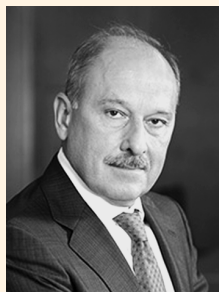


INTERVIEW

Strategic Partnership of Russia and Italy: Investment, Banks, Small and Medium Businesses



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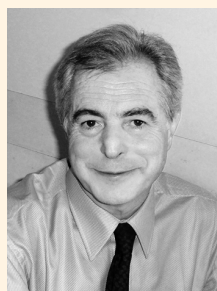
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Abstract

- Stability and positive development of Russia's economy and its banking system has special significance for the Italian business community and is an important condition when making decisions on long-term investments in the Russian economy.
- Contribution by Russian banks to the stimulation of economic growth and overcoming the crisis phenomena in Russia could have been more efficient.
- Russia has huge potential to develop small and medium businesses in all areas of the economy, including regional development that in many aspects is hampered by financial problems, loans for such business and granting it access to financial resources.

The session of the Scientific Council on Economic Policy "The Role of Banks in getting out of the crisis and reviving the Russian economy" which took place at the Russian State Duma on April 15, 2016 featured the Chairman-Supervisory Board of INTESA BANCA, Research Supervisor of the Russian-Italian program for small and medium business, Professor **Antonio Fallico**, Vice-President of Russia's Chamber of Commerce and Industry, Cochairman of the Russian-Italian Forum Dialogue within the framework of civil societies, Ph.d in Economics, Professor **Vladimir Dmitriyev**, Vice-President of Russia's Chamber of Commerce and Industry, Vice-President of the Italian-Russian Chamber of Commerce **Dmitry Kurochkin**, the Head of RANEPa department, Research Supervisor of the Russian-Italian program for small and medium business, Academician of the Russian Academy of Sciences **Abel Aganbegyan**, President of the Italian-Russian Chamber of Commerce (CCIR) **Rosario Alessandrello**, the Head of UBI BANCA branch in Moscow **Ferdinando Pelazzo**, Secretary General of the European Institute of Political, Social and Economic Studies (EURISPES), Professor **Marco Ricceri**, as well as Director of the Russian-Italian center at RANEPa, the Head of the Russian-Italian program for small and medium business Ph.d. in Economics, Professor **Mamikon Ayrapetyan**. Participants have shared with the managing editor of the international magazine "Theoretical and Practical Aspects of Management", Ph.d in Economics, **Yulia Naumova** topical issues of Russian-Italian cooperation, involvement

Russian banks in the stimulation of economic growth and overcoming the crisis processes in Russia, as well as development and support of small and medium business in Russia.

Yulia Naumova: What should be the role of Russian banks in the Russian economic recovery and revival? Which Italian experience in this area could be used to solve these problems in Russia?

Mamikon Ayrapetyan: Our Italian colleagues are taking part in the meeting of the Scientific Council exactly because of this: to preserve and develop long-term economic, scientific and educational relations between Russia and Italy, including the one in the banking and investment sphere, is our strategic goal. The heads of Russia and Italy — the President of Russia **Vladimir Putin** and the Prime Minister of Italy **Matteo Renzi** repeatedly spoke about it.

Now, the global economy is facing trouble, relations between Russia and the EU have worsened, in 2014–2015 sectoral sanctions were imposed against Russia. However this is all temporary and getting out of this situation should become a joint project that will pave the way for sound relations between Russia and the EU, which is a key player in the Eurasian space, including ties with separate Member States, but, first of all, with Italy.

The Scientific Council believes that that the key condition to improve partnership and remove the sectoral sanctions is the revival of long-term economic growth in Russia based on boosted investments. The key part in solving these issues is played by the

Russian banking system. And our Italian colleagues share this approach.

Proceeding from our experience, our Italian partners and Italian banks pay most attention to investment projects. Now many of them are becoming risky in the global and Russian economy. Therefore, stability and positive development of the Russian economy and its banking system is of special importance for the Italian business community when making decisions on long-term investments to the Russian economy.

In the solution of these issues cooperation of small and medium business of Russia and Italy is vital. Especially considering the fact that small and medium business of Italy has an extensive experience and makes an essential contribution to the country's economy, including the banking system stability (especially small and mid-sized banks).

In 2014–2016, cooperation of this kind was being set up within the Russian-Italian Program for small and medium business at the RANEPA Russian-Italian Center with the assistance of the Russian-Italian Forum Dialogue and Russia's Chamber of Commerce and Industry. Research supervisors of the program are Professor **Antonio Fallico** (from the Italian side) and Academician of the Russian Academy of Sciences **Abel Aganbegyan** (from the Russian side).

Within the program implementation in 2014–2016 the Center carried out a number of joint Russian-Italian events, some of them in the State Duma — conferences, round tables, master classes, lectures. Italian partners including those working in Russia actively participated in the activities.

Thus, on December 8, 2014, the State Duma hosted Russian-Italian Conference *Russia-Italy: keeping Trust and Partnership*, organized by the Russian-Italian Center together with the group of MPs dealing with communications with the Parliament of Italy and the State Duma Committee for Economic Policy, Innovative Development and Entrepreneurship.

Following the Conference, the Russian-Italian Council on Innovations and Entrepreneurship was set up in the State Duma which in 2015 carried out three meetings

on small and medium business. These issues were also raised on September 30, 2015 on the 14th session of the Big Russian-Italian Inter-parliamentary Commission which took place in the State Duma.

Antonio Fallico: Recently, the banking system of Russia has considerably changed, it started to demonstrate quite an impressive growth, promoted the growth of consumer activity and the market development in general. At the same time, contribution by Russian banks to the stimulation of economic growth and overcoming the crisis phenomena in Russia was not as efficient as it could have been.

Russian banks need to be set a certain task, first of all, to stimulate economic growth and to have conditions for this. in case of tough economic regulation they can do little on their own. Banks need assistance. If the state develops special programs to stimulate loan financing of key industries, financial institutions will participate in it.

Now banks have a small share of investment into fixed capital as into one of the main drivers of economic development. Their involvement is obviously not adequate to the needs of Russia, as it constitutes less than 10 %. This forces companies to depart from the planned investment programs. We see it on the example of the clients of our Bank. Now they use loans not as much for development but for keeping the existing projects up and financing the current activities. in many respects it is caused by demand uncertainty.

In European countries where we can already see some economic growth after the crisis of 2008, the issue of stimulating investments is also topical. But there the problem looks differently. in the European Union the program of quantitative easing, which is, in fact, emission, loads the economy with cheap money. The Eurozone is now receiving up to 80 billion euros monthly, and the rates of economic growth remain low, disproportionate to extra money stock. Entities and households in the EU don't apply for loans that often. This money is little demanded as investments or consumer loans, and they remain in the speculative sphere. We should avoid such practice in Russia.

Dmitry Kurochkin: Drop in the volume of investment became the biggest internal problem of Russian economy in the last years. Today, the Russian banking sector is not capable to replace the capital market with its credit resources amid low capitalization of pension funds, insurance companies and mutual investment funds, as well as limitations of budget incomes and extremely complicated funding of production projects.

Deficit of cheap long-term funding forces Russian companies when financing investment to generally rely on retained earnings, funds of the government and local budgets and foreign loans whose availability is now limited. I believe that expanding money stock and decreasing the funding rate are quite acceptable measures if credit resources are allocated properly.

It is necessary to work on the issue of dividing (de facto) banks into commercial and investment ones. The latter should be working in a more liberal environment and face milder requirements to their capital, reserves and disclosure of information. But they shall undertake higher risks, financing innovative sector and quickly growing companies, as well as processes of them entering financial market and restructurings of business. But at the same time such banks should conform to a number of requirements: to have positive credit record, loans provided with net assets, the projects funded should target implementation of advanced technologies and so on.

Today de facto such a quasi-investment bank is the Industry Development Fund whose investment declaration allows Russian production enterprises, first of all, medium business, to receive the available funding — 5 % per annum for quite a long-term period (5–7 years).

Also banks including regional one, could more actively participate in the implementation of special investment contracts which, according to the Federal law *on Industrial Policy*, are being signed between an investor and the Russian Federation, the federal subject or a municipality. At the same time, the investor is committed to create or modernize industrial production in the territory of the Russian Federation.

A particularity of such contracts that distinguishes this form of partnership from the public-private one, is the fact that the party to the contract acting on behalf of the state does not pledge investments in the form of financial resources and does not purchase property in object. It only provides the investor with the privilege in form of tax and customs benefits and preemptive rights. Besides, after the conclusion of the contract, restriction and bans imposed subsequently by the legislation should not be extended on the investor.

Ferdinando Pelazzo: Recently in Russia the trend to limit the number of banks has intensified. Having too many banks could of course be dangerous. Now state and non-state, private companies need the credit risk assessment. Earlier all companies were state-owned, they could not go bankrupt. Now it is necessary to assess the risks.

But it is not like this in Russia alone, but practically everywhere, including Italy. Italian banks have lots of cheap money, but we do not know how to use it, we do not know whom to give this money to. We buy state or public institution securities.

However the quantity of banks is not a problem. For example, Americans have 7,000 banks, and these are only those insured by Deposit Insurance agencies. And this is despite the fact that nearly 5 banks have concentrated 56 % of business in the,. Therefore, though in Russia there are, let us assume, 10 banks where 60 % of all business is concentrated, nevertheless, all other 700 banks have the right to exist.

In Italy where recently they say that if a couple of banks have gone bust for the first time in history (bankruptcies begun since January 1, 2016), the problem is solved very simply. It is necessary to reduce the number of banks: there will remain only 5–6 large banks and several small regional banks. And that's it.

But if we look at the experience of our US colleagues, we will see that they, despite negative trends, continue working with small banks, sometimes even not insured by local Deposit Insurance agencies.

We should take this into account when financing small and medium companies the majority of which are located in the regions,

and it is necessary to continue working with them. Italian banks working in Russia are ready to help in every possible way to create and develop small and medium business in Russia, including joint businesses, attract investment and implement other forms of cooperation between Russian and Italian small and medium companies.

Italian partners can contribute their experience, knowledge, technologies and equipment for the creation and development of higher-quality production by small and medium scale enterprises that will be competitive in the internal and external markets. We shouldn't exclude possibilities of funding joint projects, cooperation with governors and regions of Russia to set up Russian-Italian clusters, including knowledge-intensive ones.

Yulia Naumova: **Small and medium business could become one of the growth drivers in Russia. Taking into account the experience of Italy what financial instruments to support small and medium business could be used?**

Vladimir Dmitriyev: Problems of development and support of small and medium business are in the focus of attention in Russia. Standard and legal and organizational base of state support of small and medium business have already been designed. The government commission on competition and development of small and medium entrepreneurship has been created. In 2015, at a meeting of the State Council additional measures to support small and medium-size companies were considered, the State Corporation on small and medium business was created, compiling the unified register of subjects of small and medium business is stipulated.

Such measures are triggered by an insignificant contribution of small and medium business to the economy of Russia — only 5–6 % of fixed assets, 6–7 % of investment into the main capital, and only 1/5 GDP of Russia created, which is 1/3 GRP in a number of federal subjects. Lately, the share of such business in the overall turnover is going down: from 34,2 % in 2013 to 32,4 % in 2014. At the end of 2014 and 2015, the situation with demand in small and medium business products aggravated.

Meanwhile, the interest rate growth negatively influenced its investment plans.

To improve the situation on June 9, 2016 the Russian Prime Minister approved Strategy of development of small and med-sized business till 2030 which should become the basis for developing and implementing state programs of the country and territorial subjects, municipal programs, planned and targeted documents. Small and medium business should become one of the factors of innovative development of the country, improvement of the industry structure of the economy, creation of competitive, flexible and adaptive economy providing the high pace of technological upgrade and stable employment.

Strategy implementation will make for the two-time increase of the share of small and medium business in the country's GDP (from 20 to 40 %), 2,5 times-increase of turnover of small and medium scale enterprises, and two-fold increase of labor productivity, while the share of processing industry in the turnover of small and medium business is expected to raise up to 20 % and the share of those employed in this sphere amid the total number of employed — up to 35 %.

Cooperation with Italian small and medium business, associations of such business could play a big role in achieving the target goals set in the Strategy. To attain this, it is important to start building joint Russian-Italian institutes and mechanisms of such cooperation already now.

Antonio Fallico: The importance of small and medium business in developed countries is huge, and it plays an essential role in ensuring stability in economy, and also in overcoming the crisis processes and reviving economy.

In Italy, such business makes for 99 % of all available enterprises (the average number in the EU is 90 %) and some 81 % are employed in it. Such business produces 67 % of the added value and has 56 % share in export and 22 % share in capital investments in scientific and technical developments and researches. 35 % of small and medium businesses have experience of international cooperation — export of investments and products. Italian small and

medium business is ranked number one in OECD in terms of labor productivity. Its share in the GDP is over 61 %.

Russia has huge potential for the development of small and medium business in all spheres of economy as well as in its regions but in many respects it is hampered by financial problems, funding of such business and its access to financial resources. According to the Bank of Russia, in 2015 the share of small and medium business in the overall credit portfolio of legal entities and individual entrepreneurs was 16,9 % (the average world level — 23 %).

Considering modern realia and troubles in the Russian economy, new funding mechanisms are needed to implement this potential. What is meant is a guarantee tool which does not need attraction of public funds and does not stipulate difficult organizational procedures. And here Italian experience of creation of non-commercial associations which provide additional security tools can be useful.

In Italy such associations — CONFIDI (Consorzio di Garanzia Collettiva dei Fidi) — guarantee the return of loans on transactions of its participants and help them to overcome administrative and bureaucratic barriers when applying for loans. Thanks to the changes in the Russian legislation on independent guarantees, such experience could gain development in Russia, while creating such an association in Russia as an experiment (for example, in the agro-industrial sphere) would be important for a wider use of such forms of support of small and medium business.

Abel Aganbegyan: Russia really needs to make small and medium business a driving force of social and economic development of the country. Indeed, among all developed countries of the world, in Italy small and medium business is the most strongly developed and its share in quantity and volume of production is the highest among other countries and therefore Italy provides the best experience.

In Russia, social and economic system is built the way that it's not profitable at all to be engaged in small and medium business. We should urgently review the value of such business. In 2014–2015, a lot

was done in this area, but the state policy doesn't fully consider its interests. In Russia there is no understanding of importance of its development, and not only for its uniform distribution in the territory of Russia, but also for employment and higher welfare of the population.

The thing is that in Russia there is almost no innovative small and medium business which for our huge country with such an enormous science is an unacceptable luxury. Meanwhile, we historically have the biggest number of scientists in the world — over million are employed in the Research and Development and education sector. At the same time, in Russia higher education institutions and research institutes are allowed to have small businesses. However, nothing big happens. Even the largest Russian higher education institutions consider that it is unprofitable to create such enterprises and they cause only losses.

If we look at the experience of other countries, including Italy, they have nothing of this kind — in the majority of the countries this practice brings profit. And it is one of the reasons of us lagging behind in the scientific and hi-tech sphere. In the same context we should consider low export orientation of small and medium business of Russia. Thus, in 2014, the share of small and medium business in the overall exports of Russia accounted for about 6 %. At the same time; the contribution of such business to the exports of developed countries is quite considerable — their share in the overall exports is from 25 to 35 %.

For successful and mass development of small and medium innovative business in Russia, as well as business oriented to export of high-tech products we need to attentively study the experience of Italy in the solution of these issues, to create favorable conditions for its application in Russia.

Rosario Alessandrello: A condition to revive the Russian economy, create new jobs, reduce social inequality, get back leadership in innovative activities and attain higher living standard is the return of the leading role to the an enterprise as a driving force behind not only economic, but also social, public and cultural development. It

is an axiom, and it refers to, first of all, small and medium scale enterprises.

Today; when the world economy is becoming more and more dynamic, but at the same time develops extremely unevenly, just personal talent and higher educational level is not enough to maintain this driving force. in Russia it is necessary to pursue a systemic policy which would provide for higher competitiveness, dynamic development, economic growth and development of business activity.

Such requirements to the policy refer to Italy as well. The small amount of the Russian investments into Italy is explained, first of all, by bureaucratic difficulties when opening and/or developing industrial enterprises, as well as heterogeneity of work and the existing legislative standards in various regions of Italy. Italy must attract Russian capital, thus, creating conditions for the development of joint businesses which will also provide growth of competitive processing entities having a number of advantages in Russia.

The Italian government should amend the state policy changing the terms of competition, to attract investors and increase competitiveness of the country's production system. For overcoming bureaucratic barriers it would be necessary to create industrial districts for Italian-Russian entities whose technologies and products would be adjusted to the Russian and European markets.

Any modernization process has many different aspects and should cover simultaneously economic, political and institution spheres, though at a different pace. The proper correlation of the state and economy, new legal mechanisms regulating interaction of economic and political spheres and providing for the economic development should be found.

Dmitry Kurochkin: Insufficient attention in Russia to the specifics of activities of small and medium business when developing and implementing regulatory measures reduces its trust to the state, creates incentives to fleeing to shadow sector, levels effects of the state support. in many respects it is also triggered by complexity of procedures of state regulation, administrative pressure and heavy financial burden.

To set up a strategy of small and medium business it makes sense to work on the following initiatives of development of bank financing system, first of all, of small and medium production:

1. To expand security of bank institutes with money resources only on the condition of targeted use of the loans (crediting industrial, production companies, small and medium scale enterprises instead of encouraging transactions in the foreign exchange market).
2. To provide adequate ratio of the interest rate to profitability of business, having considered feasibility of interest rate ranking depending on the loan purpose (for example, loans for production — 2 %, for construction industry — 3 % and so on).
3. To work on dividing banks into commercial and investment (benefits of such initiative were briefly described above).
4. To consider the possibility of regional banks accepting the functions of operators on coordination, organization and ensuring work on the conclusion of special investment contracts.
5. To work on the issue of restriction of regulatory load on banks for the purpose of cost optimization and enhancement of the "bank-client" system.

Implementation of these initiatives could make positive impact also on building cooperation of small and medium business of Russia and Italy.

Marko Ricceri: The main efforts on implementation of strategic objectives of cooperation of Russia and Italy in the field of small and medium business should be directed to providing for partnership in the field of production, investments and innovations. For this it is important to ensure participation of Italian small and medium scale enterprises in the implementation of local development plans in the regions of Russia (regions, kraies and republics). Constant monitoring of Italian-Russian agreements in the field of small and medium business, regular public discussions featuring the heads of state and public organizations, private companies, banks, representatives

of small and medium business and large companies are also needed.

It is also important to improve relations between banks and enterprises which have been deformed ("banks are strong, enterprises are weak"). For this purpose we must facilitate access of small and medium business of Russia to cheap loans, to expand the share of risk capital in funding of their production activities and services in implementation of industrial projects rendered by banks. In many respects Italian banks can assist in the solution of these issues as well.

It is also necessary to develop a cooperation mechanism between large and small enterprises in such spheres as the culture of management, innovation and hi-tech, joint assessment of the enterprises' needs. Benefit for small and medium business will be the following: possible involvement in the networks of large enterprises, while large enterprises will gain optimization of their investments.

Now for ensuring efficiency of small and medium scale enterprises the high-quality range of services is crucial, and it is even more important than financial aid. This can be said about Italy, Russia and other industrialized countries as well. Often there is no need to invent or set up anything from scratch. In industrialized countries there are structures and organizations capable of rendering a full range of services to enterprises, but they, generally, act separately and are not united in a system which leads to the waste of resources and weakens national economy. Setting up consultancy centers rendering a wide range of services to enterprises is the best method to solve the above-named problems.

Mamikon Ayrapetyan: The cooperation perspective in the field of small and medium business, trade, investments and innovations will be discussed on September 23, 2016 in Bologna at the Russian-Italian Conference "Small and medium business of Russia and Italy: institutes and mechanisms of partnership". Representatives of Italian and Russian business and scientific and educational community, associations of small and medium business, small and mid-sized companies of Russia and Italy will take part in the Conference.

Afterwards it is planned to publish materials of the Conference and to carry out a follow up round table in RANEPA, as well as arrange publishing of the annual investment reference book on small and medium business, to create in RANEPA a portfolio of Russian and Italian small and medium companies, to conduct master classes and professional development courses featuring Italian experts for government managers as well as for small and medium business.

It is also important to found a Russian-Italian magazine on small and medium business — Russia's first periodical in this area. A working group on small and medium business at the Big Russian-Italian Interparliamentary Commission which could develop suggestions for the improvement of the documents regulating development of small and medium business of Russia and Italy would also be vital.

Joint efforts of Russian and Italian business and scientific and educational community in implementation of these projects will strengthen Russian-Italian relations and to create the basis for broader integration of the economies of Russia and Italy.