to otherwise qualified borrowers who had insufficient collateral for the size of loan for which they were applying, it engaged in its usual borrower assessment procedures to determine creditworthiness and then used the guarantee to make up the difference between what a worthy borrower had and what the bank calculated was required for the loan. With one exception, the bank also granted no more than one guaranteed loan per customer as part of its strategy to capture new clients and, therefore, a larger SME market share in the Southern Federal District. Other than these measures, however, Center-Invest did not change any of the terms, conditions, or implementation processes to accommodate guaranteed loans, simply because it did not see a need to do so. It had a process that worked and the only assistance it needed was collateral support.

Findings

As is its practice when it engages in a program with a financier, Center-Invest advertised the LPG agreement to its clients through press releases disseminated by mail, the bank's website, and the local press. As with the bank's agreements with the EBRD, Center-Invest made an announcement after signing the DCA agreement that it was able to offer credit to clients with less collateral.

Looking at the English version of the Bank Center-Invest website, we found a press release issued on September 30, 2004, which announced the new USAID LPG, which "will allow to lower the size of maintenance under the given credits for the clients of the bank." After advertising, news of the program spread by word of mouth, especially in smaller towns, Ms. Pontankova told us.

With the word out, the bank held a seminar on 'new opportunities for borrowers' for its loan officers to instruct them about the DCA program. According to Ms. Pontankova, the loan officers were told that the client was to provide at least 50 percent of the calculated collateral amount; the DCA guarantee would secure the rest. We attempted to speak with the designer of the course, who was also the USAID liaison at the time, but he had moved to other employment, was not available during the time of our visit, and did not reply to our emailed requests for information.

The majority of the loans (107) provided under the guarantee were made at the end of 2004 through 2005. They accounted for 74 percent of the value of all of the guaranteed loans. According to Ms. Pontankova, the program was very popular, which is why the guarantee was used so quickly. She said that the bank had no specific plan for when it would make loans under the guarantee; rather, it was on an as-needed basis. "We looked for reliable partners who were short of collateral." Those businesses then received a DCA guaranteed loan. Although the bank had intended to spread the guarantee among its various offices, "some offices were more successful than others in getting clients under the guarantee."

Loan terms and conditions, Ms. Pontankova told us, did not differ between guaranteed and non-guaranteed loans. Neither did borrower assessment criteria. As with all Bank Center-Invest clients,

a potential new client must provide a packet of financial documents, including balance sheet, profit and loss report, debtors and creditors, fixed assets, inventory, itemized borrowings and credits, feasibility study for using the credit, data on settlement accounts with other banks, budget, and cash flow report. Loan officers review the documents and, if everything looks okay, they pay an onsite visit to the prospective borrower's business. During the visit, the officers talk to the company's management and financial department. If everything appears in order, the officers notify Ms. Pontankova, with whom they prepare a report that summarizes all of the data reviewed and submit it to the bank's credit committee for approval.[51]

USAID's Biennial Review found that, "if a client has successfully repaid its first loan, Center-Invest does place additional loans to the same client under the guarantee coverage (p. 3)." In fact, only one client received a second guaranteed loan, Kuzminovo Agricultural Producers' Co-operative. Ms. Pontankova explained that the bank's policy was generally to extend no more than one guaranteed loan per customer in order to use the facility to attract new clients. Although she was not able to provide specific data, Ms. Pontankova thought that most of the guaranteed loans went to new bank customers. The average of 1 loan per guaranteed borrower is not so different from the bank's non-guaranteed loans, which reflect an average of 1.3 loans per borrower.

Center-Invest's annual reports, along with statements from Mr. Vysokov and Ms. Pontankova, suggest that Center-Invest specifically targets increases in the number of SME clients, thereby capturing larger portions of the SME market in the Southern Federal District.

Conclusions and Findings for Questions 2.a and 2.b

Evaluation Questions 2.a and 2.b How have partner bank portfolios in the target sector performed? What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?

To answer these questions, we analyzed Center-Invest's SME data according to four characteristics: loan value, loan size, interest rates, and arrears. In each case, we compared DCA guaranteed with non-guaranteed loans, where data were available.

Conclusions:

Center-Invest's SME lending portfolio has performed well, demonstrating rapid growth and a low percentage of NPLs. The extent of the DCA guarantee's influence on Center-Invest's portfolio characteristics was minimal at best, simply because the guaranteed loans represented such a small proportion of the Bank's SME portfolio and the bank made no procedural changes to accommodate

[51] Although we attempted to meet with loan officers who had handled DCA guaranteed loans, Ms. Pontankova told us that it was unlikely the officers would remember much about the loans since most of the lending took place 3 ½ years ago.

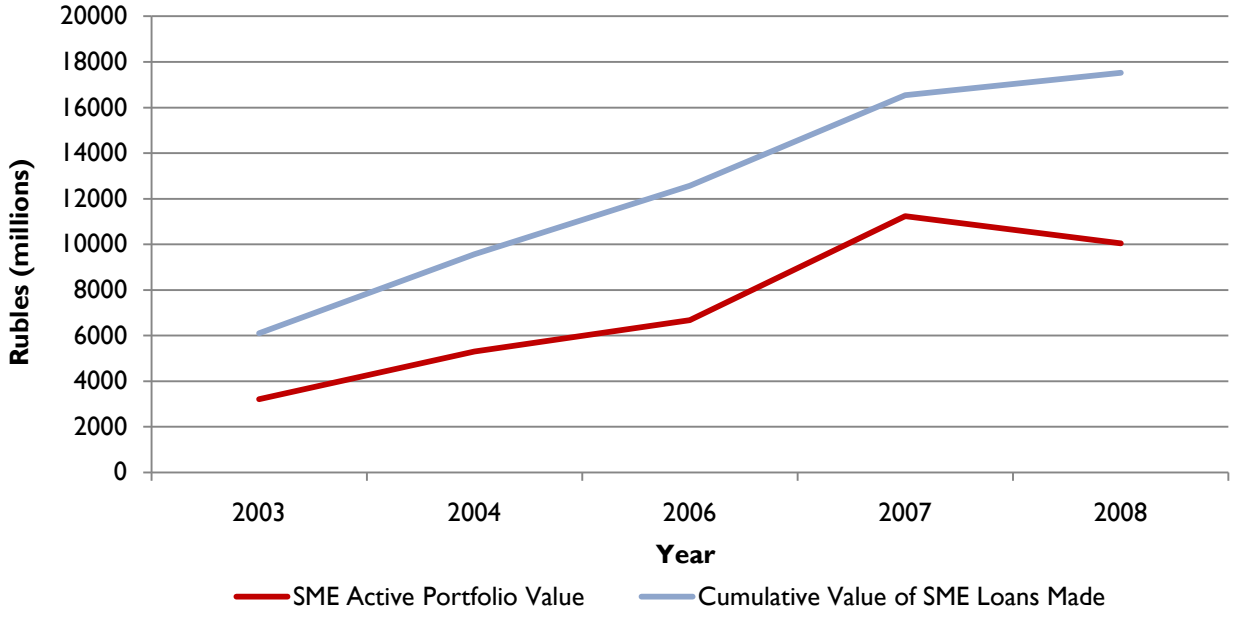
the guarantee. The Bank's careful assessment policy for its borrowers and individual approach to dealing with overdue payments have resulted in a low percentage of NPLs.

Findings:

Value of Loans to SMEs

The value of Center-Invest's SME portfolio increased steadily during the period of the DCA guarantee, rising from RUR 3,206 million in 2003 to RUR 10,045 million in 2008, a 213 percent growth. Though the value of loans made annually dipped in 2008, it still grew 187 percent between 2003 and 2008.

FIGURE 8. CENTER-INVEST BANK SME LENDING PRE, DURING, POST DCA GUARANTEE



Source: Center-Invest data, June 2009

Together, the total value of all of the DCA guaranteed loans made represented 1 percent of Center-Invest's SME portfolio value as of January 1, 2009.[52] Although Center-Invest decided not to use the DCA guarantee to target Volgograd and Krasnodar specifically, guaranteed loans to Volgograd represented a higher proportion of the total SME portfolio there than in either of the other regions. Nevertheless, at 1.6 percent, the DCA guarantee's contribution to increasing the portfolio value in Volgograd was minimal.

[52] According to the CMS, the cumulative value of loans made under the DCA guarantee was $4,570,886.

TABLE 7. CUMULATIVE VALUE OF CENTER-INVEST SME PORTFOLIO

	DCA Loans (mln. Rubles)	Non-guaranteed loans (mln. Rubles, portfolio value Jan. 1, 2009)	Guaranteed loans as percent of non-guaranteed loans
Rostov	107.405	7,835	1.37%
Krasnodar	7.2	1,707	0.42%
Volgograd	8.1	502	1.61%
TOTAL	**122.705**	**10,044**	**1%**

Source: CIB, June 2009

In terms of numbers of loans made, DCA guaranteed loans represented 0.48 percent of non-guaranteed SME loans in the Center-Invest portfolio during the period of the guarantee. Consistent with the utilization pattern of the guaranteed loans discussed to this point, the largest portion of loans was in Rostov, where they made up 0.56 percent of the SME portfolio in that branch.

TABLE 8. NUMBER OF LOANS TO SMES DURING GUARANTEE (SEPTEMBER 2004-SEPTEMBER MARCH 2009)

Overall	Rostov	Krasnodar	Volgograd
Loans with the guarantee: 137 (0.48 percent) Loans without the guarantee: 28,512	Loans with the guarantee: 124 (0.56 percent) Loans without the guarantee: 22,239	Loans with the guarantee: 8 (0.17 percent) Loans without the guarantee: 4,847	Loans with the guarantee: 5 (0.35 percent) Loans without the guarantee: 1,426

Source: CMS data and Center-Invest data received in June 2009

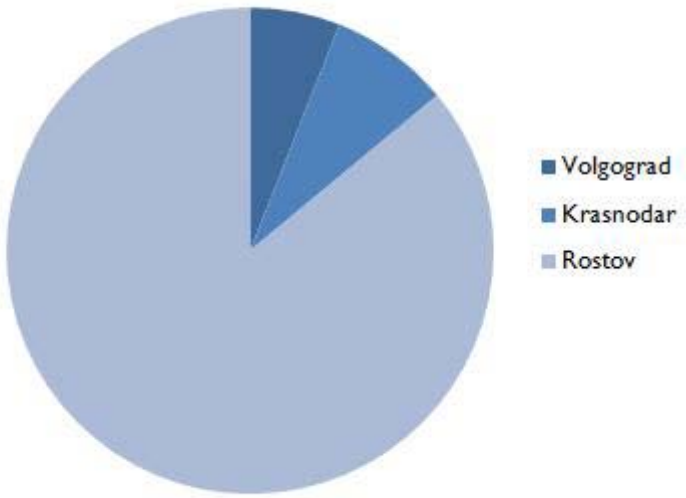
The total value of DCA lending in Rostov accounted for 86 percent of the total value of guaranteed loans made.

TABLE 9. VALUE OF DCA GUARANTEED LOANS, 2004-2007 (USD)

	2004	2005	2006	2007	TOTAL
Rostov	$855,979	$1,817,687	$1,017,807	$95,039	**$3,769,704**
Krasnodar	$126,483	$150,874	$20,396	--	**$357,959**
Volgograd	$174,341	$106,247	--	--	**$280,588**
TOTAL	$1,156,803	$2,074,808	$1,038,203	$95,039	**$4,408,251**

Source: CMS

FIGURE 9. REGIONAL BREAKDOWN OF DCA GUARANTEED LOANS



Source: CMS

Interest Rates

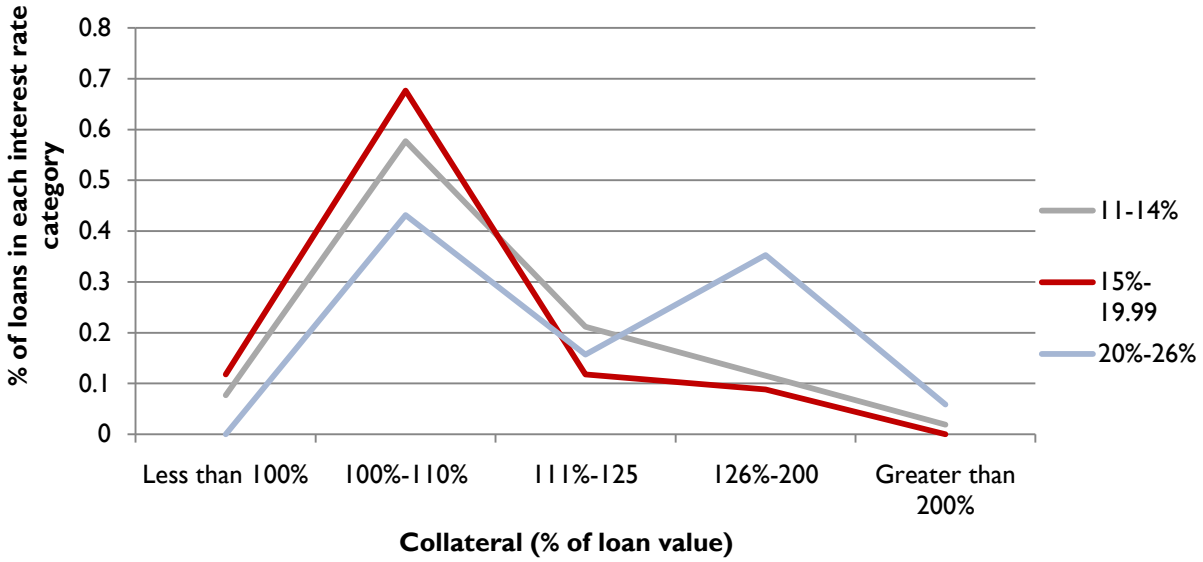
The Guarantee Agreement specifies that, "Interest rates [should be] on terms consistent with those generally prevailing among private commercial lenders in borrower's country." Ms. Pontankova confirmed that the bank did not vary loan terms, including interest rates, between guaranteed and non-guaranteed SME loans. Therefore, we would not expect to find a difference, and there is none. The average interest rate of guaranteed loans was 17.89 percent, while for non-guaranteed SME loans during the guarantee period, the average was 18.05 percent. The rates for guaranteed loans ranged from 11 percent to 26 percent. These rates are on par with the average in the region, which was 11 to 22 percent in 2007.[53] Interestingly, as of that year, banks in the Rostov region offered the lowest interest rates in the South Federal District.

Ms. Pontankova added that clients who arrange a cash account through Center-Invest enjoy fixed interest rates on loans; those that lack a cash account face floating rates.

We expected that the interest rate would be positively correlated with the collateral percentage, reflecting various borrower credit risk levels. While this assumption was generally true, there were exceptions. Loans with lower interest rates (below 20 percent) generally had lower collateral requirements, but loans with the highest interest rates had a high proportion of both lower and higher collateral requirements. The difference probably has something to do with the additional factors used in the bank's calculation of collateral requirements, as discussed above.

[53] Marchmont 2007.

FIGURE 10. INTEREST RATES BY COLLATERAL REQUIREMENT



Source: CMS data

> Center-Invest is stably in the middle and has a reputation as a stable financial institution. Throughout recent years, Center-Invest has had an active policy to be a reliable and powerful source of credit.
>
> –Yevchenko Yuri Aleksandrovich, OPORA Rostov

Compared with other SME lenders, the consensus among the people we interviewed was that Center-Invest's interest rates, while competitive, are not the lowest. The Executive Director of the OPORA Rostov office said that Sberbank has the best interest rates in the region because Center-Invest sticks to established rates, whereas borrowers can negotiate their rates with Sberbank, particularly if they are repeat customers. On the other hand, he said, many banks advertise better terms and conditions than they actually give or maintain, whereas Center-Invest is stable and "never tries to play games" by offering temporarily lower interest rates to capture customers. The Deputy Head of the Small Business Servicing Department at VTB 24 Bank told us that his bank charged an average 14 to 17 percent interest rate on standard SME loans before the onset of the financial crisis. Other banks, he said, charge as much as 27 to 35 percent interest. Tim O'Brien of FSVC told us that as of a couple of years ago, the average SME loan in Russia carried an 18 to 25 percent interest rate. Regular customers enjoyed better rates. The International Business Director of SDM Bank, a former DCA guarantee recipient, told us that large banks such as Bank of Moscow, KMB Bank, and Sberbank tend to have high SME interest rates, over 25 percent. SDM's maximum interest rate, by contrast, is 17-18 percent.

Arrears

Note on Terminology: According to the World Bank, Russia does not have a standard definition for NPLs, which are generally considered to be substandard, doubtful, and loss loans.

- *Substandard: arrears of 6 to 30 days for collateralized loans and no more than 5 days for inadequately collateralized loans. Minimum required provisioning: 20 percent of the value of the credit.*
- *Doubtful: arrears of 31 to 180 days for collateralized loans and 6 to 30 days for inadequately collateralized loans. Minimum required provisioning: 50 percent of the value of the credit.*
- *Loss: arrears of more than 180 days, no matter the collateral situation. Minimum required provisioning: 100 percent of the value of the credit.*

In addition, if a multiple-loan borrower has one nonperforming loan, the rest of the borrower's loans are also classified as nonperforming.[54]

By comparison, the IMF and the UN define loans as nonperforming when payment of interest and/or principal are past due by 90 days or more; at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement; or payments are less than 90 days overdue, but there are other reasons to doubt that payments will be made in full.[55]

Other definitions of NPLs also include loans for which the maturity date has passed and payment in full has not been made.[56]

In our discussion below, for the sake of simplicity, we use "NPLs" to refer to all loans that fit into any of the categories discussed in this note.

Up until our field visit in June 2009, Center-Invest had not submitted any claims for borrowers under the DCA guarantee. There was, however, one client who had defaulted on a loan for a very long time, a furniture dealer called Pilura GV. This client stopped paying after September 2007. Ms. Pontankova told us that the bank was preparing a claim for this borrower.

NPLs under the guarantee amounted to 0.15 percent of the guaranteed portfolio value, Ms. Pontankova told us. Altogether in the bank, as of January 1, 2008, the percent of NPLs in the bank's portfolio was 1 percent, reflecting its very careful assessment of borrowers[57]. According to data Center-Invest provided on its total SME portfolio, NPLs made up between 1 percent and 1.27 percent in 2006 and 2007, indicating a high degree of stability.

Once the global financial crisis hit Russia, borrowers stopped paying and as of the first of January 2009, Center-Invest's NPLs stood at 6 percent. However, the bank restructured part of the debt as soon as debtors ceased paying the bank's clients (putting the clients in danger of default). Ms.

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[54] http://siteresources.worldbank.org/INTRES/Resources/469232-1107449512766/Caprio_2000_Russia.xls
[55] Paragraph 4.84 of the IMF's Compilation Guide on Financial Soundness Indicators and http://unstats.un.org/unsd/sna1993/recomm.asp?ID=76
[56] TeachMeFinance.com. Mr. Hainsworth of RussRating said that Russians call the whole loan not being paid (as opposed to a missed payment) an "overdue."
[57] Vasily Vysokov, Elena Pontankova, Dmitry Larionov (EBRD Rostov)

Pontankova said the bank understands that its clients have to pay their suppliers' bills even while they are not receiving payment for goods/services delivered, so the bank either restructures its clients' debts or offers a new payment schedule. "We try to be flexible because it's not our clients' fault," she said. Therefore, "the 6 percent are not dead," Ms. Pontankova told us. Trade businesses, especially, asked the bank for a 60-day delay in repayment. Six percent is not unreasonable for this time, compared to the 7 percent to 8 percent or more recorded by other Russian banks (see The Global Financial Crisis in Russia).

Center-Invest's standard procedure for addressing NPLs begins with meeting with the client within 5 days of the maturity date[58] if a loan has not been paid in full to learn why there is a delay. The bank asks about the client's financial situation and analyzes his/her debtor and creditor data, inventory, and volume of sales. Jointly with the client, the bank develops a repayment program, considering the possibility of selling assets or pledging delayed debts expected from the client's borrowers. "We try to stick to the agreed strategy," Ms. Pontankova said. This procedure, according to an EBRD representative in Moscow, is a step forward from the time when Center-Invest simply sent security officers to deal with clients who had not paid.

The procedures outlined above, Ms. Pontankova told us, are the same for DCA guaranteed and non-guaranteed loans.

Outcomes

The outcome part of the evaluation seeks to determine whether, and to what extent, the DCA guarantee has prompted Bank Center-Invest to increase access to credit for its clients, using experience gained through using the guarantee. Framing this outcome assessment are two evaluation questions split into two sub-questions each:

- 3.a To what extent were desired outcomes achieved, and sustained outside the protection of the guarantee?
- 3.b What factors at the partner bank can be associated with achievement of these outcomes?
- 4.a Has Center-Invest moved into any new sectors/industries and types of borrowers after the guarantees began?
- 4.b If so, have the DCA guarantees played any role in these bank decisions?

Conclusions and Findings for Evaluation Question 3

To what extent were desired outcomes achieved, and sustained, as intended in the Action Package and/or Legal Agreement, outside the protection of the DCA guarantee? What factors at the partner bank level can be associated with achievement of desired outcomes?

[58] Although the interpretation provided for Ms. Pontankova's comments said within five days of the "maturity date," it is possible that Ms. Pontankova meant within five days of "a missed loan payment." According to various NPL definitions (see Note on Terminology), either would be an acceptable definition of an NPL.

Desired outcomes according to the Action Package and Legal Agreement were as follows:

Guarantee Purpose (Guarantee Agreement)	Strengthen Center-Invest's ability to expand its SME loan portfolio through its newly opened branches in Krasnodar and Volgograd
Center-Invest Bank's Objectives (Action Package)	1. Develop relationships with clients in 2 new regions—Krasnodar and Volgograd 2. Grant larger loan sizes to clients in Rostov 3. Extend loan terms beyond 1 year. (baseline: average length of SME loans 10.7 months; 21 percent of bank's overall loan portfolio extended beyond one year as of end of 2003)

Expanded SME Portfolio in Krasnodar and Volgograd

Conclusion:

While Center-Invest definitely expanded its SME portfolio and number of clients in both Krasnodar and Volgograd, this expansion was due to the bank's own efforts, rather than to its experience with the DCA guarantee.

Findings:

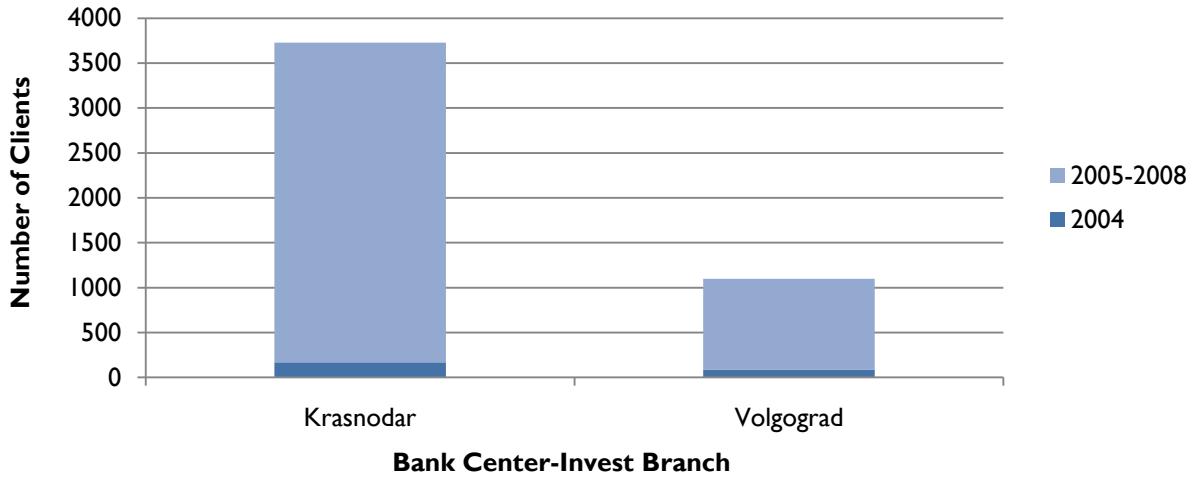
Both the Krasnodar and Volgograd branches were established prior to the DCA guarantee and formed part of the bank's ongoing expansion of its branch network. The bank also expanded into Pyatigorsk and Stavropol (2006). While Center-Invest's lending to clients in Krasnodar and Volgograd grew between 2003 and 2009, the number and amounts of DCA guaranteed lending to these regions were negligible, both within the portfolio of DCA guaranteed loans as well as within the overall loan portfolios in these regions (see Outputs). Ms. Pontankova told us specifically that Center-Invest's expansion into Krasnodar and Volgograd was in no way due to the DCA guarantee.

Center-Invest began lending from its Krasnodar branch in 2003 and had allocated 69 million rubles by the end of the year. In 2004, the branch lent 400 million rubles to 167 clients (1.7 percent of all bank clients).[59] By the end of 2004, the Volgograd branch had 86 clients (0.85 percent of the total). In 2005, Krasnodar had 223 clients and Volgograd 265, contributing to the bank's overall 35 percent growth rate for the year. In 2008, Center-Invest signed an agreement with the Regional Guarantee Fund of Volgograd Region to guarantee loans to SMEs with insufficient collateral. By the end of the year, Center-Invest had 4 sub-branches in the Volgograd region and 20 sub-branches in the Krasnodar region.[60] The total number of clients during the life of the DCA guarantee was 3,728 in Krasnodar and 1,098 in Volgograd, who received 4,847 and 1,426 non-guaranteed loans,

[59] Center-Invest Annual Report for 2004, p. 61.
[60] Center-Invest Annual Reports

respectively. These loans were worth a combined total of RUR 1,707 million and RUR 502 million in Krasnodar and Volgograd, respectively.

FIGURE 11. GROWTH IN CENTER-INVEST CLIENTS IN KRASNODAR AND VOLGOGRAD



Source: Center-Invest annual reports and data received in June 2009

Larger Loan Sizes

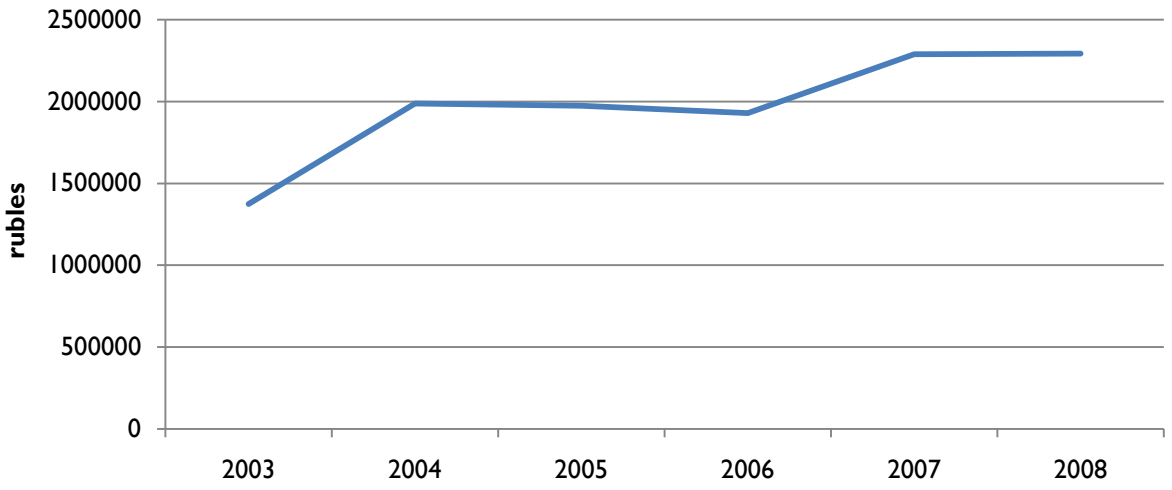
Conclusion:

The average size of Center-Invest's loans to SMEs grew between 2003 and 2008 because the banks' clients' businesses expanded. The DCA guarantee does not appear to have influenced this change, nor has the bank specifically targeted larger loan sizes as a goal.

Findings:

Average SME loan sizes at Center-Invest have grown 67 percent between 2003 and 2008, from $47,000 to $78,424 (67 percent, see figure below). Ms. Pontankova asserted that this growth was due to the bank's clients' growth, rather than the bank's experience with the DCA guarantees. As discussed above, the guaranteed loans were smaller on average than non-guaranteed loans during the same period.

FIGURE 12. AVERAGE CENTER-INVEST NON-GUARANTEED LOAN AMOUNT, 2003-2008



Source: Center-Invest Annual Reports, CMS data

The average non-guaranteed loan size in Rostov was actually 15 percent smaller than in Krasnodar over the period of the guarantee (approx. $71,503 vs. $81,932).

The averages do not tell the whole story, however. Although the value of individual loans did increase, the bank still held a large percentage of small loans. For example, in 2006, 67 percent of the bank's SME loans granted were worth less than $50,000. By April 2008, shortly before the financial crisis hit Russia, that figure dropped to 49 percent.

FIGURE 13. NUMBER OF SME LOANS, BY VALUE, JANUARY 1, 2007

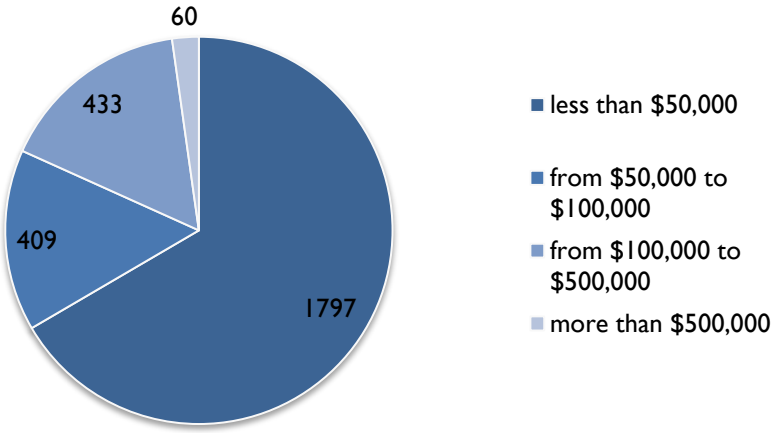
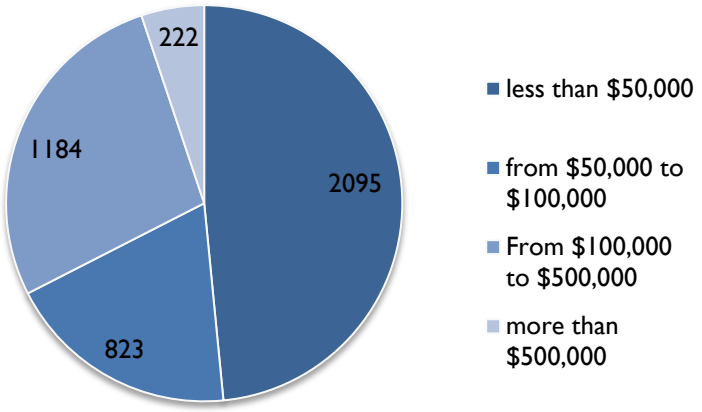


FIGURE 14. NUMBER OF SME LOANS, BY VALUE, APRIL 1, 2008



Source: Center-Invest data received in June 2009

Center-Invest's goal, explained Ms. Pontankova, is not to increase the amounts of individual loans, but rather to increase the overall volume of loans in the bank's portfolio. Individual loan amounts grow as the clients' businesses grow, a natural process resulting from client retention. A borrower with whom we spoke, who has been with Center-Invest for 12 years, supported Ms. Pontankova's view: "I feel like we are in the same boat; we are making money together." The booming Rostov economy and assistance from the regional administration encouraged SMEs to grow during the period of the guarantee (see Impacts).

> *We start working with most of our clients as novices. We nurture them and encourage them to grow and we grow with them. Many become corporate clients of the bank.*
>
> –Elena Pontankova,
> Head of SME Lending,
> Bank Center-Invest

Nevertheless, Center-Invest's loan sizes are larger than others'. According to the EBRD's Russia Small Business Fund Program Coordinator, many banks provided SMEs with consumer loan financing up to $10,000 for one year before the financial crisis hit. This restriction poses a problem, as entrepreneurs were forced to take out loans from multiple banks to accumulate the amount they needed to develop their businesses. According to the Deputy Head of Small Business Servicing Department in VTB 24, the bank's SME clients receive loans ranging from 1 million rubles (approx. $33,319) to $5 million, with the average loan size being $182,255. However, 60-65 percent of the bank's loans are made to individuals, not businesses, because of the various taxation, accounting, and reporting requirements for both businesses and banks.[61] An FSVC representative pegged current SME loan sizes in Russia in general at approximately $15,000.

The Center-Invest clients with whom we spoke had a range of loan sizes. For example, one had received a loan in January 2006 for 500,000 rubles (approx. $17,397) and subsequently received

[61] Heike Nonnenberg, Tim O'Brien, Richard Hainsworth

about a dozen more, worth an average of 5.8 million rubles (approx. $201,809). Another client received two loans of 10 million rubles (approx. $379,939) each in 2006 and 2007.

Extend Loan Terms

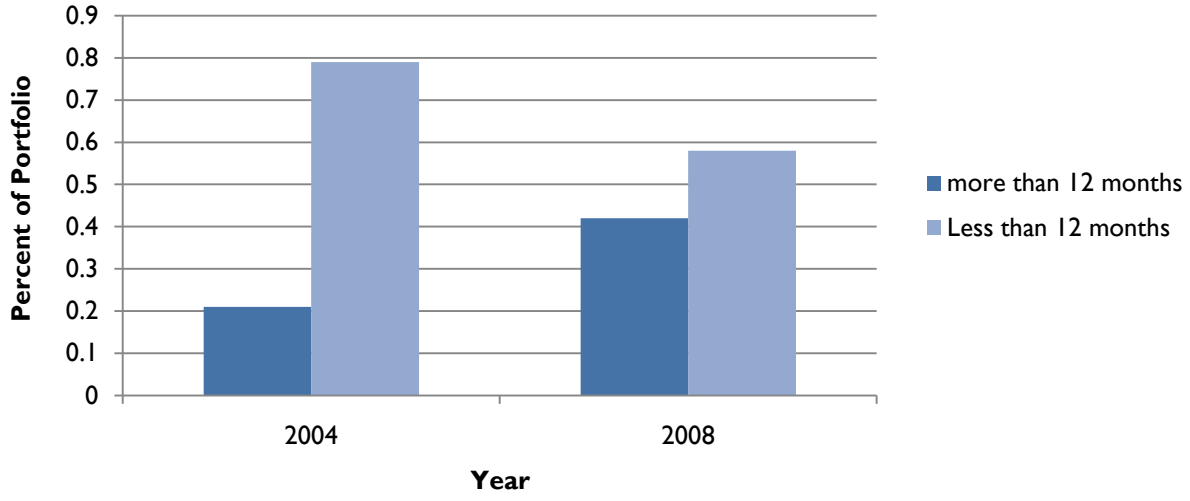
Conclusions:

Center-Invest's SME loan tenors increased significantly on average between 2004 and 2008, but it does not appear that this growth was due to the DCA guarantee. Market conditions and EBRD's investment in the bank were likely responsible for the change in loan tenors.

Findings:

The average non-guaranteed Center-Invest SME loan was 19.4 months in duration from the period 2004 to 2009. This figure represents an 81 percent increase over the baseline of 10.7 months. In 2006, 44 percent of Center-Invest's SME loans had tenors of between 10 and 100 months.[62] As of April 1, 2008, 37 percent of the bank's SME portfolio had more than a year left to go to maturity, and 42 percent had already been running for more than a year. Therefore, by 2008, a minimum of 42 percent and a maximum of 76 percent of loans were more than a year in duration, a significant increase over the baseline of 21 percent.[63]

FIGURE 15. DURATION OF CENTER-INVEST SME LOANS, AS PERCENT OF SME LOAN PORTFOLIO



Source: Center-Invest data and Action Package.
NOTE: the percent of loans longer than 12 months in 2008 is likely larger. What is portrayed here is a minimum.

[62] Data provided by Center-Invest, June 2009.
[63] Data provided by Center-Invest, June 2009. Baseline data from USAID.

Ms. Pontankova acknowledged that Center-Invest has generally increased the tenor of its loans, but not due to the DCA guarantee. The fact that loans with the guarantee were significantly shorter than those without lends credence to her assertion. Instead, she attributed the growth in average loan tenor to funding from EBRD. Guaranteed, long-term international cash through EBRD's 27 percent stake in the bank would certainly provide the bank with the financial comfort to engage in longer term lending. In 2007, EBRD provided 510 million rubles in credit lines to Center-Invest for lending to SMEs generally, which it had been doing since at least 2004. Also in 2007, Center-Invest introduced lending up to 3 years for SME clients (Annual Report). Although Ms. Pontankova did not specifically say so, one can surmise that the growth of the bank's clients' businesses noted above probably qualified them for longer-term loans.

With the onset of the global financial crisis, Center-Invest, like other banks, has curbed loan tenors to reduce risk. As of June 2009, 43 percent of the bank's SME portfolio consisted of loans shorter than 1 year. Five of the Center-Invest clients with whom we spoke had active loans of a year or less. One client who has been banking with CIB since 2003 said that over the last 8 months, Center-Invest's loan tenors have become shorter because of the financial crisis (other interviewees confirmed this point). Another client said that Center-Invest's loan tenors used to be 4 to 5 years, but were reduced to one at the end of 2007. A client with a 1-year loan with Center-Invest said that the standard tenor for an SME loan among banks is currently 6 to 8 months. The two clients with whom we spoke who had active loans of more than a year (5 years and 3 years, respectively) received those loans in 2007, before the crisis hit.

Other key interviewees described the impact of market shifts on SME loan tenors. A representative from VTB 24 said that prior to the financial crisis, SMEs could obtain a loan for a maximum of 10 years; now the maximum is 5. The average lending term in June 2009 was 3 years. A representative from FSVC, which has done ongoing financial sector training for USAID in Russia, said that before the Russian financial crisis, the average loan tenor for SMEs was 3 to 5 years; now it is about 3 years. The EBRD Russia Small Business Fund Program Coordinator told the evaluator that few banks are providing SME loans of more than 1 year now; 11 months is usual.

Other Objectives: Credit Products

Loans with Reduced Collateral Requirements

Conclusions:

Most of the SMEs that received DCA guaranteed loans remained Center-Invest clients after their guaranteed loans ended, thereby gaining access to a longer-term source of financing. The bank's comfort level with DCA guaranteed lending to clients short of collateral possibly influenced its engagement in additional guarantee agreements with the Regional Guarantee Fund of Volgograd and (upcoming) the regional Rostov government. The USAID-sponsored FSVC training may have

influenced Center-Invest's thinking about uncollateralized lending and may have pushed it to create or promote its collateral-free overdraft product. Independently of the guarantee (and not likely because of it), the bank is accepting alternative forms of collateral not widely used in Russia, which likely increases access to credit for some borrowers.

Findings:

As described under Outputs, Center-Invest said it used the DCA guarantee to expand its credit products, specifically through adding a reduced collateral requirement, in order to expand its client base and increase lending volume.

Ms. Pontankova explained that the clients who received DCA guaranteed loans would not likely have become Center-Invest clients in absence of the guarantee because they could not meet the collateral requirements. Since all but 3 or 4 of these clients remained with Center-Invest, their increased access to credit appears to be sustainable. Some of the recipients of guaranteed loans, Ms. Pontankova told us, were able to increase their sales and therefore qualify for larger, non-guaranteed loans from Center-Invest. Other clients had no need to apply for larger loans after they increased their assets with guaranteed loans. Another DCA guaranteed client started a new line of business and therefore obtained a non-guaranteed loan to fund it.

The bank did not continue to lend with reduced collateral requirements without the DCA guarantee. Although Center-Invest's annual report from 2006 states that the bank introduced a new lending program that requires no collateral for individual entrepreneurs, Ms. Pontankova explained that this product is overdraft protection, which depends instead on a client's cash flow. Collateral-free lending formed a very small portion of the bank's portfolio—0.17 percent in 2007 and 0.20 percent in the first quarter of 2008.

In 2006, Center-Invest staff participated in a USAID-funded Bank Management Internship Training implemented by the FSVC, in which they developed a presentation for the bank's management on improving SME lending. The presentation, according to FSVC, resulted in promoting uncollateralized lending to SMEs.[64]

While Ms. Pontankova said that the bank tends to stick to its original practice of requiring full collateral, she also said that Center-Invest plans to participate in an upcoming tender from the Rostov regional government for a guarantee fund for supporting SMEs that "don't own enough property to be used as collateral against the loan."[65] As noted under Outputs, Center-Invest's 2008 annual report announced that the bank had "signed an agreement with the Regional Guarantee Fund of Volgograd Region whereby the fund will guarantee loans to SMEs that are lacking sufficient collateral." It is at least possible that these agreements stemmed from the bank's experience with the

[64] FSVC Final Report, May 2007.
[65] MarchmontNews.com, June 23, 1009.

DCA guarantee, but such government programs to support lending to SMEs have multiplied over the last several years independently of USAID and Center-Invest has been an active participant.[66] In fact, Center-Invest has been a beneficiary of the Rostov Regional State Fund for Small Business Support since 2001, which has provided credit guarantees and subsidized interest rates.[67] It is possible that Center-Invest's experience with the DCA guarantee made it comfortable engaging in additional guarantees for loans with insufficient collateral, but we have no solid evidence to confirm causation.

One of the Center-Invest clients with whom we spoke told us that collateral requirements are no different between Center-Invest and other banks, but Center-Invest is more flexible with the types of collateral it will accept, specifically noting turnover assets. The client explained that while other banks treat all borrowers the same, Center-Invest "has deeper insight into the essence of your business," which allows it to match its requirements to the client's needs.

Another client, however, complained about using the company's offices as collateral, wishing instead to use working capital. She explained that she feels like the offices used as collateral are no longer hers. She also complained that whereas she needed to provide 100 percent of the value of the loan as collateral to other banks, Center-Invest required 200 percent, for both loans she received in 2006 and 2007. However, she decided to bank with Center-Invest because unlike these other banks, Center-Invest has an agreement with the local administration for subsidized interest rates on loans to SMEs.

As noted above, according to data provided by Center-Invest, types of collateral accepted for SME loans in 2006 included receivables and in 2007 inventory, which most banks were not offering even as of a year ago[68]. One can assume that expanding the list of acceptable collateral made finance accessible to more SMEs. However, Ms. Pontankova said that collateral types did not vary between guaranteed and non-guaranteed loans, and that the collateral choice for a particular client was based on the client's credit risk.

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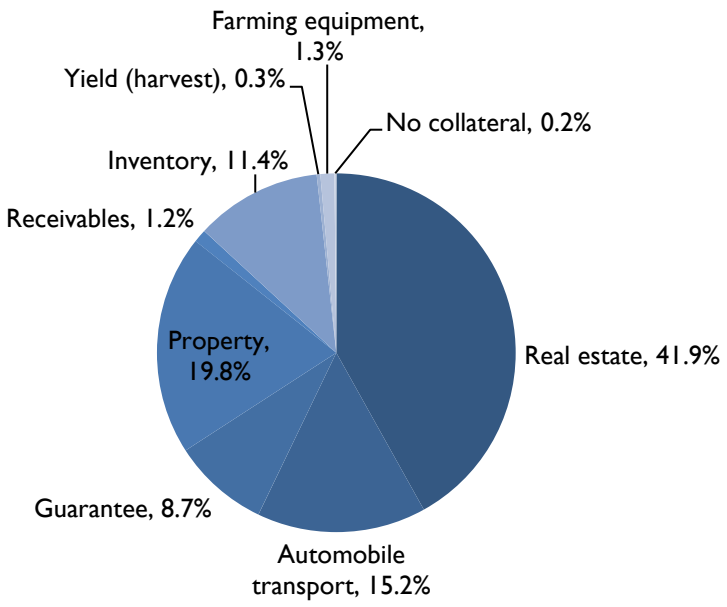
[66] Medoev, V., "Development of Micro, Small and Medium-sized Enterprises in Russia" and "Russian MSME Sector Update—May 2009." OPORA Moscow said the same thing.
[67] Center-Invest Annual Report for 2001.
[68] "Assessment of Obstacles to SME Finance in Russia"

FIGURE 16. NEW TYPES OF COLLATERAL, 2007



Source: Center-Invest data, received June 2009

Additional SME Credit Products

Conclusion:

Center-Invest increased its SME credit product line between 2001 and 2007, thereby expanding SME access to more types of credit. The guarantee contribution to this increase is indirect, since none of the loans covered by the guarantee were new products for the bank. Together, the DCA guarantee and the MSED guarantee may have supported the bank's creative thinking and devising new products with more flexible collateral requirements, but there is not sufficient evidence to support a solid conclusion.

Findings:

Center-Invest did greatly expand its credit product offerings for SMEs between 2003 and 2009. Ms. Pontankova explained that the bank's enhanced product line, inspired by the USAID guarantees, in turn helped Center-Invest to "become closer" to its clients, thereby increasing the bank's clientele.

> *For us, it was important to realize there are other possibilities other than our standard procedures.*
>
> –Elena Pontankova,
> Head of SME Lending Department,
> Bank Center-Invest

Prior to the DCA guarantee, Ms. Pontankova said, the bank had "conservative, standardized products." Center-Invest's annual report for 2001 mentions only a couple of new SME loan products: an agreement for SME support signed with the regional government and the USAID-funded MSED guarantee. The year 2002 brought a credit line from the Russian Bank for Development for lending to SMEs. In 2003, KfW Bank Group gave Center-Invest a credit line for service and trade businesses and DEG provided another line for small business and mortgage lending. EBRD in 2005 provided trade finance guarantees and the IFC introduced a credit line for financing small business projects in energy efficiency in 2006. Unlike these other programs, the DCA guarantee "implied a substantial deviation from our standard rules" and inspired the bank to extend its credit product line to nearly 13 kinds of credit, Ms. Pontankova asserted.

The Center-Invest annual reports highlight new SME loan products developed between 2003 and 2007, as follows:

<u>2003</u>

- Extended credit line limit for SMEs in industry and construction
- Car loan program
- Subsidized interest rates through program with the Administration of Rostov

<u>2004</u>

- Mortgages for individuals
- "New kinds of deposits with prize drawings" (p. 73)

<u>2005</u>

- Start-up loans for new entrepreneurs
- Credit cards

<u>2006</u>

- No collateral requirement[69]

<u>2007</u>

- "Investment up to 3 years"
- "Loans secured against residential property"
- "Loans to acquire commercial property secured against real estate acquired"

None of the products introduced in 2004-2006 applied to the DCA guaranteed loans. Without details on the collateral accepted for the DCA guaranteed loans, we do not know if any were secured against residential property or real estate acquired.

The USAID Action Package for the DCA guarantee highlights new products and services which Center-Invest developed prior to August 2004, including automobile financing plans, SME lending program, credit cards, and increased emphasis on trade services (p. 32).

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[69] While the 2006 Annual Report refers only to a new lending program that requires no collateral, Ms. Pontankova explained that this program refers to overdraft credit.

According to the Executive Director of Russia's small business association's (OPORA) Rostov office, regional SMEs have noticed that Center-Invest offered a wider range of services in 2007 (prior to crisis) than in 2003.

Ms. Pontankova told the evaluation team that Center-Invest retained its new credit products until mid-2008, when the world financial crisis began to hit Russia. Then the bank removed the long-term products to reduce the bank's risk. When the financial environment in Russia improves, Ms. Pontankova surmised the bank would restore long-term lending but in the meantime, it prefers loan tenors of up to 1 year. She said that Center-Invest currently offers six SME loan products.

Increased Volume of Lending and Number of Clients

Center-Invest's ultimate goal for the DCA guarantee, according to both USAID documentation and the bank's officers, was to increase the volume of lending to SMEs and the number of its SME clients.

Conclusions:

The full impact of the guarantee on Center-Invest's non-guaranteed lending business is assuredly larger than the 1 percent increase in portfolio value and clients it directly achieved, but we do not have sufficient data to make a reasonably accurate estimate. Larger factors in Center-Invest's successful growth include its relations with international funders and partners, political connections within Russia, and a highly successful public relations (PR) strategy. While the DCA guarantee supported the bank's success, these other factors were probably more influential.

Bank Center-Invest's unwavering focus on SMEs; fair terms; and public presence within the community, the local government, and internationally have made it a successful, respectable bank known for its transparency and welcoming attitude to entrepreneurs. The bank has increased access to credit for borrowers who were unable to obtain loans from other institutions. On the other hand, the bank's high risk aversion seems to have meant that it lends only to the most solid SMEs.

Findings:

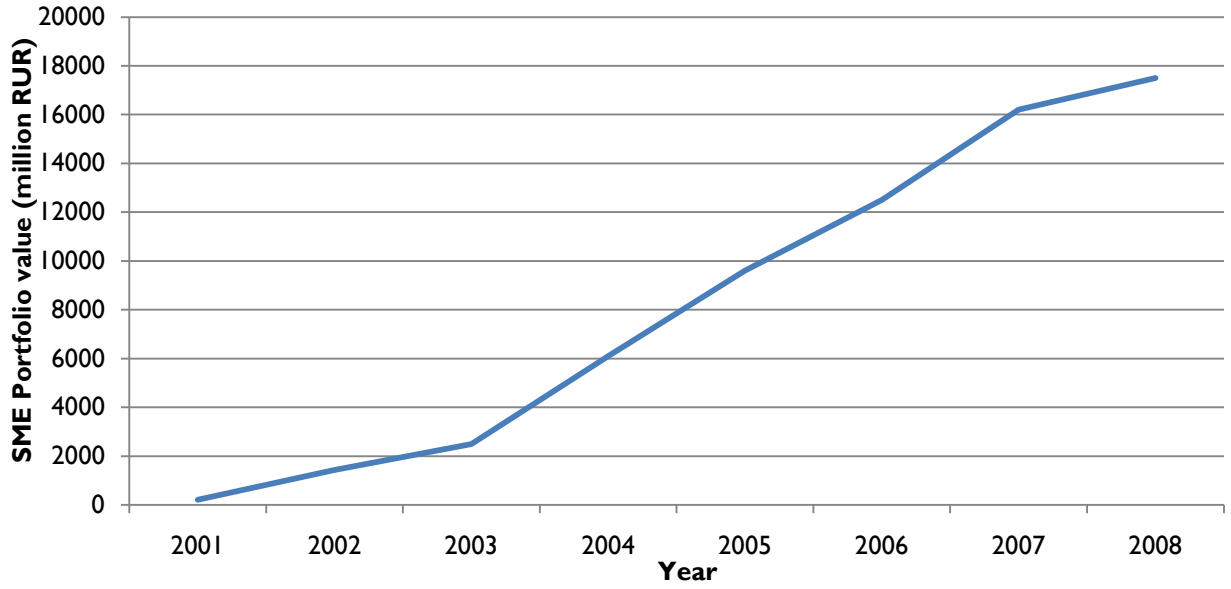
According to Ms. Pontankova, the DCA guarantee helped Center-Invest to enhance its product line and consequently become closer to its clients' needs, thereby attracting more clients. The number of Center-Invest clients certainly increased during the period of the guarantee. In fact, the bank's client base grew 467 percent between 2000 and 2006. By March 31, 2009, Center-Invest counted more than 36,000 SME clients, a 1015 percent increase over the 3,230 total clients Center-

> *We don't need money; we have long-term money from international partners. It's important to attract new clients.*
>
> –Vasily Vysokov,
> Chairman of the Board, Bank Center-Invest

Invest reported in 2000.[70] While the number of clients who received DCA guaranteed loans was miniscule by comparison (137), Ms. Pontankova asserted that most (133-134) of the clients who received guaranteed loans remained clients of the bank, thereby contributing to Center-Invest's client base. Although she said some of the borrowers with guaranteed loans were existing clients, others were new. She was not able to estimate what percent fell into each category of client.

Center-Invest is now the largest provider of SME loans in the Rostov region, in terms of volume.[71] This accomplishment is especially significant since it means that Center-Invest surpassed state-owned Sberbank in this market. Sberbank, according to The Economist Intelligence Unit Russia Country Profile 2008 and the Russian-European Center for Economic Policy, dominates the Russian banking sector. Center-Invest made 1,135 loans worth 3.2 billion rubles just during the first quarter of 2009. At this time, Center-Invest issued 45.6 percent of all Rostov region SME loans and ranked 7th among *all* Russian banks by the number of loans issued to SMEs; 9th in terms of the value of SME lending.[72] Center-Invest's growth in this area, from prior to the MSED guarantee through the DCA guarantee, is depicted in the Figure below.

FIGURE 17. CENTER-INVEST BANK SME LOAN PORTFOLIO, 2001-2008



Source: Center-Invest Bank Annual Reports. Annual figures are based on the calendar year.

During the period of the DCA guarantee (2004-2009), the guarantee's direct contribution to Center-Invest's SME loan portfolio was 122.7 million rubles, or approximately 1 percent of the bank's total

[70] Center-Invest annual reports and first quarter 2009 update. However, Ms. Pontankova reported that the number of SME borrowers by March 2009 was only 21,933, a 579% increase since 2000.
[71] According to Ms. Pontankova; Chairman of the Board, Dr. Vasily Vysokov; the Deputy Minister of Economy for the Rostov region, Ms. Anna Palangina; and bank press releases and annual reports.
[72] Presentation, "Southern Russia vs. Global Crisis: At the forefront of sustainable banking in the Southern Russia," Center-Invest Bank, first quarter 2009, available at: http://www.centrinvest.ru/pdf/ci_1q_2009.pdf.

active SME portfolio during this time. Since clients who received a guaranteed loan went on to receive additional loans from the bank, the multiplier effect pushes this percentage higher. Unfortunately, since the bank was not able to provide any data on individual loan recipients and their progress after receiving a DCA guaranteed loan, we cannot estimate the value of this multiplier.

The Secret to Success

The evaluation's information sources offered a few reasons why Center-Invest has been so successful in the SME market in the Rostov region: effective public relations, ties with the local administration and international partners, an unwavering focus on the needs of regional SMEs, and strong community ties.

> *You can hardly ignore it. It's everywhere.*
> – Yevchenko Yuri Aleksandrovich, OPORA Rostov, commenting on Center-Invest

OPORA Rostov attributes Center-Invest's growth to being widely publicized. Center-Invest has a strong PR team that informs the public about its achievements, and its materials are reproduced in the local press. The bank is "a good think tank." The EBRD in Rostov agreed, saying Chairman Vysokov is "ubiquitous." Even the SME bank and former DCA guarantee recipient SDM bank, a potential competitor, noted that Center-Invest is "very public" and participates in all conferences.

One has only to examine the bank's website to see how public it is. Press releases dating back to 2000 discuss the bank's achievements, announce its affiliations with international organizations, advertise its products, and highlight the accomplishments of its staff. The bank has posted all of its annual reports dating back to 2000 on its website. Mr. Vysokov has been actively involved in international fora and has shared his views on banking in Southern Russia with periodicals such as Russia Finance, Russian Investment Review, Wirtschaftsblatt, and The Banker. He has written numerous articles on banking in the Southern Russian Region, including one on the investment potential of small businesses.[73] Every branch in the Rostov region which the evaluators saw had a large, green sign with yellow letters, too bright for anyone to miss.

Closely related to the Bank's large public image are its productive political connections. As noted in the Background section and other areas of the report above, Center-Invest has been cooperating with the Russian Development Bank and the Ministry of Economics and International Economic Relations of the Rostov region's State Fund for Small Business Support since at least 2001. It has received credit lines from the Russian Development Bank totaling more than $21 million for lending to SMEs in the region. The bank has been "a permanent customer for the local government,"[74] as many regional government programs for supporting SMEs are effected through Center-Invest.

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[73] Mr. Vysokov told us that one of his publications is based upon the experience he gained through the USAID guarantees, but we have no independent verification.
[74] Yuri Aleksandrovich, OPORA Rostov

One client highlighted an agreement the bank has with the local administration for subsidized interest rates, which convinced her to bank with Center-Invest. The EBRD in Rostov noted that the political influence of Center-Invest's shareholders contributes significantly to the success of its initiatives. RusRating's Richard Hainsworth called this influence "administrative resources," which are critical to getting most things done in Russia.

> *I have no stimulus to look elsewhere. I'm sure about the stable financial position of Center-Invest.*
>
> –Bank Center-Invest client

Center-Invest also interacts frequently with international organizations, as described in the Background section. While some investments have been earmarked for specific sectors (e.g., agriculture) or types of projects (e.g., energy efficiency), Center-Invest has received at least $32 million since 2002 for general lending to SMEs.[75] According to a principal of OPORA's Rostov office, the fact that Center-Invest partners with foreign banks facilitates its ability to obtain credit, ensuring a stable supply of funds for its borrowers. As one Center-Invest client told us, "All of my loans were renewed here. The most important factor for me is that my bank has enough funds to sustain my credit line. It's unpredictable with other banks."

Partnering with foreign banks, of course, requires a minimum level of transparency and integrity. USAID, EBRD, OPORA Rostov, and Center-Invest clients all emphasized that Center-Invest enjoys a reputation as a trustworthy, stable, SME-oriented bank. Free of corruption, "everyone in the business community says they're clean," the EBRD Rostov representative told us. One of the Center-Invest clients, who began his relationship with the bank in 2003, particularly appreciated the bank's transparent policies. "In Impex Bank, they denied me credit without reason." The Moscow-based bank told him that the head office "does not provide any funds for that." This client asserted that Center-Invest has never denied him credit.

On the other hand, Center-Invest's careful lending has frustrated some clients. The bank's conservative approach, according to some borrowers, makes it difficult to obtain credit from the bank. Some have apparently had their revolving credit stopped because Center-Invest decided they were no longer good clients.[76] One client told the evaluators that, unlike in other banks, Center-Invest does not relax any of the application requirements for clients who have a positive loan history with the bank; the application process is the same for both newcomers and existing clients. Another client noted that Center-Invest enforces a pre-payment penalty, whereas a St. Petersburg-based bank allowed her to pay off her loan without any penalties. This client has personal connections with the director of the bank, which has resulted in more favorable terms. Center-Invest makes no such allowances and treats all qualified clients the same.

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[75] Center-Invest Annual Reports. The $32 million do not include USAID's guarantees.
[76] Dmitry Larionov

Nevertheless, representatives from RusRating, FSVC, and Center-Invest agreed that regional banks do a better job of addressing SMEs' needs than banks based elsewhere (e.g., Moscow). Regional banks know their clients better, can approve loans faster, and have more flexibility because they do not need approval from Moscow.

All 10 Center-Invest clients with whom we spoke shared this view. One said that 90 percent of the banks in the Rostov region are branches of Moscow-based banks. In his view, these banks are "a pool to suck out money and send it to Moscow." Center-Invest, on the other hand, is committed to developing the region. This fellow said that he went to a dozen banks and none gave him a loan, explaining that a print business such as his was "too risky." He approached Center-Invest in 2006 with no credit history and, within a month, Center-Invest granted him a loan.

> *Most banks are not interested in small businesses. Bank Center-Invest is known for its support for small businesses.*
> –Bank Center-Invest client

Another borrower noted that the decision-making process at Center-Invest is rapid and his loans were approved in 5 days. By contrast, another client said he was applying for a 3 million ruble loan from Sberbank and, after a month of waiting, gave up and withdrew his application. Another client echoed his experience by saying that the usual application time in Sberbank is 3 months. A fourth client said she received a Center-Invest loan in 2006 after 3 days. Upon successful repayment, she received another. By contrast, banks interviewed for FSVC's *Obstacles to SME Finance* paper said that registration of collateral takes as much as 2 months, delaying loan approval and disbursement of funds to clients. Ms. Pontankova emphasized that for small businesses, the time it takes to receive a loan is extremely important and the longer the delay, the more money the client stands to lose. The VTB 24 representative with whom we spoke agreed and said that 5 days is an appropriate decision period.

There are exceptions, however. One Center-Invest client told us that he received a loan from the Russian Development Bank because the Center-Invest loan officer involved did not act quickly enough.

One client first approached Sberbank and KMB Bank for financing, but neither "was very interested in working with small businesses." Center-Invest, on the other hand, welcomed the company and "has proved to be a very effective and reliable partner over the years." He emphasized that the company's relationship with the bank is "built on trust" and that the bank's management has made a concerted effort to get to know the business and its managers. This client says his company works exclusively with Center-Invest and has no desire to bank anywhere else.

> *We love Center-Invest because we have good personal relationships with the employees of the bank. They are most flexible.*
> –Bank Center-Invest Client

OPORA Rostov, EBRD Rostov, and clients told the evaluators that Center-Invest's support of the local community has been influential in winning clients. Center-Invest often sponsors conferences, shows, and meetings for SMEs[77]. Local entrepreneurs, the OPORA Rostov representative said, have put Center-Invest in first place among banks.[78] It also has a wide network of offices (180) across the region, more than other banks have, which provide convenience and a personal touch to clients. The representative added that Center-Invest emphasizes that, "if you borrow from them, you'll get support in running your business." EBRD Rostov said Center-Invest tries to assess the real needs of the community. For example, when other banks were turning to internet banking, Mr. Vysokov realized that what people actually needed was an office open 24 hours per day. As described above, clients appreciated that the bank takes an interest in their needs and works closely with them to ensure those needs are met. These practices have resulted in attracting the best SMEs and the best staff, EBRD told us.

Conclusions and Findings for Evaluation Questions 4.a and 4.b

Has Bank Center-Invest moved into any new sectors/industries and types of borrowers after the guarantees began? If so, have DCA guarantees, as a demonstration model, played any role in these bank decisions?

Conclusion:

The only new "sectors" into which the bank moved are actually two new regions—Krasnodar and Volgograd. The DCA guarantees did not play any role in this expansion. Center-Invest has also begun to lend to start-up companies, but given the bank's consistent focus on growing SMEs and its recent request for an additional USAID guarantee specifically to cover start-up loans, it is unlikely that the USAID guarantees played a significant role in the bank's engagement in start-up financing.

Findings:

According to Ms. Pontankova, the only new "sectors" into which Center-Invest has moved are the SME markets in Krasnodar and Volgograd. She emphasized, however, that this expansion had nothing to do with the bank's experience with the DCA guarantee, and the bank's very limited use of the guarantees in these places (see Outputs) supports her assertion. In addition, the bank had been planning to enter these regions since at least 2002, according to its annual report of that year. It is possible that the availability of a guarantee pushed the bank finally to open the Krasnodar and Volgograd branches in 2004, but we have no evidence to support this possibility.

Center-Invest has continued to target the same sectors/industries because these have not changed in the Rostov region and consist primarily of trade and agriculture. In fact, 70 percent of SMEs in the

[77] One has only to peruse Bank Center-Invest's website to get an idea of how active the bank is in the community.
[78] OPORA Rostov has 80 members.

South Federal District are engaged in trade.[79] As shown in the table below, sectors that received guaranteed loans are the same as those that received non-guaranteed loans. The only difference in 2008 was that Center-Invest added a small percentage of loans to the energy sector, likely because of credit lines from the IFC and KfW for energy efficiency projects. Center-Invest had signed an agreement in 2006 with the IFC for a $4 million credit line for financing small business projects in the energy efficiency sector and in 2008 obtained a 7-year, €12 million credit line for introducing energy efficiency technologies.

As shown in the table below, sectors receiving credit from Center-Invest varied neither between guaranteed and non-guaranteed loans, nor between years; only the proportions varied slightly. The high concentration of guaranteed loans to the trade sector may be explained by the fact that Center-Invest received Russian Bank for Development funding for SMEs in industry and construction; and credit from the EBRD, Raiffeisenlandesbank, and Voest Alpine Intertrading for supporting agriculture and agribusiness.

TABLE 10. SECTOR & TYPES OF CENTER-INVEST'S SME CLIENTS

	Percent of cumulative DCA guaranteed loan portfolio	Percent of total Center-Invest SME portfolio (2006)	Percent of total Center-Invest SME portfolio (Apr. 1, 2008)
Construction	9%	5%	3%
Transport	3%	5%	3%
Industry	4%	10%	7%
Agriculture	8%	11%	13%
Others	5%	11%	14%
Sole Proprietorship	N/A*	18%	28%
Trade	71%	39%	31%
Energy	0%	0%	0.03%
Total	**100%**	**100%**	**100%**

Sources: guaranteed data from CMS; Center-Invest portfolio data from Center-Invest
**We do not have sufficient data to determine whether any of the guaranteed loan recipients were sole proprietorships. The rest of the guaranteed loan data represent our best guest from the CMS's description of business, which in most cases did not precisely match Center-Invest's categories.*

The bank would like to expand lending to start-ups and is looking to USAID to provide a new credit guarantee for doing so, according to Mr. Vysokov. The bank already provides significant support to budding entrepreneurs in the form of scholarships, trainings, a computer center, and, beginning in September 2005, start-up financing[80].

[79] Elena Pontankova
[80] Bank Center-Invest Annual Report 2005.

Overall Conclusions on Outcomes

Looking across all of the primary and secondary data we collected through this evaluation, we can confidently say that Center-Invest is increasing access to finance for some entrepreneurs in the Southern Federal District. The USAID guarantees contributed to this success, though they did not produce this result on their own. Investment and other support from other international organizations, local administration support, the SME market in Rostov, the bank's own rigorous lending policies, and the focused drive of its chairman are major factors in bringing finance to previously credit-poor entrepreneurs in the South of Russia.

Impacts

The impact part of this evaluation examines the extent to which Center-Invest's activities under the DCA guarantee influenced other banks to realize the value of lending to SMEs and therefore increase lending to this sector, thereby expanding access to finance. Two evaluation questions consisting of five sub-questions cover this topic.

5.a Did other, non-partner banks initiate or increase lending to SMEs/ Rostov/ Krasnodar/ Volgograd?

5.b If so, what role did Center-Invest's activities in SME lending play as a demonstration model?

6.a Did loan access and/ or terms improve for SMEs in Volgograd, Krasnodar, and Rostov?

6.b If so, how and why?

6.c What role did Center-Invest activities play as a demonstration model?

Conclusions and Findings for Evaluation Question 5

Did other, non-partner banks initiate or increase lending to SMEs/ Rostov/ Krasnodar/ Volgograd? If so, what role did Center-Invest's activities in SME lending play as a demonstration model?

Conclusions:

Banks have, indeed, initiated or increased lending to SMEs in the Rostov region since 2004, because of a combination of favorable economic and infrastructure conditions that fueled SME development, government programs encouraging lending to SMEs, and experience with SMEs as reliable customers. Center-Invest does not appear to have had any direct impact on the entry of other banks into the Rostov region SME lending market, but it has improved the environment for SME lending. The bank has also successfully connected international investors and sources of government funds with small businesses in the Southern Federal District. Although the DCA guarantee did not produce this impact, it certainly supported the ongoing activities of a socially responsible bank.

Findings:

All interviewees, including Center-Invest clients, agreed that more banks have initiated lending to SMEs in Russia in general and in Rostov specifically.

USAID/Russia's DCA Portfolio Manager, Ms. Olga Selivanova, explained that before the global financial crisis hit Russia in September 2008, "banks were looking for borrowers" because there was so much money available from oil sales and cheap credit from Western banks. Interest rates in Russia were much higher than in Western countries, resulting in hefty profits for Russian banks receiving international investment. Heike Nonnenberg of EBRD's Russia Small Business Fund agreed, explaining that over the last 2-3 years, banks rushed to disburse as many SME loans as possible.

Bank statistics show that banks targeted growth in SME lending. A representative of SDM bank, which also received a DCA guarantee, told us that their SME business grew 30-35 percent per year from 2003/2004. MDM bank, a large, private bank with branches in 75 Russian cities, had a goal of increasing their share of the SME market to $1 billion by the end of 2008.[81] In a paper on SME finance[82], FSVC found that banks were interested in increasing their SME portfolios for the following reasons:

1. They expected SME lending to grow in the future.
2. SME loans provide good yields. Small banks also complained of a high level of bad loans in retail lending.

Almost all banks that were interviewed as part of this project indicated that they have aggressive strategies to grow their SME portfolios.
–Obstacles to SME Finance, FSVC, p. 6.

Banks have greater awareness and more experience with SME lending now than prior to 2003, an FSVC representative thought. They have learned that margins are greater for short-term loans and that small business borrowers pay better than large companies.[83]

Small business is an increasingly popular topic."
–Sergey Borisov, OPORA

The year 2007 and the beginning of 2008 were especially lucrative for the SME lending market. Russia was awash in cash and business was booming, resulting in growth in the SME sector.[84] From 2003-2007, Russia's GDP grew more than 7 percent annually, while GDP per capita grew from

[81] MDM website, http://www.mdmbank.com/sme
[82] Obstacles to SME Finance
[83] Richard Hainsworth,
[84] Elena Pontankova

$2,700 to $11,000.[85] In 2008, Alfa Bank estimated that the SME lending market would grow by 70-100 percent per year. The market in early 2008 was estimated at $30-40 billion, while only a third of the demand was being met.[86]

The Russian Government has been actively supporting SMEs in recent years, a likely reason for banks' increased interest in lending to the sector. Since 2004, the government has been allocating 4 billion rubles (approximately $162 million) annually to support SMEs in the following ways:[87]

- Created approximately 100 business incubators and infrastructure.
- Provided grants to start-ups.
- Created regional funds for credit guarantees.
- Subsidized interest rates.
- Supported export-oriented companies.
- Created microfinance centers.
- Provided venture funds.
- Created a program for lending to businesses through the state-owned investment bank, Russian Bank for Development, which accumulated a pool of 120 regional banks (including Center-Invest), for which it provides re-crediting for SME lending portfolios.

Experts agree that SME lending has been particularly strong in the Southern Federal District, and Rostov in particular. A representative of OPORA Rostov's office explained that between 2003 and 2007, many Moscow-based banks established new branches in Rostov, doubling the number of banks there. In fact, these banks purchased most of the regional banks. For example, in 2006, Novosibirsk's URSA Bank purchased a 75 percent stake in Rostov's Yuzhny Region Bank and in 2007 acquired a 59.87 percent stake in Rostov's Rostpromstroybank.[88] The EBRD representative in Rostov agreed that more banks are offering SME lending in Rostov than in 2003, including BNP Paribras (European). MDM, which is Moscow-based, now conducts a substantial amount of SME lending in Krasnodar and Rostov.

In 2007, MARCHMONT Capital Partners Analyst Alexandra Starikova wrote, "Rostov region banks presently grant more loans and at more favorable rates than any other region in the South Federal District." As of her writing, the Rostov region claimed more financial institutions than any other region in the South Federal District, boasting 20 local banks and 50 national or international banks. Hefty bank profits were attracting yet more banks to the region.

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[85] "Assessment of Obstacles to SME Finance in Russia," Financial Services Volunteer Corps with funding from the U.S. Russia Center for Entrepreneurship, June 2008.
[86] Ibid.
[87] Sergey Borisov, OPORA
[88] Starikova, Alexandra, 2007.

Rostov was particularly popular for business investment because of its easy access to seaports, mild climate favorable to agriculture, solid infrastructure, and well diversified economy. Entrepreneurs have introduced new technologies and efficient methods to overhaul the Southern Federal District's industrial sector, thereby making such enterprises more profitable.[89]

In addition, the regional administration pursues an active policy of supporting SMEs through providing subsidies for interest rates, purchasing assets, and other expenses. Some new SMEs can be subsidized as much as 200,000 rubles just for start-up, according to Ms. Pontankova. With reductions in administrative barriers to doing business, more SMEs have become compliant with the law, making them even more attractive for bank lenders.[90] Banks increased lending to SMEs in the Rostov region because SMEs were proliferating and growing. The favorable economy attracted more SMEs to the region and the growth in SMEs, in turn, attracted banks to lend to them.

A VTB 24 representative agreed that both Rostov and Krasnodar Krai are top areas for SME lending because of the mild climate and good infrastructure. Sberbank, Agriculture Bank, Bank of Moscow (all state-owned), Ural Sid, and MDM Bank also developed large SME portfolios in the region. VTB 24 now has 7-8 points of sales in Krasnodar Krai and 4 in Rostov. Krasnodar and Rostov, in his opinion, are among the five most competitive SME lending markets in Russia.

An EBRD Rostov representative told us that as agribusiness became more technology-intensive in the Rostov region, there was less opportunity for employment in this industry. He speculates that this is the reason banks expanded SME lending in the region—they were anticipating SME growth because of rising unemployment from the agribusiness industry. Center-Invest maintains that entrepreneurship is deeply ingrained in the people of Southern Russia, prompting them to establish successfully their own businesses in the face of unemployment. The region claimed 20.69 percent of the total number of registered sole proprietors in Russia in 2008.[91]

As discussed in other sections of this report, the regional government in Rostov has been funding an SME support program since at least 2001 that, among other things, subsidizes interest rates for SME loans. Between 2003 and 2006, bank loans granted under the program grew 2.5 times. In 2006, the South-West branch of Sberbank RF increased lending to SMEs in the region by 40 percent.[92] In June 2009, the Rostov regional administration announced its intention to establish a $16 million guarantee fund for lending to small and medium businesses.[93]

Recent legislative activities appear to continue to foster SMEs and encourage lending to them. On April 22, 2009, Prime Minister Putin announced an earmark of 15 billion rubles for regional funds

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[89] "Southern Russia: New Area of Growth for the Russian Economy," *World Finance Review,* p. 62
[90] "Southern Russia: New Area of Growth for the Russian Economy"
[91] Center-Invest officers, "Southern Russia in 2008: Results", press release on Center-Invest's website.
[92] Starikova, Alexandra, 2007.
[93] "Rostov region eyes $16m SME Guarantee Fund," Marchmont News.com, June 23, 2009.

supporting credit guarantees for small businesses, covering up to 70 percent of the loan amount. The program will also cover up to 10 percent of annual interest rates on SME loans from commercial banks.[94] In May 2009, a new law came into force that reduces the number of government inspections to once every 3 years. Previously, police had the right to inspect small businesses whenever they wished and even to close a company. Recently passed Federal Law #59 stipulates that if a small business is renting a property and making timely payments, it is allowed to buy the space without passing through a tender process.[95] The Ministry of Economic Development recently set aside an additional $1 billion towards the development of SME lending.[96]

However, some experts are skeptical that these legislative changes will happen. U.S. Embassy Officer Vladimir Medoev argues that the slowing economy may force the government to place limited funds into other, higher priority areas. FSVC also expressed skepticism that the government's promises will become reality.

None of the people we talked to, including Center-Invest staff, nor any of the documents we reviewed, attributed any change in SME lending to Center-Invest's activities, despite the fact that it is now the largest SME lender in the Rostov region. Richard Hainsworth of RusRating suggested that if the guarantee had gone to a large bank, it could have had a demonstrable change in asset allocation. On the other hand, support to large banks may not have translated into lending to SMEs. The other DCA guarantee recipient with whom we talked, SDM Bank, speculated that a larger credit limit would have had a more significant effect on its activities.

However, Center-Invest has engaged in a multitude of activities designed to promote SME growth and economic development in the Rostov region. As discussed under Outcomes, Center-Invest has supported SMEs in the Southern Federal District from its founding, through a variety of charitable and financial projects, as well as influence with the local administration. Since 2006, the bank has been providing free legal advice to clients via a hotline. With funding from the IFC, the bank introduced an energy efficiency program in 2005, which finances energy efficiency projects that reduce companies' operating costs and promote a greener economy. Perhaps most famously, the bank's funds helped to overhaul the district heating company in Taganrog, thereby reducing costs and improving services for residents.[97]

> *Center-Invest Bank has always stood out for its innovative approach to its operations, demonstrating social responsibility, applying best international practice, and using modern banking technologies for the benefit of the economy and environment of southern Russia.*
> –Chairman of the Rostov Region Legislative Assembly, V.E. Deryabkin, as quoted in Center-Invest press release, June 5, 2009.

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[94] MSME Sector Update, May 2009.
[95] Sergey Borisov and MSME Sector Update, May 2009.
[969696] FSVC
[97] Several articles on Center-Invest's website.

Center-Invest is well-known both regionally and internationally and has used its influence to benefit local businesses. As mentioned above, it has a strong track record of using investments from large international funders such as the IFC and EBRD to finance agricultural producers and energy efficiency projects. Since 2004, EBRD has provided trade finance guarantees through Center-Invest for grain and oil-bearing products. The bank's syndicated loan brought Chinese, Japanese, and Nigerian banks into the region.[98] In 2002, a guarantee from Hermes allowed Center-Invest to finance the purchase of 10 German harvesters for bank clients. In 2006, the bank hosted its second international conference, "Russian and German Day for SME financing," in which it connected its SME customers with entrepreneurs and financiers in Germany.[99]

Center-Invest, as noted elsewhere in this report, is influential with the local administration, too. The Deputy Minister from the Ministry of Economy, Trade and International Relations in Rostov esteems Mr. Vysokov and is actively pursuing a variety of measures to support SMEs in the region. The bank hosted a workshop to instruct SMEs on how to obtain government contracts. It was a finalist in The Financial Times's Sustainable Banking Awards competition in 2009 and Dr. Vysokov won the silver medal in the Sustainable Banker of the Year competition in 2007. One can surmise that the notoriety of the bank and its chairman have allowed it to influence regional administrative policy towards SMEs.

Conclusions and Findings for Evaluation Question 6

Did loan access and/or terms improve for SMEs in Rostov? If so, how and why? What role did Center-Invest activities play as a demonstration model?

Conclusions:

Despite the proliferation of banks offering SME credit, access to credit has not significantly improved since 2004. Banking and other related government regulations, high collateral requirements and interest rates, short tenors, and small loan sizes have made commercial SME lending unattainable or insufficient for many businesses. Center-Invest seems to be unique in its concerted efforts to make financing accessible to small businesses.

Findings:

Despite the increased SME lending described above, interviewees had mixed opinions about whether access to credit has improved for SMEs or not. Certainly, with the onset of the financial crisis, SME lending has ground to a halt.

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[98] Mr. Vysokov, as quoted in *The Banker*.
[99] Center-Invest Annual Reports.

According to an OPORA survey of more than 5,500 micro, small, and medium enterprises (MSMEs) in 42 Russian regions in 2007, 15 percent of respondents named access to credit as a key obstacle to MSME sector growth. In April 2009, this figure jumped to 76 percent, with 87 percent stressing the burden of high interest rates. Rostov oblast fared better in 2008, where 14 percent of MSMEs noted insufficient access to credit. The EBRD office in Rostov told us that although more banks have entered the region over the last several years, SMEs say it is still very difficult to obtain start-up finance and collateral requirements can be as high as 400 percent.

The EBRD Rostov office and the EBRD's small business representative in Moscow told us that despite the larger number of banks offering SME lending, those banks still see SMEs as risky and therefore do not offer terms the SMEs can actually afford, or treat SMEs as corporate clients, with documentation, accounting, and collateral requirements that are too high for SMEs to attain. The leading SME banks in Rostov, according to OPORA, are still Sberbank, Center-Invest, and KMB, just as they were in 2004. Banks tend to lend small amounts to SMEs, even if the businesses can afford higher payments, making it difficult for the businesses to obtain the level of funding they need.[100]

Some SME experts have said that bank lending is simply not enough to increase access to finance. The tax reporting burden on SMEs, Mr. Hainsworth told us, is huge, so businesses try not to attract the attention of the tax authorities. As soon as a business takes out a loan, the tax authority tracks it down with paperwork in tow. Russian bureaucrats, he said, are skeptical of entrepreneurs. Therefore, entrepreneurs are disinclined to incorporate. Once a business reaches a critical level, it creates another business in order to obtain individual, rather than business, loans. In addition, if a bank lends to a corporation without a credit history, it has to reserve against it as a poor quality loan. On the other hand, if the bank loans to a collection of individuals, all of the loans are evaluated as a unit to calculate the reserve requirement. Therefore, many SMEs receive individual loans.

Heike Nonnenberg of the EBRD agreed with Mr. Hainsworth and added that consumer loans made to entrepreneurs are usually up to $10,000, which means that a business must obtain multiple loans from multiple banks and still may not have enough credit. Banks are struggling now with the large number of consumer loans they made to SMEs over the last couple of years because they do not subject such loans to the due diligence that is standard for corporate loans. Now that NPLs are rising, banks are treating SMEs like corporate clients. Some banks simply assumed a hefty loss on SME loans. For example, Ursa Bank assumed a 7 percent loss on its SME portfolio. To cover this loss, the bank had the highest interest rate in its region—33 percent.

> *One businessman I talked to had five consumer loans from five different banks. He was forced to find other resources because he needed $200,000 to build his hotel and he only received $50,000. He didn't have enough collateral to borrow $200,000. He was desperate.*
>
> –Heike Nonnenberg, EBRD

[100] Assessment of Obstacles to SME Finance, FSVC.

OPORA Rostov described a different phenomenon that has affected the price of credit for SMEs. Prior to 2008, each local administration had a formula to calculate the cadastre price of land, so land and real estate were objects of speculation. Beginning in 2009, new laws meant authorities no longer need to refer to a fixed formula; rather, they apply to independent assessment companies to establish the land value. When entrepreneurs received their land tax bills in January 2009, they found the cadastre values had increased by 2 to 14 times. The assessments had been made in mid-2008 and were post-dated. Meanwhile, last fall, banks increased their interest rates consistent with the Central Bank rate and introduced a lowering coefficient in their assessment. Many entrepreneurs found that according to their banks, the real value of their property had decreased. Therefore, there is a huge gap between the bank assessment and the cadastre price, which results in higher profit for the banks but makes credit more expensive for SMEs.

As the specter of the global financial crisis loomed, banks began to tighten their lending policies. In April 2008, OPORA conducted a "mystery shopping" exercise, in which it asked five SMEs with stellar loan records to seek additional funding in different areas of Russia. All were turned down.[101] By the end of 2008, only Center-Invest, Sberbank, and VTB 24 were crediting SMEs in the Rostov region. Most banks unofficially terminated their lending programs. They accepted loan applications, but spent a long time reviewing them and finally refused to lend. "Our administration gathers data about SMEs receiving credit in the Rostov region," Ms. Pontankova said, "and you can trace dropping SME lending from one bank to another."

As of the early part of 2008, the average SME loan carried a tenor of less than 3 years. The short tenor makes loan repayments high, which in turn reduces the amount SMEs are able to borrow.[102] With the onset of the financial crisis, tenors have become even shorter and few banks give loans of more than a year now. A representative of VTB 24 told us that between 2004 when it began lending to SMEs and prior to the crisis, the loan tenor was a maximum of 10 years; now it is 5. For most other banks, he asserted, the maximum is 1-2 years. VTB 24's current average lending term is 3 years.

Center-Invest clients, on the other hand, seem happy with the level of SME financing in the Rostov region. All seven participants in our group interview asserted that access to credit for SMEs in Rostov improved between 2004 and 2008. One of the clients we visited said that as more banks opened branches in Rostov, SMEs had more credit choices. This client said that all of his credit needs are currently met. However, as discussed under Outcomes, these Center-Invest clients had difficulty obtaining affordable, timely, sufficient financing from other banks, which is why they ended up at Center-Invest.

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[101] Tim O'Brien
[102] "Obstacles to SME Finance," FSVC

Interest Rates

Between 2003 and 2007, inflation in Russia averaged 11 percent, which impacted banks' interest rates. As of early 2008, banks had to pay 10-14 percent deposit interest rates because of the high inflation. The high deposit rates translate into higher lending rates, to cover the high cost of funds.[103] The large, state-owned banks like Sberbank and VTB 24 pay deposit rates closer to 10 percent, but smaller banks have to pay at least 14 percent to attract deposits.

With the onset of the financial crisis, interest rates have gone up even further. VTB 24's average SME rate as of June 2009 was 22-24 percent, as compared to 14-17 percent prior to the crisis. Among 10 SME lenders in May 2009, the average interest rate for credits of up to 12 months was 21 percent-32 percent. For credits over 12 months, the average rates varied from 22 percent to 32 percent.[104]

SDM Bank told us that large banks such as Bank of Moscow, Bank of Credit, and Sberbank offer interest rates that exceed 25 percent. By contrast, SDM's maximum rate is 17-18 percent.

However, regional SME programs, such as the one in Rostov, are subsidizing interest rates on SME loans from commercial banks. One of the Center-Invest clients with whom we spoke has been a beneficiary of this program, resulting in a subsidized rate of 15-16 percent, compared with the Center-Invest average of 18 percent.

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[103] Ibid

[104] SME lenders cited were KMB Bank, MDM Bank, URSA Siberian and Ural, Transcapitalbank, UralTrans Bank, NBD Bank, ChelinkBank, SPURT Bank, and VTB 24. Data from EBRD, quoted in MSME Sector Update May 2009.

SUMMARY OF CONCLUSIONS

Outputs

The DCA guarantee purpose—to expand lending to Krasnodar and Volgograd—fit perfectly within Center-Invest's business strategy, as articulated in its business plans and described by its senior officers. The bank applied the same principle from its MSED loan to its DCA loan: lending to clients with insufficient collateral. However, apparently due to its risk aversion and less SME support in Krasnodar and Volgograd, the bank decided it was not ready to lend to these markets right away and therefore used most of the guarantee funds to loan to collateral-poor SMEs in the Rostov region. The DCA guarantee therefore resulted in greater access to finance for Rostov-region SMEs lacking collateral.

Center-Invest treated the DCA guarantee just as it treats the rest of its programs with international organizations, including advertising it. Because the bank intended to use the guarantee to support loans to otherwise qualified borrowers who had insufficient collateral for the size of loan for which they were applying, it engaged in its usual borrower assessment procedures to determine creditworthiness and then used the guarantee to make up the difference between what a worthy borrower had and what the bank calculated was required for the loan. With one exception, the bank also granted no more than one guaranteed loan per customer as part of its strategy to capture new clients and, therefore, a larger SME market share in the Southern Federal District. Other than these measures, however, Center-Invest did not change any of the terms, conditions, or implementation processes to accommodate guaranteed loans, simply because it did not see a need.

The extent of the DCA guarantee's influence on Center-Invest's portfolio characteristics was minimal at best, simply because the guaranteed loans represented such a small proportion of the Bank's SME portfolio and the bank made no procedural changes to accommodate the guarantee. The Bank's careful assessment policy for its borrowers and individual approach to dealing with overdue payments have resulted in a low percentage of NPLs.

Outcomes

Looking across all of the primary and secondary data we collected through this evaluation, we can confidently say that Center-Invest is increasing access to finance for some entrepreneurs in the Southern Federal District. The USAID guarantees contributed to this success, but they did not produce this result on their own. Investment and other support from other international organizations, local administrative support, the SME market in Rostov, the bank's own rigorous

lending policies, and the focused drive of its chairman are major factors in bringing finance to previously credit-poor entrepreneurs in the South of Russia.

While Center-Invest definitely expanded its SME portfolio and number of clients in both Krasnodar and Volgograd, this expansion was due to the bank's own efforts, rather than to its experience with the DCA guarantee.

The average increase in the size of Center-Invest's loans to SMEs grew between 2003 and 2008 because the banks' clients' businesses expanded. The DCA guarantee does not appear to have influenced this change, nor has the bank specifically targeted larger loan sizes as a goal.

Center-Invest's SME loan tenors increased significantly on average between 2004 and 2008, but it does not appear that this growth was due to the DCA guarantee. Market conditions and EBRD's investment in the bank were likely responsible for the growth of loan tenors.

However, through the DCA guarantee, Center-Invest increased access to credit to SMEs who would not otherwise have qualified for the loans they received because they lacked collateral. Most of these SMEs remained Center-Invest clients after their guaranteed loans ended, thereby gaining access to a longer-term source of financing. Some existing bank clients who received DCA guaranteed loans were able to grow their businesses and qualify for larger, non-guaranteed loans from Center-Invest.

The bank's comfort level with guaranteed lending to clients short of collateral possibly influenced its engagement in additional guarantee agreements with the Regional Guarantee Fund of Volgograd and (upcoming) the regional Rostov government, but we have no data to determine the extent of this influence. The USAID-sponsored FSVC training may have influenced Center-Invest's thinking about uncollateralized lending and may have pushed it to create or promote its collateral-free overdraft product. Independently of the guarantee (and not likely because of it), the bank is accepting alternative forms of collateral not widely used in Russia, which likely increases access to credit for some borrowers.

Center-Invest increased its SME credit product line between 2001 and 2007, thereby expanding SME access to more types of credit. The guarantee contribution to this increase is indirect, since none of the loans covered by the guarantee were new products for the bank. Together, the DCA guarantee and the MSED guarantee may have supported the bank's creative thinking and devising new products, but there is insufficient evidence to support a solid conclusion.

Bank Center-Invest's unwavering focus on SMEs; fair terms; and public presence within the community, the local government, and internationally have made it a successful, respectable bank known for its transparency and welcoming attitude to entrepreneurs. The bank has increased access

to credit for borrowers who were unable to obtain loans from other institutions. On the other hand, the bank's high risk aversion seems to have meant that it lends only to the most solid SMEs.

The full impact of the guarantee on Center-Invest's non-guaranteed lending business is assuredly larger than the 1 percent increase in portfolio value and clients it directly achieved, but we do not have sufficient data to make a reasonably accurate estimate. Larger factors in Center-Invest's successful growth include its relations with international funders and partners, political connections within Russia, and a highly successful PR strategy. While the DCA guarantee supported the bank's success, these other factors were probably more influential.

Impacts

Russian banks have increased lending to SMEs in the Rostov region since 2004 because of a combination of favorable economic and infrastructure conditions that fueled SME development, government programs encouraging lending to SMEs, and experience with SMEs as reliable customers. Center-Invest does not appear to have had any direct impact on the entry of other banks into the Rostov region SME lending market, but it has improved the environment for SME lending. The bank has also successfully connected international investors and sources of government funds with small businesses in the Southern Federal District. Although the DCA guarantee did not produce this impact, it certainly supported the ongoing activities of a socially responsible bank.

Despite the proliferation of banks offering SME credit, access to credit has not significantly improved since 2004. Banking and other related government regulations, high collateral requirements and interest rates, and short tenors have made commercial SME lending unattainable for many businesses. Center-Invest seems to be unique in its concerted efforts to make financing accessible to small businesses. USAID can be proud to have supported its work.

ANNEXES

Annex 1. Bank Center-Invest DCA Guarantee Evaluation Framework and Indicators

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
OUTPUT LEVEL		
1a. How did the DCA guarantees fit into Center Invest Bank's (CIB's) ongoing strategy? What market potential did the DCA guarantee help open for CIB? ➢ **When did the branches in Krasnodar and Volgograd begin operations? When did they make their first loans? Were these first loans under the USAID guarantee? What percent of the loans since then have been under the guarantee?** 1b. How did CIB implement the programs which the loan guarantee was targeted to support (e.g., marketing campaigns, training, revised staff structure and responsibilities, improved communications with branch offices, etc.)? And why? ➢ **Borrower assessment criteria—how did they differ under the guarantees from other loans, pre and during the guarantee period?** ➢ **How did loan approval and administration procedures differ (if at all) between guaranteed and non-guaranteed loans, pre and during the guarantee period?** ➢ **Was the guarantee discussed internally in the bank? How did knowledge of the guarantee influence the product, loan officer behavior (if at all)?**	1 a. Qualitative difference between CIB's articulated business strategy and the guarantee objectives ➢ Dates of commencement of operations in Krasnodar and Volgograd ➢ Dates of first loans made from those branches ➢ Number, percent, and value of loans made from these branches that were and were not DCA guaranteed ➢ Number and description of sectors that received DCA guaranteed and non-guaranteed loans ➢ Number and description of uses (i.e., capital, operations, etc.) of loans with and without the DCA guarantee ➢ Number and description of loan products with and without the DCA guarantee 1.b Qualitative description of differences between program implementation procedures and "business as usual" implementation procedures ➢ Qualitative description of differences between assessment criteria used for DCA guaranteed and non-guaranteed loans ➢ Qualitative description of loan approval and administration procedures between DCA guaranteed and non-guaranteed loans ➢ Number of CIB key staff interviewed who are knowledgeable about the DCA guarantee, disaggregated by CIB office (i.e., Rostov, Krasnodar, Volgograd)	Comparative analysis (pre / post, with / without DCA guarantee) Statistical calculation (number, percent) Content pattern analysis of documents, interview notes
<u>CIB Goal 1: Develop relationships with clients in 2 new regions—Krasnodar and Volgograd</u>	<u>CIB Loan Portfolio, pre- and post guarantee, disaggregated by location (Rostov / Krasnodar /</u>	Comparative analysis—pre vs. post DCA agreement, DCA

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
CIB Goal 2: Grant larger loan sizes to clients in Rostov CIB Goal 3: Extend Loan Tenors 2a. How have partner bank portfolios in target sector performed (i.e., comparing baseline with performance during DCA guarantee, as well as guaranteed to non-guaranteed loans)? ➢ **How did CIB's loan portfolios in Rostov, Krasnodar, and Volgograd develop over time?** ➢ **How did CIB's product mix vary over time?** ➢ **How did loan terms vary over time?** ➢ **How do guaranteed loans differ from other loans in the portfolios of the Volgograd and Krasnodar branches?** 2b. What was the extent to which the DCA guarantee influenced changes in partner bank portfolio characteristics?	Volgograd), DCA guaranteed/ non-guaranteed, and product type • Value of DCA guaranteed loans to target SMEs in Volgograd/Krasnodar in total bank portfolio • Number of DCA guaranteed loans to target SMEs in total bank portfolio • Average and median loan size and frequency distribution, esp. in Rostov • Average loan tenor • Average percentage collateral requirement for guaranteed loans to target sectors, relative to all loans to target sectors • Average number of loans per borrower • Percent of loans to male- or female- owned business • Interest rates • Interest rates on loans to SMEs • Arrears by CIB branch and product type	guaranteed vs. non-guaranteed loans, between CIB locations Statistical analysis (value, mean, median, minimum and maximum)
OUTCOME LEVEL		
Guarantee Purpose: Strengthen CIB's ability to expand its SME loan portfolio through its newly opened branches in Krasnodar and Volgograd *IR 1.3.2: Access to Finance for Small and Medium Enterprises Increased* CIB Goal 1: Develop relationships with clients in 2 new regions—Krasnodar and Volgograd CIB Goal 2: Grant larger loan sizes to clients in Rostov CIB Goal 3: Extend Loan Tenors 3a. To what extent were desired outcomes achieved, and sustained, as intended in Action Package and/or Legal Agreement, outside the protection of the DCA guarantee (e.g., through increased partner bank lending to target sector / region, changes in lending terms, procedures, etc.)?	CIB non DCA guaranteed Loan Portfolio, pre- and post guarantee, disaggregated by location (Rostov / Krasnodar / Volgograd) • Number and value of non-DCA guaranteed loans to target SMEs in total bank portfolio • Average and median loan size and frequency distribution, esp. in Rostov • Average loan tenor • Interest rates on loans to SMEs • Average percentage collateral requirement for loans to SMEs Qualitative description of differences between SME loan implementation procedures between CIB locations, pre- and post- DCA agreement	Comparative analysis—pre vs. post DCA agreement, between CIB locations Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of documents, interview notes

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
• Evaluation of partner bank portfolio performance outside of DCA guarantee coverage (especially in Krasnodar and Volgograd and size of loans in Rostov) • **How did CIB's loan portfolios in Rostov, Krasnodar, and Volgograd develop over time?** • **How did CIB's product mix vary over time?** 3b. What factors at the partner bank level can be associated with achievement of desired outcomes (e.g., TA; bank staff training; revised bank strategy, procedures and structure; new management, external funding, technology, etc.)? 3c. To what extent were desired outcomes achieved within CIB? And why? ➢ How (if at all) did the number, size, and tenor of loans vary over time? ➢ What was the profile of borrowers in Volgograd and Krasnodar (business size, use of loan, etc.)?	Percent of CIB loans to each type of SME borrower (e.g., business size, male/female owned, use of loan, etc.), disaggregated by CIB location Percent of borrowers who obtained DCA guaranteed loans who also increased their income relative to pre-loan figures	
4a. Has CIB moved into any new sectors/industries and types of borrowers after the guarantees began? 4b. If so, have DCA guarantees, as a demonstration model, played any role in these bank decisions?	Same indicators as above. Percent of CIB principals interviewed who name the DCA guarantee as an important factor in the bank's decision to move into new sectors/ industries / types of borrowers	Comparative analysis—pre vs. post DCA agreement, between CIB locations Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of interview notes
IMPACT LEVEL		
5a. Did other, non-partner banks initiate or increase lending to SMEs / Rostov / Krasnodar / Volgograd? 5b. If so, what role did CIB's activities in SME lending play as a demonstration model?	Number of other, non-partner banks that initiated or increased lending to SMEs, disaggregated by location (Rostov / Krasnodar / Volgograd) Percent of other, non-partner banks that name CIB's activities as an important reason for increasing SME	Comparative analysis by region, pre and post the DCA agreement Content pattern analysis of interview notes

EVALUATION QUESTIONS	INDICATORS	ANALYSIS METHODS
➢ What were the reasons for increases in SME lending by other banks?	lending, disaggregated by location (Rostov / Krasnodar / Volgograd)	
6a. Did loan access and/or terms improve for SMEs in Volgograd, Krasnodar, and Rostov? 6b. If so, how and why? 6c. What role did CIB activities play as a demonstration model?	Change in non-partner bank loan terms for SMEs in Rostov, Krasnodar, and Volgograd Qualitative description of factors named as important in changed loan terms for SMEs in Rostov, Krasnodar, and Volgograd (source: non-partner financial institutions, SME associations, borrowers)	Statistical analysis (value, mean, median, minimum and maximum) Content pattern analysis of interview notes
EXOGENOUS FACTORS		
7a. What are the exogenous factors (e.g., financial sector reform, government intervention, lender industry competition, financial shocks, other donor behavior, overall CIB changes, etc.) that have affected the financial sector? How have they done so? ➢ What has been the evolution of SME business in Rostov, Krasnodar, and Volgograd? 7b. Have the exogenous factors affected the performance of the DCA guarantee(s) (i.e., at output, outcome and impact levels)? If so, how?	n.a.	n.a.

Annex 2. Request for Information emailed to Bank Center-Invest

Evaluation Background

USAID is conducting an evaluation of various loan guarantee programs extended through the Development Credit Authority (DCA). The evaluation will assess the benefit of the guarantee to the recipient partner as well as the effectiveness of the guarantee in achieving the partner bank's goals, as defined at the time the guarantee agreement was signed.

The evaluation team will be led by Ms. Katharine Hoffman an outside consultant that has been contracted by USAID to conduct the evaluation. The evaluation team will be visiting Russia from June 15-26 and will be in Rostov beginning on Wednesday, June 17. The following email outlines the structure of the evaluation, reviews evaluation planning and describes information that the evaluation team will need to obtain while visiting with Center Invest Bank.

Evaluation Scheduling

The evaluation team plans to meet with CIB in Rostov beginning on Wednesday, June 17 and through Friday, June 19. Specifically, the evaluation team would like to meet with the President of the Management Board, the Head of the Credit Department and the Manager of the SME lending division, as well as with those individuals who are responsible for the day to day management of the DCA guarantee to include semiannual reporting.

While in Rostov the evaluation team would like to meet with some of the bank's SME borrowers. The purpose of these meetings is not to discuss the individual loans or the borrower relationship with CIB, but rather, to learn about the conditions for SME financing in general, and how these have evolved over recent years.

The evaluation team would prepare a short questionnaire for borrowers to complete and conduct brief interviews with them. Ideally, the evaluation team would like to meet with between 5-10 borrowers to obtain a valid sample. There are two ways in which the evaluation team could accomplish this task, as described below

a) Informal gathering of SMEs

By invitation (with the cooperation of CIB), we would gather 5-10 SME owners/borrowers to a luncheon or afternoon reception. They would be asked to fill out the questionnaire and participate in an informal discussion about the market for SME financing. No questions would be asked about their individual businesses or about their relationship with CIB. They would be expected to speak in general about their experience in securing financing in the past and their prospects for doing so in the present.

b) Individual visits to SMEs

Evaluation team members could separately visit the SME owner/borrowers in Rostov. The visits would be short (about one hour each) and the team collectively would hope to visit 5-10 borrowers in the course of one day.

We would welcome your suggestions as to which methodology would be the more appropriate and efficient, and would appreciate any cooperation that you can provide in organizing these visits.

In addition to the time spent in Rostov, the evaluation team would like to visit either Krasnodar or Volgograd, or both, if it is feasible. The plan is for each team member to spend one day in one of the regional centers. This could be Monday, June 22 or Tuesday, June 23. We would appreciate your suggestions as to how best to travel to your offices (if by car or train, we understand there is no airplane option). We are not certain about the time required to travel to and from these locations and if it is feasible to accomplish a visit in one day.

The visits to the regional offices would include interviews with the regional branch manager in each location, the credit manager and a credit officer. Additionally, if possible, we would benefit from speaking with several SME owners, who are clients of the bank, and would like to conduct the meetings with SME borrowers in the same way that will be done in Rostov.

Information Request

In order for the evaluation team to assess the impact of the DCA guarantee on the partner bank's lending activities, the following CIB related information is requested:

Annual reports and audited financial statements for the past four fiscal years (2004-2008), rating agency reports, loan classification reports as required by the Central Bank of Russia, and publications produced by CIB relating to the SME sector in general and CIB's SME lending activities, such as product descriptions, promotional materials, etc.

Also, the evaluation team will need to understand how CIB's overall loan portfolio has developed over the past four years, specifically we would like to understand:

1) Portfolio data (number of loans and value) by fiscal year for the past four fiscal years broken down by:

Overall loan portfolio

a. Region

b. Client type/loan type (as defined by CIB)

c. Loan size (in the way CIB classifies it)

2) Loan terms for **SME lending** (tenor, interest rate, collateral requirements) and changes in loan terms by fiscal year.

3) Performance of loan portfolio (arrears and NPLs) by fiscal year, as follows:

SME loan portfolio

a. By region

b. By loan type

c. By loan size

As we discuss the portfolio information, some additional clarification or data may be requested during the course of the on-site visit.

We thank you very much for your cooperation and suggestions, and look forward to working with you.

Annex 3. Documents Reviewed

"Analysis of the Role and Place of Small and Medium-Sized Enterprises in Russia: Statistical Reference," Russian SME Resource Center with funding from USAID: Moscow, 2004.

"Assessment of Obstacles to SME Finance in Russia," Financial Services Volunteer Corps with funding from The U.S. Russia Center for Entrepreneurship, June 2008.

Bank Center-Invest Annual Reports for Years 2000 though 2008.

Barre, Xavier. *Problems of SME Finance in Russia*, Russian-European Center for Economic Policy: 2005.

"Center-Invest Bank's sustainable development takes it into final of international competition," published on Center-Invest's website, June 5, 2009.

"Final Report to the U.S. Agency for International Development on Program Activity in Russia," Financial Services Volunteer Corps, May 2007.

Goshgarian, Sandra. "EGAT Trip Report," February 1-14, 2004.

Goshgarian, Sandra. "TDY to Russia" (Trip Report), June 12-20, 2009.

Goshgarian, Sandra and K. Desrivieres, "USAID Office of Development Credit Biennial Review," January 2007. Updated August 2007 by Tatyana Olkhovich.

"Keeping Funds to Regions Flowing," *The Banker*, April 2009, p. 95.

Medoev, Vladimir. "Russian SME Sector Update—May 2009."

"Rostov region eyes $16m SME Guarantee Fund," MarchmontNews.com, June 23, 2009.

Russia Country Profile 2008, The Economist Intelligence Unit. Patersons Dartford, UK: 2008.

"Southern Russia: New Area of Growth for the Russian Economy," *World Financial Review*: Finetime Publishing, October 19, 2008, pp. 62-63.

"Southern Russia vs. Global Crisis: 1Q 2009 results," Bank Center-Invest presentation.

"Southern Russia in 2008: Results!" published on Center-Invest's website.

Starikova, Alexandra. "Banking Sector attracts more regional and foreign players," *Banks and Credit Institutions* in *Marchmont Investment Guide to Russia*, 2007, vol 1, #4.

USAID Action Package from David Ostermeyer, Chairman of the Credit Review Board to Lisa Fiely, Chief Financial Officer, August 26, 2004.

USAID, Loan Portfolio Guarantee Agreement between USAID and Center-Invest Bank, September 24, 2004.

Annex 4. List of Interviewees

Moscow

European Bank for Reconstruction and Development (EBRD)
Heike Nonnenberg, Russia Small Business Fund Programme Coordinator

Financial Services Volunteer Corps (FSVC)
Tim O'Brien, Director of Russia and CIS

GlobalRating (GR)
Michael Vasileff, Chief Operating Officer

OPORA Russia
Sergey R. Borisov, President
Viktor V. Klimov, Executive Director
Konstantin P. Petrakov, Director – International Department

RusRating (RR)
Richard Hainsworth, General Director

SDM Bank (DCA guarantee recipient)
Anna Kolokatseva, International Business Director

USAID
James Carlson, Director of Office of Regional Development
Olga Selivanova, Project Manager, Office of Regional Development (in charge of DCA portfolio)
Vladimir Medoev, Economic Specialist of U.S. Embassy

VTB 24
Alexey Kriyakov, Deputy Head of Small Business Servicing Department

Rostov-on-Don

Bank Center-Invest
Vasily Vysokov, Chairman of the Supervisory Board
Vladimir V. Glushko, Deputy Chairman
Elena E. Pontankova, Head of SME Lending Department
Sergey V. Esenskiy, Head of Retail Lending Department
Sergey Y. Smirnov, Head of Investment Loan Department

10 Bank Center-Invest Borrowers

EBRD
Dimitry Larionov, Head of Southern Federal District (SFD)

OPORA Russia
Yuri A. Yevchenko, Executive Director

Rostov Regional Administration
Anna N. Palagina, Deputy Minister, Ministry of Economy, Trade and International Relations

Annex 5. Indicator Summary

Indicators for Question 1.a	
Number and description of sectors that received DCA guaranteed and non-guaranteed loans	See chart directly below
Number and description of uses (i.e., capital, operations, etc.) of loans with and without the DCA guarantee	Guaranteed loans: all for working capital Non-guaranteed loans: data not available

Number and description of sectors that received DCA guaranteed and non-guaranteed loans

Sector & Types of Business		
	Percent of DCA guaranteed loan portfolio	**Percent of total Center-Invest SME portfolio (2006)**
Construction	9 percent	5 percent
Transport	3 percent	5 percent
Industry	4 percent	10 percent
Agriculture	8 percent	11 percent
Others	5 percent	11 percent
Sole Proprietorship	N/A*	18 percent
Trade	71 percent	39 percent
Total	**100 percent**	**100 percent**

Sources: guaranteed data from CMS; Center-Invest portfolio data from Center-Invest
*We do not have sufficient data to determine whether any of the guaranteed loan recipients were sole proprietorships. The rest of the guaranteed loan data represent our best guess from the CMS's description of business, which in most cases did not precisely match Center-Invest's categories.

Indicators	
Number and description of loan products with and without the DCA guarantee	With the guarantee: term loan, credit line with less than 100 percent collateral Without the guarantee: minimum 100 percent collateral requirement on the same products, plus additional ones (see Outcomes)
Average percentage collateral requirement for guaranteed loans to target sectors, relative to all loans to target sectors	Average collateral requirement for both guaranteed and non-guaranteed loans: 150 percent Guaranteed borrowers must cover a minimum of 50 percent of the required collateral amount; non-guaranteed borrowers must cover 100 percent of the required collateral amount

Indicators for Question 1.a	
Dates of commencement of operations in Krasnodar and Volgograd	Krasnodar: 2003 Volgograd: 2004
Dates of first loans made from those branches	Krasnodar: 2003 Volgograd: 2004
Number, percent, and value of loans made from	Guaranteed Loans

Indicators for Question 1.a	
these branches that were and were not DCA guaranteed	Krasnodar: 8 loans, RUR 7.2 million = 0.17 percent of portfolio 2004-2009 Volgograd: 5 loans, RUR 8.1 million = 0.35 percent of portfolio 2004-2009 Non-guaranteed Loans Krasnodar: 3,728 loans, RUR 1,707 million Volgograd: 1,098 loans, RUR 502 million

Indicator	
Average and median loan size and frequency distribution	Guaranteed loans: average: RUR 895,657 / $31,860; Median: $17,809; see below for frequency

Year Issued	Average Loan Amount (rubles)	Percent Increase
2004	690,612	
2005	1,010,086	46 percent
2006	1,022,500	1 percent
2007	1,250,000	22 percent

Source: CMS

Indicator	
Average Loan Tenor	Guaranteed: 9 months Non-guaranteed: 19 months

Indicator	
Arrears	Guaranteed loans: 0.15 percent (1 loan in Rostov) Non-guaranteed loans: less than 1 percent as of January 1, 2008

Indicators for Questions 2.a and 2.b	
Value of DCA guaranteed loans to target SMEs in Volgograd/Krasnodar in total bank portfolio	Krasnodar: guaranteed: $297,753 Non-guaranteed: $58,862,069 Volgograd: guaranteed: $280,588 Non-guaranteed: $17,310,345
Number of DCA guaranteed loans to target SMEs in total bank portfolio	Guaranteed: 137 Non-guaranteed: 28,512
Average number of loans per borrower	Guaranteed: 1 (only one borrower received 2 guaranteed loans) Non-guaranteed: 1.3
Percent of loans to male- or female-owned business	Data not available
Interest rates	Average guaranteed interest rate: 17.89 percent Average non-guaranteed interest rate: 18.05 percent

Annex 6. Interview Guides

CIB Client Interview Guide

1. When did you take out your first loan with CIB?
    a. What type of loan was it? (term, line of credit, mortgage, etc.)
    b. Why did you choose CIB?
    c. From where did you obtain credit before banking with CIB (another bank, microfinance institution, friend/family member, etc.)?

2. How many loans have you received from CIB?

3. To your knowledge, have you received a DCA-guaranteed loan from CIB?

4. If you have received more than loan from CIB, did the terms (interest rate, tenor, size, collateral requirements) change at all between loans?

5. Looking back at 2004 and before, how easy/difficult was it for you to obtain a business loan?

    a. How has this situation changed since 2004?
    b. How, if at all, has your loan from CIB affected your ability to obtain credit from other financial institutions? Please explain.

Center-Invest Bank Interview Guide

Intro: Who we are and why here. We are not evaluating CIB—this assessment is one of many we are doing for USAID/DCA so that they can get an objective picture of what happened with many loan guarantees around the world so that DCA can learn from these experiences, with respect to improving the process and use of future guarantees.

Please state your position and describe your role within Center-Invest Bank.

Questions 1a

1. Since 2004, has CIB generally entered any new sectors or expanded to any new types of clients? If yes…

    a. If yes, did the guarantee help CIB do that? How?

    b. What constraints did CIB face in these markets and how did the DCA guarantee help address those constraints?

2. In addition, we understand that CIB wanted to use the loan guarantees to provide larger loans to your Rostov clients. Was this an ongoing objective, as far as you know?

3. We also understand that one of CIB's goals was to extend the loan tenor of its loans to SMEs in general. Did this continue to be a goal?

4. When did CIB open its branches in Krasnodar and Volgograd, respectively? Were the first loans made in these regions under the DCA guarantee? If not, what proportion? What percentage since then have been under the guarantee?

5. Did the guarantee help CIB enter the markets in Krasnodar and Volgograd? Did the guarantee help CIB expand access to credit for its clients in Rostov?

    a. If yes, what constraints did CIB face in expanding into these markets and how did the DCA guarantee address those constraints?

    b. If not, why not?

6. How did the guarantee fit into CIB's ongoing strategy? May we see a copy of CIB's business plan covering the period 2004 to 2009?

Questions 1b

1. Did CIB actively market its guaranteed loans in any way different from how it marketed loans before the guarantee? How do you think this marketing affected the types and behavior of clients you received?

2. Did the terms CIB offered on guaranteed loans differ from those on loans that were not guaranteed? How? Why?

3. Did CIB train staff specifically to assess borrowers for DCA-covered loans? If so, how?
    a. How did knowledge of the guarantee influence the product and loan officer behavior (if at all)?

4. Borrower assessment criteria—how did they differ under the guarantees from other loans, pre and during the guarantee period?

5. How did loan approval and administration procedures differ (if at all) between guaranteed and non-guaranteed loans, pre and during the guarantee period?

6. Did CIB do anything else, specifically to implement the loan guarantee programs? Describe?

Questions 2a_2b

1. Are the following data, which we extracted from DCA's CMS, correct?

Basic Utilization Data for Center-Invest Bank's Guarantee (Start Date September 24, 2004) (from the CMS)			
Date of Posted New Activity—Quarter ending…	**Cumulative Number of Loans**	**Cumulative Utilization**	**Cumulative Utilization percent**
03/31/2005	64	$1,721,236	28.69 percent
09/30/2005	80	$2,617,150	43.62 percent
03/31/2006	117	$3,729,488	62.16 percent
09/30/2006	131	$4,213,184	70.22 percent
03/31/2007	137	$4,492,009	74.87 percent
09/30/2007	137	$4,557,149	75.95 percent
03/31/2008	137	$4,570,886	76.18 percent

2. Why have there been no new guaranteed loans since March 2007?

3. Why did CIB stop applying the guarantee to loans in Volgograd and Krasnodar in 2005 and 2006, respectively? Why were so few loans guaranteed in Volgograd?

4. What constraints has CIB faced in entering these two regions? How is business there now?

5. What role (if any) did the DCA guarantee play in CIB's entrance into these regions?

6. Here are some data that we have. Can you help us fill in the boxes that are blank and verify the data we have filled in?

Pre-, During- and Post-Guarantee Data for Center-Invest Bank					
Loan Characteristics (for SMEs)	**Pre-Guarantee (before September 2004)**	**During Guarantee (September 2004-September March 2009) (see Note)**			
		Overall	**Rostov**	**Krasnodar**	**Volgograd**
Number of loans of type… Term Loan (Rostov/Krasnodar/Volgograd) Credit Line (Rostov/Krasnodar/Volgograd)		Loans under guarantee 29 Lines of Credit; 108 Term Loans Loans not under guarantee: ____	Loans under guarantee: 24 Lines of Credit; 83 Term Loans Loans not under guarantee: ___	Loans under guarantee: 3 Lines of Credit; 17 term Loans Loans not under guarantee: ___	Loans under guarantee: 1 Line of Credit; 4 Term Loans Loans not under guarantee: ___
Average loan size Krasnodar Volgograd		Loans under guarantee: Average $20,839.16 Loans not under guarantee: ____	Loans under guarantee: $31,784 Loans not under guarantee: ___	Loans under guarantee: $24,764 Loans not under guarantee: ___	Loans under guarantee: $56,117 Loans not under guarantee: ___
Loan tenor Krasnodar Volgograd		Loans under guarantee: approximately 9 months Loans not under guarantee: _____	Loans under guarantee: 8.7 months Loans not under guarantee: ___	Loans under guarantee: approx. 10.7 months Loans not under guarantee: ___	Loans under guarantee: 8.4 months Loans not under guarantee: ___
No. of borrowers		Loans under	Loans	Loans	Loans

Pre-, During- and Post-Guarantee Data for Center-Invest Bank					
Loan Characteristics (for SMEs)	**Pre-Guarantee (before September 2004)**	**During Guarantee (September 2004-September March 2009) (see Note)**			
		Overall	**Rostov**	**Krasnodar**	**Volgograd**
Krasnodar Volgograd		guarantee: 136 Loans not under guarantee: Total:	under guarantee: 107 Loans not under guarantee: ___	under guarantee: 19 Loans not under guarantee: ___	under guarantee: 5 Loans under guarantee: ___
Loan portfolio value Krasnodar Volgograd Loans outstanding Krasnodar Volgograd		Cumulative Utilization under the guarantee: $5,720,790 Value of non-guarantee (SME) loans: _____ Total: _____	Loans not under the guarantee: $3,373,379 Loans not under the guarantee: ___	Loans under the guarantee: $495,296	Loans under the guarantee: $280,588 Loans not under the guarantee: ___
Interest rate Krasnodar Volgograd		Loans with the guarantee: 17.93 percent Loans without the guarantee: ___	Loans with the guarantee: 12 percent (2007) Loans without the guarantee: ___	Loans with the guarantee: 13.43 percent (2006) Loans without the guarantee: ___	Loans with the guarantee: 18 percent (2005) Loans without the guarantee: ___
Collateral requirements Krasnodar Volgograd		Loans with the guarantee: Loans without the guarantee: ___	Loans with the guarantee: Loans without the guarantee: ___	Loans with the guarantee: Loans without the guarantee: ___	Loans with the guarantee: Loans without the guarantee: ___

Note: we were uncertain in which regional branch the following loans fit; could you help us out?

Novotroitskoe Ltd	4/1/2005	12/24/2005	8	12/26/2005	Term Loan	agriculture	Southern Federal District, Russia	Novotroitskoe
Lamkova NA	1/19/2005	7/15/2005	6	5/25/2005	Term Loan	trade in bicycles	Southern Federal District, Russia	Bolshoy Log
Farm-Activ Ltd	10/13/2005	4/10/2006	6	4/10/2006	Line Of Credit	trade in medicaments	Southern Federal District, Russia	Chistoozerny
"Moskovsky" agricultural producers' co-operative	2/3/2005	12/1/2005	10	12/1/2005	Term Loan	agriculture	Southern Federal District, Russia	farm-stead Moskovsky
Beluhin V.D.	12/8/2005	12/7/2006	12	11/30/2006	Term Loan	agriculture	Southern Federal District, Russia	Staraya Stanitza farm

7. What were rules for collateral requirements and how did they change over time?

8. Considering the 137 loans placed under coverage, would Center-Invest Bank have extended loans to those borrowers without guarantee coverage? Why or why not?

    c. If yes, would the loan have been for a lower/higher value without guarantee coverage? If yes, why did the DCA guarantee affect loan size?

    d. If yes, would the tenor of the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect loan tenor?

    e. If yes, would the interest rate on the loan have been different without the guarantee coverage? If yes, why did the DCA guarantee affect the interest rate?

9. Can you give us data (or an educated estimate) on how many of the 137 loans were to new Center-Invest Bank borrowers (i.e., borrowers who had never borrowed from Center-Invest Bank before the guarantee)?

10. Can you give us data (or an educated estimate) on how many of those 137 loans were multiple loans to the same borrowers (i.e., a borrower getting more than one guarantee-covered loan; we think there was only 1, looking at the CMS data)?

11. Have any borrowers received any loans subsequent to their loan covered by the guarantee that were not covered by the guarantee?

a. If yes, how many? On what terms? (e.g., loan type, interest rate, tenor, collateral, size, etc.)
b. If not, why not?

Questions 3a

1. To what extent, if any, did the DCA guarantee increase access to credit in the target sectors within Center-Invest Bank but outside of the guarantee coverage? How?

Questions 3b

1. What factors associated with the DCA guarantee were responsible for increasing access to credit in the target sector outside of the guarantee coverage? For example, did TA, staff training, revised bank strategy, improved procedures, or other factors associated with the DCA guarantee help increase access to credit? If so, how? How important were each of these factors?

2. Are there other factors, other than the guarantee, that could explain improved access to credit for SMEs, especially those in Krasnodar and Volgograd? If so, what are those factors? Please explain.

3. Could Center-Invest Bank have done a better job of disseminating DCA guarantee results into its broader portfolio in the target sectors? How?

Questions 4a/4b

1. Has Center-Invest Bank targeted any new market segments (industries, sectors, or types of borrowers) without the DCA guarantee? Explain.

2. If so, to what extent did the DCA guarantee influence the decision to target new market segments? How? What other factors were responsible for this strategy?

Questions 5a/5b

1. Did any banks other than Center-Invest Bank increase their lending to the target SMEs, especially in Krasnodar and Volgograd?

2. If so, to what extent, if any, did Center-Invest Bank's activities through the DCA guarantee influence these banks' decisions? How?

3. What other factors, if any, might have been responsible for other banks' increasing lending to the target sectors? Please explain.

Questions 6a/6b/6c

1. Did access to loans, or loan terms, improve for SMEs in Rostov, Krasnodar, or Volgograd?
    a. If so, how?

2. If so, to what extent was Center-Invest Bank's activities under the DCA guarantee responsible for the improved access? How?

3. What other factors may have influenced access to credit for the target sector? How?

4. Could Center-Invest Bank's activities through the DCA guarantee have had a greater impact on access to credit in the target sectors? If so, how?

Questions about the Defaults:

1. According to the CMS, you did not submit any claims for borrower defaults under the DCA guarantee, and there was only one claim under the previous, MSED guarantee.

2. Were there any non-performing loans for which you did not submit claims?

3. How does the percent of loans in arrears compare between DCA-guaranteed and non-guaranteed loans to SMEs in Rostov, Krasnodar, and Volgograd?

4. What procedures does Center-Invest Bank use to screen loan applicants?

5. What procedures does Center-Invest Bank use to recoup non-performing loans?

6. Are these procedures any different for DCA-guaranteed compared to non-guaranteed loans?

Donors Interview Guide

Questions 3a

1. To what extent did the DCA guarantees increase access to credit for SMEs within Center-Invest Bank but outside of the guarantee coverage? How?
2. What other factors may have affected access to credit in the target sectors since September 2004?

Questions 5a/5b

1. Did any banks other than Center-Invest Bank increase their lending to SMEs in Rostov, Krasnodar, or Volgograd?
    a. If so, to what extent did the DCA guarantee to Center-Invest Bank influence these banks' decisions? How?
    b. What other factors, if any, might have been responsible for other banks' increasing lending to SMEs in these regions? Explain.

Questions 6a/6b/6c

1. Did access to loans, or loan terms, improve for SMEs in Rostov, Krasnodar, or Volgograd?
    a. If so, how?
    b. If so, to what extent were the DCA guarantees to Center-Invest Bank responsible for the improved access? How?
    c. What other factors may have influenced access to credit for SMEs in these regions? How?
    d. Could Center-Invest Bank's DCA guarantee have had a greater impact on access to credit for SMEs in these regions? How?

FSVC Interview Guide

Please describe briefly the work of FSVC in Russia.

Have you worked with/interacted with Center-Invest Bank? Please describe.

Question 7

1. How has access to credit changed for SMEs in Southern Russia since 2004?
    a. To what do you attribute the changes?
2. What challenges have SMEs faced in accessing credit? How have they dealt with these challenges?
3. Please describe any financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior that have impacted SMEs' access to credit, especially in Southern Russia.

Questions 2 to 4

1. Which financial institutions in Russia are most active in providing credit to SMEs?
2. How does Center-Invest Bank compare with these other banks in terms of providing access to credit for SMEs in Southern Russia?
3. Are you aware of any changes Center-Invest has made in its loan types, terms, or areas of operation since 2004? Please describe.
    a. To what do you attribute these changes?
    b. How have these changes affected access to finance for SMEs in Southern Russia?
4. Are you familiar with the USAID DCA loan guarantee given to Center-Invest Bank in 2004?
    c. If yes, how did Center-Invest implement the guarantee (uses, marketing, training, etc.)
    d. What changes has Center-Invest Bank made in response to that guarantee?

Questions 5a/5b

1. Have other SMEs operating in Southern Russia changed their loan types, terms, or areas of operation since 2004? Please describe.
    a. To what do you attribute these changes?

2. Does Center-Invest provide any sort of a leadership role in SME banking? If so, please describe.

OPORA Interview Guide

Please describe briefly the work of OPORA.

Question 7

1. How has access to credit changed for SMEs in Southern Russia since 2004?
    b. To what do you attribute the changes?
2. What challenges have SMEs faced in accessing credit? How have they dealt with these challenges?
3. Please describe any financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior that have impacted SMEs' access to credit, especially in Southern Russia.

Questions 4a/4b

1. Which financial institutions in Russia are most active in providing credit to SMEs?
2. How does Center-Invest Bank compare with these other banks in terms of providing access to credit for SMEs in Southern Russia?
3. Are you aware of any changes Center-Invest has made in its loan types, terms, or areas of operation since 2004? Please describe.
    e. To what do you attribute these changes?
    f. How have these changes affected SMEs in Southern Russia?

Questions 5a/5b

1. Have other SMEs operating in Southern Russia changed their loan types, terms, or areas of operation since 2004? Please describe.
    a. To what do you attribute these changes?

2. Does Center-Invest provide any sort of a leadership role in SME banking? If so, please describe.

RusRatings Interview Guide

Lending Environment

1. To start with, perhaps you could give us some background on the private sector's access to credit in Russia.
    a. Do, or have, banks had sufficient liquidity to serve private sector credit needs?
    b. Please assess the SME finance market in Rostov, Krasnodar, and Volgograd since 2003.
    c. What have been the key factors affecting SME access to credit in Russia?
        i. In Rostov, Krasnodar, and Volgograd?
    d. Have interest rates, loan tenors, or collateral requirements changed much over time (esp. since 2003)?
2. Has access to credit for SME's improved, esp. in Rostov, Krasnodar, and Volgograd?
    a. If so, what are the key factors responsible for increasing SME access to credit?
    b. Who are the major providers of SME credit, esp. in Southern Russia? Who are the "market movers," the ones that set an example that other institutions follow?
3. How does Center-Invest Bank compare with other SME finance providers? (i.e., financial health, loan terms, etc.)?
    a. How has Center-Invest Bank changed since 2003 (e.g., new markets, new products, terms, etc.)? What has been responsible for those changes?
    b. To what extent do you think Center-Invest acts as a model for other SME finance providers to follow? How so?
4. Are there any historic data on lending to SMEs, volume and value? By lending institution?

SDM Bank Interview Guide

1. Please describe briefly the work of SDM Bank in Russia.
   a. What is your role in the bank?

2. I understand you received a USAID DCA loan guarantee. Please briefly describe what the guarantee was for.
   a. What changes did SDM Bank make in response to the guarantee (e.g., new loan products, terms, areas of operation, etc.)?
   b. How did you implement the guarantee (staff training, marketing, borrower assessment procedures, etc.)?
   c. Did you actively market the guarantee? Why/why not? What effect did this approach have?
   d. Did the Bank carry these changes over to loans not under the DCA guarantee? Have you been able to maintain the changes?
      i. What factors (internal and external) were responsible for SDM Bank's performance with the loan guarantee?
      ii. What challenges did you face in implementing the guarantee and how did you overcome them?
      iii. Looking back, is there anything you would have done differently with the guarantee? Please explain.
   e. What external (political, economic, etc.) factors have most affected your work in this market, since 2004?

3. What advice would you offer to other banks receiving a DCA loan portfolio guarantee, based upon your own experience?

4. Which banks would you say are the leaders in providing credit to Russian SMEs (e.g., innovation, model that others follow, etc.)?

<u>Question 7</u>

1. How has access to credit changed for SMEs in Southern Russia since 2004?
   c. To what do you attribute the changes?
2. Please describe any financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior that have impacted SMEs' access to credit, especially in Southern Russia.

<u>Questions 1b</u>

1. Are you aware of the DCA guarantee provided to Center-Invest Bank?
2. Did Center-Invest Bank actively market guaranteed loans?
3. Did the terms Center-Invest Bank offered on guaranteed loans differ from those on loans that were not guaranteed? How? Why?

Questions 2, 3, 4

1. Has Center-Invest Bank targeted any new market segments (industries, sectors, or types of borrowers) since the DCA guarantee? Explain.
2. Are there other factors (other than the DCA guarantee) that might have influenced Center-Invest Bank to make these loans without the guarantee? What factors? Explain.
3. Could Center-Invest Bank have improved access to credit in the target sectors more by using the DCA guarantee differently? How? Explain.
4. To what extent did the DCA guarantee increase access to credit in the target sectors within Center-Invest Bank but outside of the guarantee coverage? How?
5. Could Center-Invest Bank's DCA guarantee have had a greater impact on access to credit in the target sectors? How
6. Could Center-Invest Bank have done a better job of disseminating DCA guarantee results into its broader portfolio in the target sectors? How?

Questions 5a/5b

1. Did any banks other than Center-Invest Bank increase their lending to SMEs in Rostov, Krasnodar, or Volgograd since 2004?
    c. If so, to what extent did Center-Invest Bank influence these banks' decisions? How?
    d. What other factors, if any, might have been responsible for other banks' increasing lending to the target sectors? Explain.

USAID/Russia Interview Guide

What is your position at the U.S. Embassy? Please describe your role with the DCA guarantee to CIB.

Please describe the history of the Mission's work with CIB. (NOTE: be sure to ask about how the DCA guarantee grew out of the MSED guarantee, if not already addressed.)

Questions 1a

1. We understand from the Action Package and Guarantee Agreement that the objectives for the guarantee were as follows. As far as you know, did these objectives continue through the life of the guarantee?

Guarantee Purpose (Guarantee Agreement)	Strengthen CIB's ability to expand its SME loan portfolio through its newly opened branches in Krasnodar and Volgograd
Supported SOs and IRs (Guarantee Agreement)	SO 1.3: Small and Medium Size Enterprise Sector Strengthened and Expanded IR 1.3.2: Access to Finance for Small and Medium Enterprises Increased SO 1.4: Market-Oriented Reforms Developed and Implemented in Selected Sectors IR 1.4.2: Resources to Russian Businesses and Enterprises Efficiently Channeled by Banking Sector
Center-Invest Bank's Goals (Action Package)	1. Develop relationships with clients in 2 new regions—Krasnodar and Volgograd 2. Grant larger loan sizes to clients in Rostov 3. Extend mortgage loans on a broader scale (as of Sept. 2004, was providing such loans to employees of existing clients)
Other Objectives (Action Package	Extend loan terms beyond 1 year (baseline: average length of SME loans 10.7 months; 21 percent of bank's overall loan portfolio extended beyond one year as of end of 2003) Demonstrate profitability of SME lending to other Russian commercial banks—positive rate of return encourages commercial banks/sources of private capital to increase SME lending.

2. Did the guarantee help CIB develop new markets that it would not have entered without the guarantee?
    c. If yes, what constraints did CIB face in these markets and how did the DCA guarantee address those constraints?
3. Did the guarantee help CIB expand more quickly into markets it was already developing?
    d. If yes, what constraints did CIB face in expanding more rapidly into these markets and how did DCA guarantee address those constraints?

Questions 1b

1. How did CIB implement the DCA guarantee (e.g., staff training, marketing, etc.)?

Questions 2a_and b

1. How do DCA guaranteed loans differ from other CIB loans?
2. What factors might have influenced CIB to make these loans without the guarantee?
3. Could CIB have improved access to credit in the target sectors more by using the DCA guarantees differently? How? Explain.

Questions 3a and b

1. Did the DCA guarantees increase access to credit in the target sectors within CIB but outside of the guarantee coverage? How?
2. What factors were responsible for this increase? (esp. internal CIB factors, the DCA guarantee, exogenous factors)
3. What else could CIB have done to expand access to credit outside of the DCA guarantee?

Questions 4a/4b

1. Has CIB targeted any new market segments (industries, sectors, or types of borrowers) since the DCA guarantee? Explain.
    e. What influenced CIB's decision to target these market segments?

Questions 5a/5b

1. Did any banks other than CIB increase their lending to the target sectors since the CIB DCA guarantee?
    f. If so, what were the reasons for increases in SME lending by other banks?

Questions 6a/6b/6c

1. How has access to credit for SMEs in Rostov, Volgograd, and Krasnodar changed since 2004?
    e. What factors have been responsible for these changes?
2. Could CIB's DCA guarantee have had a greater impact on access to credit in the target sectors? How?

U.S. Embassy/Russia Interview Guide

What is your position at the U.S. Embassy?

Please describe your role with CIB and the DCA guarantee.

Please describe the history of the Mission's work with CIB. (NOTE: be sure to ask about how the DCA guarantee grew out of the MSED guarantee, if not already addressed.)

Questions 1a

1. We understand from the Action Package and Guarantee Agreement that the objectives for the guarantee were as follows. As far as you know, did these objectives continue through the life of the guarantee?

Guarantee Purpose (Guarantee Agreement)	Strengthen CIB's ability to expand its SME loan portfolio through its newly opened branches in Krasnodar and Volgograd
Supported SOs and IRs (Guarantee Agreement)	SO 1.3: Small and Medium Size Enterprise Sector Strengthened and Expanded IR 1.3.2: Access to Finance for Small and Medium Enterprises Increased SO 1.4: Market-Oriented Reforms Developed and Implemented in Selected Sectors IR 1.4.2: Resources to Russian Businesses and Enterprises Efficiently Channeled by Banking Sector
Center-Invest Bank's Goals (Action Package)	1. Develop relationships with clients in 2 new regions—Krasnodar and Volgograd 2. Grant larger loan sizes to clients in Rostov 3. Extend mortgage loans on a broader scale (as of Sept. 2004, was providing such loans to employees of existing clients)
Other Objectives (Action Package	Extend loan terms beyond 1 year (baseline: average length of SME loans 10.7 months; 21 percent of bank's overall loan portfolio extended beyond one year as of end of 2003) Demonstrate profitability of SME lending to other Russian commercial banks—positive rate of return encourages commercial banks/sources of private capital to increase SME lending.

2. Did the guarantee help CIB develop new markets that it would not have entered without the guarantee?
    e. If yes, what constraints did CIB face in these markets and how did the DCA guarantee address those constraints?

3. Did the guarantee help CIB expand more quickly into markets it was already developing?
    f. If yes, what constraints did CIB face in expanding more rapidly into these markets and how did DCA guarantee address those constraints?

Questions 1b

1. How did CIB implement the DCA guarantee (e.g., staff training, marketing, etc.)?

Questions 2a_and b

1. How do DCA guaranteed loans differ from other CIB loans?
2. What factors might have influenced CIB to make these loans without the guarantee?
3. Could CIB have improved access to credit in the target sectors more by using the DCA guarantees differently? How? Explain.

Questions 3a and b

1. Did the DCA guarantees increase access to credit in the target sectors within CIB but outside of the guarantee coverage? How?
2. What factors were responsible for this increase? (esp. internal CIB factors, the DCA guarantee, exogenous factors)
3. What else could CIB have done to expand access to credit outside of the DCA guarantee?

Questions 4a/4b

1. Has CIB targeted any new market segments (industries, sectors, or types of borrowers) since the DCA guarantee? Explain.
    g. What influenced CIB's decision to target these market segments?

Questions 5a/5b

1. Did any banks other than CIB increase their lending to the target sectors since the CIB DCA guarantee?
    h. If so, what were the reasons for increases in SME lending by other banks?

Questions 6a/6b/6c

1. How has access to credit for SMEs in Rostov, Volgograd, and Krasnodar changed since 2004?
    f. What factors have been responsible for these changes?
2. Could CIB's DCA guarantee have had a greater impact on access to credit in the target sectors? How?

VTB24 Bank Interview Guide

Please describe the work of VTB24 Bank. Which market segments does it target?

Please describe your role within the Bank.

Does the Bank interact much with Center-Invest Bank? Please explain.

1. Please describe the current market for SME finance.
    a. Who are the major providers, esp. in Southern Russia? Who are the "market movers," the ones that set an example that other providers follow?
    b. How has the market for SME finance changed since 2004? What has been responsible for those changes?
    c. Please describe any financial sector reform, government intervention, lender industry competition, financial shocks, or donor behavior that have impacted the SME credit market, especially in Southern Russia.
2. Please assess the SME finance market in Rostov, Krasnodar, and Volgograd since 2004.
3. How does VTB24 Bank work within these market segments?
    a. How has VTB24 Bank's SME finance operation in these areas changed since 2004 (e.g., loan types, terms, areas of operation, etc.)?
4. How does Center-Invest Bank compare with other SME finance providers? (i.e., financial health, loan terms, etc.)?
    a. How has Center-Invest Bank changed since 2004 (e.g., new markets, new products, terms, etc.)? What has been responsible for those changes?
    b. To what extent do you think Center-Invest acts as a model for other SME finance providers to follow? How so?
5. Has access to credit for SMEs in Rostov, Krasnodar, and Volgograd changed since 2004? If so, what has been responsible for those changes?