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## **Accomplishments and Results of Nastas in SME Bank Lending Programs: Emerging Markets**



I executed programs and solutions that ‘Scale Up’ the # of customers served + the amounts of \$ borrowed from banks by retail customers and SMEs in the Russian Federation. These clients were located in major cities like Moscow, but also medium and small population cities like Vladivostok (500,000), Khabarovsk (500,000) and Yuzhno-Sakhalinsk (172,000), tough places and cultures to do business in, each with varying degrees of SMEs—quality, quantity & transparency with vested interests in themselves.

Perhaps my Russian insights and accomplishments might be useful to you, to shape banking products to *impact the culture* and ‘Scale Up’ the flow of money to SMEs in the other emerging markets: economies and business environments that shares many commonalities that I am so familiar with in Russia—volatile and uncertain with low penetration of bank products/services, yet great markets with potential.

Let me explain two experiences that represent my capabilities and talent to contribute to your mission.

### **Wholesaling of \$ to Russia Banks to Jump-Start SME Lending in the Russia Far East**

Banks in the Russia Far East were particularly hard hit by the 1998 financial crisis that swept Russia with lenders in this region and remote cities unable to access \$ from the Russian Central Bank. As managing director of the Russia Fund (\$440 million, debt/equity investing), we stepped in to ‘wholesale’ \$ for targeted lending to SMEs in the Russia Far East; SME recovery, post-crisis, was non-existent due to too little working capital and an almost total cessation of lending by banks.

The team, three investment officers + me, established a co-financing program for Russian banks in our region. Availability of capital at wholesale rates was not enough to convince bank owners and senior managers to jump back into SME lending as their balance sheets were devastated by defaults from all sectors, and we required co-financing for each and every SME loan to access our \$ + our oversight on their credit committees was required to insure and ensure proper due diligence, structuring and monitoring.

We engaged with founders, shareholders and managers at the most senior level, informed and educated them to better understand the dynamics of SME growth by customer segment served, SMEs needs for different forms of cash at different stages of growth; credits (loans), overdrafts, line of credit, working capital and receivables. Later we drilled into the details of SME lending with them; client evaluation, assessing need, risk and repayment, credit policies-terms and conditions, risk management, portfolio analysis and yes, even ‘selling’ money—marketing & sales. With the support and approvals of corporate officers, we conducted education and information seminars for lending officers and their managers at the point of customer contact; we coached them on the micro decisions

required to transact SME loans including the myriad of paperwork and forms required by us, bank policies and procedures + those required by the Russian Central Bank.

I'm proud to say that we overcame skepticism and uncertainty; bank partners joining the program included MDM Bank & Primots Bank (Vladivostok, Vnesnortgbank & Regio Bank (Khabarovsk) and Dalnevostochnij Bank (Yuzhno-Sakhalinsk). We deployed \$10 million to them in the 1<sup>st</sup> tranche of capital as the 1<sup>st</sup> stake in the ground to re-start SME lending in 1999.

### **Impacting Bank Owner-Operators & Bank Employees for SME Lending: the Russia Federation**

I am past Independent Director (2007-2010), Member Board of Directors, Sotsgorbank, Moscow, nominee of the Firebird Fund, portfolio investor with managed capital > \$2 billion. Pre-investment Sotsgorbank was a small 'pocket' bank of a construction company with income/profits generated from related-party lending. The two principal owner/operators of the Bank concluded that this strategy could not continue if they were to grow as the Russian economy developed with needs for more and diverse banking products/services. Yet even with their commitment to change, implementing behavioral changes is easier said than done.

I was nominated by Firebird and Bank shareholders; they knew of my work as an independent director + my activities in venture investing to SMEs in the USA, Canada, Europe, Africa, Russia and Kazakhstan. This kind of investment diversity and exposure to SMEs in multiple industries/countries was sought by them to reflect investor expectations and provide input to the Bank's Russian shareholders, senior and operating managers. My brief as an Independent Director was to push forward initiatives on several fronts:

- Corporate actions for more openness and transparency, adoption of international corporate governance procedures, formality to strategy, KPIs, budget, investments and accountability
- Improve audit and risk management technologies/techniques (I served on the Audit/Risk Management Committee for 3 years)
- Oversee the creation/deployment of the Bank's SME lending program and leadership of its activities to raise international capital (debt & equity) to finance SME lending as member of the Bank's Strategy Committee

Some of the contributions and accomplishments we achieved, specifically in the SME sector:

1. Formulated the SME strategy, products & services to enter the market and investment required to deploy the lending program, some details:
  - Standardized product line, introduced system for assessing & rating the financial status of borrowers
  - Borrowers' financial reports, assets and loan security verified by specialized managers
  - Attracted clients through direct sales and referrals from suppliers of equipment & transportation
  - Loan applications analyzed within 2-5 days (depending on the loan value)
  - Loan size from 100,000 to 60 million Russian rubles (≈\$33,000-\$2 million)
  - Term of loans: up to 3 years
  - Use of loans: working capital needs, purchase of fixed assets (transport/equipment), investment credit (modernization of production, purchase of commercial real property, repairs, etc.)
  - Products: credit, credit line & overdraft

2. Raised international capital to finance the SME program. Successes included:
  - Secured **10 year-\$10 million loan** from US lender World Business Capital with an OPIC (US Gov't insurance agency) guarantee to initiate SME lending program in Russia—a real achievement for a mid-size Russian bank ranked #173 in assets at the time of this loan. We raised this \$ by detailing the SME strategy as stated in #1 (above) + success in being transparent and influencing Bank owner-operators to manage the business to international corporate governance procedures. **Bank management increased SME loan volume 4x with this new financing.**
  - Raised as new round of equity financing from the Firebird Fund, \$10 million

The Bank achieved the following results during my tenure as an Independent Director:

1. Net income increased >2x, from 490,144,000 rubles to 1,021,055,000 rubles ( $\approx$  \$16,338,133 to \$34,035,167) from growth in all lending products, corporate, SME and retail.
2. Multiple credit rating increases by S&P, from CCC to B- (stable), maintained despite the ruble credit crunch-global financial crisis.
3. Successfully placed & re-paid a one (1) year 500 million ruble ( $\approx$ \$17 million) debenture on the Russian debt market.
4. Increase in ranking— total asset growth from #173 to #123—all Russian banks.