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FINANCING METHODS FOR SMALL BUSINESSES IN A MARKET ECONOMY

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The article examines the options for financing small businesses in a market economy, compares domestic and foreign lending programs and the methods used to reduce credit risk. The possibilities of the Development Bank and the Belarusian Fund for Financial Support of Entrepreneurs for financing small businesses were analyzed.

Keywords: credit risk, small businesses, forms of financing, banks, Belarusian Fund for Financial Support of Entrepreneurs, financial activity, market economy.

МЕТОДЫ ФИНАНСИРОВАНИЯ МАЛОГО БИЗНЕСА В РЫНОЧНОЙ ЭКОНОМИКЕ

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Рассмотрены варианты финансирования малого бизнеса в условиях рыночной экономики, сравнены отечественные и зарубежные программы кредитования, а также методы, используемые для снижения кредитного риска. Проанализированы возможности Банка развития и Белорусского фонда финансовой поддержки предпринимателей по финансированию малого бизнеса.

Ключевые слова: кредитный риск, малый бизнес, формы финансирования, банки, Белорусский фонд финансовой поддержки предпринимателей, финансовая деятельность, рыночная экономика.

Over the past decades, the role of small business in the economy has been increasing. This growth is due to a number of objective trends in the development of social production – for example, the transition to flexible non-mass production that meets the specialized needs of consumers, the development of small markets, shifts in the structure of consumer demand, etc. In modern market systems, preference is given to efficiency, which is achieved through rapid adaptation to changes in the external environment. At the same time, small organizations are distinguished by a more flexible response to changes in market conditions, the ability to use proximity to local markets, good knowledge of the clientele, relative cheapness of goods and services due to narrow specialization, the use of cheaper means of production, speed and flexibility in making managerial decisions. The success of small business development is closely related to the lending activities of commercial banks, since these business entities need external loans at all stages of economic activity.

Credit risk is equally inherent in both banks and entrepreneurs, and may be and may be related to the likelihood of a decline in production or demand for products of a certain industry, non-fulfillment of contractual relations for some reason, transformation of types of resources (most often by time) and force majeure. As a result, financial institutions tend

to give loans to small businesses at an inflated interest rate and require additional guarantees, which further complicates lending to MSEs (micro and small enterprises – approx. the author) by banks.

In order to support MSEs and determine the development of this sector, international governmental organizations in the EU (the European Parliament, the European Commission, etc.) have long taken measures, the main among which is the creation and support of banks, which primary function is to finance MSEs [4].

Banks, in terms of interaction with the MSE sector, can be divided into two categories: banks independently implement a lending policy, and banks that implement government, foreign and international credit lines [5].

Banks of the first category have several subcategories. In the Netherlands, credit resources for the MSE sector are available in all banks, in Romania – in the CES Bank, in Bulgaria – in the Development Bank, etc. So, in the UK, Barclay's Bank has developed two programs for business creation and expansion. According to the first one, the loan amount ranges from 5 to 100 thousand pounds, provided for a period of 5 years. Interest (15–17 %) is charged on the annual turnover of the company, not on the loan amount. According to the second program, the loan amount ranges from 5 to 500 thousand. The loan is issued for a period of 2 to 20 years for the purchase of equipment, etc. The interest on the loan is set in accordance with the current rate of the central bank or determined by the bank itself.

The Hungarian Development Bank, which is owned by the state, provides preferential loans to SMEs for a period of 10 years, interest-free loans and refinancing loans for a period of 7 years, concessional financing of capital investments and working capital with a long circulation cycle for a period of 5 years.

The Export-Import Bank of the United States (EXIM) is the official export credit agency of the United States. EXIM's credit schemes are universal and apply regardless of the country. The procedure for obtaining an export loan provides for payment of the competition fee and submission of an application to the competition commission. The minimum loan term is 1 year, the loan amount cannot exceed 85 % of the cost of goods. The amount of insurance premiums is determined by EXIM independently, considering the risk of a particular country, the amount of self-risk assumed by the policyholder, as well as EXIM's own business policy. In EXIM practice, insurance premiums for non-market (political) risks range from 2.5–5 % [4].

To solve the problem of credit risk in the Republic of Belarus, such methods as credit scoring and the formation of a reliable composition of customers are currently used, but they are no longer sufficient [1]. The existing system needs to be reformed by introducing new methods of reducing credit risk.

One of these methods may be the institution of a "syndicated loan" with equity participation, like the American CDC/SBA 504 program. The 504 loan program provides long-term, fixed rate financing for major fixed assets, such as equipment or real estate. 504 loans are available through Certified Development Companies (CDCs), Small Business Administration's (SBA) community-based partners who regulate nonprofits and promote economic development within their communities. This program implies that the bank, which is also the agent, subsequently provides 50 % of the requested amount to the borrower, 40 % is provided by a third-party organization, such as the Development Bank, the remaining 10 % is the funds of the borrower himself [4].

Consideration of problematic issues in syndicated lending between commercial banks in the Republic of Belarus allows us to conclude that, against the background of all the advantages of this credit instrument, joint work of commercial banks is currently practically

impossible. However, it is quite realistic for an individual bank to work, especially in a crisis period, on the principle of "syndication" (co-financing) with an organization providing financial support to MSEs (for example, the Development Bank [3] or the Belarusian Fund for Financial Support to Entrepreneurs (BFFSE)).

In practice, this mechanism can be implemented in several ways. The most likely of them is the following: a commercial bank as an agent plus a Development Bank as a lender. Considering the fact that the Development Bank will not risk its financial resources by providing support to SMEs, it is most likely that an additional entity should be included in this scheme, which will partially provide collateral to the agent bank instead of the borrower and fully provide funds allocated by the Development Bank up to 60 % of the loan amount [2].

In Belarus the closest approach to this practice is a guarantee mechanism based on the Belarusian Fund for Financial Support of Entrepreneurs. This project not only reduces the cost of borrowed funds for MSEs, but also provides targeted support by allocating funds in favor of the most effective entities and promising projects.

The second option of the co-financing mechanism implies that, in addition to the bank, the analysis of the application will be carried out by both the Development Bank and the BFFSE. When applying for a loan from the MSE under the co-financing program, the bank evaluates its creditworthiness and analyzes a number of the following factors: the macroeconomic situation, the financial condition of the borrower, the quality of management of the borrower company, credit history, the quality of the collateral provided, etc.

At the stage of approval of the MSE application, the bank applies to the Development Bank to confirm participation in the transaction. In case of confirmation of participation, the Development Bank sends a package of documents to the BFFSE, which within two days decides on the issuance of a guarantee (the maximum amount of the guarantee cannot exceed 60% of the loan amount). Then the client pays the BFFSE commission to the bank, which, having a power of attorney to sign a guarantee agreement from the BFFSE, concludes a deal with the client.

In its final form, this transaction represents the following:

1) sources of financing – commercial bank (from 50 % of the amount of the main obligation), Development Bank (up to 40 % of the amount of the main obligation), client (10 % of the amount of the main obligation);

2) the organization that provided the loan is a bank (from 50 % of the total amount of the project);

3) collateral – from 40 % of the main obligation is assumed by the client, up to 60 % of the main obligation is assumed by the BFFSE.

Thus, in the case of credit interaction between a commercial bank and a small business, it is necessary to reduce the level of credit risk for both. Small businesses need to come out of the shadows, earn a decent credit history, be a conscientious borrower, and then all credit markets (both short money and investment) will be open to entrepreneurs. Commercial banks, in turn, should not be afraid to work with small businesses, since this sector of the economy has a future and huge development prospects. Banks should develop civilized small business lending programs and consider various methods of minimizing credit risk in these programs.

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ЗНАЧИМОСТЬ ПРИНЦИПОВ И ИНСТРУМЕНТОВ ИСЛАМСКОЙ ЭКОНОМИКИ И ФИНАНСОВ В УСЛОВИЯХ СОВРЕМЕННЫХ ВЫЗОВОВ МИРОВОЙ ЭКОНОМИКИ

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В контексте вызовов современного мира или современной экономики значимость принципов и инструментов исламской экономики и финансов является актуальной темой для исследования. В данной статье рассмотрены основные принципы исламской экономики, такие как запрет на проценты (реба), запрет на азартные операции (майсир), принцип равенства и справедливости в распределении богатства, а также использование договоров участия (мудароба и мурабаха). Показано, как эти принципы могут быть применены для решения вызовов современного мира, таких как финансовая устойчивость, социальная справедливость, устойчивое развитие и борьба с финансовыми кризисами. Кроме этого затронуты вопросы стратегии исламского финансирования, что укрепит доверие клиентов и инвесторов, обеспечивая защиту их интересов от рисков несоблюдения принципов Шариата.

Ключевые слова: исламская экономика, реба, майсир, такафул, сукук, мурабаха, ижара и мудариб.

THE IMPORTANCE OF THE PRINCIPLES AND INSTRUMENTS OF ISLAMIC ECONOMY AND FINANCE IN THE CONTEXT OF MODERN CHALLENGES OF THE WORLD ECONOMY

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In the latest challenges of the modern world or modern economy, innovation and tools of Islamic financial economics are a hot topic for research. This article examines the basic principles of Islamic economics, such as the prohibition of interest (reba), the prohibition of risky transactions (maysir), the principle of equality and fairness in the distribution of wealth, and the use of participation agreements (mudaraba and murabaha). In addition, we will consider how these principles can be applied to solve problems of the modern world, such as financial stability, social justice, sustainable development and the fight against crisis phenomena. In addition, the article discusses the issues of Islamic finance strategy, which will strengthen the trust of clients and slow down their work, ensuring the protection of their interests from the risk of non-compliance with Shariah norms.

Keywords: Islamic economics, reba, maysir, takaful, sukuk, murabaha, izhara and mudarib.