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PRACTICE PROBLEMS OF SUPPORTING SMALL AND MEDIUM BUSINESSES

A.A. Chugunov, PhD in Economics, Associate Professor

A.V. Prydius

Odessa National Polytechnic University, Odessa, Ukraine

Чугунов А.А., Придиус А.В. Проблемы практики поддержки предприятий малого та середнього бізнесу.

У даній статті досліджена проблема фінансування підприємств малого та середнього бізнесу. Зроблено висновок що мають досить суттєві можливості використання досвіду розвинутих країн з регулювання і надання сприяння розвитку малому та середньому бізнесу України, які можуть сприяти поліпшенню регулювання і підтримки цього сектора економіки з урахуванням специфіки розвитку як самого малого та середнього бізнесу, так і економіки України в цілому.

Ключові слова: малі та середні підприємства (МСП), малий та середній бізнес (МСБ), проблема фінансування, інвестиції

Чугунов А.А., Придиус А.В. Проблемы практики поддержки предприятий малого и среднего бизнеса.

В данной статье исследована проблема финансирования предприятий малого и среднего бизнеса. Сделан вывод о том, что имеются достаточно существенные возможности использования опыта развитых стран по регулированию и оказанию содействия развитию малому и среднему бизнесу Украины, которые могут способствовать улучшению регулирования и поддержки этого сектора экономики с учетом специфики развития как самого малого и среднего бизнеса, так и экономики Украины в целом.

Ключевые слова: малые и средние предприятия (МСП), малый и средний бизнес (МСБ), проблема финансирования, инвестиции

Chugunov A.A., Prydius A.V. Problems of practicing of support of small and medium businesses.

This article investigates the problem of financing small and medium businesses. It concludes that there are significant opportunities to use the experience of developed countries to regulate and assist the development of small and medium enterprises in Ukraine, that may promote better regulation and support the sector-specific development of both the small and medium-sized businesses and the economy of Ukraine in general.

Keywords: small and medium enterprises (SMEs), small and medium businesses (SMEs), the problem of financing, investment

Stimulation of development of small and medium business has always been an important task in most countries. Innovative socio-economic development of the country is impossible without the dynamic development of small and medium business. It can provide new job, reduce the number of unemployed, increase the level of real wages, to act as the main investor in the national economy.

Small and medium businesses play a huge role in the development of the economy, both in Ukraine and abroad. Entrepreneurship is flourishing in many countries around the world. Over 20 years ago there was an explosion of activity of small business, especially in western economies. The 90's was marked by the transition to market economies and the countries of Eastern Europe.

One of the most studied aspects of small and medium enterprises is the issue of funding. The costs associated with a high degree of risk in lending to small and medium businesses, banks pass on to borrowers through high interest rates on the loan or requirement to provide security in large volume. In the case where, because of the high degree of Bank risk is reduced the availability of credit on acceptable conditions of enterprises, foreign small and medium enterprises (SMEs) have the opportunity to use different types of support, namely, the services of specialized institutions: guarantee institutions, thanks to the intervention which reduced the level of banking credit risk and credit cooperatives that provide small and medium enterprises financing on more favorable (from the standpoint of interest, collateral is required) conditions, compared to banks.

In modern conditions, the increased access of Ukrainian companies to small and medium businesses to credit resources is of particular relevance; therefore, need a serious study of foreign experience of active participation of commercial banks and specialized institutions in financing small and medium enterprises and the use of this experience in Ukraine.

Analysis of recent researches and publications

In works of domestic and foreign economists, referring to the 1970s and 1980s reflected the processes of objective changes in the situation demonopolisation business as a result of shifts in the world economy. Most fully the theory of small and

medium businesses has been developed by economists in the UK. Currently among British explorers there are two main points of view on the issue of the role and importance of small and medium business in the economy. The first group of researchers believe that in the years of the postwar boom, the share of small firms in production and employment fell drastically, and was quite widely believed that small business is a thing of the past and irrelevant in the present. This view is shared by J. Kurren [1], S. Geleher and G. Stuart [2]. Quite the opposite point of view advocated by economists who consider that small and medium businesses as an important subject of academic and professional research. To these scholars include G. Bannock [3] and V. Holder [4]. Representatives of this group are encouraged to support small business development as a means of fighting unemployment and a shift in value orientations. The work of scientists in this area mainly focused on the consideration of issues such as the importance of small and medium businesses for employment, regional development, place and role of entrepreneurs in society, the need to develop effective policies for monopolizing sector of the economy.

In the works of Ukrainian researchers, not enough attention was paid to investment activity as a driver of development activities of small and medium enterprises.

The aim of this article is to study the conditions and problems of development of enterprises of small and medium businesses, as well as their financing in Ukraine in comparison with developed countries.

The main part

Sectors of the economy where small and medium business is the most intense in Ukraine is practically the same as in the European Union: wholesale and retail trade, manufacturing, repair services, construction, real estate and rental and legal advice. The share of small and medium enterprises in the total amount of sales by kinds of economic activities, the following (2013): retail trade – 65,6% (including motor trade and services), wholesale trade – 42,9%, real estate – 11,4% (including rent), manufacturing – 9,4%, construction 6%, transport and communication 4,3%, agriculture – 3,3% [5].

The part of small and medium business in Ukraine is 99,4% of the active enterprises. SMEs accounted for 58,1% of jobs and the proportion of the annual turnover amounts to 51,2% of the total value.

The part of small and medium business accounts for only 10-15% of official GDP in Ukraine, compared with 40% in Poland and 70% in France. Small role of SMEs in the national economy can be attributed to increased corruption and evasion of law. These factors contribute to the shadow economy, estimated at 30 and 40% of GDP (the level of shadow economy in Ukraine grew by 0,4% in the first quarter of 2012 and does not decrease and today [6]).

Enterprises' access to finance has deteriorated in Ukraine. The part of private enterprises with a bank loan or credit line fell in the period from 2008 through 2014 to levels below the average for countries with

income levels lower than average. Accordingly, firms are turning to their own resources, as a source of funding. Collateral requirements have become more stringent.

In Ukraine, small and medium business locates at a formative stage. The number of business entities of the Ukrainian business has reached the level of France and Germany. However, the majority of entrepreneurs feel in Ukraine uncertainly. This is due to ineffective legislative framework, which does not create conditions for effective development of small and medium business. Among the reasons that prevent its development, we can highlight the following: the instability and high taxes, corruption and permissiveness of officials, lack of support from the state, the administrative intervention of state authorities.

In the structure of credit system of Ukraine there are no specialized institutions that serve small and medium enterprises. Consequently, the cost of credit to Ukrainian SMEs is very high; thus, in the first quarter of 2010 it was 20% and did not decrease further. Almost all banks lend only on the security of real property. Although, it is almost impossible to assess the real situation at the enterprise, banks offer businesses liquid collateral as compensation for the insufficient level of information about the company.

The main problems faced by small and medium enterprises during the economic crisis:

- most Ukrainian banks did not provide loans to SMEs and those who gave did so in a rather unfavorable conditions. For example, loans of dollars or euro. No one could predict what the exchange rate may be, when the time of payment of the loan;
- highly disordered regulation in all spheres of economy;
- inactive legislation on entrepreneurship, despite the reforms in some areas for not maintaining the laws and regulations of the Cabinet of Ministers of Ukraine by the majority of representatives of all levels of government and local authorities;
- imbalances, largely through political differences and inefficient state administration and judicial system;
- unprecedented corruption at all levels of government.

Consider the most tangible obstacles for companies in Ukraine, is presented on fig. 1 and fig. 2.

At fig. 1 there are present the top 10 constraints in Ukrainian firms, compared to its average value in the countries of the European Union. At fig. 2 shows the 3 main obstacles for small and medium-sized enterprises compared to large firms.

Since 2009, the business climate is experiencing a decline. Among the factors affecting the development of entrepreneurship can be identified: reduction of consumption, the problems in the Ukrainian banking sector, tighter credit conditions in the real economy, the limited state investment and financial support of the enterprises, reduction of foreign investment to the private sector of Ukraine.

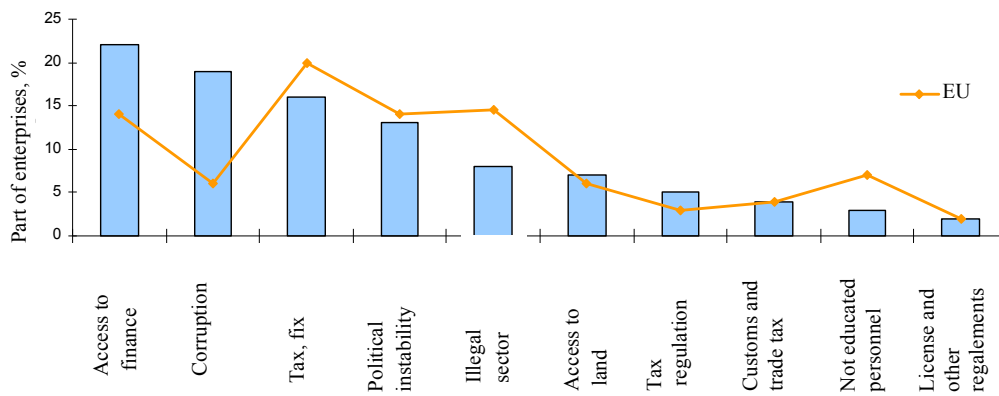


Fig. 1. The percentage of firms that identify the problem as the main obstacle in Ukraine and the EU

These changes had a negative impact on the employment and social security. At the state level, some measures of business support were approved. But mostly, they were declarative, because it was not supported by the necessary financial resources and political power. In the end, they did not lead to significant improvements.

Unlike countries that felt minimal inflation during the crisis Ukraine is facing a very strong inflationary

trend. The Ukrainian government had to contend simultaneously with the impact of the global economic crisis, inflation and other negative economic trends. So, the way to avoid a devastating impact on the main macroeconomic indicators, such as inflation, exchange rate, indicators of financial stability, fiscal deficit, etc., unfortunately, affected the business activities in Ukraine negatively.

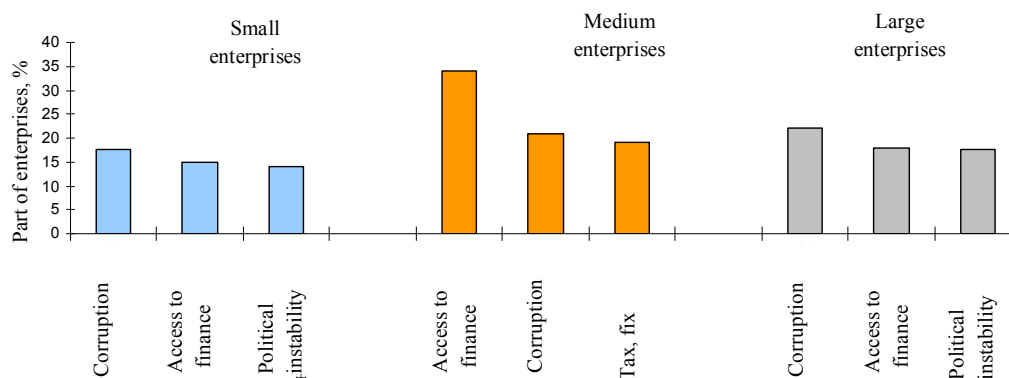


Fig. 2. The percentage of firms that identify the problem as the main obstacle depending on the size of the enterprise

In the period from 2009 to 2012, the government introduced more than 130 anti-crisis solutions that were supposed to help small and medium businesses [7]. These solutions are aimed at addressing these problems:

- removal of pressure on business from the governing party;
- reforming the permitting system and improvement of licensing procedures;
- elimination of mandatory payment of administrative services;
- improvement of registration procedures, the fight against corruption;
- improvement of taxation;
- social protection of business;

— the development of information policy, education and training of entrepreneurs.

Unfortunately, the crisis of the political structure and poor regulation of state institutions has made it virtually impossible for the government to execute its own decisions and implement the necessary tools. And even if, all of the above really happened, the functioning of these solutions would have been possible only if funding becomes available, in most cases does not happen. This situation resembles a vicious circle.

Among the ways to stimulate economic growth of the sector of small and medium enterprises in the European Union are the following:

- equity and debt capital;
- tax incentives and grants;

- "soft" intervention by the state;
- training, education, and counseling staff.

In the European Union are 99,8% of small and medium enterprises of the total number of European plants. Moreover, if we exclude from the analysis firms medium size (1,1%), in the European economy dominated by firms with number of employees less than 50 employees and account for 98,7% of the total number of European firms. If we consider

employment and gross domestic product, the situation looks as follows: SMEs accounted for 67,4% of jobs and 58,1% of gross domestic product in European Union countries [8].

Consider trend following economic indicators (number of enterprises, level of GDP, the employment rate of the population grouped by size of enterprises) in the European Union in the period from 2008 to 2013, is presented at fig. 3.

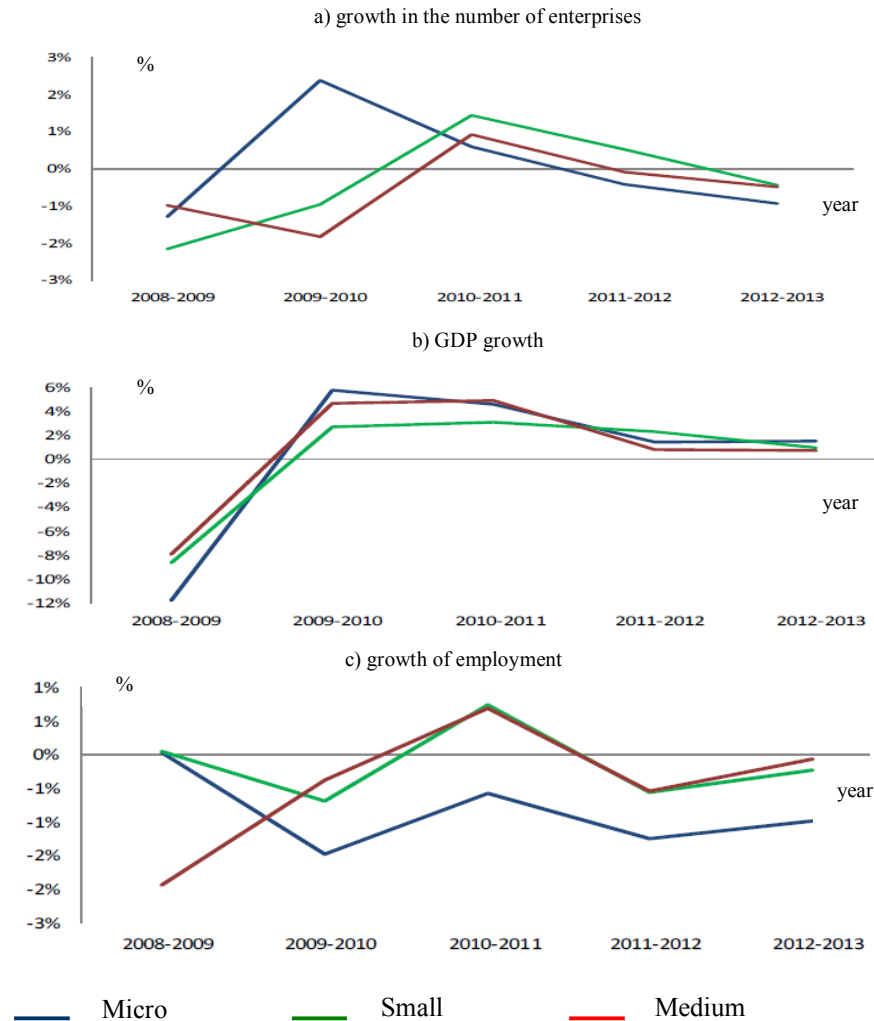


Fig. 3. The results of operations of micro, small and medium enterprises

As can be seen from the graphs at fig. 3, micro enterprises had higher rates of GDP than small and medium enterprises, but lower values of employment and number of enterprises.

As shown by the experience of small business in the analysis of the labour market in the European Union for the period from 1988 in 2012, the total staff of large enterprises decreased and small enterprises has increased the number of its employees by 8,5%. Most of the great difference in Sweden: the growth of employment in small businesses by 27% the number of persons employed in large enterprises decreased by almost 40%. In Germany, respectively, an increase of 11,3% in small enterprises and the growth of employment in large enterprises 5,7% [9].

The problem of access of small and medium enterprises to finance in the European Union, as in most countries of the world has intensified since the financial crisis in 2008 and the ensuing credit crisis. From the very beginning of these events, several speakers significantly affected the activities of SMEs. The paralysis of the interbank lending market, which is the main source of liquidity for credit institutions, and the collapse of major wholesale markets, has resulted in a general tightening of criteria for access to credit. Due to high sensitivity to economic downturns, SMEs felt the financial crisis more acute than other financial market participants.

There are important differences between the economic performances of enterprises in various

sectors in the European Union. Consider this trend in the period from 2009 to 2013 at fig. 4. As you can see, SMEs in the services sector has not experienced a

significant growth of GDP during the study period, while the construction sector has been a significant leap in the period 2009 to 2011.

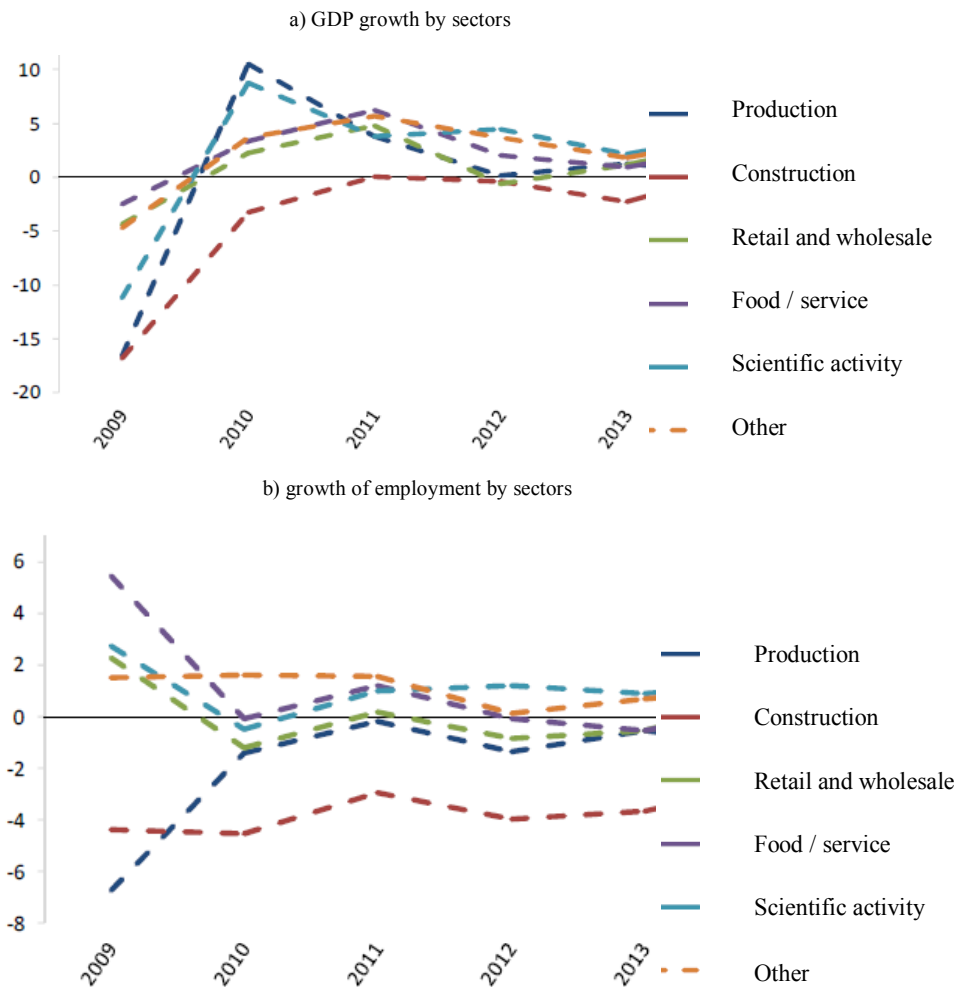


Fig. 4. Trend economic performance by sector

SMEs in all sectors of activity have not experienced significant changes in employment growth, although in the period 2009-2010. There was a jump in production and a decline in the services sector.

In order to gain an understanding of the difference in the cost of the borrower between SMEs and large firms, we split the credits up to 1 million euro (usually SMEs) and more than 1 million euro (usually for large enterprises). At fig. 5 shows the evolution in the last 10 years bank loan interest rates the average for the European Union.

The structural distribution of financial resources between SMEs and large enterprises has expanded since the financial crisis. This confirms the theoretical basis and implications of the sharp rise in risk aversion on the opaque activities of small and medium businesses.

In fact, sharp economic downturns partly influenced by the spending on the loan incurred by SMEs in comparison with the more stable large enterprises. The gap in the cost of borrowing was

narrowed between 2003 and 2008, when the European economy was generally positive, and reached its minimum in 2007 (60 points). From August 2007 to August 2013 distribution increases continuously with the structural shift in the period of acceleration of the sovereign debt crisis of 2011-2012, overall, since the beginning of the financial crisis in November 2013, the cost of borrowing increased from 60 to 147 points, or about 150%.

Average interest rates for countries of the European Union affirm provided the theoretical basis. At fig. 6 presents a clear picture on this issue among key stakeholders of the Union. The evolution of interest rates among SMEs and large enterprises in four countries may reveal some interesting facts.

Before the financial crisis the difference between the countries was minimal (ranging from 49 offices: Germany 103, Italy 70 Spain 54 France 92 points, December 2007). Further, the distribution was even less up to the second quarter of 2008, when the gap was smaller (27 points). The beginning of the crisis opens a different chain of effects, different for each

country. In Germany, for example, small and medium enterprises now pay the same interest rate on loans like ten years ago (about 100 points), and during the

crisis they could almost feel the positive trend (lower borrowing costs) compared with earlier periods.

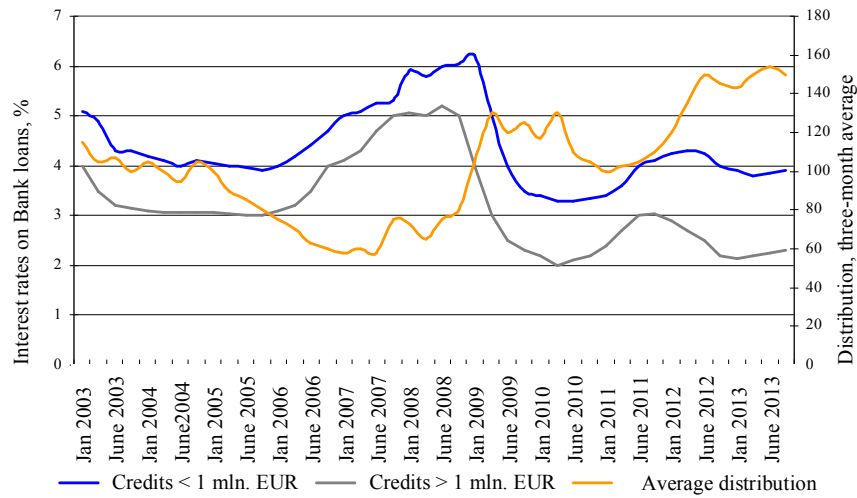


Fig. 5. Average interest rates on Bank loans

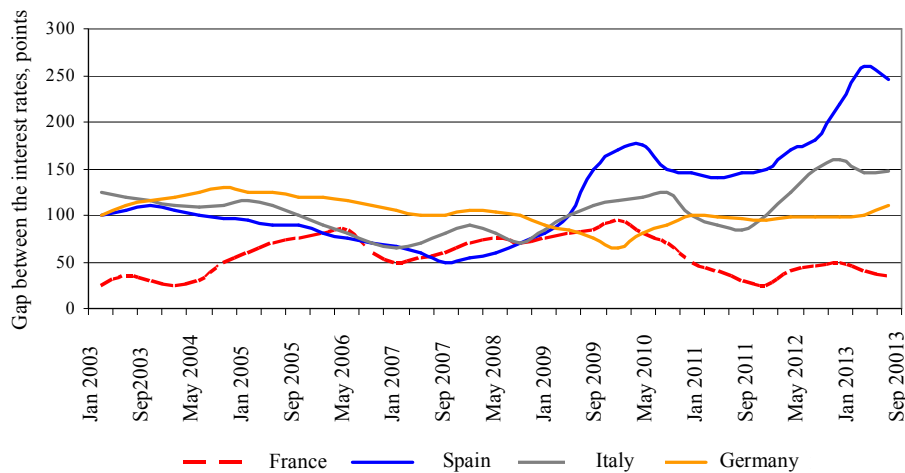


Fig. 6. The gap between interest rates for small (<€1 million) and large loans (> EUR 1 million) for EU members

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By another side, small and medium enterprises in Italy, Spain and France felt higher interest rates since the beginning of the crisis. In addition, SMEs in Spain and Italy felt the consequences of the sovereign debt crisis than their German and French colleagues. The

following dynamics: the gap between SMEs and large enterprises lies in the range of 203 points, from 34 points in France to 237 points in Spain.

The EU experts for many years tend to evaluate the entire structure of small and medium enterprises Spain almost as a model not only in the form of its organization, but also on performance. Perhaps, the main argument for this assessment 72% of GDP is given kind of business. Consider the trend of growth of economic indicators of SMEs in Spain in the period from 2008 through the first quarter of 2014 (inclusive) in comparison with the similar trend in the countries of the European Union average at fig. 7.

The index, which reflects the level of economic growth calculated relative to the level of this indicator in 2008. That is, in 2008 the figure is 100% and in

subsequent periods, the growth of indicators in relation to the initial period.

We have seen a trend of falling unemployment rates, the number of SMEs and the level of GDP until 2012, and after, there is a tendency to stabilization.

Also, there is a significant difference in the trends of the considered indicators of SMEs in Spain in comparison with similar indicators of SMEs in the European Union on average.

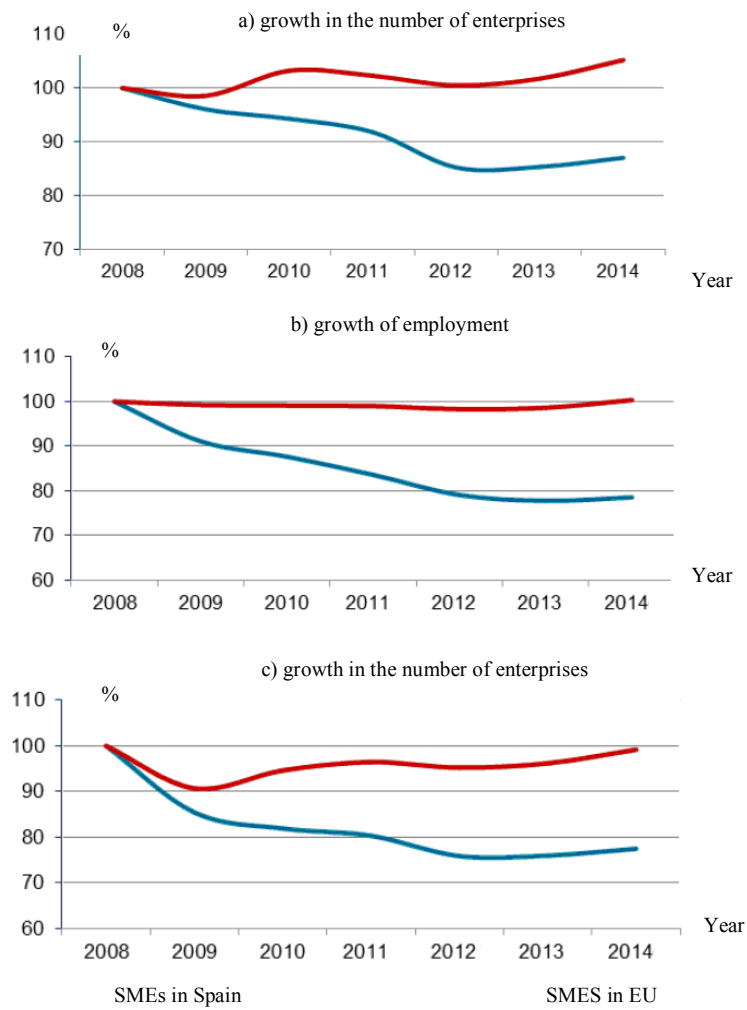


Fig. 7. The growth trend of the economic indicators of SMEs

Small and medium businesses in Spain began to emerge and flourish in the 1970s, High economic growth was achieved due to the high degree of small business development. Small and medium enterprises have helped to rid the country of unemployment, contributed to the overall rise.

The share of enterprises of small and average business of Spain [10] in some industries, up to 80% (agriculture), in other industries — an average of 25-30% (construction, industry, shipbuilding). The main branches of enterprises of small and average business is agriculture (agriculture, grain), black and nonferrous metallurgy, food industry (production of food, confectionery and wine production), construction, tourism, etc.

Spain developed a large number of programs of support and development of small and medium businesses. For those who want to start their own business, developed and successfully implemented a

variety of programs to assist. The first five years the owner does not pay taxes and is entitled to unlimited credit for business development. The main focus of the Spanish government paid to small businesses that have high social importance for Spain, creating jobs for socially vulnerable population groups (students, women, immigrants, etc.), contribute to a rise in less-developed regions and areas. In Spain, the government contributed to many organizations and foundations to support small business.

Let's consider a system of support for SMEs in Spain, as a member country of the European Union. At fig. 8 shows the share of SME support in the total amount of funding from 2007 to 2011.

As we can see, more than half of the amount each year is aimed at financing SMEs. Therefore, the importance of support programs for SMEs is attracting attention as a scientific and from an institutional point of view.

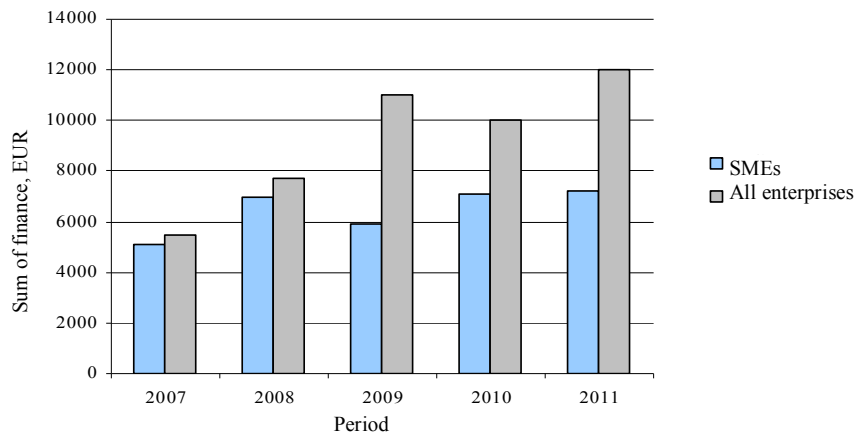


Fig. 8. The trend of funding for SMEs in Spain

At fig. 9 presents the trend of funding for SMEs Spain from 1992 to 2013. As we can see, the amount of loans granted on more favorable terms has increased significantly since 2007, compared with previous periods.

Thus, the system of support of the enterprises of small and average business in the developed countries (European Union) is a highly developed and even

during the global economic crisis continues to support local businesses and even more actively.

As an important positive factor in the development of small and medium business in Spain it is worth noting the minimum level of bureaucracy. To register a company, obtain a license, you can do 24 hours without undue delay on the part of officials. And at the same time controlling the functions of the state structures is minimized.

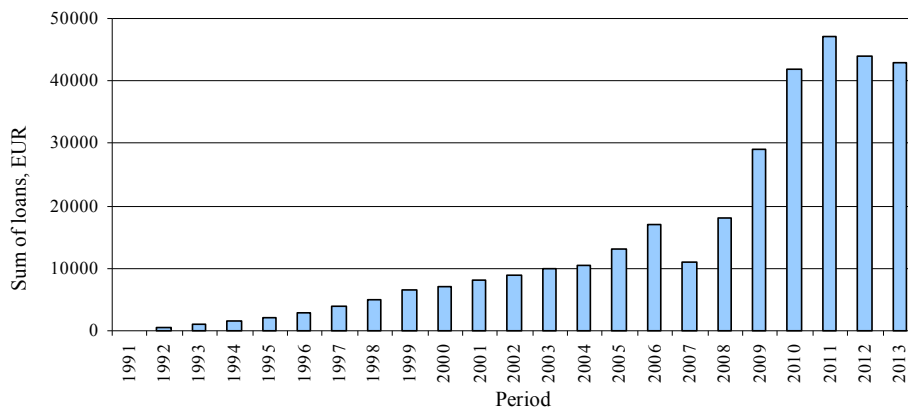


Fig. 9. The preferential loans provided to SMEs in Spain

In 2008, according to data of the National Institute of Statistics [11], almost 2/3 of the working-age population was employed in the private sector and just over 20% in the state. Before the start of the economic crisis in Spain it has developed quite balanced between the employed and temporarily unemployed, but with the prospect of their employment. The 2009 crisis aggravated the situation: downtrend, the financial collapse of hundreds of large and medium sized firms and thousands of small caused logically explainable growth of layoffs in many sectors, primarily construction, furniture, and tourism and others. But even despite this, small and medium business enjoys strong government support. And not every EU country there is so favorable

conditions for development of small and medium enterprises.

Conclusions

Analysis of international practice shows that the sector of small and medium enterprises is the basis of creation and development of the national economy based on knowledge. Small and medium enterprises (SMEs) in developed countries constitute an important sector of national economies. On the significance of SMEs for the EU and Spain can be judged by the data shown in the graph in developed countries.

The results of the study may be asked to use the experience of the EU regulation and SME support in Ukraine in the following areas: creating legal and economic conditions for development of small and

medium business by carrying out government policy concerned in its regulation and support; the use of targeted EU assistance to support the development of small and medium enterprises of Ukraine.

In the first direction, the experience of the EU, to simplify and improve the legislative and regulatory framework and cooperation for its implementation of state, regional and local authorities; to improve financial and information support of SMEs, to create conditions to improve the culture of small and medium business and the "spirit of entrepreneurship". We should clarify the concept of "Small and medium enterprises in Ukraine and their criteria, which should be included in the regulatory framework: in addition to the quantitative measure of the number of employees and annual turnover, you must enter the criterion of the annual balance sheet; also, to introduce a degree of independence for enterprises to provide more targeted support their development.

In the second direction need a more productive use of real assistance to the EU and countries

participating in the EU in supporting the development of small business in Ukraine. But the disadvantage of using the EU assistance in a dispersion of financial resources between numerous government agencies and organizations. This leads to the loss of control over their use and the emergence of mass organizational and legal problems that require the intervention of Federal and local authorities that should be eliminated from Ukrainian practice.

On the basis of the study it is concluded that there are significant opportunities to use the experience of the EU to regulate and promote the development of SMEs and the real assistance of the EU and countries participating in the EU in the small and medium business of Ukraine, which may contribute to improving the regulation and support of this sector of economy with regard to the specific development of both the small and medium business and the economy of Ukraine in general.

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Чугунов Анатолій Анатолійович / Anatoliy A. Chugunov
tol_tolich@mail.ru

Придіус Анастасія Віталіївна / Anastasiia V. Prydius
anastasiia.prydius@gmail.com

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