



UDC (УДК) 336.717.061

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Lesya Ukrainka Eastern European National University in Lutsk***TO THE QUESTION OF COOPERATION OF THE BANKING SECTOR WITH THE SMALL AND MEDIUM-SIZED ENTERPRISES: THE MODERN STATE, FOREIGN EXPERIENCE AND WAYS OF IMPROVEMENT**

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Східноєвропейський національний університет імені Лесі Українки, м. Луцьк***ДО ПИТАННЯ СПІВРОБІТНИЦТВА БАНКІВСЬКОГО СЕКТОРУ З ПІДПРИЄМСТВАМИ МАЛОГО ТА СЕРЕДНЬОГО БІЗНЕСУ: СУЧАСНИЙ СТАН, ЗАРУБІЖНИЙ ДОСВІД ТА ШЛЯХИ ПОКРАЩЕННЯ**

The subject of the article is the problem of organization of bank crediting by enterprises of small and medium businesses in Ukraine. Based on the studies and analysis of native experience, the recommendations for improvement and intensification of situation with lending to small and medium businesses have been provided.

In order to ensure the active participation of banking system of the country in forming investing resources of the enterprises of small and medium businesses, one should improve the mechanism of implementation of this program by providing an optimal combination of legislative, administrative, regulatory and economic instruments of influence on the credit activity of commercial banks to ensure simplification of conditions for an access for the enterprises of small and medium businesses to credit resources of banking system. For the development of the Ukrainian economy and small and medium businesses in general, the necessary reduction in the tax burden for newly established small businesses, as well as creating favourable conditions for them to taking credit funds.

Предметом статті є проблема організації банківського кредитування підприємств малого і середнього бізнесу в Україні. На підставі вивчення та аналізу вітчизняного і зарубіжного досвіду, надано рекомендації для забезпечення покращення та активізації ситуації в сфері кредитування малого та середнього бізнесу.

Обґрунтовано, що з метою забезпечення стимулювання участі банківської системи країни у формуванні інвестиційних ресурсів підприємств малого і середнього бізнесу, необхідно удосконалити безпосередньо механізм реалізації цієї програми, а саме забезпечити оптимальне поєднання законодавчих, адміністративно-регулятивних і економічних важелів впливу на кредитну активність комерційних банків з метою забезпечення спрощення умов доступу підприємств малого і середнього бізнесу до кредитних ресурсів банківської системи.

Для розвитку української економіки та суб'єктів малого і середнього бізнесу в цілому, необхідне зменшення податкового навантаження для новостворених суб'єктів малого бізнесу, а також створення для них сприятливих умов для взяття кредитних коштів.

Key words: small and medium business, investments, crediting, refinancing, commercial bank.

Ключові слова: малий та середній бізнес, інвестиції, кредитування, рефінансування, комерційний банк.

Relevance of this issue. The most important and most urgent problem, that affects domestic economic science, is an increase of the competitiveness and the rates of development of the domestic economy. Thus, the number of scientists believe, that the path to success is the development of large enterprises. However, practice shows that so far the bulk of the profits to the budget is brought by small and medium enterprises. But there are a lot of obstacles standing in their way, such as lack of financial support in the early stages of development. Therefore, they tend to apply to banks which in turn in the current difficult situation refuse to credit newly created small and medium businesses due to riskiness.

At this stage one of the most important roles in stimulating reproduction processes in the economy plays a bank credit as the main source of financial resources to ensure ongoing business of small and medium businesses.

The authors who previously examined this issue. In particular, various aspects of banking lending to small and medium businesses are constantly examined national economics. Analysis of problems in financial and credit support to small businesses is devoted to scientific works of local scientists, including: P. Y. Beet, Z. S. Vamaliy, I. Volkov, M. M. Vale, O. V. Kuzhel, O. E. Mazur.

The focus of the financing of small and medium business in Ukraine can be observed in the studies of A. Baranovsky, T. Vasylytsya, S. Vamaliya, L. Vorotin, I. Zhilyayev, Alexander Kiselev, Yu Klochko, Kozoriz M., T. Kovalchuk V. Kredisova, A. Kuzmin, I. Mikhasyuk, A. Moki, S. Reverchuka, S. Sobolev, A. Titarenko, V. Chernyak. A significant contribution to the development of theoretical and practical aspects of these problems has made B. Baluk, O. Bilous, O. D. Lupus, A. A. Drugova, M. I. Krupka, T. A. Lashch, A. Frost, C. K. Reverchuk, S. I. Savluk and others [1].

However, the issue of bank lending prospects small and medium businesses needs further research.

Formulation of the problem. Despite the importance of development of domestic and foreign scientists, environmental conditions require determining the characteristics and problems of financing of small enterprises in modern conditions. The problem of bank financing of small and medium businesses, alternative sources of raising funds remains poorly understood, and so are the solutions to the problems of funding and lending.

The aim of the article. Identification of potential sources of financing small and medium enterprises in Ukraine, analysis of public support, international experience and the current state of the field of banking credit, to define prior measures to overcome the problem of lending to small and medium businesses.

The presentation of main material. One of the main problems of implementation of economic reforms in Ukraine, aimed at overcoming the crisis in the real sector of the economy is the creation of the banking system that needs monetary stimulus for economic growth and development of small and medium businesses.

That small and medium enterprises create most of the gross domestic product in countries with developed market relations, and small business benefits such as portability, the ability to quickly adapt to changes in customer demand, flexibility, rational organizational structure, efficiency in the development of new products in small batches, low operating costs, showed their high potential in providing opportunities to overcome the global financial crisis, providing for employment of the population and promoting production growth. Its low capital intensity, materials and complexity of such enterprises provide sufficient competitiveness of small businesses across the entire national economy, creating conditions for them to achieve and maintain high productivity.

One should understand that because of the involvement of the general public, small and medium business in the country contributes to the weakening of property differentiation and expand the social base of reforms, and thus serves as an active formation of the middle class society, opens space for free choice of economic activity, easing social tensions and democratizing the market economy.

Today one of the main problems of small and medium business in Ukraine should be considered as a significant limitation of financial and material resources to carry out this task, forcing businesses to seek qualitatively new approaches, schemes and mechanisms of financial support for their projects. Thus, in the conditions of acute shortage of public funds that could be directed to the development of the real sector of the economy and also the inability of active external borrowing because of the limited resources on external financial markets due to the financial and economic crisis, the mechanisms of bank lending of this type come to the forefront of resource provision of small and medium enterprises. So today, first of all, a bank loan can open new possibilities of realization of entrepreneurs' projects and achieve success in business.

In world practice there are two basic practice of constructing the system of financing small businesses: US and German. (table 1).

Table 1.
Major global practice of financing of small and medium enterprises

Characteristic features	
American	German
<ul style="list-style-type: none"> - Alternative independent existence of private and public funding of small businesses; - Government intervention in the financial infrastructure for direct financing characterisations of MP and MP support 	<p>Assumes not only direct financing of small business, by means of loans and grants, but also stimulate microfinance by providing funds to financial institutions that work with small businesses.</p>
<p>US Small Business Administration (SBA), which includes branches and offices throughout the country, has funded the federal government providing a wide variety of services related to specific projects in various fields (from home business to international trade, the technical assistance to qualified business analysis and design of applications for loans);</p> <ul style="list-style-type: none"> - Financial support program "7a" and "504" The program "7a" entrepreneur can be sure of, if, for whatever reasons, has no such possibility when referring to the bank; under the "504" is carried out expansion and modernization of existing small businesses. After analysis of the company's program "504" provides a long-term loan for the purchase of property, equipment and technology; - Together with the Ministry of Trade SBA has created export promotion centres that lend small business exports. One of the activities SBA is information support and training of entrepreneurs; - For micro-credit, this is often unprofitable, given a small share of the budget. 	<ul style="list-style-type: none"> - The program is both local analogue Development Bank, and Agency for financing export credit institution specializing in financing small businesses in Germany; - Lending under government programs which is performed in the same way for all and there are clear rules in accordance with the ordinary principles of bank lending, so loans are given only to creditworthy customers without any benefits to individual applicants; - State bank transfers the money to commercial banks, and they in turn lend to SMEs. Commercial Bank concludes with an entrepreneur loan agreement, which specifies the purpose of the loan, due to the agreement on refinancing of state-owned bank; - In addition to financial assistance, the state also provides serious information and support through the organization of economic and technical advice to entrepreneurs and existing small businesses

The source: generalized by author basing on [2]

However, in practice a number of difficulties that accompany the organization of bank lending to small and medium business quite significantly hamper the development of this sector of the national economy without the opportunity of realization of its potential in overcoming negative consequences of financial crisis. Besides, these difficulties concerning both: the business and banking institutions.

For entrepreneurs such problem are high interest rates, short repayment period, the absence or lack of seed capital for small enterprises, limited supply of loans for small businesses and the lack of a competitive market for credit facilities, complexity and durability of the procedure for obtaining a bank loan.

For the bank's lending to small and medium business in Ukraine is extremely difficult because of the high level of economic risk, which virtually eliminates the possibility of long-term investment. Small and medium enterprises are mainly kept in circulation almost all their capital, being extremely sensitive to the negative effects of the process of adaptation of Ukraine to the conditions of an open economy. Therefore, in the current economic instability small businesses prefer fast operation, and therefore they lose their investment attractiveness for both domestic and foreign investor.

Even before the crisis in the financial markets, one began to experience negative effects such as increased portfolio of bad loans and "bad" debt [3, p. 66]. However, in conditions of almost unlimited access to international capital markets and high demand for consumer loans, which the profitability covers probable losses on bad loans, these trends of bank lending did not cause serious concern.

With the beginning of the crisis these problems became even worse, as banks were trying to reduce the risks in their operations, consequently had to introduce more stringent lending standards for small and medium businesses, and even turned all the appropriate loan programs in connection with what entrepreneurs were deprived of opportunities to invest in new equipment, expand their businesses, creating new jobs. But this change of bank lending standards has reduced the opportunities for companies to refinance already obtained banks loan.

One should not forget about the peculiarities of small and medium enterprises, which significantly limit their conditions of effective cooperation with banking institutions for the organization of credit. These can, in particular, include:

- Lack of long-term credit history in enterprise, which significantly increases the level of credit risk for the bank;
- Shadowy nature of some aspects of many enterprises due to the concealment of the actual amounts of income and payroll;
- Small scale businesses, that makes it difficult for the bank's assessment of its condition; unclear and unreliable statements that do not adequately reflect the financial results of industrial and economic activity;
- The absence or lack of safe and liquid assets that can serve as collateralised credit received.

The combination of these factors leads to a relatively high risk of banks in lending to small and medium businesses, which determines the relatively low interest banks in the implementation of loans during this economy.

To increase the efficiency of commercial bank lending must establish healthy information - analytical support. Because even the most perfect method for analyzing the borrower or risk assessment does not give reliable results if the original information is not reliable or complete [4, p. 36]. The ways to solve this problem is the revitalization of the credit bureaus, and the introduction of an open, transparent reporting by small and medium businesses.

In addition, an important area of intensification of bank lending to small and medium businesses is to create a flexible system of guarantees which would open the possibility of lending sector. This guarantees can be provided both by banks by introducing sales guarantees as a form of investing for profit, and other interested organizations, including specialized funds or other institutions to support small businesses, and state and municipal authorities for those SMEs working in socially important sectors of the economy involved in the implementation of government orders, perform the activities of the regional socio-economic development areas.

Especially promising for credit support to small businesses one should consider initiating activities in Ukraine guarantee funds that can take on the risks of commercial banks that lend to small businesses from their own resources.

The increasing economic interest of banks in lending to small and medium-sized businesses would also reduce bank costs associated with processing credit applications, business plans and investment projects of clients. After administrative expenses of banks in lending to SMEs is almost equal to expenditures when considering loan applications of large enterprises, and therefore to significantly expand lending to commercial banks, small businesses must offer appropriate mechanisms, compensators high administrative costs. This compensator can be relatively inexpensive additional resource - within the national program to promote small business in Ukraine.

Ukrainian Fund for Entrepreneurship (UFPF) should develop a mechanism for lending to small businesses through authorized commercial banks, selected to tender conditions. Another compensator is also cheaper loans, for which it is necessary to develop a mechanism of partial compensation of interest rates on loans for small businesses through the Ukrainian Fund for Entrepreneurship and regional funds support.

Among the factors that hinder the development of bank lending to small businesses - a low level of bank capitalization, the prevalence in the structure of bank resources funds raised demand and short-term, lack the technology work of crediting of small and medium businesses. It reduces the interest of banks in lending to small businesses and that providing a loan without collateral, they must generate significant amounts of provisions for credit operations, reducing the profitability of banking activities and increases the level of credit risk.

One way of solving this problem is to accelerate the development of financial leasing, which can be a real way to get the necessary material resources to start businesses without collateral relations.

The expansion of bank lending to small and medium businesses may also contribute to intensification of cooperation with international financial organizations, but because of long-term credit, they are able to pass domestic commercial banks best practices and modern technology lending to small businesses, which reduces the value of spending and the level of risk banks.

One more, but not less important way to achieve significant improvements in activation of bank lending to small and medium-sized businesses we should consider the implementation of a number of legislative measures and regulatory measures to ensure adequate legal regulation and regulation of property relations, collateral relations, mortgages, increased liability of borrowers abuse credit conditions. Changing the legal field in Ukraine, which now is mainly on the side of the debtor and not the creditor is a key task in the system of measures to reduce the overall level of credit risk in the banking sector, reducing the share of problem and bad debts in the loan portfolios of banks.

And again another important factor which determines the problematic aspects of credit relations between commercial banks and small and medium business is comparable limited range of banking credit services, whose range on domestic businesses counts quite small number of possible co-operation programs (a first loan for working capital and credit on current activity credit for the purchase of equipment), while in countries with developed market magnitude relations and diversity of credit cooperation has dozens of different programs.

So the review of the main groups of problems that accompany credit relations with banks by small and medium enterprises makes it possible to argue that in order to fully justify intensification of bank credit lines for small and medium enterprises in the system of measures to overcome the financial crisis one must develop a comprehensive work program of the banking system and the state's participation in the loan providing small and medium businesses, which would make it possible to determine the objectives, principles and mechanisms of reforming the system of bank lending in this area, to formulate the basic steps necessary to ensure the active participation of the banking system in the formation of investment resources of small and medium businesses, as well as identify the sources needed for this money.

Thus, the program would include the following four main components:

- 1). definition of strategic program objectives for the medium term;
- 2). formation principles and mechanisms of the program;
- 3). studying practical steps to implement the appropriate measures;
- 4). identifying specific sources of financial resources for implementing the program [5].

As for the key strategic objectives, which reform of the banking sector interaction with small and medium business in the medium term should achieve, are as follows:

- Simplification of approaches to bank lending to small and medium enterprises;
- Obtaining necessary business volume of financial resources as a fundamental principle of production and the creation of added value;
- Increasing the share of SMEs in the structure of the gross domestic product of the country;
- Decrease of the dynamics of the domestic economy from the export sector and external demand;
- Increased employment in the economy through the development of small and medium businesses.

As for the principles and mechanism reform interaction of the banking system of small and medium business, they should reflect these key principles underlying the strategic partnership between the financial and real sectors of the national economy in terms of efficient allocation and use of accumulated bank cash resources for providing production growth, productivity growth and employment, increase welfare in general.

The basic principles that should underpin the implementation of this strategy should be:

- the development of entrepreneurship, especially SMEs, as the main factor of social and economic development, increase employment and local budgets;
- strengthening credit support of small and medium businesses by developing financial services market;
- introduction to the banking system of effective incentives guarantee loans to small and medium enterprises [6. p. 327; 7].

Direct mechanism for implementing the program should be to provide the optimal combination of legislative, administrative, regulatory and economic leverage to the credit activity of commercial banks in order to simplify the conditions for access of small and medium-sized businesses to credit banking system. In our opinion, in order to ensure the active participation of the banking system in the formation of investment resources of small and medium enterprises should take the following practical steps:

- 1) extension of the main forms of lending to small and medium businesses by applying, in an ongoing lending activities, as leasing and mortgage lending in the form of «overdraft» and renewable credit lines, including using credit cards, micro-finance;
- 2) making the necessary changes in the management of banks, their operational and technological activities in the financial market in the distribution of loans, as well as in information banking technologies allowing for the operation and customer needs of SMEs;
- 3) differentiation of interest rates on loans to refinance National Bank of Ukraine granted to the purpose of banks for credit support of small and medium enterprises;
- 4) making the necessary changes for set by the National Bank of Ukraine procedure of formation of reserves for possible losses on credit operations of banks in order to stimulate activation of credit activity of banks on small and medium enterprises;
- 5) improvement of the system of advising SMEs on the conditions and opportunities for obtaining credit from banks and participation in government programs lending to small and medium enterprises;
- 6) optimization of procedures for monitoring and controlling of credit risks in banks that accompany giving loans to small and medium businesses, active use scoring systems assess the creditworthiness of customers - small and medium enterprises;
- 7) making necessary changes to the current legislation regarding:
 - the protection of creditors' rights and the expansion of their rights to implement the mortgaged property;
 - enhancing the role of banks in initiating the restructuring of small and medium-sized businesses participate in improving their financial condition, and if necessary - the liquidation of insolvent companies;
 - creating a flexible system of guarantees for loans granted by banks to small and medium businesses that funds provided by specialized national or regional level;
 - making amendments to the tax legislation by providing incentives to banks that lending to small and medium business priorities defined state strategy of economic reforms;
 - the creation of specialized credit institutions, serving small and medium businesses.

Conclusions. An integral component of the program of activating bank lending to small and medium business is the search for the necessary resources. Therefore, as the main sources of funds that are necessary to ensure the effective promotion of banking institutions of small and medium-sized businesses are the following:

First, funds raised by banks target refinancing loans granted on condition they focus on providing credit for small and medium enterprises;

Secondly, the involvement of target funds international financial organizations, primarily the World Bank and the European Bank for Reconstruction and Development;

Thirdly, the funds Ukrainian Fund for Entrepreneurship Support (UFPF) that can operate through the mechanism of lending to SMEs through authorized commercial banks, selected on competitive terms;

Fourth, loans of commercial banks, provided SMEs under minimum interest rates lower which allow performance compensation mechanism based on the creation of regional credit guarantee institutions and foundations to promote entrepreneurship by increasing the share of tax revenues, which remain local budgets.

Also for the improvement of financial services to small and medium-sized businesses in Ukraine it is necessary for banking institutions to develop their strategies for market services to small customers. According to these strategies changes should be made to the management, operational and technological activities in the field of information technology, taking into account the operation and customer needs of small and medium businesses. You must also extensively involve the cooperation of Western consultants - practitioners of banking services small businesses.

For the development of the Ukrainian economy and small and medium businesses in general, should be amended to «Tax Code of Ukraine», the Law of Ukraine «On Banks and Banking Activity». Namely – to reduce the tax burden for newly established small businesses, creating favourable conditions for them to taking credit funds (% reduced rate, simplifying procedures for handling credit applications, creating favourable conditions for the repayment of debt).

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Стаття надійшла до редакції 20.12.2016 р.



ТОВ "ДКС Центр"