The role of crediting small- and medium-sized enterprises in facilitating sustainable economic development and improving quality of life

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\textbf{Abstract.} The article highlights the role of small- and medium-sized enterprises in social and economic development. It is mainly focused on assessing mechanisms and methods of direct and indirect credit backing given to small- and medium-sized businesses; the backing is given by the banking sector and government agencies. Comparing the performance of Russian and foreign small- and medium-sized enterprises, it becomes obvious that Russia falls behind the leaders and lacks favourable environment. The article emphasizes the need to change the participation of banking system in small- and medium-sized enterprise crediting. It is reasonable to increase the performance through simplifying the lending procedure: minimizing a personalized approach to issuing guarantees to borrowers; providing guarantees to banks on the basis of expert evaluation of methods and techniques implemented to assess borrowing capacity and type of transaction. The results obtained are to be of interest to domestic and foreign banking system and government agencies aimed at improving the performance of small- and medium-sized enterprises.

\section{1 Introduction}

Economic uncertainty observed in the domestic and global economies over the past five years points to the need to determine the key priorities for improving social and economic aspects that provide sustainability.

From our standpoint, small- and medium-sized businesses appear to play an important part in economic sectors. The standpoint is based firstly on the fact that small- and medium-sized businesses provide diversification of enterprises and organizations involved in producing gross national product. The amount of these enterprises in a developed or developing economy is significant. They are characterized by income restrictions and a limited number of employees. In Russia these parameters are regulated by Federal Law № 209 – FL”On developing small- and medium-sized businesses in the Russian Federation”. It says that the number of employees in medium-sized businesses varies between 101 and 250 employees, maximum revenue is RUB 2 billion; the number of employees in small-sized businesses is to be up to 100 people, revenue is RUB 800 million; the maximum number of employees in micro business is to be up to 15 people, and the revenue is RUB 120 million.
We consider diversification represented in different ways to be the main method of risk minimization in economic instability.

Secondly, the ability of small- and medium size businesses to boost economic growth in a short period of time has been repeatedly proven. It is widely used in fast-growing economies such as China, India, and African countries [1, 2]. The economists have estimated that the contribution of SME to the country’s GDP is 45-60% [3, 4]. Researchers emphasize the advantages providing rapid growth rates such as efficient formation, mobility, and adaptability to changing market conditions [5, 6, 7].

Thirdly, developed small- and medium-sized businesses increase employment and income. In this aspect, scientists highlight the appearance of the middle class whose representatives ensure social stability due to the small- and medium-sized businesses [8].

Greater attention is focused on small and medium-sized businesses at the public level. However, domestic economists note negative trends in its development [9, 10, 11, 12]. The major problem has long been considered the inadequate attraction of money [1, 3, 4, 10, 11, 12, 13]. Therefore, deterrents to small- and medium business crediting and banking industry are to be assessed and the measures to minimize them are to be identified.

Materials and Methods

The share of small and medium-sized businesses GDP in Russian (at current prices) has long been about 20 per cent [10, 20]. It is one of the minimum values typical of a developed or a developing economy. At the same time, the number of enterprises in this segment is decreasing both aggregatedly and by business types. The number of enterprises reduced from 16669 in 2017 to 15650 in 2020. The number of medium-sized enterprises decreased dramatically from 256698 to 221960 by 2020. Microbusinesses didn’t change dramatically. The number of enterprises dropped from 2497879 in 2017 to 2425132 enterprises in 2020 [20]. Profitable enterprises preserved market share in small- and medium-sized business sector which is considered as a positive aspect. Thus, the share of profitable small and micro businesses varies between 79-80%. 77-79% of medium-sized enterprises is profitable within the period 2017-2020 [20].

At the same time, the decrease in the number of participants didn’t affect the turnover of small- and medium-sized businesses. All types of enterprises show an increase in performance within the analysis period. The turnover of medium-sized businesses increased from 7452.2 billion RUB to 7582.6 billion RUB; small businesses increased from 27586.3 billion RUB to 28712.0 billion RUB; and micro businesses grew from 20872.8 billion RUB to 24251.8 billion RUB [20]. Despite inflationary effects, these results can be considered positive for the economy which is affected by sanctions, decreased aggregate effective

However, in spite of events in 2020 the index of entrepreneurial confidence of small- and medium-sized businesses in most economic sectors has shown a negative value in recent years [20]. For this reason, such problems as economic uncertainty, insufficient demand for goods, lack of financial resources are worsening.

The changes in the number of small- and medium-sized businesses inevitably led to social consequences which resulted in employee redundancy in this sphere both in the aggregate volume and in the share of the total workforce. Small- and medium-sized businesses tend to decline in 2020: the number of employees in medium –sized enterprises decreased from 1,499,9 to 1,455,7; the number of employees in small-sized enterprises decreased from 6671.8 to 5977.6. Microbusiness has fluctuated significantly but the number of employees hasn’t changed dramatically; in 2017 - 4,687.2, in 2018 - 4919.4, in 2020 - 4755.2 [20]. The number of people employed in small- and medium-sized businesses in Russia is 17-18% which is lower than that in the global economy. Researchers note that the employed in small- and medium-sized enterprises account for 34% in developing countries and 63% in developed countries [6].
The decreased employment in small and medium-sized enterprises reflects current trends in the economy. In these circumstances, relationship and interdependence of the processes are likely to be tracked. Strictly speaking, a decrease in purchasing power and effective consumer demand will result in the reduction of production volumes, number of enterprises and employment levels.

At the state level, some measures aimed at weakening negative factors and creating favourable environment have been undertaken to support small- and medium-sized enterprises. JSC “SME Corporation” established in 2015 in collaboration with the Bank of Russia and the Ministry of economic development of the Russian Federation was designed to boost small- and medium-sized enterprises. Interest rates 9.6 – 10.6 percent were considered to be the best offer on the market.

Thereafter, the activities of government bodies were determined by the following legislative acts:
- Decree of the President of the Russian Federation No. 204 dated May 7, 2018 “On the national goals and strategic tasks of the development of the Russian federation for the period up to 2024”. Russian national projects based on strategic directions reflect activities and measures targeted at improving small- and medium-sized enterprises. Banking system can increase the efficiency provided the government takes an active part.
- Decree of the government of the Russian Federation No. 1764 dated December 30, 2018 "On approval of the rules for granting subsidies from the federal budget to Russian credit organizations and specialized financial companies for reimbursement of lost income on loans issued in 2019-24 to small and medium-sized enterprises and individuals applying the special tax regime “professional income tax” at a preferential rate”. Investment loans were provided to small and medium-sized enterprises from priority sectors at the lowest interest 3-3.5 %.

From our standpoint, the above-mentioned activities made it possible to overcome negative trends in 2019 but some of them are still apparent in the corporate portfolio. As the number of small and medium-sized enterprises is decreasing, the demand for bank loans is increasing, Table 1.

Table 1. Volume of loans granted by banks to legal entities, small- and medium-sized enterprises

| Date         | Loans granted to legal entities, billion RUB |                      | SMEs                      |
|--------------|---------------------------------------------|----------------------|---------------------------|
|              | legal entities                              | Past due debt        | Total                     | Past due debt |
| 01.01.2017   | 28 204                                      | 1 947                | 4 468                     | 636           |
| 01.01.2018   | 29 219                                      | 1 946                | 4 169                     | 622           |
| 01.01.2019   | 32 228                                      | 2 099                | 4 122                     | 521           |
| 01.01.2020   | 33 056                                      | 2 359                | 4 568                     | 520           |

Small- and medium enterprises acting as loan subscribers in such branches as trade, transport, agriculture take the leading position in credit portfolio of banking sector. These areas of economic activities account for the largest share in the total credit portfolio of small and medium-sized enterprises and an increase in volumes of loans [19].

In recent years banks have offered a wide range of credit products to small and medium-sized enterprises. Overdraft is granted for a period of up to 6 months at 10-12% without providing collateral; in case the borrower provides collateral the loan rate decreases. Working capital loans given for a period of up to 3 years are granted at the rates 9-11% with providing security or individual sureties as collateral. Investment loans for a period of 3-10 years are provided mainly within the framework of government programs aimed at
supporting small- and medium-sized enterprises. Debt refinancing loans (also for investment purposes) are granted to optimize credit conditions.

A positive feature of the credit portfolio in the segment of small- and medium-sized enterprises can be considered a reduced volume of outstanding debt. However, the share remains high – i.e. more than 11% which exceeds 1.5 times the share of outstanding debt in the corporate portfolio as a whole.

### Table 2. Small- and medium sized enterprises’ loan debt (including past due debt)

| Date       | Quantity of SME loan debt | Quantity of SME past due debt |
|------------|---------------------------|------------------------------|
|            | 01.01.19                  | 01.01.20                     | 01.01.19                      | 01.01.20                      |
| Medium-sized business | 5810                      | 5534                         | 613                           | 495                           |
| Small-sized business    | 37596                     | 37527                        | 2954                          | 2293                          |
| Microbusiness           | 189569                    | 232177                       | 21725                         | 21391                         |
| Total                  | 232975                    | 275238                       | 25292                         | 24125                         |

Economists note a lower level of credit support for small- and medium-sized businesses in Russia in comparison with the leaders [11, 12, 14]. The leaders in lending are China, the USA, the Netherlands, France, Australia, Belgium, etc. [6]. Russia has to deal a tough situation as 15.78% of small-sized enterprises applied for bank loans in 2018 and 16.9% of enterprises applied for them in 2019 while the indicator in the foreign markets is 30%.

### 2 Results and Discussion

When crediting small-sized enterprises the banks have to deal with the main risk factors that are associated with the lack of collateral and transparency [3, 8, 10, 11, 13]. Traditionally it told on interest rates which were significantly higher than credit rates for large and medium-sized enterprises.

The economic situation aggravated by a new coronavirus infection raised the need to develop relevant credit products at the government and bank levels to support the most vulnerable customers – the segment of small and medium-sized businesses. In addition, the Bank of Russia has undertaken taken measures aimed at increasing the responsibility of the banks involved in this process. Since April 2020, the measures to support small- and medium-sized enterprises include loans for providing employees with the wages. About 150 billion roubles are supposed to be allotted for these purposes within the total credit limit of up to 500 billion roubles. The credits are granted for 1 year at 4% per annum (that later reduced to 3.5%). At the same time, there is a clause that obliges banks to maintain the total volume of the credit portfolio in the segment of small- and medium-sized enterprises crediting. If the share of this portfolio is reduced to 95% -85%, penalties are imposed through increasing the value for provided funds to 5% or to the level of the key rate plus 1%.

Government activities, the Bank of Russia and the banking system are directed at granting loans for renewing small- and medium-sized enterprises that are the most severely affected sectors of the economy. The interest rate is 2% and the borrowers have the right not to pay interest and the principal amount of the debt if the enterprise has managed to keep the entire staff employed or more than 90% during the pandemic.

The measures have been undertaken to solve the problem of past due debt. If small- and medium-sized enterprises obtain a loan earlier than 2020 and in 2020 they encounter the difficulties of liquidating it, deferrals and credit holidays are to be provided. Under these conditions the customer has the opportunity not to pay interest for 6 months or the interest might be reduced and become 1/3 of the original amount.
The actions aimed at providing financial aid have been approved and supported. However, the actions are temporary and won’t be implemented as soon as the situation.

In our opinion one should take into account that the credit resources of the state represented by the Ministry of Finance, the Ministry of Economic development and the Central Bank are limited while the banking system has excessive liquidity despite the crisis. As of 01.01.18 the liquidity surplus was 2639.2 billion roubles; as of 01.01.19 – 3015.9 billion roubles, as of 01.01.20 – 2761.1 billion roubles, as of 01.09.2020 – 2127.5 billion roubles. In this regard, it is obvious that correspondent account balances were constantly growing within the study period: 01.01.18 – 1930.7 billion roubles; 01.01.19 – 2250.9 billion roubles, and 01.01.20 – 2625.5 billion roubles, 01.09.20 – 2905.6 billion roubles [19]. Despite the difficulties during 2020, the liquidity surplus and account balances remain at a high level showing different dynamics.

We believe that the activities of banks are destructive for the economy as they fail to improve economic growth. We suppose that the activities of the Central Bank and the Russian government shouldn’t be implemented through increasing direct small and medium-sized enterprise crediting. The proper way is the indirect support of process through bank crediting with collateral guarantees. The provisions are supported by domestic economists [3, 7, 16, 17, 18].

The researchers stress that the allocated funds are sufficient at the state level but limited and are to be reduced in 2020. 120 billion roubles were allocated for implementing the subprogram “Development of small and medium-sized enterprises” under the state program "Economic development and innovative economy" in 2014-17. In 2019-21 it is planned to allocate 4.45 billion roubles for implementing the national project “Small- and medium-sized enterprises and support for entrepreneurial initiative” [9]. However, the performance of small and medium-sized businesses didn’t reach the results achieved in 2007-2008. In addition, Domnina I. N., Mayevskaya I. L. said with criticism, “there is a feeling that the policy of supporting small businesses isn’t aimed at supporting small businesses, but at adapting to the interests of financial structures that control small businesses. They consider the allocated funds to be the main factor for implementing the programs.” [9].

Bogachev O. A. connects “the low efficiency of measures for credit support and subsidizing interest rates on credits provided to small businesses with a low competitive environment in the banking sector and preferences of state-owned banks” [15].

V. A. Vilensky’s positive attitude is connected with the fact that, in his opinion, “small business is on the threshold of a significant rise due to a variety of methods of state participation in direct and indirect financing of this sphere.” Apart from that the measures undertaken are likely to develop weak regions and sparsely populated territories [8].

Berdyshev A.V. states that “each country develops an individual approach to credit support for small- and medium-sized businesses” [14]. The proper use of existing methods and mechanisms determines the effectiveness of the actions taken. At the same time, we can agree with I. V. Kalacheva’s view that defines the need to simplify the procedure for granting bank loans to small- and medium-sized businesses as a defining aspect [10].

The authors of the article consider the credits for small- and medium-sized enterprises to be minimal amount from the bank’s standpoint. Therefore, a significant part should be provided on the basis of retail lending principles that consist in the following: loans are a line of standard products with standard parameters; short-term lending decision; high-techn cash flow; a wide range of consumers (which means high diversification of investments). In our opinion, the process of crediting small and medium-sized businesses should be optimized through intensive utilizing and changing the procedure for providing guarantees to creditor banks. Today guarantees to minimize credit risks are provided by both federal and regional structures. Analyzing the specific features of regional structures involved in supporting small-sized enterprises economists state that from 1 to 10-15 programs are
simultaneously implemented in the Russian regions [9, 15, 16]. The leaders are Khanty-Mansi Autonomous Region, Penza, Samara and Moscow regions. Small-sized business support programs are presented in Sevastopol, Primorsky and Khabarovsk territories. Researchers consider the intensified regional participation in promoting small- and medium-sized businesses to be a positive factor. However, a negative aspect is the fact that the number of programs doesn’t affect directly the development of small- and medium-sized enterprises in the region, performance, for example, turnover, profitability and employment level of employed in enterprises [9].

In our opinion, when providing guarantees it is necessary to abandon the mechanism of personalized assessment of the borrower in case the guarantee is given not only to a particular customer but also for a specific transaction. It should be used either for investment lending or for large-scale and high-risk credit transactions of small- and medium-sized enterprises. Most small-sized and micro businesses need to put into practice the procedure for granting loans under guarantees provided by government agencies on the basis of examination methods and techniques used by the bank in the process of assessing the creditworthiness of the borrower and the nature of the transaction. Guarantees are provided within the limit set by a particular bank; the amount depends on the credit portfolio in the segment of small- and medium-sized enterprises.

3 Conclusions

Obviously, economic instability, sanctions, and the coronavirus pandemic are testing the economy. Large-scale measures taken by Russian government agencies to develop small- and medium-sized enterprises haven’t yielded a significant economic effect. However, there are positive trends: turnover of small- and medium-sized enterprises; growing volumes of crediting small- and medium-sized enterprises; regular quantity of small- and medium-sized enterprise-borrowers; decrease of interest rates; increasing number of state support programs.

As a wide range of measures implemented by the state to improve the efficiency of crediting small- and medium-sized enterprises is increasing and funds are limited, the processes of interaction between the banking system and business should be optimized. It is possible to increase the effectiveness of the process by simplifying the procedure for providing guarantees to creditor banks should be simplified to improve the efficiency in the segment of crediting small-sized and micro businesses. Undoubtedly, it will require more confidence in individual banks and increase efficiency of the credit process. The increase of bank’s profitability is connected with an increase in volumes of credits without heightening credit risks. The latter is optimized not only through the availability of collateral but also through increasing the diversification of the credit portfolio.

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