



**RUSSIAN
MICROFINANCE
CENTER**

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THE RUSSIAN MICROFINANCE CENTER 2007 ACTIVITY REPORT

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Training

The purpose of courses offered by the Russian Microfinance Center (RMC) is to deliver basic knowledge and practical skills needed in day-to-day microfinance operation in a short course format. The courses have been designed on the basis of industry needs analysis. RMC offers open access courses accessible to anyone and corporate courses requested by institutions and customized. RMC trainers have profound experience in the areas of microlending as well as training and consulting. RMC monitors the quality of training courses and emphasizes high standards of both content and delivery.

In 2007, trainers of the Russian Microfinance Center delivered **27** training courses, including **19** corporate courses, **3** open access courses, **3** trainings for trainers (TOT), **1** pilot course and **1** focus group attended in total by **444** representatives of **274** MFI. If compared to the 2006 results, the number of corporate training courses, generating higher revenues, increased substantially in 2007 (just 13 corporate courses were delivered in 2006).

The following courses were delivered (by theme):

- Loan Officer Training – 6 courses
- Managing Delinquency and Establishing Interest Rates - 3
- Financial Analysis for MFIs – 2
- Liquidity Management in MFIs - 1
- Internal Control and Internal Audit for MFIs - 1
- Marketing in Microfinance: Loans and Savings - 2
- Personnel Management in MFIs - 3
- Effective Business Communication - 1
- Legal Aspect of Microfinance Operations - 2
- Implementation of Microlending Programs in Banks - 1

Courses in Loan Officer Training enjoyed the highest demand and attendance in the reporting period. Therefore this course was selected as a pilot for a distance learning program. The distance learning course in Loan Officer Training was designed in 2007 by RMC experts jointly with the Academy of Management and the Market (Moscow), with support from the Citigroup Foundation. The distance learning course was tested as a pilot in the reporting period, and in 2008 it will be offered to the Russian MFIs.

In 2007 RMC actively promoted “Plan Your Future” financial literacy course for low-income people. This joint project between RMC and the Microfinance Center for NIS and CEE is supported by the Citigroup Foundation. The main purpose of this project is to improve financial literacy and to facilitate access to financial services for low-income households. The following activities were carried out in 2007:

- Solicit applications and conduct a competitive bidding process for MFIs and other organizations wishing to join the Partnership. (Currently, the Partnership includes **23** different organizations)
- TOT in Financial Education in Russia was organized for the selected partners (May 12-16, 2007, Moscow, and December 10-14, St. Petersburg)
- Methodology guidelines were finalized
- Partners delivered trainings for low-income people in their regions
- Advice and support was offered to the Partners

In accordance with the strategy adopted for the Training and Consulting component, RMC specialists work continuously to design new training courses. In the reporting period, a new course on *How to Set up and Manage an MFI Branch Network* was designed with support of the Citigroup Foundation.

In 2007, RMC continued to administer the Citigroup-sponsored Russian MFI Award. Awards for a total of **379,909** rubles were made in 2007. A total of **16** representatives of **14** MFI were awarded so they could attend RMC's training courses, and **23** representatives of **15** MFI were supported so they could participate in the *V National Conference Microfinance in Russia: Building an All-Inclusive Financial System*.

The performance of RMC's Training and Consulting division in 2007 can be described as successful and effective in expanding the range of training courses offered by RMC, while working on their continuous improvement, designing new training products, and advancing the consulting component.

Russian MFI Transparency Programs

The following activities were undertaken by RMC in order to raise awareness in the Russian microfinance community about ways to improve MFI transparency and performance.

MFI Rating Assessments

The Ratings for Russian MFIs Project seeks primarily to facilitate access to international and domestic commercial debt finance for Russian MFIs. Rating assessments and published rating grades make Russian MFIs more attractive to international and domestic investors and help them access cheaper debt finance.

In its effort to facilitate rating assessments for Russian MFIs in 2007, RMC worked jointly with two international raters certified by CGAP (Consultative Group to Assist the Poor), namely Planet Rating (France) and M-Cril (India). In 2007, they rated three Russian MFIs and prepared rating assessment reports.

Between September and December 2007, the Ratings for Russian MFIs Project facilitated the rating assessment of Sodeistvye Cooperative in Pyatigorsk by M-CRIL and contributed to the assessment of Dovyeye Credit Cooperative in Amursk.

RMC discussed plans of setting up a National Rating Fund in Russia with the RF Ministry of Economic Development and Trade SME Support Department.

Benchmarking for Russian MFIs

Since 2005, the Benchmarking for Russian MFIs Project seeks to help individual Russian MFIs and the entire microfinance industry to improve their transparency. The main objective of the project is to facilitate disclosure to customers, investors, government and other microfinance institutions and to improve performance.

Since the project inception, RMC has been an official partner of the MIX, which offers comparative analyses of MFIs throughout the world. RMC works with Russian MFIs to collect and process their reports for the MIX Global microfinance review. Additionally, RMC is

responsible for posting the profiles of Russian MFIs on the MIX Market website and prepares customized performance reports for the project participants.

In 2007 RMC brought the number of Russian participants to a record 22 MFIs, including two specialized banks, three SME support funds, three commercial non-regulated microfinance institutions, and 14 credit consumer cooperatives. RMC also prepared the first Russian annual review *Microfinance in Russia: Benchmarking and Analysis 2006*.

In 2008 RMC plans to post the profiles of 20 more Russian MFIs on the MIX Market website and include at least 45 institutions in the 2007 benchmarking exercise. Besides, to facilitate access to information on Russian MFIs, RMC plans to develop and launch a Russian language electronic database accessible to all microfinance industry stakeholders.

Joint Efforts to Raise AML/CFT Awareness in the Microfinance Industry

RMC and the international organization Financial Services Volunteer Corps (FSVC), one of the constant partners of the RF Central Bank, agreed to implement a joint program aimed to inform the microfinance organizations about the ways of struggling with the money laundering, ways of finding out and opposition to the suspicious operations performing.

On 24-28 September 2007, RMC organized and facilitated a visit of FSVC (Financial Services Volunteer Corps) team to Russia as part of a Joint AML/CTF Program for the microfinance industry.

An AML/CFT seminar held on 25-26 September 2007 in the Banking Institute, Higher School of Economics (BI HSE), was attended by representatives of the League of Credit Unions, the Russian Microfinance Center, the Higher School of Entrepreneurship and Privatization, the League of SME Development Funds, RWMN NDCO, Centurion Company, the Foundation for the Development of Rural Credit Cooperatives, and the Center for Business Development.

The seminar provided a general AML/CFT overview, addressed specific issues of AML/CFT policies in Russia from the perspective of microlenders, explained a risk-based approach to AML, the KYC principle, the AML watch list, the senior management responsibility, monitoring, internal and external reporting, training, external communications, external audit, treatment of microfinance providers, and treatment of microfinance regulators.

Projects of Promoting Microfinance in Russian Regions

The projects provided consulting and legal advice to microlenders in pilot regions, organized training seminars on finance, MFI management and customer services, facilitated cross-regional internships with best performing MFIs, and helped to streamline microlending operations.

Building a Comprehensive Microfinance System, Involving Credit Cooperatives, in Krasnoyarsk Krai

Project Goal: promote entrepreneurship and improve living standards and incomes of local residents in Krasnoyarsk Krai. The project seeks to establish a network of microfinance

institutions (MFI) in Krasnoyarsk Krai, involving agricultural credit consumer cooperatives (ACCC), credit consumer cooperatives of citizens (CCCC), and SME Support Funds. Project Partners: the Krasnoyarsk Krai Administration, the Siberian Center for Support of Community Initiatives, and the Foundation for the Development of Rural Credit Cooperatives.

The following activities were undertaken in 2007:

- A conference on Promoting Microfinance in Krasnoyarsk Krai and a round table on Current Status and Future Prospects of Microfinance in Krasnoyarsk Krai on 25 June 2007, launching Project Phase 1.
- A survey of microfinance programs and local demand for microfinance in Krasnoyarsk Krai.
- Working meetings with local officials from the Planning and Economic Development Department and the Agricultural and Food Policy Department of the Krasnoyarsk Administration.
- In December 2007 the following microfinance support facilities were made available in the region: the regional Agricultural Producers Support Program allocated 4 million rubles to subsidize interest rate to agricultural credit cooperatives borrowing from commercial banks; a SME support program was approved which includes credit consumer cooperatives as a target group.

This activity also included a training session on *Setting up and Managing Agricultural Credit Cooperatives in Krasnoyarsk Krai* held between 12 and 14 December 2007. It was the first of a series of trainings to be delivered in the region.

SME Promotion and Support in Baleisky District, Chita Oblast

Project Goal: to assist SME promotion and support measures in Baleisky District, Chita Oblast. The project was commissioned by Taseyevskoye Company. Phase One of the project was completed in 2007, resulting in the establishment of a Credit Consumer Cooperative of Citizens "Sodeistvye-2007," which is now providing finance to the local community, including small and microbusinesses. It improved the local socio-economic situation in this depressive, subsidized area suffering from the closure of a goldmine and related loss of employment.

Project Activities in 2007:

- Founding documents were drafted for the Sodeistvye-2007 Cooperative, and a registration procedure completed.
- Relevant loan products and an appropriate format of microfinance delivery were designed for the Sodeistvye-2007 Cooperative.
- Performance standards and evaluation criteria were designed and implemented in the Cooperative.
- Internships were organized and implemented for staff of the Sodeistvye-2007 Cooperative with the Sodeistvye CCCC in Smolensk.
- A training course in legal aspects of cooperative management and microlending was designed and implemented for the Sodeistvye-2007 staff.
- Staff of Sodeistvye-2007 Cooperative completed RMC's courses *Legal Aspects of Microfinance Activity* and *Loan Officer Training*.
- Management and staff of the Sodeistvye-2007 Cooperative benefited from ongoing support and consultations.

Public Events

In 2007, RMC organized a series of federal-level events seeking to help Russian regions in designing their local microfinance development programs. More than 1500 people participated in RMC events.

Microfinance as an Instrument of Regional Social and Economic Development, a Seminar/Meeting

On 30 March 2007, the RF Ministry of Regional Development hosted an inter-regional seminar-meeting chaired by the Minister, Vladimir Yakovlev, entitled *Microfinance as an Instrument of Regional Social and Economic Development*. Co-organizers of the meeting included the National Association of Microfinance Market Stakeholders (NAMMS), the Association of Russian Banks (ARB) and the Russian Microfinance Center (RMC). The meeting was attended by more than 80 regional and federal government officials, staff of Presidential Representative Offices in federal districts, representatives of international organizations, and institutions active in the sphere of microfinance. Minister of Regional Development Vladimir Yakovlev opened the session. The RMC President Mikhail Mamuta chaired the meeting, featuring presentations by President of the Association of Russian Banks Garegin Tosunyan, Chief of Department for State Regulation of Economy, Russian Ministry of Economic Development and Trade, Natalia Larionova, Chief of Secretariat for Deputy Chair of the Federation Council Vladimir Kostyukov, Deputy Chair of Administration, Voronezh Oblast, Leonid Selitrennikov, Deputy Minister of Economy, Trade and International Relations, Rostov Oblast, Chief of Department for SME and Interregional Relations Anna Palagina, Deputy Minister of Economic Development and Trade, Head of Department for SME Support, Kabardino-Balkaria Republic, Murat Kerefov, Chair of the Volgograd Association of Credit Consumer Cooperatives Yelena Tokareva, Manager of Social Programs of Taseyevskoye LLC Denis Antonov, RMC Legal Advisor Anna Baitenova, Vice President and External Affairs Director of VTB 24 Nadezhda Karisalova.

Active contributors to the seminar also included Yuri Perelygin, Deputy Director, Department for Regional Social and Economic Development and Territorial Planning, Russian Ministry of Regional Development; Yelena Kitova, Deputy Director, Department for Regional Social and Economic Development and Territorial Planning, Russian Ministry of Regional Development; RMC Executive Director Boris Tkachenko; Anatoly Kadrov, Director, National Union of Organizations for Mutual Financial Assistance; Vadim Kalinichev, CEO, League of Credit Unions; Pavel Sigal, Board Member of OPORA Rossii National SME Association and President of the Microfinance Center.

The meeting participants discussed the Russian and international experience of building regional microfinance infrastructure, including the experiences of RF subjects in creating regional models of microfinance development, and opportunities of cooperation between banks and MFIs to implement President Putin's statement concerning better public access to financial services.

The meeting participants adopted Recommendations on Microfinance as an Institution Promoting Regional Social and Economic Development, sent out to regional administrations in the Russian Federation.

Promoting Microfinance to Facilitate SME Development and to Ensure a Comprehensive Social and Economic Advancement of the Russian Regions – a Meeting of the Federation Council Advisory Group for SME Development

A meeting of the Council for SME Development, an advisory body of the Federation Council Speaker Sergey Mironov, took place on 4 June. The meeting initiated by RMC addressed a wide range of issues relevant to microfinance promotion, such as better legal and regulatory framework and regional authorities' awareness. The seminar was attended by more than 50 people, including representatives of the Ministry of Finance, the Ministry of Economy, the State Duma, regional authorities, leading market operators, and experts.

Presenters included the Federation Council Speaker Sergey Mironov, RMC President Mikhail Mamuta; Director of Financial Policy Department of the Finance Ministry Alexei Savatuygin, Deputy Director of the Finance Ministry Corporate Governance Department Anna Menshikova, and the State Duma MP Anatoly Aksakov. A number of market practitioners and regional representatives contributed to the discussion.

The meeting produced a set of recommendations sent out to federal government authorities and regional administrations.

VIII All-Russia SME Representatives Conference «Small and Medium Business in the Context of Russia Joining the World Trade Organization (WTO)»



RMC was the managing co-organizer of the VIII All-Russia SME Representatives Conference «Small and Medium Business in the Context of Russia Joining the World Trade Organization (WTO)» hosted by the RF Chamber of Commerce and Industry (RCCI) on 16 May 2007.

The conference attended by more than 400 people addressed priority issues of SME and middle class development in Russia, and ways to overcome some of the barriers hindering their growth.

High-profile participants and keynote speakers of the conference included RCCI President Yevgeny Primakov, RCCI Vice President Sergey Katyrin, Deputy Minister of Economic Development and Trade Andrei Sharonov, Deputy Director of MEDT Trading Negotiations Department Andrey Kushnirenko, Director of MEDT Department for State Regulation of Economy Andrey Sharov, Director of CBR Department of Banking Regulation and Supervision and member of the National Banking Council Alexey Simanovsky, State Duma MP Anatoly Aksakov, Deputy Chair of the State Duma Committee for Civil, Commercial and Procedural Legislation Vladimir Gruzdev, Chair of the RCCI Committee for Promoting Private Entrepreneurship and SME and CEO of the Russian SME Support Agency Viktor Yermakov, Chair of the Subcommittee on Microfinance of the RCCI Committee for Private

Entrepreneurship and SME and RMC Director Mikhail Mamuta, VTB 24 Board Member Sergey Suchkov, Head of the European Commission Delegation to Russia Marc Franco, Director of Rosbank SME Department Anatoly Khvostikov, representatives of small and medium-sized businesses, NGO and mass media.

The conference included sessions on the development of finance and credit infrastructure and new banking services for SME in Russia in the context of accession to WTO; priority areas for SME policy improvement; promoting venture finance and other funding opportunities for SME in connection with Russia's forthcoming accession to WTO; principles of effective interaction between banks and regional authorities in their effort to promote SME development (VTB 24 case study), and others.

The Conference adopted a resolution available from the RMC and RCCI websites.

V National Microfinance Policy Forum



On 14 November 2007, the V National Microfinance Policy Forum was held in Moscow, attended by more than a hundred top executives and lawyers of credit consumer cooperatives, SME Support Funds, associations, banks, and other institutions involved with microfinance in Russia and other countries.

The plenary session addressed current practices and problems of setting up non-bank deposit credit institutions (NDCO). Contributors to this discussion included: Victor Yermakov, Chairman of the RCCI

Committee for Private Entrepreneurship and SME and CEO of the Russian Agency for SME Support; Natalia Satina, Chief of the Banking Division, Financial Policy Department, Ministry of Finance; Leonid Govorov, State Duma member and President of the Moscow CCI; Sergey Suchkov, VTB 24 Board Member; and RWMN NDCO President Leonid Gvozdev. The session featured presentations by Anna Baitenova, RMC Legal Advisor, and Ludmila Sklyarenko, NAMMS Vice President. Following the plenary session, three round tables were organized: on credit cooperatives (facilitated by RMC Executive Director Boris Tkachenko); on MFIs other than credit cooperatives (facilitated by RMC Legal Advisor Anna Baitenova); and on legal issues of branchless banking (facilitated by Advisor to the State Duma Committee on Credit Institutions and Financial Markets Oleg Ivanov and MFC Regional Director for NIS Olga Tomilova).

The VI National Conference “Microfinance in Russia: Building an All-Inclusive Financial System”



The VI National Conference “Microfinance in Russia: Building an All-Inclusive Financial System”, organized by the National Partnership of Microfinance Market Stakeholders and the Russian Microfinance Center was held on 14-15 November 2007 in Moscow. More than 550 people from regions of Russian and foreign countries participated in the conference, devoted to the issues of access to retail financial services, microfinance technologies development and branchless banking.

The following guests of honor spoke at the Conference opening ceremony: the UN microfinance development adviser, Her Royal Highness Princess Maxima of the Netherlands; the RF Deputy Minister for Economic Development and Trade Anna Popova, the Director of Financial Policy Department of the RF Finance Ministry Aleksey Savatyugin, and other official establishment. NAMMS President Mikhail Mamuta and Association of Russian Banks President, NAMMS Board Chairman Garegin Tosnyan made a speech of welcome for the participants. The Ceremony was facilitated by Vasiliy Lanovoy – the Russian Federation Public Chamber Member, Russian famous actor.

The following issues were discussed at the Conference: branchless banking: international experience and opportunities in Russia, promotion of banking technology and infrastructure for SME and microfinance, regulation and self regulation of credit cooperatives, and how microfinance infrastructure contributes to SME development programs.

Besides, within the framework of the Conference the following events were delivered: the V National Forum on Legal Affairs of Microfinance, the Award Ceremony “Russian Microentrepreneurship Awards in Association with the Citi Microentrepreneurship Awards Program”, Investor Forum “New Opportunities for Finance Mobilization” as well as two business breakfasts: Enhanced Regulation for Non Bank Deposit Credit Organizations (NDCO) “Enhanced Regulation for Non Bank Deposit Credit Organizations (NDCO)” and “Enhancing Transparency in MFIs – How to Use Rating Assessments for Your Benefit”.



The results of the V National Forum on Legal Affairs of Microfinance and the Conference will be published in the Resolution which will be sent to all Conference participants as well as to the RF executive and legislative power authorities.

The Contest «Russian Microentrepreneurship Awards in Association with the Citi Microentrepreneurship Awards Program»



The Award Ceremony «Russian Microentrepreneurship Awards in Association with the Citi Microentrepreneurship Awards Program» was held on 14-15 November 2007 within the framework of the Opening Ceremony of the VI National Conference “Microfinance in Russia: Building an All-Inclusive Financial System” at the Congress Center of the World Trade Center. The winners were awarded with the participation of the UN microfinance development adviser, Her Royal Highness

Princess Maxima of the Netherlands, RF government representatives: Aleksey Savatyugin – the Director of Financial Policy Department of the RF Finance Ministry; Vladimir Kostryukov – the Head Receptionist of the RF Federation Council Deputy Chairman; Viktor Yermakov – the General Director of the Russian Agency for Small and Medium Business Support; Vladimir Chistyukhin – the Deputy Director of the Banking Regulation and Supervision Department of the Central Bank of Russia.

In 2007 the organizers of the Contest were the National Partnership of Microfinance Market Stakeholders (NAMMS) and the Russian Microfinance Center (RMC) with financial and expert support of Citi Foundation. The Expert Council on microentrepreneurship and microfinance lending under the Ministry for Economic Development and Trade of the Russian Federation provided informational support for the Contest. The Council of Federation of the Federal Assembly of the Russian Federation and the State Duma of the Federal Assembly of the Russian Federation, the Russian Chamber of Commerce and Industry supported the organization of the Contest. The Ceremony and the reception was hosted with the U.S. Russia Center for Entrepreneurship Support.

In 2007, the Contest «Russian Microentrepreneurship Awards in Association with the Citi Microentrepreneurship Awards Program» was held for the third time with 158 people participating.

In addition to traditional categories, such as “Best Employer” and “Best Individual Entrepreneur” in the sphere of microfinance, winners were awarded in the following nominations: “For the great social contribution to progress of entrepreneurship”, “Best business woman of Russia in microfinance – 2007” and “For the contribution to progress of microfinance sector in Russia”.

Inter-Regional Conferences and Seminars

Jointly with VTB 24, NAMMS, and regional partners, RMC organized four inter-regional conferences/seminars to discuss microfinance development. The events in Vladivostok, Volgograd, Nalchik and Chelyabinsk attracted a total of 500 participants. We find this type of conferences extremely important, because the majority of regional market practitioners and government officials cannot afford to attend centrally held national events, but nevertheless need regular updates on the market trends and policies, as well as awareness of opportunities available at the local level to encourage microlending.

Policy Support of Microfinance

Policy work aimed at establishing a positive environment for microfinance in Russia includes expert involvement in the evolving regulation, public awareness, education and information for government officials.

Notably, NAMMS was established in 2007 as a third-tier (federal) association to promote better policy environment and public acceptance of microfinance.

In 2007, RMC and NAMMS made important progress in this area, as detailed below.

Better NDCO Regulation

- 1) In response to a message from RMC's working group, the Bank of Russia issued a formal letter reducing the number of reporting forms to be submitted by NDCO to the Central Bank, as compared to regulated banks;
- 2) A draft law which would have increased authorized capital requirements for non-regulated non-bank credit institutions from 500 to 2,500 thousand euro was withdrawn from the Duma;
- 3) A draft was introduced in the Duma whereby a track record with non-regulated non-bank microfinance institutions will be recognized by the Central Bank as it approves candidates for NDCO executives (by the current provision, NDCO executives are required to have an employment history with regulated banks);
- 4) The RMC Working Group submitted a new list of problems to be considered by the Central Bank in its efforts to streamline NDCO regulation; the list had been drawn with considerable input from active and potential market operators.

Draft Law on Microfinance Institutions

- 1) Negotiations with the Ministry of Finance, the Ministry of Economy, and the Central Bank resulted in a shared understanding that the draft should regulate for-profit, as well as nonprofit microfinance institutions, which do not take deposits, but only make loans (non-deposit microlending institutions).
- 2) In accordance with the consensus opinion, the Ministry of Finance working group jointly with the RMC experts redrafted the underlying concept paper and the text of the law.
- 3) The draft law concept was officially submitted to the Government for endorsement. Eventually, the drafting of the law will begin and may take a while before the draft is submitted to the State Duma, depending on how soon the government ministries and departments agree on the text.

Better Policy Regulation of Bank/MFU Interactions

- 1) Based on proposals made by RMC and ARB and supported by the Ministry of Economic Development and Trade, in January 2007 the Central Bank amended the Bank of Russia Regulation No 254-P on Loan Loss Reserve Allocation, effective on 1 July 2007.
- 2) The amendments stimulated banks' interest in lending to MFI and resulted in a few targeted lending programs launched by banks (some invited RMC to advise them on the program design).
- 3) To encourage cooperation between banks and MFI, RMC drafted guidelines for MFI creditworthiness assessment, based on approaches used by leading raters customized to specific circumstances of microfinance operations in Russia.
- 4) To explore new forms of cooperation between banks and MFI - in particular, co-branding and distribution of plastic cards between a bank, an MFI, and an international card operator, RMC drafted a joint project proposal for VISA Int. and identified potential project participants among banks as well as MFI.

Better Policy Environment for Branchless Banking

- 1) In May 2007, CGAP jointly with RMC reviewed the potential of Branchless Banking technology and regulation in Russia. The review and analysis revealed good prospects in the market for the development of all known branchless banking models.
- 2) On the initiative of NAMMS, the State Duma Committee for Credit Institutions and Financial Markets set up a Working Group (WG) to promote branchless banking and to improve access to financial services. Existing policy barriers to branchless banking were analyzed, a workplan for 2007 – 2009 was drafted, and a Draft Concept of measures likely to improve access to retail financial services was designed.

Better Legislation on Credit Cooperatives

- 1) NAMMS summarized input from market stakeholders (associations of credit cooperatives – NAMMS members) concerning the development of legislation on credit cooperatives, and finalized the draft framework federal law on Credit Cooperatives. NAMMS also joined the State Duma's working group which prepares draft amendments to the Federal Law on Credit Consumer Cooperatives of Citizens.
- 2) By request of the Ministry of Economic Development and Trade, a chapter on Self-Regulation of Credit Cooperatives for the draft framework law on Credit Cooperatives was designed.

Research

Microfinance market research in its various forms is a priority for RMC, because it provides reliable first-hand information on the current status, trends and needs of the industry to inform decision-making and government measures designed to encourage the development of microfinance.

Three research projects were carried out in 2007 to look into different aspects of microfinance.

1. The fourth round of the microfinance market monitoring exercise (years 2003 to 2006) was undertaken by the Russian Microfinance Center and the National Association of Microfinance Market Stakeholders with funding from VTB 25 and the Citigroup Foundation. The researchers surveyed more than 800 MFI of various charter types, including credit cooperatives, SME support funds, private MFIs, NDCO and microfinance banks. The findings demonstrated a steady growth of the industry reflected in the number of active MFI, as well as the average clientele and working capital per institution. See www.rmcenter.ru for a full version of the monitoring report.

2. The Moscow City Government commissioned a survey of SME finance demand and supply in Moscow. Its findings supported an assumption that an important portion of entrepreneurs in Moscow are not served by conventional banks and may be potential customers of microfinance programs. Thus, microlending facilities may reduce shadow finance and informal lending, while SME will generate official credit histories and lay a foundation for their growth. A potential demand for microfinance in Moscow was assessed at 7.5 bln rubles or more. See www.rmcenter.ru for a full version of the survey report.

3. A market survey undertaken as a joint project with DAI Europe looked at the demand of small and medium-sized business customers for specific banking products. The findings will be available from RMC's website in April 2008.

Capacity Building Projects

Capacity-building projects are aimed at establishing new areas of RMC's activity anticipating future needs of the microfinance industry development. Capacity-building projects also seek to stimulate the demand and if successful, add a new product or service to RMC's range.

In 2007, RMC launched a series of microfinance capacity-building projects.

Harmonization of Microfinance Legislation and Regulation, a project supported by CGAP, aims to provide relevant consultations and expert support to government, market practitioners and other stakeholders to facilitate the adoption of better microfinance policies and regulations. The project components cover branchless banking, NDCO, credit cooperatives and the draft law on microfinance institutions. The project is implemented by RMC in close partnership with NAMMS, ARB and the 'Russia' Association. Access to the CGAP Database facilitates analysis of microfinance policies in other countries and search of international best practices. The project is expected to facilitate a better, more consistent policy environment in Russia enabling the development of microfinance and access to retail finance for the public and SME, thus advancing the objective set by the Russian President in his Statement of 27. 11. 2006 № PR-1063.

Period of implementation: years 2007-2008.

The Development of Microfinance Methods and Instruments, a project seeking to advance the microfinance infrastructure in a number of ways, such as:

- 1) Monitor the Russian microfinance industry to identify current needs, and design relevant recommendations.
- 2) Train microfinance practitioners and improve financial literacy of low-income people.
- 3) Assist the development of regional microfinance programs and infrastructure.
- 4) Improve visibility, transparency and publicity of microfinance.
- 5) Research opportunities for branchless banking to serve low-income households and SME.
- 6) Support two separate projects implemented by RMC: *Benchmarking for Russian MFIs* and *Rating Programs for Russian MFIs*.

Period of implementation: years 2008-2009.

Jointly with the SEEP Network, RMC will undertake a three-year program *to support the development of regional microfinance networks/associations and improve their customer relations*. This project will offer comprehensive support to microfinance networks/associations, help them to offer a range of relevant services and build their corporate cultures. It is expected that at least five regional NAMMS member associations selected in a competitive bidding process will take part in the project in 2008. This program will strengthen the regional microfinance support infrastructures and promote a sustainable, mutually beneficial cooperation between second-tier and third-tier (federal) microfinance associations. The project will involve an in-depth study of the Russian microfinance market status and trends and practitioners' needs, to inform recommendations concerning support measures.

Period of implementation: years 2008-2010.

Liaising with Corporate Partners

Liaising with corporate partners pursues a number of objectives: to facilitate long-term projects, to contribute to RMC's resource base, making it more sustainable and diversified, and to enable large-scale development programs which RMC cannot implement alone with limited resources.

Last year, RMC successfully broadened and strengthened its relations with strategic corporate partners.

Stage One of the SME Promotion and Support Program in Baleisky District, Chita Oblast, co-implemented with Taseyevskoye Company, was completed. As a result, Credit Consumer Cooperative Sodeistvye-2007 was established and is now providing finance to the local community, including small and microbusinesses. It improved the local socio-economic situation in the depressive, subsidized area suffering from the closure of a goldmine and related loss of employment.

In addition, the Citigroup Foundation approved RMC's two-year program of microfinance capacity-building, which includes, in particular, the establishment of a domestic rating program and the creation of Microfinance in Russia web portal.

Cooperation between RMC and VTB 25 advanced to a new level. Last year, the bank did not only support RMC's national conferences, but also co-organized four inter-regional seminar-meetings and commissioned a survey of the Russian microfinance industry development in 2006.

Jointly with DAI Europe, RMC delivered services under a contract with the EBRR to advise Russian banks on designing programs for SME.

List of Acronyms:

ACCC - Agricultural Credit Consumer Cooperative
ARB - Association of Russian Banks
Banking Institute of the State University - Higher School of Economics
CCC – Credit Consumer Cooperative
CCCG - Credit Consumer Cooperative of Citizens
CGAP - Consultative Group to Assist the Poor
DAI - Development Alternatives Inc.
EBRD - European Bank for Reconstruction and Development
Foundation for the Development of Rural Credit Cooperatives
FSVC - Financial Services Volunteer Corps
HSE - Higher School of Economics
MFC - Microfinance Centre for Central and Eastern Europe and the New Independent States
MFI – microfinance institution
Ministry of Economic Development and Trade of the Russian Federation
MIX - Microfinance Information eXchange
NAMMS - National Partnership of Microfinance Market Stakeholders
National union of organizations of financial mutual support
RMC - Russian Microfinance Center
Russian Bank for Development
SEEP - Small Enterprise Education and Promotion (SEEP) Network
SME Support Fund
USAID - US Agency for International Development
Voronezh Oblast State Fund for SME Support