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European experience and Ukrainian realities in the policy of financial support entrepreneurial sector

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Abstract

Aim/purpose – We want to provide recommendations to bridge the gap in access to financing of the entrepreneurial sector in Ukraine based on the analysis of European experience, EBF approaches, financial funds for SMEs and the current state of the credit market in Ukraine.

Design/methodology/approach – We used the general scientific methods of knowledge, conceptual tenets of the theory of market economy, abstract logical analysis and synthesis, induction and deduction, historical (to determine the nature and causes of bank investment in SMEs, refine categories and terms); formalization, systems analysis (to determine factors of investment banking, institutional and legal environment); statistical, retrospective analysis. The results of surveys conducted by the EBF on the issues of support and development of SMEs are used, own research of 120 Ukrainian SMEs, which was conducted during the period from January to July 2016. The nature of the research questions was reinforced by the decision to survey only SMEs. Independent reporting (from entrepreneurs or CEOs) was used to account for both business activity and the external sources of information.

Findings – Policy initiatives should primarily be developed at the national level in the field of lending to SMEs based on the European experience and Ukrainian realities; it is necessary to develop an understanding of the need for access to certain types of information; SMEs are the main providers and the most valuable source of credit information.

Research implications/limitations – When using the methods of calculation creditworthiness perhaps to take into account the methods for assessing the quality of management, the image of the enterprise, ISO certificates.

Originality/value/contribution – Based on the cross-country comparison of the EU and Ukraine, highlight the necessity of focusing on some legal unification of SME lending procedures for the development of a culture of sustainable entrepreneurship on the European continent.

Keywords: credit, SMEs, loan, bank, investors.

JEL Classification: M210, G240, L26.

1. Introduction

Since the early 1990s, rapid political and economic changes have taken place in Central and Eastern Europe, which has led to higher living standards and economic opportunities. On the path to prosperity, it is vital to create a viable entrepreneurial space. In most of our entrepreneurial studies, the context is in the analysis of the formation of information flows and databases in the field of relationships with customers and staff, at the same time the value of information to enhance the ability to finance SMEs requires a better understanding and study.

One of the problems hampering the development of small and medium-sized enterprises in Ukraine is finding additional funding sources for further development. As practice shows, for most of the Ukrainian small enterprises the main source of financing of their activities are their own funds. However, they are unable to fully meet their financing needs only through these kinds of resources.

Recent literature is in particular driven by the analysis of individual countries with similar characteristics. We address this issue using a wide set of analytical and statistical data of EBF, World Bank, International Finance Corporation, National Bank of Ukraine, CIB Bank, BPFI, DG FISMA. In addition, as highlighted by in this paper, we used our own study of SMEs. The lack of availability of credit information is in turn a barrier to entry in the market for SME financing. It limits the ability of lenders and/or investors outside banks to properly assess SMEs' creditworthiness [CIB Bank 2011].

The European Commission has conducted a mapping exercise of the availability of credit information on SMEs across Europe, as announced in the Commission's 2014 Communication on Long Term Financing. The results of the mapping exercise, which was published on 27 April 2015, show that there is a need to improve the availability and sharing of information required for assessing the creditworthiness of SMEs [BPFI 2014].

In this paper, we analysis the financial information of the SMEs that is crucial, and so is the approaches this information is provided. While standard enterprise reporting may be used, only it should not be enforced. We find the aspect of standardization of the financial information of different SMEs has been discussed extensively and from different point of views.

Literature revue shows that information besides financing could also be used in B2B (customers and suppliers) relationships, such as in the case of establishing trade relations. One important aspect is also the timing of information, which needs to be updated and as accurate as possible. The information, which is understandable for an accountant, should be supplemented with information that will satisfy the information needs of a wide range of stakeholders – taking into consideration privacy regulations – available to creditors.

In this paper, we highlighted the need to obtain better quality financial information for better cooperation both at European and national levels between enterprises, investors, lenders and governments. SMEs especially need to focus more on business activity rather than on complying with administrative tasks.

To contribute to a better understanding of the processes of providing SMEs' access to funding in the EU and Ukraine, we investigate their information constraints empirically but, in turn, also aim to demonstrate a wide range of economic and legal content for the financing of entrepreneurial sector.

Based on a detailed analysis, additionally show a set of reasons that lead to the need to improve the availability and quality of information for SMEs.

The rationale is to find general applicable approaches that are meaningful and informative in the context of the EU, Ukraine and other associated countries.

The remainder of the paper is organized as follows: Section 2 reviews recent literature on SME financing and its influencing factors, country characteristics on SMEs' financing, financial-credit support in Ukraine and leading countries of the world. Section 3 describes the data of survey Ukrainian SMEs and the results of surveys conducted by the EBF. Section 4 elaborates on the estimation results of European practices review (4.1) and features of lending to SMEs in Ukraine (4.2). Section 5 discusses the relevance of small business lending, the assessment by banks of information on SMEs (assessment/rating), the completeness of information on SMEs and trade or commercial secrets, as well as a balance of potentially conflicting interests and goals for all participants of market. Finally, section 6 concludes of conclusions the policy and economic implications the stimulation of the development of SMEs microcredit in Ukraine taking into account the best European practices and approaches.

2. Literature review

The latest financial and economic crisis leads to the conclusion that the economic priority is a healthy, well-functioning financial sector. We believe that an efficient financial sector enables allocation of resources, savings of the countries or other countries' citizens invested in the areas where these resources are utilized in the most productive way. Development of the financial sector channels resources to entrepreneurial or investment projects with the highest expected rate of return. Business investments also affect the level of productivity. Thus, in particular, deputy Director General, DG FISMA, Olivier Guersent said that SMEs face a structural hurdle when accessing finance, which is the lack of adequate, comparable, reliable, and readily available information [DG FISMA 2015].

At the same time remains poorly are studied the problem of funding small businesses, alternative sources of raising funds, as well as the solutions to the problems of financing and crediting.

SME finance, like SMEs themselves, is exceptionally diverse and complex and faces unique challenges [Nassr & Wehinger 2014], Moritz [2015] provides a comprehensive and detailed literature review on SME financing and its influencing factors. The World Bank is increasingly looking to develop more innovative forms of SME financing [2015a]. Some countries use cluster funding, where by banks identify and group Small and Medium Enterprises involved in similar business activities [Mangudya 2016].

Very important qualitative information about features of the entrepreneur and its staff is relevant, besides standard information on the SME's business performance. However, sometimes it is difficult to find relevant information on these aspects, while financial data is easier to obtain. Nevertheless, the classification of data might be valuable (common data definitions, and data types to be shared for lending purposes) but only really has relevance for larger SMEs, whose in-house capacity should already be able to provide the information.

Access to financial services is vital in developing a vibrant SME sector in any economy [International Finance Corporation 2016], finance is a key constraint to SME growth, and without it many SMEs struggle and fail to grow [World Bank 2015a]. The phenomenon of SME financing difficulties exists in many countries in the world, even in the developed countries with relatively sound financial systems [Jiang, Lin & Lin 2014]. Credit risk of financing entrepreneurial activities is a significant concern for banks, increasing the reluctance to lend, with SMEs suffering more from credit rationing than large corporate [Duan, Han, & Yang 2009].

The problem of unavailability information makes the financing of SMEs more difficult. We find that all providers of finance, including banks, private equity and crowdfunding providers rejected of the majority of requests for funding due to a lack of information. Out of thousands of requests, only a few dozen are retained by crowdfunding platforms and private equity funds, even if some requests appeared viable due to a lack of information. Finding the good companies is relevant for all creditors, especially crowdfunding platforms, where there is a big reputational risk associated to possible failures.

Governments developed and developing countries have recognized that SMEs struggle to access external financing, which may negatively affect their crucial role in achieving national development goals, thus many governmental initiatives and programs have been implemented to ensure that SMEs easily access financing [Abdulsaleh & Worthington 2013].

Previous research identified a significant effect of industry, firm, or product-specific factors such as firm size, firm age, growth, ownership structure, and industry sector on SMEs' access to and usage of different financing sources [Hall, Hutchinson & Michaelas 2004; Mac an Bhaird & Lucey 2010; Ferrando & Griesshaber 2011].

Also researched to the literature by investigating the influence of country characteristics on SMEs' financing [Demirgüç-Kunt & Maksimovic 1999; Beck et al. 2008; Hernández-Cánovas & KoeterKant 2011; Camara 2012; Mokhova & Zinecker 2014].

At the same time, Ukrainian entrepreneurs evaluate the conditions for obtaining bank loans and conducting banking transactions as a very difficult task. For example, according to surveys of business expectations of the enterprises of Ukraine, which conducts the National Bank on a quarterly basis, 55.6% respondents confirmed this view in the second quarter of 2015. In addition, the interest rate, which applies to loans, is in the top-8 problems identified by entrepreneurs.

Development of support questions of SMEs', in particular, financial-credit support, in Ukraine and leading countries of the world are covered by such Ukrainian scientists [Baranovsky 2009; Zayarna 2011; Sobol 2014; Varnaly 2014]. However, there are not enough comprehensive studies of the domestic system of financial-credit support of small and medium enterprises and directions of its perfection keeping in mind the latest trends of development of the country towards European integration.

3. Research methodology

In this article, as in other papers studying the issues of support and development of SMEs based on the study of foreign experience, the results of surveys conducted by the EBF are mainly used.

Also the survey results were used of 120 Ukrainian SMEs, which was conducted during the period from January to July 2016. The nature of the research questions was reinforced by the decision to survey only SMEs. In order to increase the external reliability of the results, the surveyed enterprises represented them by sector. For the purposes of stratification, a two-year enterprise survey was established, created by the National Statistical Committee of Ukraine (methodologically very similar to the Innovative Community Survey). The average discrepancy between the estimated (in order to be representative) and the achieved (as a percentage of valid responses) was only 3%.

About 90% of polls were conducted personally (telephone interviews were conducted only when businesses asked about it). The level of answers varied between 67% in Kharkov. The indicator is considered satisfactory by national and international standards. Independent reporting (from entrepreneurs or company directors) was used to account for both business activity and the use of external sources of knowledge.

An extensive review of the literature was undertaken to contextualize the study and draw some insights from both the theoretical and empirical literature that provided a framework for analysis for the study. Various financial institutions' reports, books and journal articles related to the SME sector were reviewed to get a general understanding of the framework of how and at what level held finance policy the SME sector. This study borrowed heavily from previous studies on the SME sector that have been done in Ukraine and EU. Specifically, the views, perceptions and information from these reports and research papers were compared and contrasted. Inferences were made and recommendations drawn.

4. Research findings/results

Dependence on bank lending also makes SMEs more vulnerable when bank lending criteria tightens, as happened during the financial crisis.

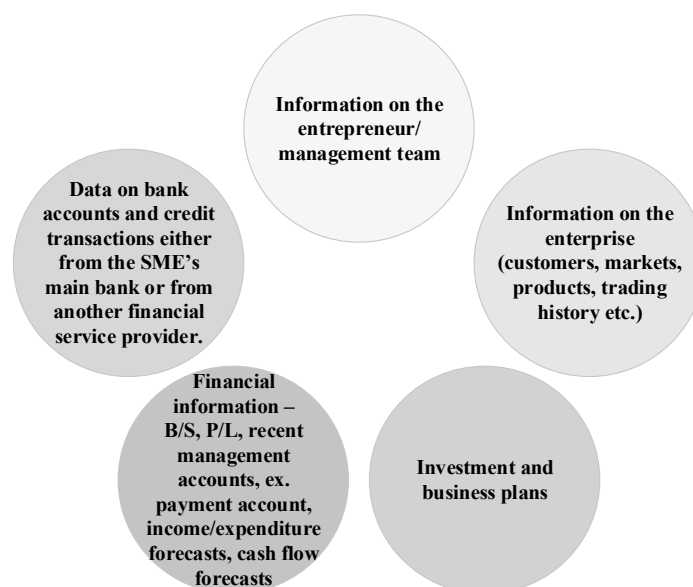
As main providers of finance to European SMEs, European banks have a strong interest in improving the availability and quality of SME information. A bank can only make loan decisions based on adequate data which paints

a picture of the borrower's financial situation. The business and financial data of enterprises are only publicly available to a limited degree. Understandably, SME owners/managers intend to control access to information for reasons of commercial and personal confidentiality.

4.1. Review of European practices

Smaller enterprises with limited resources, expertise and advisors may also have gaps in their information base. This means that the main opportunity for improving SME information lies initially with the SMEs themselves. Key sources of information for bank or investors will always focus on the following areas (Figure 1).

Figure 1. The information fields, those are required for banks and investors



The enterprises must generally first provide this data. Difficulties in accessing bank loans arise mainly when enterprises – usually small – submit loan applications without sufficient/appropriate information. If they subsequently provide the missing information, these are often successful at the second attempt.

To enhance the availability of such information, small enterprises' financial knowledge needs to be improved. In general, less (quantity and quality) information about the borrower means either a declined application or a higher risk for the bank and therefore higher interest rates for the borrower. In addition to

the information provided by the SME, the bank may use information it receives from credit agencies about a specific enterprise.

The European Banking Federation (EBF) believes that the European Commission can play a role by providing clarity on which format it would choose for electronic business reporting in the EU. In this regard, the EBF acknowledges standard business reporting using “special language” such as XBRL, whose benefit is its superior data quality and connectivity.

Too much standardization is not seen as a good way forward: the risk is that such path would standardize not only definitions of the variables needed to assess the creditworthiness of a SME, but also the outcomes of the evaluation, thus failing to properly address the distinctive features of the businesses. If to be pursued, any standardization should be based upon what is already in place and should be built on a simple set of data.

The development of a minimum set of common data, comparable information that is equally accessible to all interested parties could contribute to widening financing and investment possibilities for SMEs, increasing competition and fostering the efficiency and integration of SME funding markets. This would contribute to the Capital Markets Union agenda, which aims to overcome obstacles and channel funds to enterprises (and particularly SMEs) that need financing.

For solutions of challenges the EBF has organized stakeholder dialogue sessions during 2015 year with the aim of bridging the financial gap between banks and SMEs. Representatives from EBF, UEAPME and EUROCHAMBRES analyzed and discussed several issues around SMEs bank financing, such as credit risks and risk taking capacity, but also transparency, regulatory issues and red tape. In a second step, the organizations agreed on priority areas of further cooperation, including exchange of good practices to improve access to finance for SMEs and on better credit information systems for SMEs.

The infrastructure that is currently being built to support the European Central Bank (ECB) the AnaCredit project can be used and leveraged to extend the information available for SMEs. An important contribution of the AnaCredit project is the standardization of definition of credit data. The ECB’s approach is not to share this data with the market, but it does not preclude National Central Banks (NCBs) from arriving to arrangements where the information can be used.

It should be noted the differences in approach between the investors and creditors of SMEs. The investor base for small enterprises can best be broadened by passing on bank loans in securitized form to investors (including capital market access). In this case, investors can obtain the required information from the issuing bank.

The most important determinant of success in accessing finance for SMEs tends to be their ability to produce up to date financial/trading performance data and to compile cash flow forecasts, both aspects forming a critical part of the creditworthiness assessment. Their ability to produce this information is critically dependent on the skills and capacity of the SMEs' management teams and the support available from external accountants/advisers. Publicly available databases will always have a role to play in the context of a lender/investor's due diligence – with emphasis on positive/negative data on payment history, loan performance, etc. – but will not improve SMEs' creditworthiness itself. Education/training/capacity building for SME management is a key enabler in this regard. Many Member States already provide public/private websites and portals to assist SMEs in applying for credit [EBF 2015a].

The lack of availability of credit information is a barrier to entry in the market for SME financing. The lack of information also makes it harder for finance providers other than banks to properly assess an SME.

To help SMEs access finance, it is important to increase SMEs' visibility to potential finance providers and ensure that those have greater access to credit information on SMEs so they can better assess their creditworthiness. This would significantly improve the efficiency (and, if carried-out across borders, the integration) of SME funding markets. It would also increase competition and help diversify the funding options open to SMEs by helping alternative finance providers (e.g., supply chain finance, asset-based finance, peer-to peer lending, private equity) make informed decisions.

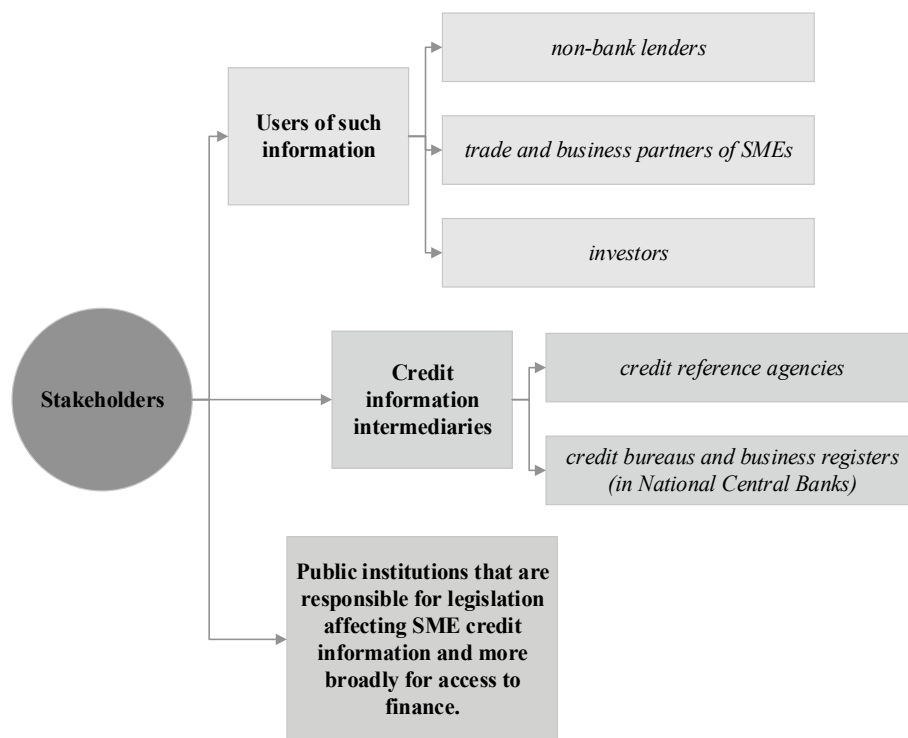
The issue of SME credit information is the interests of a wide range of stakeholders: non-bank lenders, trade and business partners of SMEs, as well as investors (Figure 2).

Targeted at the above, stakeholders need to facilitate decisions in the following issues:

- what are the needs of non-bank lenders and investors for providing funding to SMEs;
- achieving deeper understanding of the state of play with respect to availability and sharing of credit information for SMEs;
- widening accessibility of information for parties interested to finance and/or investors in SMEs;
- how to ensure a level playing field on SME information between non-bank lenders and banks;
- improving the quality of information (and related credit reporting and scores) from specialized intermediaries, such as credit reference agencies;

- developing a minimum data set necessary for credit reporting via either private or public sources, while preserving the diversity of existing infrastructure and business models as much as possible [EBF 2015b].

Figure 2. Description of credit information for a wide range of stakeholders



It should be kept in mind that credit information contains sensitive data and that confidentiality is an issue.

There is an important difference between raw data provided by enterprises to the bank and the subsequent analysis and processing of this data by the bank. The former is the property of the enterprise. The enterprise can therefore provide it to third parties or authorize the bank to do so. However, the analysis of this information is the intellectual property of the bank.

In order to provide finance to enterprises, finance providers rely on a proper and efficient assessment of the creditworthiness of an SME. However, due to the lack of adequate, comparable, reliable and readily available information on SMEs both traditional and non-traditional lenders sometimes experience difficulties in carrying out that assessment, especially when there is no historic track record with the enterprise.

An important part of the information comes from the entrepreneur or his accountant. It is important to note that the relevant credit information should only be made available to lenders and investors by or at the request of the SME itself. It is important to clarify that the providers of this information are usually the SMEs themselves, and not banks that use internal systems to analyze this information and assess enterprises' creditworthiness. Thus, banks should not be expected to release information on their customers in a way that compromises banking confidentiality laws and protection of customer's private information.

Increased credit information on SMEs could ease their access to funding and their business development, help to educate SMEs on the benefits of increased information sharing, the type of information to be shared to improve their access to funding.

For large SMEs there might be more data available and the issue is how to reach institutional investors to invest in those enterprises.

There is opportunity for initiative at the European level in this segment of SMEs, especially in the question of product design. Large SMEs are targeted by other initiatives, such as for example the development of a Pan-European private placement market or the review of the Prospectus Directive. Product regulation (which is for large enterprises) can be done at the European level, whereas basic information for smaller enterprises should be taken care more at the national level.

The EBF opposes the establishment of a centralized European credit register. There is only limited evidence that a European credit register would increase SME cross-border lending since SMEs mainly seek finance nationally. In addition, there are significant differences between states in the classification and format of enterprise data. Furthermore, it would mean that more people would have access to highly sensitive data. Data protection could be seriously jeopardized if it complicated the task of securing information and preventing cybercrime. Importantly, the cost of development for banks versus the comparatively small number of SMEs who would likely benefit from cross-border lending/investment needs to be taken into account. This is unlikely to be a viable option in the short run.

The AnaCredit project – whose aim is to collect and centralize granular data on credit exposures and credit risk for lenders established in the SSM-zone data at ECB level – would hold highly sensitive information. As currently envisaged, access to this would be strictly controlled. But if this access were extended, too much detailed information would be potentially revealed to third parties including competitors (for example risk weights, interest rates, etc.) to the detriment of legitimate commercial interest and competitive markets.

4.2. Features of lending to SMEs in Ukraine

Features of creation and activity of small enterprises in Ukraine are regulated by the current legislation. Thus, according to the Economic Code of Ukraine, small enterprises (regardless of ownership) are entities in which the average accounting number of employees for the accounting (financial) year is not more than 50 persons and the amount of gross revenue from the sale of goods and services for that period does not exceed an amount equivalent to 500 thousand EUR at the average exchange rate of the National Bank of Ukraine on the UAH.

Small enterprises mainly focus on small-scale production with low operating and overhead costs, the effectiveness of which can be increased thanks to specialization and technological flexibility of production processes.

Depending on the social value and economic capacity, the following types of small enterprises can be distinguished:

- small enterprises “against poverty”: These are mainly businessmen – natural persons engaged in trade in the markets and the provision of small household services. The main feature of these types of small enterprises is that individuals engage in entrepreneurial activities to meet their vital needs and the vast majority do not have the ambition to expand their own business;
- stable small enterprises: these are mainly enterprises that engage not only in trade, catering and services, but also in production. They have a relatively small but stable revenue, certain fixed assets and equipment, but are also often not ambitious regarding significant business expansion and extensive growth;
- “tigers” of small enterprises: In these small enterprises’ production volumes are growing rapidly. Such enterprises tend to look for and have their own know-how, introduce new management and production technology, and they are the best springboard for innovation.

The special features of the functioning of small and medium enterprises include the ability to quickly respond to changing market conditions, rapidly develop new products and change production volumes. The management, marketing and production processes of small business have the closest relevance to each other. These provide a rational organization of the enterprise and its ability to fully mobilize the available resources, in particular the operational use of the achievements of scientific and technical progress [DG FISMA 2015].

The need for development of small and medium-sized enterprises is essential due to the fact that SMEs create most of the gross domestic product in countries with developed market economies. According to the UN, small enterprises employ more than 50% of the working population in the world. In countries such as the US, Japan, Germany, the share of GDP produced by small and medium-

sized enterprises is 50%-60% of their total volume, and the number of employees working in these – 60% of the total number of working. At the same time, despite the fact that in Ukraine small business support policy is declared a priority, as well as a simplified system of taxation, small enterprises only contribute about 11% of the GDP and the employment rate does not exceed 20% [Arzhevitin 2011].

Within the framework of the national program to promote small business in Ukraine, banks are developing special microcredit programs, which take into account the peculiarities of small and medium-sized enterprises.

These programs define the special credit conditions, which are rapid processing of the loan; an easy repayment schedule; a flexible approach to the subject collateral and the value of collateral on the loan. Microcredit programs extend to enterprises which employ up to 250 people [Dolbnyeva 2013].

Microloans are provided to small enterprises mainly in the commercial field, on a contractual basis, subject to security principles, repayment, maturity payment and use of the title character.

The main purpose of microcredit is to provide small enterprises and small entrepreneurs with a reliable and stable source of funding for the development of their business.

The main features of microcredit compared to other forms of loans are as follows:

- One-tier system of the organization of the credit process and a simplified methodology for assessing the financial condition of potential borrowers, which is based on a rapid analysis.
- Territorial integration of microcredit – loans are granted only within the city, townships, serviced by the regional division of the bank.

The main trend of recent years in the field of micro-credit is to extend the financing of small and medium enterprises by banks through international lending institutions – the European Bank for Reconstruction and Development (EBRD), the German-Ukrainian Fund (GUF), Fund “Eurasia” and so on.

The EBRD, in the framework of the program of crediting of small and medium-sized enterprises in Central and Eastern Europe allocated to companies that are in 11 countries more than 250 million Euros (US \$220.3 million). This program is implemented jointly with the Austrian Raiffeisen Bank. Countries receiving EBRD loans include Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Serbia, Montenegro, Poland, Slovakia, Romania, Russia and Ukraine. By the number of projects financed by the EBRD, Ukraine ranked fifth.

The first line of credit under the loan program for small and medium-sized enterprises in Central and Eastern Europe (SME-1) was provided in 1994 in the

amount of EUR 100 million, the second (SME-2) in August 2000 in the amount of US \$88 million. In the second line of credit of US \$66 million was earmarked for lending to small and medium-sized enterprises and US \$22 million for the implementation of microcredit programs [World Bank 2015b].

In connection with the first loan agreement Ukrainian enterprises were able to get – for the development of manufacturing and service sector – loans amounting to US \$2.5 million for up to five years with a two-year grace period at LIBOR + 8% per annum. Under this program, 155 projects were approved, to which the embodiment of granted loans totals \$135 million (including the funds from the account of the reuse of returned credit).

The main advantages of EBRD credit lines are: the long-term use of funds, low interest rates, flexible and convenient repayment schedule with a maximum grace period of up to two years (during which only interest is paid), the possibility of financing, the means of production, the short-term financing of raw materials and spare parts, as well as the financing of export contracts, financing leasing.

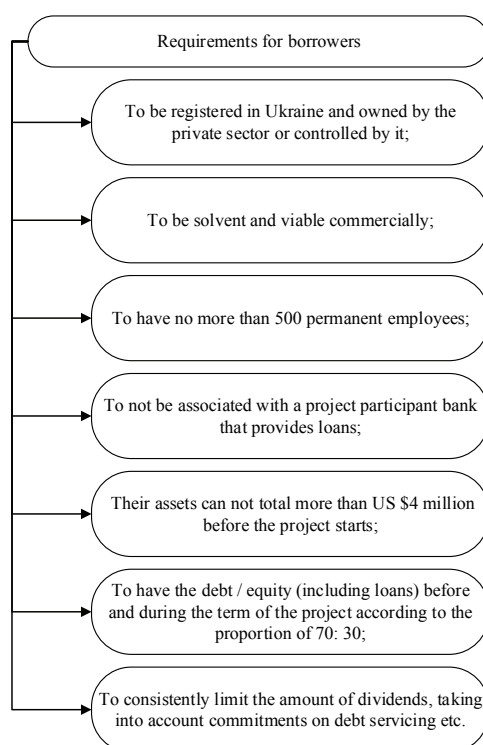
According to EBRD the following type of projects were financed:

- capital investment;
- projects in the service sector;
- replenishment of working capital for manufacturing enterprises or enterprises providing services;
- buying equipment, vehicles (cars, vans, special vehicles, etc.) to produce products, services or commercial activities;
- acquisition of real estate to be used for the production of products, services or commercial activities;
- repairs of fixed assets in the trade, manufacturing or service sector.

Small and medium enterprises, who intend to get a loan from EBRD, must meet certain requirements (Figure 3).

Due to EBRD funds it is prohibited to issue microloans for the financing of activities related to:

- the production of weapons;
- production of fur products and trade of rare species of animals;
- manufacture of tobacco products;
- production of alcoholic beverages;
- gambling;
- currency speculation;
- investments in securities available for resale;
- other activities, which are included in the list of facilities, funding of which is prohibited in terms of the potential of causing damage to the environment.

Figure 3. The requirements for borrowers, who intend to get a loan from EBRD

The microlending experience has shown that in recent years it was generally non-bank institutions – credit unions, credit cooperatives, mutual credit societies and mutual insurance – that provided financing for SMEs. Microcredit borrowers in Ukraine must provide a combination of documents (Table 1).

Table 1. The list of documents required for obtaining a microloan

For the borrower – legal entity	For the borrower – a business entity – individual
1. Application for a loan	
2. Constituent documents	2. Copy of passport and certificate of assigning the code INN
3. Copy of certificate of state registration	
4. A copy of the STI certificate of registration as a tax payer	4. A copy of the VAT registration certificate
5. Copies of patents, licenses, permits	
6. Documents confirming the right of the collateral property	
7. Contracts related to conducting business activities (lease, joint venture agreement, etc.) if available	
8. Copies of contracts associated with the project, which is credited	
9. The financial statements for the last 3 (6) months. (Statement of cash flow on current accounts for the last three months; decryption of fixed assets and inventories; transcript of receivables and payables)	9. Income statement and statement of a business entity – a natural person – a single tax payer. Information about the cash flows on bank accounts
10. The card with samples of signatures of persons authorized to dispose of funds	

In Ukraine today, the non-banking sector's support is insufficient for small enterprises. This is due to limited resources and non-bank institutions' increased risk associated with lending to small and medium-sized enterprises [Pererva & Poberezhnyi 2016].

Small business lending procedure suggests reduction of time from the date of filing until the loan and in some cases, the lack of requirement for a business plan.

An important aspect of microcredit control process is when banks' credit risk department checks the reputation of the potential borrower and prepares an appropriate conclusion based on whether negative information is present.

The procedure for granting microcredits from EBRD and German-Ukrainian Fund (GUF) contains a number of conditions and criteria for selection (Table 2).

Table 2. Criteria for the selection of borrowers to microcredit

The main criteria	Requirements
Target group	Residents of Ukraine: private entrepreneurs, SMEs, sales revenue does not exceed the equivalent of US \$200 000 per month.
Kind of activity	Trade, industry, services
The life of the borrower's business	For trade – not less than 3 months; for the production of services – at least 6 months
Individual loan amount	The amount equivalent to 125 thousand USD
Credit term	For working capital – up to 12-18 months; for the purchase of fixed assets – up to 24-36 months
Currency	UAH, USD, EUR
Interest rate	Mounted on the decision of the credit committee of the bank agreement tariff committee

The microcredit criteria are varied depending on the type of financing for the projects. Other parameters of microcredit, which do not depend on the funding of the project, are presented in Table 3.

Table 3. The main parameters of microcredit

Parameter	Characteristic
Type of credit project	1. One-time credit, overdraft. 2. The credit line is renewed. 3. The credit line is not renewed. 4. The credit line is provided in tranches. 5. Credit limit on plastic card
The form of the loan	1. For legal entities – in cashless form. 2. For private entrepreneurs and individuals – in cash and cashless form
Repayment schedule	1. Equal monthly instalments. 2. Unequal parts, taking into account the seasonality of the borrower's business
Security	1. Main. 2. Additional
Insurance	Insured with basic security or collateral equal to the loan amount
The processing time of the loan	About 3-5 days, in some cases "Express-credit" 1-2 days. The loan period can be extended if the project is complex

The decision on granting a loan is made by the credit committee, while the credit commission of commercial bank is working on a smaller credit line. The credit commission works significantly faster than the credit committee. The average life of such a procedure is four days.

As security for microcredit the bank accepts, e.g., real estate, transport vehicles, equipment, private property, inventory, property rights, the future harvest, etc.

Security is accepted based on liquidity value. The group of liquidity value includes:

- real estate (residential and non-residential) in provincial and district centers;
- rights to land in provincial and district centers;
- imported vehicles (not older than five years) and domestic vehicles (not older than three years);
- equipment which is in high demand;
- a universal commercial refrigeration equipment;
- imported agricultural machinery (not older than three years);

Articles made of precious metals (accepted as collateral). If there are not enough liquid assets, then illiquid assets may be used to fully meet the microcredit criteria. If the collateral for the loan contains only liquid assets, its market value is should exceed the amount of microcredit at least by 50%.

The value of the collateral should provide for fast redemption of the loan and encourage the borrower to repay the loan on time, as well as in the case of repossession of collateral, to cover the bank's losses on credit operations.

The value of the collateral belonging to a group of illiquid assets is determined by applying a discount rate to its market value.

The interest rate that is applied at the time of the evaluation of various types of property is categorized according to the degree of liquidity of the property used as collateral (Table 4).

Table 4. The interest rate for the calculation of the collateral value of illiquid assets

Types of collateral with low liquidity	Discount rate %
Real estate residential and non-residential facilities in rural areas	> 30
Imported and domestic vehicles	
Specific unique equipment designed to produce consumer goods, which are in low demand	
Imported and domestically produced industrial and agricultural equipment	
Personal property (domestically manufactured audio, video, home appliances, etc.).	> 30
Small-sized imported motorized vessels	
Highly liquid commodity pledged term preservation (life) is greater than the loan term	> 35

For loans exceeding US \$10,000 ensuring they have enough liquid collateral, banks may require the borrower an additional security against the loan to reduce credit risk.

To calculate the value of the collateral, the following discount rates are applied (Table 5).

Table 5. The interest rates for the calculation of the collateral value

Credit collateral	Discount rate (applied by the EBRD and GUF), %
Property rights:	
– to obtain funds,	30
– on receipt of inventory	50
Goods that have:	
– a wide range of potential buyers,	25
– a limited number of potential buyers	35

For loans exceeding US \$10,000 the main type of collateral is the borrower's property.

A microcredit loan contract is a prerequisite for obtaining a guarantee. Guarantors for legal entities may be the director, founders of the enterprise or third party. Guarantors for private entrepreneurs may be natural persons or third party.

After issuing a loan the bank must monitor the timely repayment of the loan and interest payments in accordance with the previously established repayment schedule.

Microcredit borrowers generally make repayment and interest payment in equal monthly instalments.

Interest is calculated based on the actual amount of debt. The amount of principal repayment is adjusted to seasonal fluctuations in customer revenues.

This is mainly used by enterprises with seasonal production. Such a repayment loan scheme allows entrepreneurs not to withdraw money from the business operation on a large scale.

For example, a scheme where repayment of the loan is possible at the end of the contract in one sum, as well as to repay adjusted to profit.

In spite of the simplified procedure and attractive lending conditions for SMEs, banks and entrepreneurs define a large number of constraints to the development of microcredit in Ukraine and, consequently, small enterprises. In order to determine such factors employees from banks and borrowers were surveyed – natural persons-entrepreneurship entities (Table 6).

Table 6. Factors constraining the development of microcredit in Ukraine

Factor	Share, %
A complex procedure for obtaining a loan	20.4
Fear Factor “life on loan”	15.7
Lack of government support for the development of microcredit	13.9
Lack of knowledge about how to obtain microcredit	12.9
The lack of property on bail	11.2
Passivity	9.3
High interest rates	8.3
The lack of legislative regulation of microcredit process in Ukraine	5.5
The reluctance of banks to engage in microlending	2.8

5. Discussion

Some of the major problems in lending to small enterprises mentioned by bank employees include:

- The lack of long-term cheap financial resources (raising funds on deposits with a maturity over one year are too costly and risky, given the fluctuations in interest rates).
- An increased risk associated with a high degree of shadowing of the economy, business, dependence on a single person, and high vulnerability to changes in the external economic environment.

The company can therefore transfer the data to any lender or investor – directly or by authorizing others – including the bank with which the company mainly deals to remit it bilaterally or through central registers and bureau. On the other hand, the analysis of this information is the intellectual property of the bank, and should not be subject to forced disclosure.

Banks’ assessment of SME information (scoring/rating) should not be standardized across European banks as the diversity of SME customers and markets within and between EU does not support a one-size-fits-all solution.

Any potential policy initiative would need to take into consideration the following principles:

- It should not place an additional administrative burden on SMEs.
- The minimum dataset should build on existing models and infrastructure.
- It should take into account the role an appropriate reciprocity model could play (where both parties benefit from data sharing) which is already standard practice in some countries.
- It should facilitate access to positive information (i.e. on the regularity of payments) in addition to negative information (non-payments) on the credit-worthiness of SMEs.

- For micro-firms, where is a more significant gap in credit information, data on a company's owner should be combined with company data. This considerably improves the credit assessment and related score, thus lowering the cost of credit. However, data protection concerns would have to be addressed.
- The dataset should be designed with the needs of an identified user base in mind and clearly demonstrate how it meets their needs.
- The initiative should also balance the potentially conflicting interests and objectives of all market participants.

Based on the European experience and Ukrainian realities we note that policy initiatives should primarily be developed at the national level in the field of lending to small and medium-sized businesses. It is necessary to develop an understanding of the need for access to certain types of information. This approach in the European Economic Area is proven effective.

Completeness of SMEs information and trade or commercial secrets: need to determine what information is a trade or commercial secret and cannot be disclosed.

Credit history: required the exchange of information about the negative credit history; provision of information on positive credit history upon request. Need of tracking unscrupulous business owners (the fight against fraud). The solution is, perhaps, at the level of agreements between banks, banking associations, national central banks, non-bank investors associations.

As mentioned above, increasing the financial knowledge of SMEs and their ability to provide adequate, up-to-date information (especially for SME management) would directly contribute to improving the probability of SMEs obtaining credit, both by banks and non-bank lenders.

The review shows that it is important to improve the availability and sharing of credit information which is necessary for assessing the creditworthiness of SMEs. A minimum set of common, comparable data that is equally accessible by all interested parties is important to widening the investor base for SMEs, increasing competition and fostering the efficiency and integration of SME funding markets.

This is relevant for a wide range of stakeholders including Business Intelligence & Scoring firms, credit registries, banks, investors, SMEs, and public institutions.

6. Conclusions

Banking and financial mechanisms play a particularly important role in facilitating and speeding up economic development, but at the same time introducing additional financing features, namely, for small and medium-sized business. This is often not the case for SMEs. The need to extend the credit system leads to the need to review some of the key factors of information components. The fact is that the rules for accounting of various European countries are governed by their own specific standards. SMEs themselves are the main providers and the most valuable source of credit information: education, training and capacity building for SMEs in financial management are key enablers in this regard.

Banks' assessment of SME information (scoring/rating) should not be standardized across European banks as the diversity of SME customers and markets within and between EU does not support a one-size-fits-all solution.

When using the methods of calculation creditworthiness perhaps to take into account the methods for assessing the quality of management, and the brand and image of the enterprise, ISO certificates.

The difficulty in obtaining information and its verification of the relevance and validity for banks and non-bank investors: cooperation with government agencies, the national central bank within the country. Cooperation is possible with statistical and tax authorities.

The lack of legislative regulation and government support for SME lending processes: using the decisions and agreements Central Bank or national banking associations.

Based on the European experience and Ukrainian realities we note that policy initiatives should primarily be developed at the national level in the field of lending to small and medium-sized enterprises. It is necessary to develop an understanding of the need for access to certain types of information. This is the approach in the European Economic Area is proving effective.

As mentioned above, increasing the financial knowledge of SMEs and their ability to provide adequate, up-to-date information (especially for SME management) would directly contribute to improving the probability of SMEs obtaining credit, both by banks and non-bank lenders.

It is necessary to create detailed instructions for obtaining loans and disclosing various types of information to investors. Such training procedures for SMEs can take place in training centres on the basis of private and banking associations, government, national central banks.

The review shows that it is important to improve the availability and sharing of credit information, which is necessary for assessing the creditworthiness

of SMEs. A minimum set of common, comparable data that is equally accessible by all interested parties is important to widening the investor base for SMEs, increasing competition and fostering the efficiency and integration of SME funding markets.

Protection of credit (presented by SME's) information are determination concerned persons and their identification.

Reducing the high rate of interest decrease by participation in the grant of credit – government or other public funds.

The lack of property on bail is the participation of the investor in the distribution of income/profit of the enterprise or participation in the share ownership of the enterprise.

In this paper, we highlighted the need to obtain better quality financial information in more efficient ways. This requires cooperation both at European and national levels between enterprises, investors, lenders and governments and is crucial to improving SMEs' access to finance. The vast majority of enterprises – micro-SMEs – do not seek and will not be able to seek direct access to capital markets. One important aspect is also the timing of information, which needs to be as up to date and accurate as possible. Smaller enterprises especially need to focus more on business activity rather than on complying with administrative tasks.

The stimulation of the development of microcredit in Ukraine requires a comprehensive approach, the components of which may include: simplification of the mechanism of micro-credit; creating conditions for the development of non-bank financial institutions; improvement of legislative support of the activities of banks; state support information microcredit programs; reducing the tax burden and improving the mechanisms of investment and credit support to small and medium-sized enterprises; the establishment of the state program of preferential crediting of SMEs.

Thus, the economy needs a developed financial sector, which provides capital for financing private sector investment from such sources as loans from reliable banks, well-organized stock market, venture capital and other financial instruments. To perform all these functions, the banking sector should be reliable and transparent, and as recent events have shown, the regulation of financial markets is necessary for the protection of investors and other participants of economic processes. To contribute to a better understanding of the processes of providing SMEs' access to funding in the EU and Ukraine, we investigated their information constraints empirically but, in turn, also aim to demonstrate a wide range of economic and legal content for the financing of entrepreneurial sector in the future investigations.

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