

FINANCING SME FUTURE DEVELOPMENT

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The paper highlights the problems faced by the SMEs in accessing adequate financing as one of the most significant barriers of the sector. Financial access is critical for SMEs' growth and development.

At the same time, the author emphasize that there is no unique way of financing SMEs. The need depends on the stage of maturity and size of the enterprise.

In order to facilitate the SME access to finance it is necessary to adapt the best international practices and to adapt them at the local condition.

Article aims to present microfinancing as a tool that could improve the SME access to finance, thus contributing to the economic development of the country by creating new jobs, new products and services.

Key words: SMEs, access to finance, microfinance, development.

Prezenta lucrare evidențiază faptul că problemele întâmpinate de IMM-uri în accesarea surselor de finanțare constituie una dintre principalele bariere ale acestui sector. Prin urmare, asigurarea accesului la o finanțare adecvată este o condiție imperativă pentru creșterea și dezvoltarea IMM-urilor.

În același timp, autorul subliniază faptul că, în prezent, nu există o metodă unică și universală de a finanța sectorul întreprinderilor mici și mijlocii. Fiecare companie are necesități diferite de finanțare, influențate de etapa de dezvoltare, mărimea, sectorul în care activează etc.

Pentru a facilita accesul IMM-urilor la finanțare trebuie adoptate cele mai bune practici internaționale și adaptate la condițiile locale de dezvoltare.

Studiul își propune să prezinte microfinanțarea drept un instrument care ar putea îmbunătăți accesul la finanțare al IMM-urilor, contribuind, astfel, la dezvoltarea economică a țării prin crearea locurilor de muncă, elaborarea de noi produse și servicii.

Cuvinte cheie: IMM-uri, acces la finanțe, microfinanțare, dezvoltare.

Статья освещает проблемы, с которыми сталкиваются МСП в доступе к адекватному финансированию как одному из самых значительных барьеров сектора.

В то же время, автор подчеркивает, что не существует уникального способа финансирования МСП. Необходимость зависит от стадии зрелости и размера предприятия.

В целях облегчения доступа к финансированию малым и средним предприятиям, необходимо адаптировать лучшие международные практики к местным условиям.

В статье, микрофинансирования представляется в качестве инструмента, который мог бы улучшить доступ МСП к финансированию, тем самым, способствуя экономическому развитию страны путем создания новых рабочих мест, новых продуктов и услуг.

Ключевые слова: малые и средние предприятия, доступ к финансированию, микрофинансирования, развитие.

JEL Classification: D01; D04; D21; D14

Introduction. SMEs play a key role in economic development and make an important contribution to employment and GDP. Financial access is critical for SMEs' growth and development. In their early stages of development, SMEs rely on internal sources of funding, including the owner's savings, retained earnings, or funding through the sale of assets. As firms starts expanding, external sources become more important and their availability can determine the firms' growth possibilities. External finance is positively and significantly associated with productivity. Conversely, financing from internal funds and other informal sources is often negatively associated with growth and performance.

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However, access to finance remains a key constraint to SME development, especially in emerging economies. Access to finance is disproportionately difficult for SMEs in least developed countries, with 41 percent of SMEs in reporting access to finance as a major constraint to their growth and development, as compared with 30 percent in middle-income countries, and only 15 percent in high-income countries [1]. Access to finance through bank loans not only decreases with the level of country income, but also tends to be more concentrated among large borrowers.

Improvements in access to finance for SMEs do not depend on credits alone, as they can be achieved through other financial tools as well.

Access to finance of the sme sector

There is evidence that, in developing economies, SMEs could contribute more to economic development than they currently do. SMEs tend to be smaller in developing countries, suggesting greater constraints to growth, including financial constraints.

Recent World Bank research using a database for 99 developing countries, found that small firms are important contributors to total employment and job creation, but that small firms also have lower productivity growth than large firms. In other words, while SMEs employ a large number of people and create more jobs, their contribution to productivity and growth is less clear.

Financing SMEs requires both financial resources and knowledge about the sector. However, financial institutions, often, know very little about SMEs and lack the specific risk management skills, suitable products, and term liabilities to finance SMEs. On the demand side, SMEs frequently lack the required financial data, business plans, marketing tools, and sufficiently powerful projects to convince financial institutions to provide adequate funding.

A functioning financial infrastructure reduces the information asymmetries and legal uncertainties that increase risk to SMEs and constrain the supply of finance. However, SMEs suffers from the lack of a financial infrastructure, including auditing and accounting standards, credit registries/bureaus, etc. A weak financial infrastructure is a huge challenge for SMEs, as tracking financial information builds a credit history and functioning collateral regimes reduce adverse selection and moral hazard [2].

Small enterprises, new or existing, that face problems in approaching finance providers need various financial schemes and lines. These vary from microcredit through public credit guarantee funds and mutual credit guarantee associations to venture capital and others. There is no unique way of financing SMEs. The need depends on the stage of maturity and size of the enterprise.

Improvements in access to finance for SMEs do not depend on banks alone, as they can be achieved through a range of non-bank financial institutions (NBFIs) as well. NBFIs of different types provide a wide range of services, including: hire purchase transactions such as leasing of machinery or equipment; the factoring or discount purchasing of accounts receivable and other forms of supply chain finance; and new equity to invest in companies. Provision through NBFIs can be enhanced by reforming tax, legal, and regulatory environments, and by supporting the introduction of technological platforms that support a wider variety of financial products and services to be developed, drive down the costs of financial access, and reach previously untapped markets.

The insufficient supply of finances is a major issue, particularly for business creators who are unemployed, women or from ethnic minorities. Improving the access to finance is therefore not only an issue of entrepreneurship and economic growth, but also one of social inclusion.

In 2010, the European Commission introduced Europe 2020 [3], a strategy for smart, sustainable and inclusive growth with higher levels of employment, productivity and social cohesion.

Financial instruments are defined as any tools that are used by either firms or financial intermediaries to acquire or intermediate funds. Clients with illiteracy, lack of regular income and bad credit histories face serious difficulties in getting bank loans, especially when starting a business.

Microfinancing: an efficient tool for sme development

Under Europe 2020, microcredit has become one of the key financial tools through which small businesses can improve welfare.

Microfinance institutions represent a good source of financing for small enterprises because they cover rural and semi-urban areas where the banking system is absent. They also provide loans to non-qualified businesses and enable them to get bank credit.

“Microfinance” is often defined as financial services for poor and low-income clients offered by different types of service providers. In practice, the term is often used more narrowly to refer to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs) [4].

These institutions commonly tend to use new methods, developed over the last 30 years, to deliver very small loans to borrowers taking little or no collateral. These methods include group lending and liability, pre-loan savings requirements, gradually increasing loan sizes and an implicit guarantee of ready access to future loans if present loans are repaid fully and promptly.

More broadly, microfinance refers to low-income households that need permanent access to a range of high quality and affordable financial services offered by a range of retail providers to finance income-producing activities, build assets, stabilize consumption and protect against risks. These services include savings, credit, insurance, remittances, and payments and others.

Microcredit addresses the fact that the self-employed, business start-ups and small enterprises are, usually not bankable and they need a different access to credit. It has a particular focus on, but is not restricted to, groups with limited access to the conventional credit market. Examples include female entrepreneurs, young entrepreneurs, entrepreneurs belonging to a minority group, entrepreneurs with a disability, sole traders, etc. Commercial banks are reluctant to give loans to the poor because they believe that they will not return the loan. Special financial intermediaries created by charity organizations, socially committed helpdesks and group lending cooperatives are, in general, called Microfinance Providers. Business starters and self-employed, especially from vulnerable groups, are thus able to request modest amounts from these Microfinance Providers. The most popular microloans are less than € 5,000 and they:

- ✓ consists of microcredit programmes with social orientation
- ✓ includes microsaving, microinsurance, remittance transfers
- ✓ provides training, advice, counselling, coaching.

Microcredit providers (MFIs) comprise savings banks, cooperatives, credit unions, foundations, microcredit banks, different types of not-for-profit associations, microfinance banks and commercial banks. MFIs are categorized according to their target groups as **non-bankable** (mainly financial and socially excluded persons) and **bankable entrepreneurs** (traditional start-ups and already established microenterprises). However, the two groups can take on each other's target clients.

In order to improve access to finance of the small entrepreneurs, the European Commission identified four priority areas:

- i. improving the legal and institutional environment in the Member States;
- ii. changing the climate in favour of employment and entrepreneurship;
- iii. promoting best practices;
- iv. providing additional financial capital for microfinance.

The EU perceives microcredit schemes as a way of encouraging social inclusion and entrepreneurship through self-employment. As a result, EU microcredit schemes target women and minorities. In the EC Communication, "A European initiative for the development of microcredit in support of growth and employment", microcredit is defined as the extension of very small loans (microloans) to entrepreneurs, social economy enterprises, employees who wish to become self-employed, people working in the informal economy, the unemployed and others living in poverty who are not considered bankable. Although this definition of microcredit is based on social objectives, the European definition had been deliberated upon by a high density of banks and is dependent on a segmentation of the market (Nowak 2007).

Today, there are three main drivers of the microcredit schemes in the EU:

- i) enabling an institutional environment for microcredit and microenterprises,
- ii) financing microcredit institutions through grants and market resources so as to enable them to become sustainable in the long-term, and
- iii) the extension of best practices.

There is a paradigm change in the creation of economic and social activities. Through microcredit, the unemployed and the poor become creditable. The economic power engendered by microcredit creates a socio-economic power that generates income and lifts the poor out of poverty.

Microfinancing can be used to reduce poverty and encourage the entrepreneurial unemployment to return to the labour market. However, the majority of micro and small enterprises still cannot apply to financial institutions for aid, in spite of their best efforts. Government policymakers and the financial elite do not understand that microcredit facilities perform the important role of fighting poverty and fostering social inclusion through job creation and self-employment.

Well-functioning microfinance systems are vital for the prosperity of people from all income levels, as well as the long-term growth of vibrant national economies.

Creating efficient systems that formalize microfinance services allow for greater circulation of funds and higher rates of investment.

The European Investment Fund (EIF) categorized four major trends in the demand for microfinance:

- the demand of microloans has had a positive impact on small enterprises,
- the demand for job creation support to avoid unemployment and exclusion,
- the demand for funds to maximize the contribution to the informal sector and the public; the demand for micro-social loans to minimize the adherent effects of immigration (Carpenter 2007).

Conclusion

The lessons learned from european experience regarding microfinancing emphasize following ideas:

1. Microcredit addresses the need to provide access to credit to the unemployed, self-employed, business start-ups, and micro and small enterprises.
2. Microcredit is a key policy tool for job creation, employment creation and poverty reduction. It does so by providing loans and business development services to entrepreneurs that can benefit from them.
3. Microcredit is an instrument of democratization and economic development, as it allows people to manage their destinies.
4. Through microfinance intermediary institutions, microcredit is a bottom-up approach of the local economic development process.
5. Commercial banks are reluctant to give loans to the poor because they are deemed to be unbankable and unlikely to repay loans.
6. There is a paradigm change in economic and social activities: microcredit can make the unemployed and poor creditworthy. Credit can help these people achieve economic power, generate income and lift them out of poverty.
7. Specialized financial intermediaries created by private investors and charity organizations, socially committed help desks, group banking corporations, ethical banks and non-bank financial institutions use microfinance to fund the unemployed and enable them to become self-employed, business starters and microentrepreneurs.
8. There is no single policy model for microfinance promotion.

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