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CHANGING THE LARGE BANK LOANS ROLE IN THE SMALL BUSINESS DEVELOPMENT

Abstract. The article is aimed at analyzing the world and domestic practice of small business lending by large banks and focusing on changing their role as major financial resources suppliers. The article also examines the existing and new forming alternative forms of attracting resources, which, today, better meet the needs and opportunities of small business.

An analysis of the statistics showed that lending to small businesses by the largest banks as in Ukraine as in other countries has decreased sharply compared to indicators since 2008 and remains relatively depressed to this day. So the ability to get loans for enterprises has become essentially shorter. The development of almost any business is impossible without external funding. The growing due to own funds will take many years. This condition made small business interested in finding new financing sources.

The article examines the dynamic adjustment process aftershock for the loan offer. In Ukraine like in some other countries where the largest banks had high market shares, aggregate credit flows for small businesses became extremely shorter, interest rates staid high or even rise, fewer businesses rose, unemployment rose, and wages fell. The loans flow resumed after 2010, but other lenders intensified, slowly filling the void, but interest rates remained high.

The financial resources market is wide enough, and there are both local and external players. And for solving different problems, different tools can be chosen. Venture capital investments are used, for example, for a good start or a powerful breakthrough; long-term loan money or investor's entry into capital can be used for progressive growth or entry into new markets. A variety of leasing products allow financing not only the purchase the source of transport or equipment, but also rent or buying out warehouse space or offices. There are even so interesting tools such as ICO.

It should be concluded that the influence of these factors, as well as the development of block chain technologies and the emergence of alternative (public) forms of financing and development of social enterprise are gradually leading to the loss of key positions of the banking sector in financing small business projects. All these processes have shown that the financial sources accumulation even for big project can be organized in the way of multiplied microcredit system trough attraction stakeholders. Such exam-ples we can mark in various business sectors, for example, in transport – collective financing of the ship construction.

Keywords: Small Business, Financing, Loans, Banks, Banking.

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ЗМІНА РОЛІ БАНКІВСЬКИХ КРЕДИТІВ У РОЗВИТКУ МАЛОГО БІЗНЕСУ

Анотація. Стаття присвячена аналізу світової та вітчизняної практики кредитування малого бізнесу великими банками та зміні їх ролі як основних постачальників фінансових ресурсів. Також в статті досліджуються наявні та новітні альтернативні форми залучення ресурсів, які, на сьогоднішній день, більше відповідають потребам та можливостям малого бізнесу.

Аналіз статистичних даних дозволив зробити висновки, що кредитування малого бізнесу чотирма найбільшими банками в сіті різко впало в порівнянні з іншими починаючи з 2008 року і залишається відносно депресивним і досі. В статті досліджений динамічний процес коригування після цього шоку для кредитної пропозиції. У країнах, де найбільші банки мали високу частку ринку, сукупний потік кредитів для малого бізнесу впав, процентні ставки зросли, менша кількість підприємств розрослася, безробіття зросло, а заробітна плата знизилася. Деяко відновився потік кредитів після 2010 року, але активізувалися інші кредитори, які повільно заповнювали порожнечу, але процентні ставки залишалися підвищеними. Слід зробити висновки, що вплив цих факторів, а також розвиток технологій блок-чейн та поява альтернативних (громадських) форм фінансування і розвитку соціального підприємництва поступово призводять до втрачання ключових позицій банківського сектору у фінансуванні проєктів малого бізнесу.

Ключові слова: малий бізнес, фінансування та позики, банки та банківська справа, системні шоки, банківська справа.

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ИЗМЕНЕНИЕ РОЛИ БАНКОВСКИХ КРЕДИТОВ В РАЗВИТИИ МАЛОГО БИЗНЕСА

Аннотация. Статья направлена на анализ мировой и отечественной практики кредитования малого бизнеса крупными банками и изменение их роли как основных поставщиков финансовых ресурсов. В статье также исследуются существующие и формирующиеся новые альтернативные формы привлечения ресурсов, которые сегодня лучше отвечают потребностям и возможностям малого бизнеса.

Анализ статистики показал, что кредитование малого бизнеса четырьмя крупнейшими банками сети резко упало по сравнению с другими с 2008 года и остается относительно низким по сей день. В статье исследуется процесс динамической корректировки кредитного предложения после этого шока. В странах, где крупнейшие банки имели высокие рыночные доли, совокупные кредитные потоки для малых предприятий упали, процентные ставки выросли, уменьшилось количество предприятий, выросла безработица и упала заработная плата. Поток кредитов несколько возобновился после 2010 года, но другие кредиторы активизировались, медленно заполняя пробел, но процентные ставки оставались высокими. Следует сделать вывод, что влияние этих факторов, а также развитие технологий блок-чейн и появление альтернативных (публичных) форм финансирования и развития социального предпринимательства постепенно приводят к потере ключевых позиций банковского сектора в финансировании проєктов малого бизнеса.

Ключевые слова: малый бизнес, финансирование, ссуды, банки, банковское дело.

Problem statement. In recent years, there has been a steady deterioration of the economic system of Ukraine, slowing down its development. One of the main drivers of a market economy is small and medium-sized enterprises, which must form strong businesses through employment, cash flow generation and flexibility and maneuverability. Creating conditions for the emergence and development of small and medium enterprises (hereinafter – SMEs) is one of the priority areas of development of the Ukrainian economic system.

SMEs' business flexibility and decision-making autonomy allow SMEs to respond quickly to changes in the environment, better take into account consumer interests, quickly change the structure and adapt management decisions, change directions, diversify and create new jobs, taking participation in this way in the process of stabilizing the general economic situation in the country.

One of the key tasks facing public authorities is to create favorable economic and legal conditions for the development of SMEs. But the main condition for stimulating the development of this business sector is free access to financial resources, a simplified procedure for obtaining them, and therefore the role of loans in this process is reduced due to their inverse characteristics.

Review of the last research and publications. The issue of small and medium business development in recent years has been the subject of careful attention of many domestic and foreign scholars. Various aspects of the activities of small and medium-sized enterprises were subject to research enterprises. A significant contribution to the theoretical development of small and medium enterprises and analysis of the mechanisms of its credit and financial support was made by domestic scientists: Abramova I., Andreeva L., Belarus O., Bedrinets M., Varnaliy Z., Kornev Yu., Kruglyanko A., Mokryak V., Nekless A., Popov V. and

others. A significant contribution to the development of practical aspects of the outlined problems was made by Basiluk A., Bilous O., Vovchak O., Drugov O., Krupka M., Lash T., Moroz A., Reverchuk S., Savluk S. [12; 13]. This issue is also a part of interest for the foreign scholars, as the decline in the pace and volume of lending to SMEs is observed in the world market. Problems of the relationship between banks and SMEs studied A. Ashcraft, M. Gordon, B. McCarthy, C. Peter, B. Hoffman and others [5; 6; 7]. However, a number of issues related to bank lending to small and medium enterprises, the development of the optimal mechanism for financing SMEs in the world and in Ukraine need more thorough research.

Due to the tendencies of concentration and securitization, the financial sector in its current form in general and the banking system in particular are not ready to meet the needs of SMEs due to insufficient indicators in the Profitability-Risk relationship. Thus, today there is no effective financing mechanism for this business sector, which would take into account the factors of creditworthiness of such enterprises and the interest of the financial institution in providing credit.

Tasks of research. Analyze the current state of development of lending to small and medium-sized businesses in Ukraine, identify the main problems of financial support for SMEs and propose financing mechanisms that will allow SMEs to lend without going through a complex procedure of interaction with the bank.

The basic material of research. Small business today is dominant in the number and volume of production in many national economic systems, including and in Ukraine. Small businesses ensure the stability and flexibility of the economy, bring it closer to the needs of consumers, and play an important social role – provide jobs and provide a source of income for the majority of the population (fig. 1).

Fig. 1. The role of SMEs in the economic development

Source: own development

SMEs in Ukraine face a serious problem of access to financial and credit resources. The share of loans in SME capital is only 20 % against 60 % in developed countries. Mostly companies reinvest their own profits and investments of business founders in the business development. This situation is due to the high cost of bank loans or credits from other financial intermediaries. The minimum «preferential» interest rate is almost 18 % and is offered by almost one bank. The average cost of a loan is 20 %, which is a high price in conditions of economic downturn. The amount of loans actually granted for the year decreased in real terms by almost 2 times with a nominal increase of 15 %. The main reason for the reduction is the banking crisis and the economic downturn.

The development of SMEs allows solving urgent economic problems, as well as to improve the quality of life of society, i.e. is a key direction in the concept of sustainable development (Fig. 2).

According to the SMEs report (Statistics on small and medium business lending, 2019), SMEs accounted for 10,4 % (a year earlier – 14,4 %) of total business lending. Slowing down

the pace of getting new loans, reducing the financial portfolio size, increasing the share of overdue liabilities – the hallmarks of SME lending today. Only in 2020, small and medium-sized businesses were issued 24 % less loans [9]. The one side of this situation is lockdown.

The number of banks has decreased from 180 to 74 over the last 10 years (by only 10 banks over the last 2 years) in Ukraine. In 2018, the Ukrainian banking system showed a net profit (UAH 16,4 billion) for the first time in the last five years, in the previous 2017 there were losses of UAH 28,1 billion. The main reason for losses was a significant increase in allocations to reserves, which compared to 2015 increased one and a half times and amounted to UAH 198,310 billion (56,6 % of all costs during 2016). At the same time, banks' net operating income in 2018 was positive and amounted to UAH 92,757 billion, which indicates the ability of most banks to generate positive net operating cash flows in the future.

Fig. 2. Socio-economic functions of SMEs

Source: own development

In the IV quarter of 2019, banks' assets increased significantly: total – by 5,7 % and net – by 8,8 %. Banks' investments in NBU certificates of deposit increased the most, by UAH 92,2 billion for the quarter (including UAH 75,0 billion in December) to UAH 152,2 billion at the end of 2019. This was due to the record inflow of funds to the accounts of economic entities in December (+ UAH 70,7 billion), primarily from Naftogaz. Cash in circulation, NBU funds and interbank loans also increased.

During the quarter, net UAH loans to economic entities decreased by 6,1 % and by 6,2 % over the year. It was the most noticeable were in state-owned banks (excluding Privatbank) and foreign banks: by 10,6 % and 5,5 % for the quarter, respectively, due to repayment of loans from state monopolies and subsidiaries of international groups. Net foreign currency loans grew by 1,3 % in dollar terms for the quarter, but decreased by 4,1 %.

Net UAH loans to individuals grew by 6,6 % for the quarter and by 29,8 % for the year. The most active were private banks: + 13,3 % for the quarter and + 54,0 % for the year. The

non-performing loans share decreased by 0,6 % in the quarter and on the 4,5 % for the year to 48,4 % at the end of 2019. The quality of the corporate portfolio did not change during the quarter. Dollarization of loans to customers decreased by 0,5 % up to 40,7 % on a gross basis due to new retail loans in UAH and strengthening of UAH. On a net basis, it remained virtually unchanged at 35,4 % at the end of the year [10].

Only in the IV quarter, almost a year after the start of the pandemic, the NBU began to reduce the discount rate, the most significant in December 2019 – by 2 percentage points, and in January 2020 – by another 2,5 percentage points. The decrease in the discount rate contributed to a slight decrease in UAH loan rate to businesses in the fourth quarter by 2,4 percentage points to 15,7 % per annum. Over the quarter, the value of UAH loans to individuals decreased by only 0.5 percentage points to 33,6 % per annum. Interest rates on foreign currency loans to businesses are at a historically lowest level – 4,6 % in December 2019, however, this did not lead to an increase in foreign currency credit portfolio of banks (table 1, fig. 3).

Table 1

The net assets structure of the banking sector by components (%)

Indicators	2016	2017	2018	2019	2020
Cash	2,8	2,9	3,4	3,5	3,8
Domestic go- vernment bonds	19,2	19,4	26,1	29,9	24,6
Business entities loans	38,2	38,0	34,2	34,7	27,8
Loans to individuals	6,0	6,1	6,9	8,4	9,5
Funds in the NBU	13,8	14,2	11,7	11,4	15,3
NBU deposit certificates	5,9	5,4	5,0	4,6	10,2
Others	14,1	14,0	12,7	7,5	8,8

Source: own development on the materials of NBU

Fig. 3. The place of business entities loans in the structure of net assets

Source: own development on the materials of NBU

In addition to the decline in total lending volumes despite lower rates observed reductions in the share of small businesses in such lending.

Small businesses and banks act in the lending market as business partners. Depending on how well they understand each other's problems and needs, the results of their cooperation depend as much. Naturally, banks and small businesses have different views on lending to small and medium-sized businesses. However, they are united by a common goal – to find ways to grow for themselves and the economic system as a whole.

Ukrainian banks are very reluctant to lend to small businesses, considering it very risky. The funding programs, which have recently begun to appear, do not involve investing at the start. The company must operate for at least six months and provide convincing evidence of its reliability. Naturally, this significantly limits the opportunities for small business development [41]. At the same time, competition in the market of micro and small loans is undoubtedly present. This type of lending carries significant risks for both the lender and the borrower, resulting in high interest rates. However, there are some advantages: efficiency, lack of paperwork.

Bank lending to small businesses continues to decline, despite the fact that banks have been spending heavily on advertising in the last few years to attract borrowers, despite the fact that, as already mentioned, lending needs are very high. The reasons for this situation are the reluctance of banks to work with start-ups and the fact that banks are generally willing to lend only to companies that are firmly on their feet. These loans should be secured by solid collateral with the condition of its insurance in favor of the bank, which also increases customer costs. There are also requirements for the structure of collateral – banks do not want to get goods in circulation as collateral.

The next problem of SME lending is the estimate system. The borrower's business is evaluated using classical financial ratios with the setting of parameters at the level recommended by the classical theory of lending, i.e. often

no industry or segmental differentiation is used.

Defining such parameters at the level of big business almost does not leave SMEs able to obtain credit. Such system can have an extremely negative impact on the bank's performance, when banks choose a consciously conservative approach, which virtually guarantees a portfolio with low arrears, but this entails cutting off potentially promising and high-quality borrowers.

As in previous years, the key sectors of the SME segment, in which solvent borrowers are concentrated, will remain wholesale and retail trade in food, services, food production, pharmaceutical trade, and agricultural enterprises. Companies from other sectors will be forced to seek resources either in credit unions, or take private loans, or apply to small specialized banks (table 2).

Table 2

The main directions of SMEs lending (February, 2021)

Total	Loans provided (thousand UAH)		
	total	national currency	foreign currency
	71 510 500,00	40 067 899,00	31 442 601,00
Agriculture, hunting and related services	12 662 381,72	10 121 841,47	2 540 540,25
Extraction	367 802,00	358 089,00	9 713,00
Food production	2 413 846,08	1 936 020,42	477 825,65
Beverage production	538 376,72	538 376,72	0,00
Woodworking and manufacture of wood and cork products, except furniture; manufacture of articles of straw and of plaiting materials	319 504,78	109 383,01	210 121,77
Manufacture of paper and paper products	187 371,51	156 722,76	30 648,75
Printing activity, reproduction of recorded information	161 714,95	93 115,03	68 599,93
Production of chemicals and chemical products	508 763,99	382 942,27	125 821,73
Production of rubber and plastic products	622 241,80	458 458,48	163 783,31
Manufacture of other non-metallic mineral products	347 422,88	290 284,52	57 138,37
Metallurgical production	249 669,06	198 109,27	51 559,79

Continue table 2

Manufacture of fabricated metal products, except machinery and equipment	857 118,09	519 573,54	337 544,55
Manufacture of computers, electronic and optical products	243 066,08	29 611,25	213 454,83
Manufacture of electrical equipment	3 743 593,49	394 508,84	3 349 084,65
Manufacture of machinery and equipment	357 012,24	278 667,63	78 344,61
Manufacture of motor vehicles, trailers and semi-trailers	119 218,82	118 808,36	410,46
Manufacture of other transport equipment	4 018 250,40	330 405,88	3 687 844,52
Manufacture of furniture	261 519,55	95 804,47	165 715,09
Supply of electricity, gas, steam and air conditioning	9 239 733,86	518 334,49	8 721 399,37
Construction of buildings	2 356 357,18	2 131 834,33	224 522,85
Construction of buildings	216 764,67	191 298,44	25 466,23
Specialized construction works	296 678,81	194 517,46	102 161,35
Wholesale and retail trade in motor vehicles and motorcycles, their repair	1 281 043,51	856 642,50	424 401,01
Wholesale trade, except of motor vehicles and motorcycles	12 081 515,27	9 175 984,77	2 905 530,50
Retail trade, except of motor vehicles and motor-cycles	603 572,57	417 758,39	185 814,18
Land and pipeline transport	707 980,69	393 813,41	314 167,29
Water transport	36 724,34	35 725,91	998,43
Warehousing and support activities in the field of transport	1 328 560,71	602 106,66	726 454,05
Temporary accommodation	442 212,72	229 881,29	212 331,43
Provision of financial services, except insurance and pension funding	3 493 679,33	2 646 844,21	846 835,12
Real estate transactions	6 948 879,16	3 922 617,89	3 026 261,27
Activities in the fields of law and accounting	358 405,57	358 405,57	0,00
Rent, hire and leasing	2 554 421,54	729 057,27	1 825 364,27
Activities of travel agencies, tour operators, other booking services and related activities	100 628,83	88 528,98	12 099,85
Maintenance of buildings and territories	104 207,30	104 207,30	0,00
Health care	174 790,44	91 828,22	82 962,22
Others	1 205 469,33	967 789,01	237 680,33

Source: own development on the materials of NBU

Small and medium-sized businesses are very sensitive to the negative changes in the dynamics, especially imposed on the funding reduction. In such circumstances, the traditional role of the state should be complemented by operational and comprehensive measures. In developed countries, 50 % of all funds allocated under government prog-

rams are used to support business. Assistance to this sector is justified by its important role in the economy.

In European practice, a common method of financing SMEs is to use the resources of special funds. For example, the German KfW Bank and Landesbank offer microcredit for private entrepreneurs who have a small business of their

own and are concerned about liquidity.
For them, banks offer independent consulting and favorable lending terms:

- Microloans for small businesses from € 10,000 to € 20,000;

- Loan for new business up to € 100,000 with 80 % repayment;

- Corporate loan for independent business up to € 500,000;

- Loans secured or collateral for independent business (table 3) [8].

Table 3

Microcredit funds for private investors in the EU

Fund	Minimum Investment	Productivity	payment		Premium
			1 year	3 years	
Responsibility Global Microfinance	1,000€	4,53 %	3,79 %	2,00 %	5,00 %
Wallberg Global Microfinance	1,000€	3,17%	-	1,50%	3,00%
Responsibility Microfinance	1,000€	3,16%	-	2,20%	5, 00%
Dual Return Vision Microfinance	20,000€	2,54%	4,97%	1,25%	3,00%
Responsibility Microfinance Ldr Q	1.000.000€	-0,61%	-	2,20%	5,00%

Source: own development on the materials of COSME

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