

Data Sheet

USAID Mission:	Russia
Program Title:	Small and Medium Enterprises
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	118-0100
Status:	New in FY 2006
Planned FY 2006 Obligation:	\$5,000,000 FSA
Prior Year Unobligated:	\$0
Proposed FY 2007 Obligation:	\$3,708,000 FSA
Year of Initial Obligation:	2006
Estimated Year of Final Obligation:	2007

Summary: USAID's business development and finance programs focus on technical assistance, training, and non-bank financing to strengthen the environment for small and medium enterprises (SMEs) and to address concerns about money-laundering and other illegal business activity.

Inputs, Outputs, Activities:

FY 2006 Program:

Improve Private Sector Competitiveness (\$820,000 FSA). USAID will support civil society development and humanitarian assistance in the Chukotka region and training and business skills development for small and medium enterprises (SMEs) in the Russia Far East (RFE). Principal partner: University of Alaska at Anchorage (UAA).

Strengthen the Financial Services Sector and Increase Access to Capital (\$4,180,000 FSA). USAID will continue to support the development of a vibrant micro-finance sector at the national, regional, and community levels. USAID assistance has been instrumental in creating this economic sector in Russia which made more than \$88 million in small business loans in FY 2005. USAID will support sector-specific policy development, advocacy, legal reform, and training at the national level through more than 400 micro-finance institutions (MFIs) and credit cooperatives nationwide which represent a powerful voice for Russia's emerging entrepreneurial class. Additionally, USAID will work to enhance cooperation between MFIs and the formal banking sector to further access to commercial credit for its membership and their clients. The key program goal is to institutionalize the Russian Microfinance Center (RMC) and a recently created second-tier Micro-finance Fund (Centurion Capital) as sustainable legacies to USAID's assistance. USAID will provide the remaining capital for Centurion Capital's start-up operations. In the RFE, USAID will continue institutional development of two Russian MFIs on Sakhalin Island - the Sakhalin Small Enterprise Development Foundation and Sakhalin Small Business Credit Society. These USAID-supported institutions will continue to cooperate actively under Global Development Alliance arrangements with Exxon Neftegas Limited and Sakhalin Energy to increase access to finance for small business entrepreneurs on the island. USAID will support the Central Bank of Russia (CBR) as it finalizes implementation of the Deposit Insurance System (DIS) and continues to upgrade its on-site banking supervision capacity. USAID will also select a final group of banks for targeted technical assistance and training to strengthen their ability to mobilize savings and engage in commercial lending to small businesses. The combination of deposit insurance, bank supervision, and targeted technical assistance will stimulate additional deposits by consumers and more-effective lending by commercial banks. Working with a private sector bank through a Global Development Alliance, USAID's anti-money laundering (AML) activity will strengthen Russian expertise in the identification and prevention of money-laundering and terrorism finance. This activity will build upon eight years of cooperation between the CBR and U.S. financial regulators, and will address the most urgent needs for both countries. This will include internships for CBR senior managers with U.S. financial regulators and in-Russia training for CBR and commercial banks on improved AML policies and procedures. These activities will support a regional effort, within the Newly Independent States and Asia, and will be coordinated with the U.S. Treasury and U.S. Department of Justice. Under the North Caucasus (NC) Initiative USAID will support: the development and expansion of regional enterprises, particularly in rural areas; link enterprises and institutions to on-going programs and institutions in other regions in Russia; and provide entrepreneurs in

the NC with financial, business development and technical services to support business growth and economic integration of the NC with Russia. USAID will support rural credit cooperatives and agribusiness development through enhanced access to credit, and strengthen NC agri-businesses and agriculture support institutions, like universities. Principal partners: Financial Services Volunteer Corps (FSVC), Development Alternatives Inc. (DAI), Agricultural Cooperative Development International/ Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) and new partners to be determined.

FY 2007 Program:

Improve Private Sector Competitiveness (\$708,000 FSA). USAID intends to focus efforts on SME development in the RFE and strategic cities. Principal partners: Same as above.

Strengthen the Financial Services Sector and Increase Access to Capital (\$3,000,000 FSA). In FY 2007, USAID will concentrate final funding on micro-finance legacy institutions, including a direct grant to the RMC, and additional capitalization for Centurion Capital. Additional capital will be supported with a Development Credit Authority Guarantee to enhance Centurion's ability to access private debt sources. The micro-credit program on Sakhalin Island will receive additional funding to expand the reach of the program to underserved areas in the RFE and to bolster business planning capacity. Additional credit, agribusiness, and local economic development efforts will focus on the strategic NC region. During FY 2007, USAID will also continue to develop post-presence capacity to support essential final banking reforms. This effort will concentrate on improving banking system transparency, additional bank examiner capacity-building, and further strengthening of partnerships with American bank regulators. Given Moscow's status as a regional financial center, an important focus of this effort will include assistance on AML. As part of the U.S. Government effort to eliminate illicit financial flows and combat terrorism, USAID will help the CBR and the private sector to improve AML awareness and compliance. In addition to the direct benefits, these activities will serve to promote savings, discourage corruption, improve regional AML practices, and encourage banking practices that are important to forming a stable middle class. Principal partners: Same as above.

Performance and Results: During FY 2005, USAID-supported MFIs provided 55,083 loans worth over \$88 million, allowing loan recipients to grow their businesses by 200% to 300%, on average. Two USAID-supported MFI networks reached sufficient financial scale to transform from non-governmental organizations into formal for-profit financial institutions. Each network has started to access private commercial funds to expand their operations. The Sakhalin Micro-finance Program opened two additional branches, bringing the total to six outlets serving entrepreneurs throughout the island. Building on its successful partnership with Exxon Neftegas Ltd in FY 2004, in FY 2005 the project sourced \$250,000 of additional private lending capital through a grant from Sakhalin Energy. The RMC now represents over 400 MFIs throughout the country on policy and legal reforms of concern to their membership. Having signed cooperation agreements with the Association of Russian Banks and the Association of Russian Regional Banks in FY 2004, the RMC is establishing a policy forum to deepen cooperation between the MFI and banking sectors. Centurion Capital was registered in FY 2005 as a second-tier commercial lender. Acting as a commercial conduit between large lenders and Russia's network of 1,500 individual MFIs, Centurion will begin to lend early in FY 2006. In FY 2005, USAID support to the CBR was instrumental in the creation of the Deposit Insurance System (DIS) in Russia. The DIS is critical to establishing consumer confidence in the banking sector and encouraging savings. By late 2004, more than 200 banks (out of approximately 1,300) were accepted to the DIS. Today, with USAID support, more than 800 banks, representing 98% of individual deposits in Russia, are covered under the DIS. USAID continues to provide substantive support to the CBR's transformation to risk-based supervision policies. USAID also began supporting CBR in its efforts to do combat money-laundering and terrorist finance. At the conclusion of this program a fully sustainable and nationwide system of credit cooperatives and micro-finance institutions will exist, supported by two national level policy and training institutions and two second-tier lending institutions capable of providing loans to the primary lending networks. The CBR will also have made the transition to a risk-based system of bank supervision and have both a functioning deposit insurance system covering all individual deposits and a viable and functioning AML-CFT regime.

US Financing in Thousands of Dollars

Russia

118-0100 Small and Medium Enterprises	FSA
Through September 30, 2004	
Obligations	0
Expenditures	0
Unliquidated	0
Fiscal Year 2005	
Obligations	0
Expenditures	0
Through September 30, 2005	
Obligations	0
Expenditures	0
Unliquidated	0
Prior Year Unobligated Funds	
Obligations	0
Planned Fiscal Year 2006 NOA	
Obligations	5,000
Total Planned Fiscal Year 2006	
Obligations	5,000
Proposed Fiscal Year 2007 NOA	
Obligations	3,708
Future Obligations	0
Est. Total Cost	8,708