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EUROPEAN MODEL OF LENDING SMALL BUSINESS ENTITIES

Abstract. In the article investigated the experience of formation, development and operation of small business crediting in the developed countries. Also systematic differences between foreign experience of small businesses crediting based on the determination of the European model of crediting.

Studying the experience of a European model of lending to small businesses is important in terms of developing a long-term strategy for developing and supporting small businesses. Much of this experience can be reflected in the legal, organizational and institutional forming of Ukrainian policy related to small business, both at the national level and at the level of each individual region. According to the realities of the Ukrainian economy of these foreign tools that promote small business loans, you can create associations of mutual guarantees and state insurance fund credit risks. Using these tools will allow small businesses receive guarantees from its counterparties to obtain credit in the bank, not to burden the state budget and develop financial risk insurance.

Keywords: crediting, small business, banks, state, financial support.

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ЄВРОПЕЙСЬКА МОДЕЛЬ КРЕДИТУВАННЯ СУБ'ЄКТІВ МАЛОГО БІЗНЕСУ

Анотація. В статті досліджено досвід розвинутих країн щодо становлення, розвитку та функціонування кредитування малого бізнесу. Також, систематизовано відмінності зарубіжного досвіду кредитування малого бізнесу на основі визначення змістовності європейської моделі кредитування.

Ключові слова: кредитування, малий бізнес, банк, держава, фінансова підтримка.

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ЕВРОПЕЙСКАЯ МОДЕЛЬ КРЕДИТОВАНИЯ СУБЪЕКТОВ МАЛОГО БИЗНЕСА

Аннотация. В статье проведено исследование опыта становления, развития и функционирования кредитования малого бизнеса в развитых странах. Также систематизированы отличия иностранного опыта кредитования малого бизнеса на основе определения содержания европейской модели кредитования.

Ключевые слова: кредитование, малый бизнес, банк, государство, финансовая поддержка.

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Problem statement. Small business plays an important role in the economy of any country. The developed small business sector in the country has a positive effect on the creation of new jobs and self-employment of the population, on the saturation of the market with goods, it solves many socio-economic problems. Small business effectively implements advanced technologies and successfully uses various innovations. The share of small business in the GDP of developed countries is 60-70%, supported by it annually to 3% of the expenditure part of the budget. Along with this, assistance to small businesses in different countries is carried out in different ways, but necessarily with certain participation of state authorities: direct privileged subsidies, loan guarantees received from private banks, preferential taxation.

Analysis of research and problem statement. The studies of small business lending are laid down in the scientific works of such foreign scholars as O.O.Blinova, M. Dietsch, L. Guiso, A. A. Plotnikov, R. Tepper, W. Frame and others. Among domestic scientists problems of lending to small businesses were studied by G. M. Azarenkova, A. I. Antoniuk, E. A. Bobrov, A. V. Vasyurenko, S. G. Driga, V. I. Lyashenko and others.

The purpose of the article is to analyze the foreign experience of lending to small businesses.

Research results. The leading role in the creation of a market economy in many countries of the world is played by small businesses. A large share of enterprises and gross domestic product consists of small businesses (Table 1). A special role is played by small business entities in the service and trade sector. [7, 8, 9]

Table 1

The role of small business in the economy of some European countries [7, 8, 9]

Country	The share of small business in the total number of employed (%)	The share of small business in GDP (%)
The UK	52	53-56
Germany	69	55-57
France	60	54-55
Italy	73	58-60
Sweden	39	56-57
Turkey	27	65-66
Hungary	65	50-52
Poland	60	50-52
Ukraine	7	10-11

By exploring the foreign experience of lending to small businesses, the main emphasis is on the experience of France, Germany, namely countries that are the main sponsors of international assistance programs for small business, which are provided in Ukraine.

Different countries in Europe and Asia have different models of small business lending. The list of the most important trends in the relationship between French banks and small business entities include [1]:

- the establishment of not only traditional settlement and cash relations, but also a wide partner dialogue and strengthening of consulting and even pedagogical functions of the bank in relation to the subjects of small business;
- approach to operations with small business entities as a strategic sector of the bank's activities;
- usage of the latest profit and risk management tools in relation to small business.

Despite numerous achievements, French banks are constantly looking for additional opportunities for developing partnerships and dialogue with their small business customers.

In France the process of formation and increase of bank profits is associated with the provision of banking services to small businesses, which can be divided into several areas:

- supply of financial resources to enterprises;
- development and introduction of new banking products for small businesses;
- improvement of the internal banking management;
- "customer support" policy.

In France there is a Mutual Guarantee Association, an organization with small and medium enterprises, as well as other interested enterprises and organizations. The sphere of activity of the Society is small business, 30% of their activity is industry and construction, 27% - shops, transport, tourism, 20% - trade [9].

Since small business loans have a high degree of risk, banks that lend a small business are working closely with the Mutual Guarantee Association. This Society serves as a guarantor for small businesses, decides the expediency of obtaining a loan by an entrepreneur, makes personal data file for him, which is transferred to the bank. As a result of its activities the Mutual Guarantee Society expands the risk of one client to many.

Also in France the SOFARIS (Socrates Française de Garantie des Petits et Moyennes Entreprises), a State-owned Joint-Stock Company for Credit Risks of Small and Medium-sized Enterprises was established. Thus, in France there is a well-worked out structure of small business organization and its financial and credit support.

The subject of a small business must provide the bank with a budget estimate of the costs that are subject to lending. The bank verifies the estimate of its adequacy (this measure is a means of efficient use of the resources provided). In order to ensure timely repayment of the loan, the bank will require a small business guarantee. In this case, a mortgage (mortgaged land), mortgage motor property, warrantee may be used. The guarantor for small businesses is the Mutual Guarantees Association. At the expense of contributions from members - members of the company, a guarantee fund is created. It serves to repay the losses of members of the company, as well as the bank's credit risk. The Mutual Guarantee Company provides the Bank with a personal data file of its clients. Personal data file does not consider the essence of the issue of granting a loan, but before the provision of it to the bank, the Society itself evaluates the risk of a particular financial transaction and decides on the appropriateness of providing a loan to a small business entity.

The Mutual Guarantee Society diversifies the risks of one client for many. If the Company does not have enough guarantee fund, then it can use its primary capital, which was formed at the time of creation of the partnership.

SOFARIS is a major insurance company of credit risk in France. At the same time the state is taking part in its funds in the insurance of credit risk and does not interfere with the activities of the bank, which cooperates with the subject of small business and does not interfere in the activities

of SOFARIS. SOFARIS does not have direct links with a small business entity, but only with a bank. Only banks are clients of SOFARIS.

SOFARIS is a society of mixed economy: 34% - state contributions, 46% - banks and other institutions. The amount of SOFARIS in the capital is 20%. SOFARIS has 12 regional agencies and commercial banks in its structure. The company provides assistance to small business entities through the modernization of equipment and international cooperation and also has a special fund for lending their research projects, development of new products and putting them on the market.

Thus, SOFARIS is an organization that shares responsibility for credit risk between the state, banks and insurance companies. SOFARIS does not itself analyze credit risk, but delegates this work to banks. Banks are preparing a personal data file for a client whose credit risk he SOFARIS will insure. If the risk is not justified then SOFARIS does not compensate the loss and possible bankruptcy of the bank. Therefore, not all banks assume the responsibility to calculate the risk for SOFARIS. In this direction SOFARIS develops its own activities, but it only specifies the rules by which the bank determines the risk.

The guarantee for loans to small business entities insured by SOFARIS is in following: if a small business entity fails to repay the loan within a specified time due to its insolvency, the bank notifies it to SOFARIS and requests that it cover its insured risk. In turn, SOFARIS applies to the bank to make a certain loan repayment on the insured loan at the expense of a small business entity (using of a mortgage right, saling a part of values, etc.). SOFARIS pays only the risk, which is the ultimate damage to the bank and it can not be reduced by other methods. The interest on the loan is also reimbursed. Usually SOFARIS reimburse investment loss when almost 50% of the capital is lost.

Schematically, the model of small business lending by French banks looks like this (Fig. 1).

Despite the difficulties and high levels of risk most French banks have made significant progress in lending to small businesses. An analysis of the activity of these banks can reveal certain factors of success:

- banks that have active interaction with small business entities have developed regional network of branches, which is geographically as close as possible to the subjects of small business, allowing them to establish more trusting and stable relations with them;
- creation, including by means of targeted PR-companies, of the bank's image as a financial institution, "close interests of small business entities", which consider the relationship with small business entities as a strategic goal;
- policy of lowering interest rates on loans and prices for other banking services, the essence of which is that banks that want to attract new clients - small businesses, offer them various services at preferential and differentiated rates.

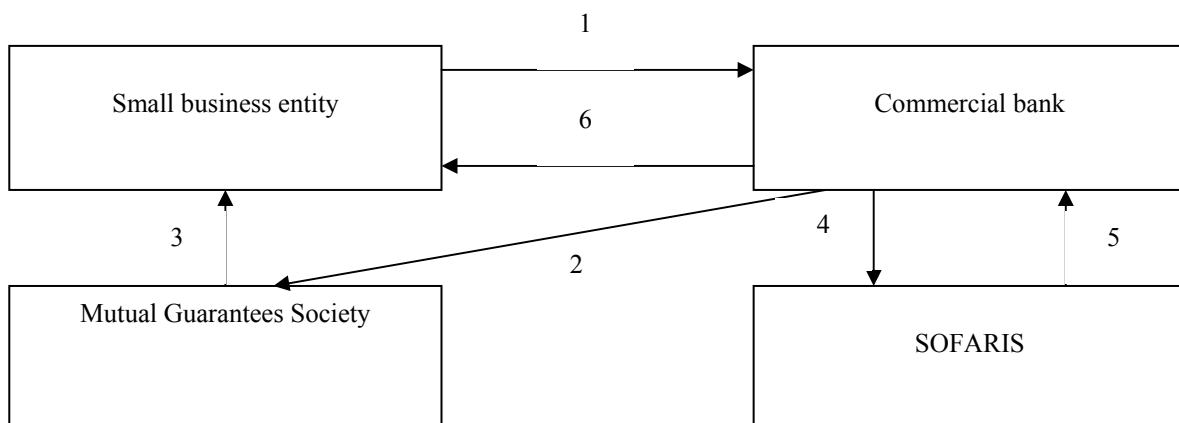


Fig.1 Model of small business lending in France. [8, 9]

- 1 – a small business entity appeals to the bank to provide him with a loan and provides the appropriate package of documents for this;
- 2 – the commercial bank transfers the documents to the Mutual Guarantees Association;
- 3 – the association after checking the documents, gives consent to a credit transaction, and becomes a warrantee for a small business entity;
- 4 – commercial bank sends documents for credit for consideration to SOFARIS;
- 5 – when agreeing the lending SOFARIS insures the credit risk of a commercial bank;
- 6 – granting a loan.

An interesting experience of state and state institutions involvement in solving small business lending is in Germany. A typical situation for lending to small business entities is the business relationship between a bank and a small business entity that is based on the principle of a bank-firm, that is, a bank with relevant experience and traditions of interaction with small business entities, most often with the subjects of small business of the corresponding profile and orientation on the basis of stable long-term cooperation.

Decisions in Germany in the field of small business development policy are taken by federal, state and district governments as well as by the Commission of the European Union in Brussels. In order to load the public administration and increase the effectiveness of supporting small enterprises, important functions for assisting in their development were transferred to certain public law institutions - specialized banks such as Kreditanstalt für Wiederaufbau (KfW), which is 80% owned by the state and Deutsche Ausgleichsbank, as well as private business organizations that are self-regulating, for example the Chamber of Commerce and Industry.

KfW is the most significant specialized lending organization that implements federal small business support programs. The main business of KfW is lending to small businesses through business banks. The business bank controls applications for loans, transfers them to banks and pays small businesses the required amount of credit funds. Such a scheme allows KfW, a state-owned lending institution, to make flexible loans flexible and in accordance with the principles of a market economy. But making small business loans KfW maintains a neutral stance with respect to the business of competing banks. In turn, business banks assume at least 50% of the risks associated with non-repayment of the loan. Part of the remaining risk is taken by KfW. The greater part of the risk takes on the business bank, the greater the margin it receives as a mediator of KfW. Therefore, it is advantageous for business banks to have in the staff of competent analysts who thoroughly examine the client's loan business and decide on which part of the risk a bank can assume.

Preferential lending to small businesses is the most used instrument of government financial support in Germany. Preferential loans are called latent financial assistance, since the amount of aid is the difference between market, preferential and market rates (a loan subsidy). Other types of covert financial assistance include guarantees for loans provided by specialized banks, and the shareholding of investment companies in the capital of a small business entity, if these banks or companies, as well as amounts of covert assistance, are financed by the state.

In Germany, a federal loan support program for small start-ups is also under way. Up to 40% of investments in the creation of enterprises can be financed without the provision of guarantees, with the help of especially preferential loans, which are provided without interest for the first two years, up to 20 years, and exempt from the obligation to return for 10 years (the maximum loan amount is 1 million euros). Such loans replace the equity of a new company, because the state assumes the risk of non-repayment of the loan in full.

The next federal program is to support small businesses by providing guarantees and sureties. Specialized guarantee banks assume the risk of non-repayment of loans by 80% of the loan amount by providing guarantees and sureties to new and existing small businesses. With the help of them it becomes possible to obtain a loan to those small business entities who do not have or have inadequate capacity to provide a loan. The federation and the federal lands on which the guarantee bank is located cover up to 60% of the risk of the guarantee bank by providing it with its own guarantees.

The model of small business lending in Germany is presented in Fig. 2.

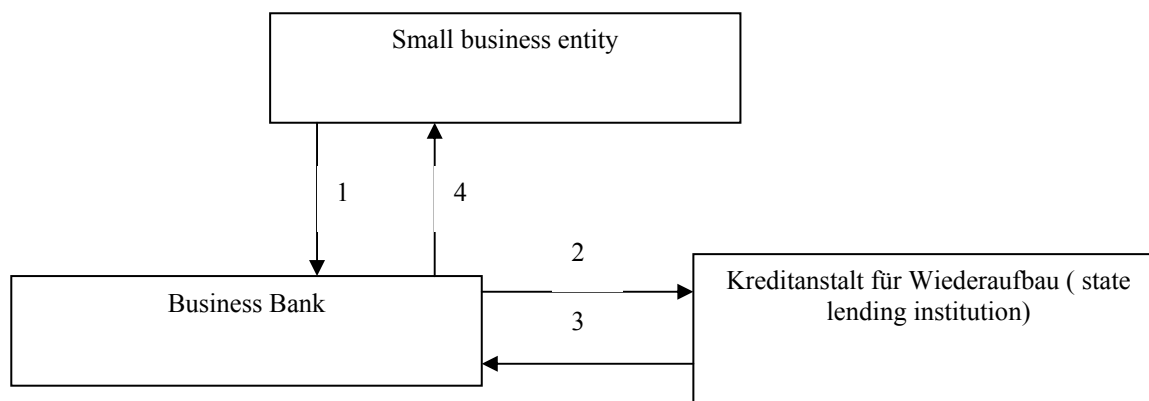


Fig.2 Model of small business lending in Germany, [6, 9, 11]

1 - a small business entity provides a business application to a business bank;

2 - the business bank carries out an analysis of the application and transmits the KfW documents in the calculation of the share of risk that the bank can assume (at least 50%);

3 - KfW examines the borrower's documents, agrees to insure the remaining risk share and provides the business bank with preferential credit (the higher the risk percent assumes the business bank, the greater the margin he receives from KfW as an intermediary);

4 - a business bank receives a preferential loan from KfW.

German small business entities show a clear preference for lending. The long-term relationship between the bank and the small business entity, the comprehensive nature of banking services for small businesses is positively reflected in these partnerships, which in turn allows small business entities to obtain long-term loans and their effective use.

By the end of 2016, the KfW State Bank implemented a program for promoting private loans for small businesses totaling 15 billion euros. Also, the implementation of the program on granting loans and guarantees for small businesses with the use of new financial instruments totaling 115 billion euros continues.

The European model of lending to small businesses aims to ensure employment and the most even distribution of income. A characteristic feature of this model is that for small businesses in the form of lending, they create the most favorable conditions for their development in all regions. At the same time, a large amount of money is spent on the creation of Industrial and Technological Centers, Business Incubators.

The study of this experience is important for Ukraine, especially in terms of developing a long-term development strategy and supporting small businesses. Much of this experience has been reflected in the legal, organizational and institutional design of Ukrainian policy related to small businesses, both at the national level and at the level of each individual region. But at the same time, a large number of components of the experience of developed economies is due to other economic and social factors, which prevent them from fully utilizing them in Ukraine.

Conclusions. Due to the realities of the Ukrainian economy, these foreign instruments which promote the development of small business lending can be distinguished from mutual guarantees and the State Fund for credit risk insurance. The use of these tools requires a certain transformation for the Ukrainian economy. The use of the pooling of mutual guarantees is possible if the business entities have reliable information about the counterparty's activities. Truly information can be obtained by business entities if they are "interested" in one another. Execution of this condition is possible among economic entities operating within the framework of cooperative ties, for example, subcontracting. This will enable small business entities that work under subcontracting contracts to obtain guarantees from their counterparties to obtain a loan from a bank.

Usage of the state-owned fund of credit risk insurance as a tool to stimulate the development of small business lending in the form of insurance non-budgetary funds, and insurance companies operating in the domestic insurance market. On the one hand it will not burden the country's budget, on the other hand - to develop financial risk insurance.

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