

# Saving Russia

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By GAIL BUYSKE

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Russia needs a new public relations manager. We hear the depressing news about the state's growing role in the economy and President Putin's machinations to retain control when his term ends, but we never hear the one story that could really give us hope about Russia's future: the successful development of Russian entrepreneurs.

Equally perplexing, we never hear about the role of microfinance in contributing to that development, despite the fact that microfinance has been a prime feel good story since the awarding of last year's Nobel Prize awards.

To start with a figure worthy of its own headline: two studies have estimated that Russian entrepreneurs — micro, small, and medium-sized enterprises — account for approximately 40% of Russian economic output. Yet in the Soviet Union of only 20 years ago, not only was almost all private economic activity a criminal offense, but the death penalty could be applied for embezzlement, bribery, and speculation.

The growth of Russian entrepreneurs over this short period is an accomplishment that is almost impossible to absorb. Equally hard to understand is why we never hear about it.

The explanation is sadly prosaic: official Russian statistics are based on a more limited definition of entrepreneurs than that used in Western Europe and America. Inertia also plays a role; Russian politicians seem wedded to thinking that Russian entrepreneurs need government support and many Western pundits have accepted this pessimistic perspective.

This could change as a result of definitions adopted this summer in a new Russian law on entrepreneurship, but it will take time for the new data and a new point of view to work their way through the system.

This is a pity, because a closer look shows that Russian entrepreneurs, from the microenterprises of up to 15 employees, to medium-sized companies with up to 250 employees, provide exactly that sense of hope that we have all been missing about Russia. Not only do they make a critical contribution to the economy, but in a country seen as lacking the fiber of civil society, they also actively create business associations.

Furthermore, these are not lobbying organizations seeking handouts. Some of the most prominent federal organizations, such as OPORA, the umbrella SME organization, and NAMMS, the microfinance association, spend considerable effort trying to get the government out of their members' businesses. The statement of one entrepreneur whom I interviewed is representative: "Why does the government make loans to small businesses when we can get loans from banks?"

Russia's much maligned financial sector provides cause for hope when viewed through the lens of financing for entrepreneurs. While there is hand-wringing over the fact that the supply of microfinance loans meets only an estimated 15% of demand, with SME loans meeting an estimated 22% of demand, these are markets that Russian banks are just beginning to discover.

Russian banks have demonstrated that they can move quickly when they see opportunities. Consumer lending has almost doubled annually over the past three years. With many microfinance borrowers more focused on the speed of decision-making than the cost of a loan, and with loan losses of under 1% at the leading Russian microfinance lenders, this is an opportunity ripe for seizing.

Russia's cooperative sector provides another positive and largely untold story. At the end of 2005 Russia had approximately 600 consumer credit cooperatives and over 550 agricultural credit cooperatives, which served approximately 200,000 microenterprise borrowers. Russian cooperatives represent an uplifting combination of a grassroots movement and a strong sense of responsibility. For several years they have been asking for government regulation.

Finally, Russia brings a unique perspective to the role of microfinance in economic development. Russia did not have decades of banking traditions that segregated microfinance as a charitable project to help the poor. Instead microfinance was introduced to Russia as a banking product that could help create new businesses and contribute to economic growth. Because everyone is interested in growth, microfinance has broad appeal to Russian bankers, regulators, and policy makers. Russia's experience shows that microfinance could have greater outreach if it rid itself of an exclusively "antipoverty" label.

This positive story about Russian entrepreneurs could continue to evolve unheralded until some day we are all pleasantly surprised by the emergence of a strong Russian middle class.

The story could also disappear before it is even recognized, as a casualty of the government's increasing hold over the economy. For example, 65% of entrepreneurs surveyed by OPORA in 2006 stated that members of their regional administration supported individual firms "frequently" or "occasionally," while Prime Minister Zubkov recently criticized state-controlled Vneshtorgbank, the country's second largest bank, for refusing a loan to a paper factory.

It will be a close call. Yet Russia's entrepreneurs survived perestroika, the collapse of their country, a failed putsch, hyperinflation, and a financial crisis that reduced the value of their currency by several multiples. I'm making an optimistic bet.

*Ms. Buyske was chairman of the board of directors of KMB Bank, a Russian bank founded to lend to micro and small businesses, between 1999 and 2005. She is the author of "Banking on Small Business: Microfinance in Contemporary Russia."*