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Problems and Prospects of Development of Microfinance Organizations in the Russian Federation

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ABSTRACT

Intensive development of microfinance organizations in Russia has a double meaning. On the one hand, they are claimed by the population; on the other hand, the state control over their activities is difficult. The study reveals the nature, problems and prospects of development of microfinance organizations in Russia. The aim of the authors is to determine the nature of the controversial development of the financial market segment and suggest mechanisms that can resolve these contradictions. The study used a systematic approach and statistical methods. The authors analyzed analytical and statistical information of the Bank of Russia. The lack of adequate mechanisms for the state regulation and control over the activities of microfinance organizations the state is due to the gaps in the legislative framework. This was the reason for the increase in the share of overdue debts, the high debt load of the population, the intensification of collectors, the increase in lawsuits. The actions are proposed for increasing transparency of microfinance transactions without increasing the administrative burden on regulatory authorities. Among them are: attracting private investors-lenders to microfinance activities with the development of Internet infrastructure, creating a special online platform to register microloan transactions between individuals and / or legal entities in real time with recording them in the Bank of Russia and in tax services. It is also necessary to amend the legislation on microfinance activity. This sequence of actions will lead to a reduction in the informal sector in the microfinance segment and in the financial market of the Russian Federation as a whole. The proposals made in the article can be used to develop the anti-crisis program of the Government of the Russian Federation in this area.

Keywords: financial market; microfinance organizations; microloans; microcredit companies; legal regulation; tax services; population solvency; control mechanisms; statistical indicators

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INTRODUCTION

To implement measures within the Main directions of development of the financial market for the period of 2016–2018, 2019–2021, the Bank of Russia together with the Government of the Russian Federation have developed a special plan of actions (roadmap), maintaining three priority development goals:

1. Improving the level and quality of life of the citizens of the Russian Federation by means of financial market instruments.
2. Promoting economic growth by providing competitive access to the subjects of the Russian economy to debt and equity financing, risk insurance instruments.
3. Creating conditions to grow the financial industry.

As part of the first goal, it is planned to increase financial literacy and availability of financial services for the population and small and medium businesses through the development of the microfinance sector.¹

Microfinance organizations are commercial financial organizations that issue loans to borrowers on the terms of urgency, payment, and repayment of microloans (analogs of loans, but, as a rule, small amounts for a short period).

Microfinance organizations (MFOs) are not credit organizations, although the nature of their activities is similar to the credit activities of commercial banks [1]. Initially, microfinance referred to services related to issuing small loans (microloans) to individuals for whom the access to traditional bank lending is restricted for some reason (remoteness of a settlement, no credit history or negative points in credit history, insignificant amount for short term, etc.). Nowadays microfinance operates within the framework of issuing loans of a small amount on the terms of urgency, repayment, payment and for a short period. Moreover, microfinance organizations can provide services related to

saving money, insurance, leasing, remittances and payments [2].

Microfinance (as a tool of the financial market and need satisfaction of society) received an incentive for its development in the current (for the present state) form in the last quarter of the 20th century. It was then that microfinance programs appeared in a number of developing countries (Bangladesh, Brazil, India). The first such project is considered to be the project on financing the indigent developed by Bangladeshi economist and businessman Mohammed Yunus. The program was as follows: the residents of the country were given small sums of money from his MFOs as loans, but only on the condition that they would be invested in a small business of their own, and not used for consumer spending. Gradually, this initiative grew into the creation of Grameen Bank (Grameen Bank of Bangladesh), which became the first microfinance bank in the world, and remains the benchmark of classical efficient microfinance until now [3].

In general, microfinance institutions actively developed and scaled only in fairly poor countries in Asia and Africa.

However, now microfinance (as a financial tool and a tool for need satisfaction of society) is also used in European countries, the USA, the CIS, BRICS, etc.

It can be stated that today microfinance is being integrated into the global financial market and becoming an alternative to bank loans: electronic microfinance systems are being created, credit exchanges, including the WEB-MONEY electronic money system, etc. [4–6].

A huge role in the development of microfinance belongs to the UN which developed new priorities declaring 2005 the “Year of Microfinance” and awarding the founder of modern microfinance Mohammed Yunus the Nobel Peace Prize in 2007. That is, in general, microfinance in the modern sense is not a “usurious loan” which existed in antiquity and was associated with high interest rates and almost enslaving conditions. Modern microfinance should support the development of society, includ-

¹ The main directions of development of the financial market of the Russian Federation for the period of 2019–2021. URL: <http://vkk-journal.ru/wp-content/uploads/Osnovnyie-napravleniya-razvitiya-finryinka-Tekst.pdf> (accessed on 03.04.2019).

ing small business, but should not become a business related to bond and usurious lending, which it is sometimes in real life [7]. Therefore, the development of the financial (including microfinance) market of the country should be balanced in relation to the real sector of the economy to ensure its stable growth [8, 9].

S. V. Solov'eva and M. Yu. Remezova note that many development banks and funds operate in Russia, but investment activity is still underdeveloped [10]. The authors point to the absence of an effective mechanism to transform financial resources into investments which often do not leave the banking system and bypass the real sector of the economy. To solve the problem, it is proposed to develop a mechanism for the Bank of Russia to directly buy bonds of development institutions issued for financing investment projects of strategic importance and for refinancing banks of any property pledged by such securities. Reducing the availability of resources in the global financial markets for Russian companies as a result of the sanctions, in theory, was supposed to be a catalyst for the development of lending to the domestic market. Unfortunately, this did not happen as a result of the following negative factors: instability of macroeconomic indicators, limited resource base, high cost of loans [11]. In a situation where the profitability of products of most enterprises of the domestic economy is lower than the interest rate, the banking system has an overwhelming effect on the finances of enterprises [12, 13].

The activity of microfinance organizations makes it possible to access financial products for those who have difficulties in obtaining bank loans. On the other hand, the activities of microfinance organizations legalize "usurious" business. The main problem is that microfinance is carried out at very high interest rates not considering the real creditworthiness of borrowers; when collecting debts, microfinance organizations often violate the current legislation.

The subjects of the financial (including microfinance) market should conduct research to

study the needs for lending to the population. It is necessary to make changes to the current legislation where various options should be prescribed for credit support not only enterprises, but also individuals. As an alternative to microfinance, programs should be developed for lending to various categories of citizens, to control the formation of new organizations in the financial sphere and the repayment of credit debts.

RESEARCH RESULTS

Historical background and trends of microfinance development in Russia

In Russia, the history of microfinance began at the end of the XIX century. In 1895, a new type of credit organization appeared named "credit partnerships" (in fact, it was an analogue of the modern credit cooperative); at the beginning of the XX century the number of such organizations exceeded 16 thousand with a total number of shareholders over 10 million people. However, in the late 1930-s, the era of the Soviet industrialization, the activities of mutual credit societies and other credit cooperatives was terminated, their functions were transferred to the state bank. This segment was further developed in our country only with the start of market reforms.

From 1990 to 1992, the first credit cooperatives (credit unions) appeared. Such organizations were necessary to finance the incipient small business with still undeveloped banking system. At this stage, there was no regulatory framework for MFOs, where the concepts of "microfinance" and "microfinance activity" would be defined. Later, certain areas of microfinance started new types of lending in the form of consumer credit cooperatives (including agricultural ones) and mutual lending societies.

Due to the lack of clear legal regulation of microfinance activity, the informal sector was developing most actively, with all that it implies: extremely high interest rates, illegitimate ways of debt recovery, raiding and racketeering.

From 2004 to 2010, the number of consumers of microfinance services increased by more

than 5 times (the number of borrowers exceeded 100 million people), and the number of small businesses served was about 400 thousand. At the same time, microfinance organizations were represented by different forms, consumer credit cooperatives should be considered basic.

Since 2011, the activities of MFOs in Russia have been regulated by the law “On microfinance activities and microfinance organizations”² (hereinafter: “Law on microfinance activities”). The law makes a distinction between microfinance organizations and consumer credit cooperatives (the latter in contemporary legal status are not considered as microfinance organizations), and microfinance organizations are clearly distinguished from other economic entities of the national financial market. According to its main provisions, it is commonly called microfinancing activities of legal entities that have the status of a microfinance organization, other legal entities that also have the right to carry out microfinance activities to provide microloans. Information about such organizations should be entered in the state register of microfinance organizations.

At the same time, depending on the scale of activity and the value of assets (capital), the following types of microfinance organizations are defined (this provision took effect in 2016):

- microfinance companies;
- microcredit companies.

Major differences between microfinance companies and microcredit companies are related to the mechanisms for raising funds (capital). So, microfinance companies can raise funds from individuals (under certain conditions that are provided by law), and microcredit companies can raise loans only from the founders. All MFOs (microfinance companies and microcredit companies) can receive bank loans.³

² Federal law “On microfinance activities and microfinance organizations” dated July 2, 2010 No. 151-FZ (as amended on July 29, 2017). Legislative acts of the Russian Federation. 2010. No. 27. Art. 3435.

³ Microfinance and microcredit companies. CreditBanking. URL: https://cbkg.ru/articles/mikrofinansovye_i_mikrokreditnye_kompanii__najjdite_otlichija.html (accessed on 10.10.2018).

Article 12 of the “Law on microfinance activity” contains information on restrictions on the activities of microfinance organizations. The most important and significant of them are:

- 1) microfinance organizations cannot issue loans in foreign currency;
- 2) microfinance organizations cannot change (increase) unilaterally the rates and commissions on loans;
- 3) microfinance organizations may not apply penalties to borrowers in case of full or partial early repayment of the loan, provided that the MFO received a notice of this no later than 10 days before the maturity date;
- 4) microfinance organizations cannot carry out any types of professional activity in the securities market;
- 5) microfinance organizations cannot issue microloans to a legal entity borrower or an individual entrepreneur if the principal amount of the borrower of a legal entity or an individual entrepreneur to this microfinance organization under contracts in the case of granting the microloan exceeds 3 million rubles;
- 6) microfinance organizations cannot charge the borrower with interest and other payments if the amount of such charges exceeds the principal amount of the debt without interest (the “body” of microloan) by 4 times. This applies only to contracts of up to a year and, unfortunately, does not apply to charging fines and penalties. This prohibition must be written on the first page of the loan agreement.

ANALYSIS OF THE CURRENT STATE OF THE MICROFINANCE SEGMENT

The main purpose of microfinance organizations is to provide microloans to the population, entrepreneurs without a legal entity and, in some cases, legal entities.

Microfinance organizations are required to have legal status of a legal entity, to generate reports in accordance with the requirements of the Bank of Russia, to comply with the established standards, to issue microloans only in the currency of the Russian Federation (rubles).

Table 1

Number of microfinance organizations in Russia, their registration and exclusion from the register, units

Indicator	Indicators by year						
	2012	2013	2014	2015	2016	2017	2018 (III quarter)
Number of MFOs at the beginning of the year	998	2,503	3,850	4,153	3,663	2,588	2,271
Included in the register	1,574	1,970	1,632	1,191	696	1,142	1,066
Excluded from the register	69	623	1,329	1,681	1,771	1,459	1,336
Number of MFOs at the end of the year	2,503	3,850	4,153	3,663	2,588	2,271	2,001

Source: compiled by the authors according to the Bank of Russia. URL: http://www.cbr.ru/finmarkets/files/supervision/OKP-MFO_04-2017.pdf (accessed on 10.10.2018).

A microloan, in turn, is the amount of money that the borrower receives from the lender under the contract on conditions meeting the standards established by law (repayment, urgency, payment). The amount of such a loan can not exceed 1 million rubles. Agreements for microloans are derivatives of a loan agreement (Article 807 of the Civil Code of the Russian Federation). The legislation of the activities of microfinance organizations is set in a certain framework, therefore, the activity of “usurers” (as a rule, individuals who give money to other individuals for a specified period at interest under a regular loan agreement) remains outside the legal field.

All microfinance organizations that issue microloans are included in a special state register. Inclusion and exclusion from the register, the rules of procedure will be determined by the supervisor in this area (the Bank of Russia). The register data is available in the open list on the website of the Bank of Russia. Since microfinance organizations are controlled by the Bank of Russia, all relevant statistics are posted accordingly on the official website of the

Central Bank of the Russian Federation. Other analytical data presented, for example, on the portal of the Expert RA⁴ rating agency, does not differ from the data posted on the Bank of Russia website by more than 3–5%.

Therefore, the information on microfinance organizations posted on the Bank of Russia website is not only relevant, but also reliable. Thus, the main analytical and statistical information will be presented later in the article with the reference to the Bank of Russia website.

In mid-October 2017, the total number of MFOs in the register of the Bank of Russia was 2,271 units. On October 25, 2018, there were 2016 units. The number of microfinance organizations reduced by 11% in a year. As of April 9, 2019, the total number of microfinance organizations was 1992, i.e. the reduction in their number was another 1.2%. The dynamics of changes in the number of microfinance

⁴ See, for example, the Microfinance Market at the End of 2018: an Adaptive Strategy. URL: <https://raexpert.ru/researches/mfo/2018> (accessed on 21.05.2019).

Table 2

Number of organizations eligible for banking operations, units

Indicator	Indicators by year						
	2012	2013	2014	2015	2016	2017	2018 (III quarter)
Quantity, total at the end of the year	1,094	1,074	1,052	1,024	978	567	512

Source: compiled by the authors according to the Statistical Bulletin of the Bank of Russia for the corresponding period. URL: <https://www.cbr.ru/publ/bbs/> (accessed on 05.20.2019).

organizations in the Russian financial market in the period from 2012 to III quarter of 2018 inclusively presented in *table 1*.

In *table 2* the dynamics of credit institutions with the right to conduct banking operations is shown for comparison (see *Table 2*).

From 2012 to 2018, in Russia, the number of organizations entitled to carry out banking operations was almost halved (by 53.2%), and microfinance organizations — by 20.1%, which is undoubtedly due to the increased supervision of the Bank of Russia, which clears the market of unscrupulous participants.⁵ The key reason for excluding microfinance organizations from the register is a violation of the rules of operation and regulation. Considering that the predominantly weak players left the microfinance market, the reduction in the number of organizations entered in the register did not affect the development of the segment as a whole.

Exclusion from the register is mainly due to the tightening of regulation and control in this market, increasing the requirements for the

size of the capital of microfinance organizations. It may also be noted that since 2014, all microfinance organizations that had previously applied the simplified taxation system should have moved to the main taxation system. This, of course, increased both the administrative and fiscal burden on their activities.

In general, considering the specifics of the activities and the goals of creating various Russian MFOs, all these organizations as of October 2018 can be conditionally divided into the following main groups:

1) large network microfinance organizations that have a widespread system of service offices, maintain an aggressive advertising policy on the Internet, in the media, often attract bank loans and issue their own bonds, attract household loans (if they received the appropriate status of microfinance companies);

2) regional microfinance organizations that have one or more sales offices within their region, where there is a demand for microloans, mainly from the public;

3) specialized microfinance organizations engaged, as a rule, in one type of microloans, for example, on the security of real estate or cars, etc.;

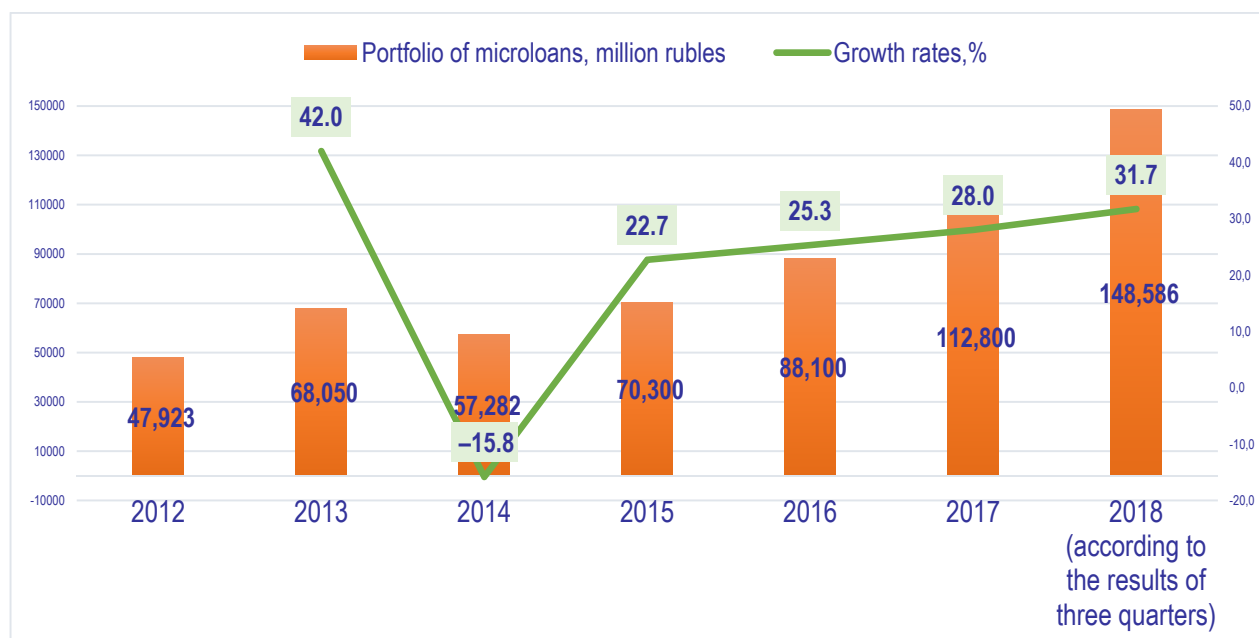
⁵ Microfinance. Central Bank of the Russian Federation (Bank of Russia). URL: https://www.cbr.ru/Content/Document/File/71165/review_mfo_18Q3.pdf (accessed on 12.04.2019).

Table 3

Volumes and dynamics of microfinance in the Russian market

Indicator	Indicators at the end of the year						
	2012	2013	2014	2015	2016	2017	2018 (III quarter)
Portfolio of microloans, total, million rubles	47,923	68,050	57,282	70,300	88,100	112,800	148,586
Arrears, %	15.2	18.0	18.8	25.0	34.0	42.4	32.9
Net profit, million rubles	3,379	4,809	4,769	4,085	7,907	5,267	8,404
Capital, million rubles	n/a	n/a	n/a	n/a	61,408	66,709	33,405

Source: compiled by the authors according to the Bank of Russia. URL: https://www.cbr.ru/StaticHtml/File/14700/review_mfo_16.pdf (accessed on 10.10.2018).



Dynamics of the microloan portfolio issued by microfinance organizations

Source: compiled by the authors according to the Bank of Russia. URL: https://www.cbr.ru/StaticHtml/File/14700/review_mfo_16.pdf (accessed on 10.10.2018).

4) microfinance organizations that are affiliated with commercial banks or large companies. This gives an advantage to such organizations (fast and low cost of lending for developing capital base and assets, accessibility to a pool of consumers, etc.);

5) microfinance organizations created to finance small businesses (as mentioned above, their share in the total number is only 11%). They often participate in regional and federal programs aimed at supporting small and medium businesses;

6) microfinance organizations that operate exclusively in the virtual space, issuing online microloans not visiting offices. They use Internet marketing, their own web-platforms, the terms of a public offer compiled according to the norms of the Civil Code of the Russian Federation to attract customers. The risks of their activities include the imperfection of the legal framework⁶.

In 2017, microcredit companies accounted for the largest share (about 97%), no more than 3% for microfinance. In 2018, respectively, 97.3% and 2.7%, for the first quarter of 2019—97.4% and 2.6%.

The contraction of the microloan portfolio in 2014 and its subsequent growth are closely linked to the crisis. In 2014, there was a demand contraction in the economy, resulting in a decrease in microloans. Despite the demand contraction continued in 2015, the population began to move actively from the market of consumer bank loans to the microloan market (*Tables 3, 4*). The microfinance market entirely reflects the general level of economic development: it is during the periods of recession and economic recovery that the growth rate of the microfinance segment slows down or accelerates due to the compression / expansion of the boundaries of financial services consumers — the poor and needy parts of the country's population [14]. The changes in the dynamics of microfinance in the Russian market are reflected in *table 3*

⁶ Microfinance market, creation and implementation features of MFOs activities. Law company "Dekart". URL: <https://idekart.ru/articles/124463> (accessed on 11.10.2018).

The portfolio growth rate in 2017 accelerated: core assets (total microloan portfolio) increased by 28.0% (in the previous year — by 25.3%). As a result, the portfolio of assets reached 112.8 billion rubles (*Table 3*). In 2017, the principal debt of microloans issued to individuals grew most rapidly by 33.1% from the beginning of January to the end of December 2017. At the same time, the growth rate of the indicator on legal entities was 19.6%. The portfolio of microloans issued to individual entrepreneurs increased over the same period by 6.0%.

The net profit of microfinance organizations (*Table 3*) for 2017 was 5.3 billion rubles, which is by one third less than the value of the previous year. Microfinance companies earned 74.7% of the total profits earned by microfinance organizations. Equity for the year increased by 8.6% and reached 66.7 billion rubles. Return on equity amounted to 8.2% per annum. However, by the end of 2017 the need to create reserves for possible losses on microloans in 100 percent of the estimated value reduces the profits of microfinance organizations.

Pressure on the financial results of microfinance organizations may also be caused by changes in operating expenses associated with the expansion of staff to meet the approved basic risk management standard.

At the end of September 2018, the size of core assets (portfolio) of microfinance organizations increased by 32.9% compared to the value at the end of III quarter of the previous year and reached 148.6 billion rubles. The growth was due to the portfolio of microfinance companies (an increase of 45.2% to 84.3 billion rubles), the increase of which, first of all, was provided by the positive dynamics in the segment of individuals. In total, microloans to individuals accounted for 81.4% of total core assets of microfinance organizations; the share of small and medium businesses (as a recipient of microfinance services) was 18.3%. Changes in the regulation of microfinance organizations, including the limitation of the maximum daily interest rate to 1% from July 1, 2019, will facilitate the transfer of some companies oper-

Table 4

Selected indicators of financial organizations, million rubles

Indicator	Indicators at the end of the year						
	2012	2013	2014	2015	2016	2017	2018 (III quarter)
The volume of loans, deposits and other funds placed by organizations, individuals and credit organizations	25,110,510	29,886,148	35,222,770	34,844,819	36,931,187	42,160,694	44,589,984
Loans provided to small and medium businesses	6,023,724	6,933,243	5,568,433	4,540,505	4,559,661	5,304,913	4,717,972
Authorized capital	1,332,095	1,451,360	1,598,428	2,333,74	2,381,043	2,513,715	2,612,982
Total amount of profit (+) / loss (–) received by existing credit organizations	930,133	884,297	780,722	263,694	788,429	870,321	900,507

Source: compiled by the authors according to the Statistical Bulletin of the Bank of Russia for the corresponding period. URL: <https://www.cbr.ru/publ/bbs/> (accessed on 05.20.2019).

ating in the “loans to salary” segment (or PDL segment — from English “pay day loans”) to the segment of medium-term consumer loans (or to the segment of IL — from English “Installments”).

It is interesting to compare some performance indicators of the domestic microfinance sector with other financial organizations (*Table 4*).

During the period under review, the volume of loans, deposits and other funds placed by financial organizations to other organizations, individuals and credit organizations increased

by 77.5%, while financing of small and medium businesses decreased by 21.7%, which explains their increased interest in microfinance.

In 2012–2018, there was a duplication of the authorized capital (96.2%). The financial result decreased by 3.2%. Its change was uneven. The lowest value was recorded in 2015.

Comparison of individual performance indicators of the financial and microfinance sectors of the Russian economy, presented in tables 3 and 4, testifies to the enormous difference in their

Table 5

**Structure of key performance indicators of microfinance institutions in 2016–2017,
I – III quarters, 2018, %**

Indicator	Indicators at the end of the year, quarter				
	2016	2017	I quarter 2018	II quarter 2018	III quarter 2018
Number of contracts, including:	100	100	100	100	100
with individual entrepreneurs;	0.13	0.09	0.05	0.04	0.05
with legal entities;	0.10	0.09	0.06	0.07	0.05
with individuals	99.77	98.2	99.89	99.89	99.90
Profile assets (amount of principal debt on microloans issued), including:	100	100	100	100	100
with individual entrepreneurs;	13.5	11.1	10.8	10.6	9.9
with legal entities;	10.8	10.1	9.5	9.2	8.7
with individuals	75.7	78.8	79.7	80.2	81.4
Amount of microloans issued during the reporting period, including:	100	100	100	100	100
with individual entrepreneurs;	5.5	4.4	3.6	3.7	3.8
with legal entities;	6.9	5.9	4.4	5.4	5.2
with individuals	87.6	89.7	92.0	90.9	91.0

Source: calculated by the authors according to the Bank of Russia. URL: https://www.cbr.ru/StaticHtml/File/14700/review_mfo_16.pdf (appeal date 10.29.2018); files.rmcenter.ru/year/2018/11/BankRossii_OBZOR.pdf (accessed on 06.02.2019).

scales in the progressive development of the latter. If the difference in lending volumes in 2012 was 524 times, then in 2018 it was 300 times. The ratio of the authorized capital was an average of 52 times. The profit received by financial organizations in 2012 was 275.3 times higher than the profit received by the microfinance sector, in 2018–107.2 times.

As you can see from the data in *table 5*, microloan contracts are mainly signed by individuals. During the period under review, their

share is about 100%, while there is a decrease in the number of contracts signed with entrepreneurs and legal entities. The amount of principal debt on microloans issued by entrepreneurs and legal entities is decreasing, while on individuals it is growing steadily: from 2016 to III quarter of 2018 by 5.7%.

The amount of microloans issued to individual entrepreneurs and legal entities during the period under review decreased by 1.7%, and to individuals increased by 3.4% (*Table 5*).

The growth rate of the microloan portfolio “before paycheck” should be noted during the period under review (no more than 30 thousand rubles for no longer than 30 days). This fact should be considered as a result of the systematic work of the Bank of Russia aimed at improving the quality of risk assessment in this segment, including improving the requirements for creating reserves for possible loan losses for microfinance organizations⁷ and introducing a multiplying factor (1.1) that increases the calculation of the sufficiency ratio capital load on capital on loans “before salary”.

The analysis of official static data allows to conclude that the microfinance segment is developing, but its potential is higher than the current market (more than three times), as indicated by official sources of the financial market macro-regulator⁸, and scientific research on trends and patterns of microfinance development in Russia [13, 15]. This is due to the high demand for microfinance services from the public and small entrepreneurs, which is a natural consequence of lower living standards and limited availability of credit products for small businesses.

The total of all functions (social and economic plan) performed today by microfinance organizations can be described as follows: reducing poverty, supporting entrepreneurial initiatives, ensuring the availability of financial services, growth opportunities for small business, “promoting” innovation, developing the financial system on the whole.

The main advantage of microfinance for entrepreneurs is the expansion of the possibility of implementing small and agile projects for whom the bureaucracy of bank lending or public-private partnership is destructive [15]. The

main reasons why the population increasingly prefers to use microfinance services instead of commercial banks [16] include:

immediate loan on demand without collecting references and other documents required to confirm creditworthiness in the bank (until the beginning of 2017, the provision of a passport was sufficient, but since the beginning of 2017 identification has also been carried out according to the insurance number of an individual personal account or SNILS, although this does not change the idea);

- reduction in consumer lending by banks (including due to stricter credit rating requirements);
- quick decision making procedure for issuing a microloan;
- the ability to borrow small amounts for short periods (but here a bank credit card may be an alternative).

The development of the microfinance market is directed towards lending to small settlements, since the settlements with a population of up to 50 thousand people do not have potential attractiveness for banks due to high transaction costs. For microfinance organizations, this market is interesting, and the client base turns out to be of sufficient quality, since the target audience of microfinance is, as a rule, people with incomes of up to 30 thousand rubles a month per family (now it is 70% of the Russian population). Comparing the data on the real standard of living of the population with the data on microloan needs, it can be noted that this need is quite high (on average 250–300 billion a year), loans in small sums are demanded (from 9 to 12 thousand rubles; in cities with a million-plus population this amount is somewhat larger and averages in 15–19 thousand rubles).⁹

Thus, the development potential of the microfinance market is very high. First, no more

⁷ Establishing new categories to develop MFOs reserves for possible losses on loans to small and medium businesses (lower values compared to conventional legal entities) and PDL loans (elevated values — 100% from 91 days overdue).

⁸ Overview of key indicators of microfinance organizations // Bank of Russia. URL: https://www.cbr.ru/StaticHtml/File/14700/review_mfo_16.pdf (accessed on 29.10.2018); files.rmcenter.ru/year/2018/11/BankRossii_OBZOR.pdf (accessed on 06.02.2019).

⁹ Statistics on the size and dynamics of loans of MFOs and consumer credit cooperatives in 2016–2017. URL: <https://www.wecreditunion.ru/novosti/glavnoe/statistika-po-razmeram-i-dinamike-zaimov-mfo-i-kpk-v-2016-2017-gg/> (accessed on 10.10.2018).

than a quarter of the market is currently covered. Second, given the current trends in socio-economic development in the country, the population will be forced to use microloans, since growth rates of prices for consumer goods are significantly higher than growth rates of real incomes of the population. Third, small business always needs to rapidly finance working capital, but commercial banks generally do not seek for cooperation with small business, since at high risks the margin value of the transaction is relatively small. The average microloan in this segment is no more than 500–700 thousand rubles.¹⁰

Considering the high proportion of overdue loans and recurrent conflicts with the recovery of overdue debts, the development of microfinance, including at the legislative level, does not look positive to many experts. Overestimated cost of services of microfinance organizations is a significant problem [17, p. 500–512]. Even before the introduction in 2017 of the norm on which the accrued interest on a microfinance loan can not exceed more than 3 times the amount of the principal debt, many organizations used expensive loans up to 2% per day (ie, about 60% per month or 720% per year).¹¹ Now rates have decreased, but their level is many times higher than the level of bank lending. In this form, the product is not suitable for financing capital, and not current assets in business activities. Citizens who need even a small amount of borrowed funds can get a credit card, its percentage rarely reaches 20–30% per annum which is much less. Therefore, it is quite logical that clearly insolvent citizens and citizens who do not have a high financial culture (as a result,

they turn out to be defaulted customers) apply for microloans at such rates in microfinance organizations.

With the decline in real incomes of the population in 2014–2017, the growth of the loan portfolio of microfinance organizations, the growth of overdue debt (and its share in the portfolio) just show that the microfinance market in Russia has become a kind of modern usury tool, but not a tool to support socio-economic development.

The main advantage of microfinance for entrepreneurs is the expansion of the possibility of implementing small and agile projects for whom the bureaucracy of bank lending or public-private partnership is destructive.

That is why the State Duma has repeatedly received offers to ban microfinance organizations in the country completely. In 2016, the Bank of Russia suggested that it was impossible to expect or demand a complete ban of microfinance organizations, since there is a wide demand for microloans “before salary” from individuals, and this ban will contribute to the development of illegal lenders (i.e. shadow market). Therefore, the Bank of Russia tightened the rules for microfinance organizations, began to implement measures aimed at regulating this sphere.

In 2017, the Bank of Russia introduced the Basic Standard for the protection of the rights and interests of individuals and legal entities, the recipients of financial services of microfinance organizations (MFOs).¹² According to

¹⁰ Statistics on the size and dynamics of loans of MFOs and consumer credit cooperatives in 2016–2017. URL: <https://www.wecreditunion.ru/novosti/glavnoe/statistika-porazmeram-i-dinamike-zaimov-mfo-i-kpk-v-2016-2017-gg/> (accessed on 10.10.2018); Overview of key indicators of microfinance organizations. Bank of Russia. URL: https://www.cbr.ru/StaticHtml/File/14700/review_mfo_16.pdf (accessed on 10.10.2018).

¹¹ Why loans in microfinance organizations are dangerous. URL: <http://konfop.ru/чем-опасны-займы-в-микрофинансовых-оп/> (accessed on 11.10.2018).

¹² The basic standard for protecting the rights and interests of individuals and legal entities — recipients of financial services provided by members of self-regulatory organizations in the financial market, uniting microfinance organizations: Approved by the Bank of Russia on 22.06.2017 URL: http://www.cbr.ru/StaticHtml/File/11755/Standart_MFO_22062017.pdf (accessed on 10.10.2017).

this standard, organizations will not be able to provide a citizen with more than 10 short-term loans, the duration of which is less than 30 days, during a year; the extension of loan agreements more than seven times is also prohibited. The Bank of Russia believes that these restrictions will be further tightened. Thus, from January 1, 2019, it is assumed that the number of loans from a microfinance organization for one citizen will be limited to only nine contracts, which can be extended no more than five times. At the same time, a microfinance organization is deprived of the right to provide short-term

The microfinance market entirely reflects the general level of economic development: it is during the periods of recession and economic recovery that the growth rate of the microfinance segment slows down or accelerates.

loans with a similar obligation in force for a client in the same organization.

Measures aimed at improving the regulation of microfinance organizations, in the authors' opinion, will be incomplete and ineffective, if not to reduce the "shadow" sector, which is a direct competitor. There are proposals to completely ban systematic microloans by individuals without registration as a microfinance organization. Otherwise, such individuals should be included in a special register, and transactions should be recorded in a special database, which will allow to prove the fact of a loan being issued if it is not returned by the borrower, and to control the calculation of interest by lenders. For sure, this proposal cannot be called wrong from the point of view of strengthening state control over the financial sector, but its implementation will require changes in civil legislation, otherwise the rights

of lenders (including those who issue loans irregularly) will be affected.

The optimal solution in this situation would be the introduction of specific legal norms regarding the microfinance activity of individuals (possibly in the form of a separate law, or in the form of amendments to codified acts: Civil Code, Tax Code). Owning financial resources, individuals will be able legally provide microloans to other individuals and / or legal entities, especially since there are already similar mechanisms — the so-called virtual credit exchanges. Due to the fact that transactions can be controlled and fixed, their subsequent taxation, the implementation and legalization of such microfinance activities will be useful for the Russian economy where both the consumer and corporate (entrepreneurial) segments face the lack of financial resources for business or certain development projects.

It is likely that the two-level supervision of the activities of microfinance organizations, including interest rates, is also useful, which is also relevant, given the low financial and legal culture of the majority of the economically active population. In addition, it is necessary to develop a segment of virtual microfinance organizations, since the activities of such organizations can also become quite transparent (all transactions will be recorded and monitored if the mechanisms for such control are prescribed in legislation) [18–20].

CONCLUSIONS

The paper reviews the history of the development of the microfinance segment in Russia, studies and summarizes the main regulatory and legislative documents in this area. The available official statistical information was analyzed. The comparison of individual indicators of the financial and microfinance sectors of the Russian economy indicates a tremendous difference in the scale of their progressive development of the latter. It should be noted that the register of the current microfinance organizations on the website of the Central Bank of the Russian Federation is regularly updated, but the release of

statistical books describing the development of this segment of the financial sector is seriously delayed: today, information on indicators for III quarter of 2018 is available. Analysis of the microfinance market, the study of trends and patterns of its development in Russia is rarely the subject of domestic scientific work.

Microfinance organizations are business entities engaged in microfinance activities (issuing microloans to individuals, individual entrepreneurs and organizations). The microfinance market in Russia is an actively developing specific segment of the common (national) financial market. A microloan, as a rule, is expressed by a relatively small amount (from 9 to 20 thousand rubles) and is issued for a short period. Moreover, there are far fewer formalities with a microloan than with bank lending.

On the one hand, it is attractive for many customers (who cannot confirm their income, have a damaged credit history, need small amounts for short periods, but do not use such tools as credit cards, as well as for a number of legal entities and individual entrepreneurs). On the other hand, this creates significant risks for both microfinance organizations and the borrower (due to the very high interest rates, which are essentially usurious). The limitation of the maximum daily interest rate to 1% from July 1, 2019 will facilitate the transfer of the part of companies operating in the “loans before salary” segment to the segment of medium-term loans.

The increase in the share of overdue debts of borrowers to microfinance organizations, the increasing problems associated with the collection of debts by illegal methods, and the high debt load of the population raise many questions about the prospects for the development of this segment of the Russian financial market. However, the Bank of Russia considers

this area necessary for the economy, therefore it takes measures to increase responsibility and legitimize: it tightens the requirements for microfinance organizations and their activities, regulates the level of interest rates, etc.

The microfinance market in Russia has become a kind of modern usury tool, but not a tool to support socio-economic development.

Prospects for the development of microfinance in Russia are seen in the withdrawal from the shadow sector of the microfinance activity of individuals or legal entities. It is impossible to ban the “shadow” area of microfinance, but the proposal to form mechanisms for attracting private investors-lenders to this sector, including through the development of a virtual microfinance infrastructure (credit exchanges, etc.), makes practical sense. Of course, this will require amending microfinance legislation or adopting a separate law.

It is also necessary to improve the technical and technological sides: it is necessary to implement counter-mechanisms to control microfinance activities through the creation of a special online platform where micro-loan transactions between individuals and / or legal entities will be registered. This information will be received in real-time both by the Bank of Russia and the tax authorities. This approach, on the one hand, does not increase the burden on the regulatory authorities, and, on the other hand, helps to provide an alternative to the shadow microfinance sector and to bring it into the formal institutional space of microfinance activity.

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Tsvetkov V.A. — study of the elaboration of this problem in Russian and foreign studies; development of a methodological approach to the study and justification of the key priorities for microfinance development in Russia.

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