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VEB to Set Up "Fund of Funds" to Aid Small Businesses

By The Moscow Times

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State-owned Vnesheconombank (VEB) is planning to create a "fund of funds" to invest in small- and mid-sized Russian businesses, as part of the government's plan to boost economic growth, VEB deputy CEO Alexander Ivanov said.

VEB will work with the Chicago-based investment management firm Adams Street Partners to set up the fund.

In addition to investing directly, the fund of funds will invest 70 percent of its assets by partnering with five to seven private equity companies,Vedomosti reported Wednesday.

Russia Partners, Baring Vostok Capital Partners and Da Vinci, all private equity firms with investments in Russia and other former Soviet countries, are likely partners.

The funds are known to invest heavily in technology, commercial credit and other areas

of high potential growth.

VEB and ASP each plan to invest $50 million and will most likely try to raise about $150 million from investors in order to build a diversified portfolio.

Although the two parties signed a cooperation agreement in July, officials confirmed that the plan has not yet been discussed at the VEB supervisory board or in the government.

A VEB subsidiary designed to help entrepreneurs already refinances banks that provide credit to small businesses. However, those banks in turn offer loans at extremely high interest rates — from 15 to 20 percent annually.

Alexander Galushka, president of the small business lobbying group Opora, does not expect the proposal to ease small businesses' difficulty getting credit.

"All these funds want a return higher than 30 percent, but most Russian businesses can't reach that level," Galushka said, predicting that the VEB fund will invest in a few profitable sectors like telecommunications while leaving other industries unassisted.

Small business accounts for 20 percent of Russia's total gross domestic product (GDP), a figure that has not significantly changed since the collapse of the Soviet Union, BNP Paribas's Yulia Tseplyayeva said.

Comparatively, small business comprises 45 to 50 percent of GDP in most developed countries.

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