

A Different Kind of Pipeline

With much fanfare, the Russian government has embarked on a strategy to modernise the economy. But how useful this top-down strategy is remains questionable. The true problems of Russia's economy lie elsewhere.

By Armin Haebler

>> Ms Yudaeva, what are the growth prospects like for Russia in 2010?

<< It's very hard to tell, as the Russian economy is still vitally dependent on the global demand for natural resources. This dragged the country into a severe recession in 2008, but it has also stimulated a quick recovery since late 2009. So while growth dependence on natural resources makes predictions very hard, I am optimistic that 2010 will be a good year for Russia.

>> Is this dependence perhaps not such a bad thing after all?

<< I wouldn't say that being a natural resources producer is negative by definition. Australia, for example, has a resource-based economic model and it is still considered a modern and developed economy.

>> What do you think of the big diversification strategy announced by Mr Medvedev?

<< First of all, the goal of diversification and modernisation is not new. It has been around for at least the last 20 years. But it is now getting a new momentum. The idea is as follows: Russia has about 140 million inhabitants and at the break-up of the Soviet Union it inherited an economy with a large number of non-competitive companies in a whole range of economic sectors. Diversification means improving the competitiveness of these sectors of the economy, or creating new ones. We need our companies to become competitive on the global market in order to diversify our ex-

■ The Bank ...

Sberbank is the largest credit institution in Russia and the CIS, accounting for about a quarter of the aggregate Russian banking assets and a third of banking capital. Established in 1841, Sberbank has grown into a universal commercial bank and is today the biggest taker of deposits in the country. As of 1 June 2009, Sberbank accounted for more than 50 per cent of retail deposits and had a 31 per cent share in the Russian loan market. It has 18 regional head offices and more than 19,000 retail outlets with about 265,000 employees. The bank plans to build a foothold in China and India and to generate about 5 per cent of net income outside Russia by 2014.

port structure. That is the main task – and it is an extremely difficult one. Today, only 25 per cent of Russian companies consider themselves to be competitive on the global market.

>> But at the same time, the government is hardly willing to let old and uncompetitive companies go bankrupt.

<< True, but very few governments around the world are willing to do that. There are a lot of jobs at stake and it is politically very hard simply to let them go down the drain.

>> Is this protection of the old monoliths standing in the way of the official privatisation agenda, aimed at the creation of more small and medium-sized companies?

<< These are two different policy agendas. The way privatisation worked in the early 90s was that large companies were split up into smaller entities, which were still very large production units. So what we found by the late 90s was that, by in-

ternational standards, Russia had large production units – but companies which were actually too small. Re-merging parts of them today to form global players makes sense. What Russia really lacks, however, is a pipeline of new companies, of start-ups and entrepreneurs that are not the product of any previous – or future – privatisation but of true grassroots entrepreneurialism.

>> But why is that so? Is there not enough financing available for young companies?

<< In Russia, many complain about a lack of finance, and this genuinely is part of the problem. Nonetheless, I don't think financing is the main constraint. The biggest problems are a general lack of entrepreneurship, innovative drive and management skills. A lack of strong intellectual property rights is also an issue. Germans, for example, might not be very entrepreneurial either, but at least they are good managers and have secure property rights. That's a start.



■ ... and its head of macroeconomic research

Ksenia Yudaeva is the Head of the Macroeconomic Research Center of Sberbank, the largest Russian commercial bank. Her responsibilities cover macroeconomic development analysis and risk assessment and providing relevant reports to the top management of the bank, investors and the general public. She is also deputy head of the Expert Committee at the Russian Government Committee on Enhancing the Resilience of the Russian Economy. As a member of the committee she advises the government on policy issues related to the global financial and economic situation. Prior to joining Sberbank, Ksenia Yudaeva worked for several Russian think tanks, including the Center for Strategic Research, and the Moscow Carnegie Center.

>> You say Russia lacks a certain innovative drive. Would you say the economic crisis has hit Russia's capacity for innovation?

<< No, because prior to the crisis Russia failed to create any sizable innovation capacity. On the contrary, R&D facilities in companies have actually been shrinking over the years even while expenditures remained stable in real terms. In Soviet times, those R&D capacities were often involved in reversed engineering, which is nowadays redundant, as technologies and equipment can be easily purchased. The challenge is to create a capacity for producing real innovations. There are a few state initiatives—for example the fostering of nanotechnology—but their results in terms of employment and output are still minuscule. If anything, the crisis has highlighted once more the urgent need to finally develop a system of internationally competitive medium-sized companies.

>> Is Sberbank actively involved in this?

<< We do have a special small-business department which develops new products specifically targeted at small and medium-sized companies. One of the main tasks there is to simplify paperwork, making access to funds easier for those who want to set up a company. We even have some micro-finance products in our portfolio, which is a rather unusual thing for a large bank, particularly in Russia.

>> What other lessons have you learnt from the crisis?

<< I think there are two main lessons. First, Russia needs to stabilise inflation and increase the level of trust in its currency, so that the next sizable devaluation does not lead to panicky rumours about ruble stability.

Second, Russia needs to reform its banking sector. There are still far too many banks in Russia. That means that even though Russia has some of the largest companies in the world, our banks are still small on a global scale. Sberbank, for one, is the largest bank in Russia and still not that large in global terms; lots of

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consolidation is needed. We also need reforms inside the banks. In times of rapid growth, most banks survived without having even most basic elements of risk management in place. You could basically run a bank by accepting real estate as collateral for loans and that was it. That is going to have to change dramatically.

>> Why do banks not consolidate if they are so small and poorly run?

<< With many of these banks, I can honestly say that I have no idea what they are actually doing. Many are simply “pocket

banks” of large companies. It's hard to consolidate a lot of small players, when each has a very specific role linked to a particular company. At the same time, this fragmentation still keeps normal banks from growing because certain segments of the market are occupied by these special vehicles.

>> But there should still be segments available for your bank to grow into?

<< Actually, we are starting to enter the bond market as an underwriter this year—that is something that is new for us. And recently we have even participated in an initial public offering.

>> Is the Russian market deep enough to issue bonds domestically, and did the government's recent Eurobond issue help to set a benchmark rate for Eurobonds, as it had planned?

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<< It depends on the size of bonds, of course, but there is a reasonably deep market for medium-sized bond issuances. In any case, foreign investors participate even in domestic issuances. Regarding the government Eurobond, it did play some role in setting a benchmark, but, unfortunately, it was quickly overshadowed by the Greek sovereign crisis. Moreover, companies were issuing Eurobonds well before the government came into the market, and rates have already come down significantly again compared to the beginning of the crisis. ||

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