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FINANCING OF SMALL BUSINESS IN UKRAINE: SOURCES AND PROBLEMS

Small enterprises are important active elements of the process of structural adjustment of the economy, affecting the creation of new jobs, the quantity and variety of filling of commodity markets. However, under the current sociopolitical and economic conditions, the problem of insufficient sources of financing for small businesses appears, which leads to inhibition of the overall development of small business in Ukraine. The problem of financial provision of any economic entity is an integral part of its management, since it touches upon such aspects as the financial condition of the enterprise; ensuring fulfillment of obligations to creditors; formation of financial resources for conducting all types of economic activity; cash inflows and profitability. The main sources of financing for small businesses include the following (Fig.1) [1].

Fig. 1. Classification of the main sources of financing of small enterprises

Own funds as a source of financial resources of the enterprise are a set of monetary funds, tangible and intangible values that may be involved in entrepreneurial activities without specifying a time limit or legal constraints. Own sources of financial resources are the basis for starting and further activities of the enterprise [1].

Loans from commercial banks for small businesses are not always acceptable because of high interest rates on lending. It should be noted that most banks are reluctant to deal with small businesses, which is explained by the peculiarities of lending to small businesses:

- high costs for issuing a loan in the case of short-term lending, which does not allow to achieve the desired profitability of a loan transaction, as well as low profitability of small businesses, which does not override effective bank rates;
- opaque economic activity of enterprises, low tax culture, poor quality or lack of business plans, which in aggregate considerably complicates the assessment of creditworthiness;
- shortage or absence of liquidity of the loan from the enterprise.

As of the beginning of this year, 82 banks operated in Ukraine. According to the NBU, at the beginning of 2018 the loan portfolio of banks amounted to UAH 1042.80 billion, with the fact that at the beginning of 2017 - UAH 1 005.92 billion, and at the beginning of 2016 - UAH 1009.77 billion. Loans to business entities totaled UAH 864.412 billion, UAH 847.092 billion and UAH 830.632 billion respectively [4].

Consequently, there is a tendency to increase activity of business entities in using bank lending. It indicates an increase in the role of loans as a source of funding for small businesses.

However, there is also a negative side of attracting credit funds, which is that the conditions for obtaining and using credit resources by enterprises in Ukraine are complex and costly. Most domestic banks that provide loans to small businesses offer lending programs based on the time of such a company is on the market or the annual volume of sales of products, goods and services.

If a small company managed to fulfill the conditions for obtaining credit resources, it faces the following problem of high interest rates for virtually all types of loans (Table 1).

Of course, credit resources have a positive impact on the financial provision of business entities, but provided that each hryvnia brings an additional income higher than the cost of servicing them.

Table 1

Rating of the best conditions for lending to small and medium enterprises of Ukraine by domestic banks 2018, (%) [2]

| Bank | Rate | One-time commission | Monthly commission | The first installment |
|-------------|-------------|----------------------------|---------------------------|------------------------------|
| Oschadbank | 20,15 | 0,20 | - | from 25 |
| Ukreximbank | 20,0 | - | 0 | from 0 |
| Pivdennyi | 22,0 | 0,50 | - | from 30 |
| Tascombank | 24,0 | 1,0 | - | from 20 |
| BTA Bank | 26,0 | 1,0 | - | from 0 |

An important alternative to bank lending is non-traditional sources of financing such as factoring, financial leasing, and venture capital funds. And if in Europe such methods of financing business activity are normal, in Ukraine they are used relatively rarely. This tendency is explained both by political and economic reasons. The obstacles to the development of non-traditional financing in Ukraine are the lack of specialists who could professionally serve potential users of such types of financing; lack of sufficient information on the specifics of non-traditional sources of funding, their advantages and disadvantages, mechanisms of engagement; lack of clear legislation on alternative sources of funding.

The European Bank for Reconstruction and Development (EBRD) remains the largest lender of small businesses in Ukraine. The EBRD SME lending program covers a wide range of financial products, such as loans to local banks for further lending to small businesses, trade guarantee operations, equity investments of banks and private equity funds, and loans to leasing companies [3].

The development of small business is a very important factor for the economy as a whole, therefore the state should play a significant role in its financing. State support for small businesses involves the provision of various subsidies, loans, the formation of public funds, the provision of tax rebates and benefits, etc.

A significant tax burden is also an important problem for small businesses. According to the “Doing Business” report in May 2018, Ukraine ranks 54th in terms of the tax burden on small businesses (Poland – 69th, the Russian Federation – 53rd, and Belarus – 99th) [5].

Today, the problem of tax burden formation in Ukraine is due to the discrepancy between the purpose of taxation and the purpose of entrepreneurial activity. Unfortunately, the main purpose of the tax system is to fill the state budget, rather than regulating the development of entrepreneurship, which should be manifested both in stimulating certain types of activities and in the additional tax burden of others.

Consequently, as a result of the study, it was discovered that there are many problems in the financing of small businesses, the main of which are high interest rates on lending and difficult loan conditions, undeveloped scope of alternative sources of financing in Ukraine, such as leasing, factoring, venture funds, lack of awareness of entrepreneurs about existing funding programs, insufficient financial assistance from the state and high tax burden.

The solution of these problems requires a complex of measures, which should include:

- intensive cooperation between banking institutions and the state with international organizations and foundations operating in the field of promoting small and medium business development;
- increase of state compensations for small business interest rates on bank loans;
- stimulating banking and financial organizations to lend to small businesses by providing tax privileges;
- organization of mutual financing and guarantee institutions;
- implementation of measures to inform small business entities about the existence of credit programs and programs of international organizations;
- development of the legislative base on the structures of non-traditional financing of enterprises;
- reduction of tax burden of small enterprises, granting of tax privileges [6].

Finally, future research of sources of financing for small businesses should be conducted in other developed and emerging economies especially in Ukraine and neighboring countries [7], using the same methodology as in the current study.

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