

## Financing Problems of Small and Medium Business in Kazakhstan

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### Abstract

In article theoretical provisions and practical recommendations about improvement of forms and methods of financing of the enterprises of small and average business in modern conditions of development of economy of the Republic Kazakhstan were considered. For achievement of the put purpose in work the following tasks were solved: the main forms and methods of financing of subjects of small and average business were revealed, the main problems of forms and methods the financings constraining development of financing of small and average business in PK were defined, and also the main directions on improvement of forms and methods of financing of the enterprises of small and average business in PK are developed. The practical importance of article consists in possibility of use of the conclusions formulated in work, offers and recommendations when developing nation-wide actions for support and stimulation of development of small and average business of the state, an also financially-credit institutes in practice.

**Keywords:** small and medium business, entrepreneurship, finance, lending, second-tier banks, financial and lending institutions

### 1. Introduction

Small and average business is important sector of economy of the state. Without small and average business market economy neither to function, nor to develop not in a state. Small and average business stimulate development of skills of private business, form the competitive environment, quickly adapt for demand and offer changes in the market, create new working places and promote market filling by domestic goods and services (Tucker, 2011). These are one of sources of formation of an average class the societies promoting the solution of a problem of employment of the population.

From the first days of existence of young independent Kazakhstan one of leading roles in formation of its market economy, a support and development of small business is allocated for small business are legislatively recognized as the priority sphere of the state economic policy. And though in Kazakhstan influence of this sector on social and economic development of society isn't so essential as in industrially developed countries of the Western Europe, America and the Southeast Asia where more than a half of a gross internal product falls to his share, small business in our country became mass, dynamically developing part of business life (Colli, 2011).

In the present time according to data of official statistics in Kazakhstan the share of operating subjects of small business in the general number of subjects of the market makes 87%, and in some branches is much more.

Small and average business only starts gathering turns in the development and formation. The biggest problem of the small and average enterprises is a lack of sources of their financing ( Zachary, 2011).

Growth of influence of small and average business on development of world economy and recognition of its special role in the solution of a number of the major social and economic tasks caused big interest to problems of credit providing the small and average enterprises (Print and Reynolds, 2011). These problems were and remain a subject of research of many leading domestic and foreign scientists. The noticeable contribution to development of theoretical aspects of a problem of financing of business in the whole was made by L. I. Abalkin, G. N. Beloglazova, P. I. Vakhrin, F. A. Galanova, E. F. Zhukov, A. I. Zakirov, V. I. Kolesnikov, L. P. Krolivetskaya, O. I. Lavrushin. M. G. Lapusta, A. G. Porshnev, K. L. Starostin, V. of C. Torkanovsky, Ya. S. Melkumov.

The general questions of bank crediting of the small enterprises found reflection in N. I. Kravtsovoy works, M. V. Klyuchnikova, A. I. Kartausova, M. L. Lishankckogo, I. B. Maslova, L. M. Morozova, V. M. Novikova, E. V. Prokopenko, T. M. Ryskinoy, P. M. Solyanovoy.

In such way, relevance of a subject is caused by the solution of an important economic problem-improvement of forms and methods of financing of small and average business in conditions of modernization of economy.

## 2. Methods

Theoretical base of research were monographs of modern domestic and foreign economists on questions of financing and crediting, the publication in scientifically-periodically press, standard and legal acts of RK regulating the credit relations of small business.

Statistical data of Agency RK on regulation and supervision of the financial market and the financial organizations, National bank RK, statistical data published in domestic and foreign literature, the financial reporting of the Kazakhstan banks of the second level formed information base of research.

The methodological basis of research was made by a dialectic method of knowledge and system approach. In a course of dissertation research methods of the system, factorial and comparative analysis were applied; set of methods of statistical processing of data; methods of graphic interpretation of the considered phenomena and processes. The analysis of statistical data is carried out with application of methods of group, comparison and generalization (Schmieding, 2012).

## 3. Results

Small and medium business-the most mobile sector of economy today, is a basis of client base for many commercial banks. Development of production of small business enterprises creates favorable conditions for economy improvement as the competitive environment develops, additional workplaces are created, there is a restructuring more actively, the consumer sector extends (Ashton, 2012).

The role of small and medium business in economy is considerable. They connect economy in a whole, forming some kind of base. First, the enterprises of small and medium business provide necessary mobility in the conditions of the market, creates deep specialization and cooperation without which their high efficiency is inconceivable. Secondly, they are capable not only to fill quickly the niches which are forming in the consumer sphere, but also rather quickly to pay off (Bertola & Prete, 2012). Thirdly, to create the competition atmosphere. Fourthly (and it, perhaps, the most important), they create that Wednesday and spirit of business without which the market economy is impossible (Kyvik et al., 2013).

Development of small and medium business bears in itself a set of important advantages:

- increase in number of owners, so, formation of middle class;
- the main guarantor of political stability in democratic society;
- growth of a share of economically active population that increases the income of citizens and smoothes disproportions in welfare of various social groups;
- creation of new workplaces with rather low capital expenditure, especially in services industry;
- training due to use of workers with limited formal education who gain the qualification on a work place;
- development and deployment of technological, technical and organizational innovations (seeking to survive in competitive fight, small firms are more often inclined to take the risk and to carry out new projects);
- liquidation of monopoly of producers, creation of the competitive environment;
- interrelation improvement between various sectors of economy (Oluwatayo, 2013).

Now there is the whole range of the financial institutions rendering services to small and average business, the credit organizations, funds of support of business of foreign establishments and the funds which are carrying out in Kazakhstan various programs of financing of small business.

From these institutes on the volume of rendering financial services to small and medium business banks take a leading position.

Positive growth of the credit resources enclosed in real sector of economy as a whole, and in small business, in particular is observed. So, in 2013 in comparison with 2012 the credit resources sent to economy of the republic, increased by 7%, in small business -7.4%.

We will consider structure of a loan portfolio of the banking sector of RK for what we will address to data of the following table.

Table 1. Structure of a loan portfolio of the banking sector of RK billion tenge

	2011	2012	2013
Loans to banks and the organizations carrying out separate types of bank operations	162.9	148.2	121.1
Loans to legal entities	6705.2	7 050.9	7 472.9
Loans to physical persons	2018.5	2 530.4	3 297.1
Loans to subjects of small and average business (residents of RK)	1554.6	1 870.7	2 342.2
Operations "The Return Repo"	31.6	57.7	114.8
Total loan portfolio (principal debt)	10472.8	11657.9	13348.2
The note-made on the basis of official data of NBRK for the period 2011-2013			

Loan portfolio of the banking sector of RK on January 1, 2013. I made 11656.6 billion tenge, having increased in comparison with the beginning of year by 1 183.8 billion tenge or for 11.3%.

The volume of the credits of BVU to small business made 2342.2 billion tenge, and it is more similar indicator of last year for 25.2%. At the expense of increase in annual volumes of the credits small businesses, for 2013 their share in the total amount of crediting of economy-from 14.8% increased to 17.5% also.

In branch structure of financing of small and average business nearly a half (49.7%) credits for 2013 is the share of the trade sphere. Small production business remains out of the sphere of interests of financial and bank institutions, mainly, due to the lack of liquid mortgage base, smaller resistance to adverse factors and low extent of diversification of production. The incompleteness of this niche demands creation of the alternative credit organizations with use of various schemes and financing sources.

Despite RK developed and accepted by the government numerous state programs of development and support of small business, the main source of the capital nevertheless remain own resources. The main problems of development of small and medium-sized enterprise are inaccessibility to small and medium business of financial and credit resources, on conditions accepted for them. The credit policy of banks concerning small business is focused generally on financing of trade and purchasing activity. Banks of the second level grant the loans on a high rate (short-term from 25% to 32%, medium-term from 16% to 17%). Besides, banks demand mortgage providing which the majority has no beginning businessmen, as a rule, the cost of mortgage property twice more expensive than the obtained credit.

The sphere of small and average business needs the large enterprises as source of investments, a sales market of the production, and also "supplier" of leading businessmen. It demands, instead of operating other relations between small and large business therefore, finding of ways is necessary, to stimulate formation of the purposeful unions and the subcontract relations, allowing effective interaction between large and small business. In this case as investments the large enterprises can provide in rent to small enterprises fixed assets, the long-term credit on favorable terms and to enter the guarantor when receiving the guaranteed loan, to act in the subcontract relations. And also interactions of large and small business can be created on the basis of franchising and the leasing relations ( Chernova, 2013).

As activity of small and medium-sized enterprises is focused mainly on the local market many financial issues expediently to resolve with participation of local authorities. They have to define the main directions of support of business, develop a complex of necessary actions, and find material and financial resources for their realization at the expense of regional sources. One of mechanisms of attraction of the capitals at regional level is release and placement of municipal securities by local executive bodies with mediation of investment institutes (Wu et al., 2008).

Creation of specialized bank of financing of small business will allow to solve a set of problems of financial security of small business, in particular, support of beginning businessmen, to finance individual share of private investment companies in the capitals ( Muhammad et al., 2009).

It is known that opening business, businessmen lack for own capital, they practically have no opportunity to resort to loans. Naturally, they need financial support.

Table 2. SWOT matrix-the analysis for detection of advantages and shortcomings of sources of financing of small enterprises

Strengths	Weaknesses	Possibility	Threats
<b>Bank crediting</b>			
-existence of a set of the various programs considering requirements of the enterprise; -possibility of attraction of financial resources on financing as the main, and current assets, and also on replenishment of the settlement account (overdraft)	-need of providing mortgage providing; -high interest rates; -considerable package of documents; -low activity of crediting of the start-up projects	-existence of possibility of subsidizing of an interest rate for the credit; -possibility of obtaining guarantee of guarantee and other funds; -improvement of quality of maintaining account	-decrease in financial stability; -the increase in non-payments from contractors can lead to impossibility in established periods to extinguish obligations; -emergence of threat of bankruptcy; -toughening of the requirement of banks against the crisis phenomena in economy.
<b>Leasing</b>			
-receiving economy from profit tax payment due to inclusion of leasing payments in prime cost; -as mortgage providing the property transferred on the contract of leasing acts; -application of the accelerated depreciation	-the system of the taxation does inefficient leasing for many enterprises	-existence of possibility of subsidizing of an interest rate for leasing; -gives the chance to update the main assets without existence of considerable own means; -reduces risk of moral and physical wear -possibility of economy on the property tax at registration on balance of the lessor.	-inability of performance of obligations under the leasing contract; emergence of threat of bankruptcy
<b>Factoring</b>			
-expeditious replenishment of current assets; -increase in sales volume; -lack of need of providing mortgage providing; -decrease in risks in case of bezregressny factoring; -management of receivables; -simplicity of registration	-backwardness of factoring operations in RK regions -management of receivables; -simplicity of registration	-possibility of rapid growth of business; -possibility of client increase	-complicated tariff plans with the hidden percentage delay commissions
<b>Public financing</b>			
-possibility of receiving irrevocable gratuitous financing; -financing of start-up and the operating enterprises; -compensation of part of the expenses connected with financing from other sources	-limitation of allocated budgetary funds;	-within support programs providing guarantee guarantees; -programs are focused not only on financial support, but also and on information, legal, personnel, etc.	-within support programs providing guarantee guarantees; -programs are focused not only on financial support, but also and on information, legal, personnel, etc.

The specialized bank can finance a considerable share of the missing capital at the expense of special privileges for the credits to beginning businessmen. These credits can be given under 5% per annum for the term of not less than 10-15 years (in the sum of 1 million tenge).

Besides, the bank could provide means on favorable terms (4-5% per annum) to the small business enterprises which are engaged in innovative development from the beginning to a conclusion of a product on the market. And also to finance individual share of private investment companies in the capitals of new and operating small and average businesses. Thus responsibility for risk in full has to lay down on investment companies. Besides, participation of specialized bank of financing would accelerate integration of large and small business (Robertson & Athanassiou, 2009).

One of ways of attraction of financial resources in real sector of economy is annual compensation by the difference state between the market and preferential credit rate, provided by bank of the second level. It will allow banks to increase crediting volume, without incurring thus losses from decrease in profitability.

The analysis of earlier accepted state programs of support and business development in the republic testifies that on formation of regulatory legal base of small and average business specific proposals were made. However many points of earlier accepted state programs remained not executed due to the lack of the effective mechanism of realization and control (Pykäläinen & Ojala, 2009).

Further it should be noted that business in the country won't develop while courts won't correspond to economic system. Judicial and legal reform isn't finished. Specialized courts, first of all, the tax aren't created.

In the conditions of the market relations the lack of the qualified personnel capable both in the sphere of public administration, and of the sphere of management by the enterprises and business professionally is sharply felt to solve problems of economic development (Park, 2008).

For business development in priority sectors of economy it is necessary to consider possibility of decrease in rates of a value added tax to the imported equipment, the new technologies completing materials and raw materials, the equipment not being made in Kazakhstan and used in own production.

#### **4. Discussion**

Having generalized results of the analysis of sources of financial resources of small business in RK by means of a matrix of SWOT analysis by us the following forms of financial security were analysed: bank crediting, leasing, factoring, public financing.

Thus, the carried-out analysis allowed the author to mark out features of each type of financing of small enterprises, specific risks and potential opportunities of use in RK.

Banks on the way of financing of small business have following obstacles: risks which are a consequence of nedokstatochny mortgage providing, lack of necessary credit history and accurate accounts department of small enterprise; low interest in small business as direct consequence of a high risk; illiteracy of borrowers: many predpriknimatel don't understand conditions of receiving the credit or provide incomplete information on activity (Wu et al., 2007).

But, as practice of work of banks with small business shows, risks on the credits issued to it aren't so high, and the share of problem loans in many banks doesn't exceed 1-2% (Wynarczyk, 2007).

However nevertheless the majority small and average the regioknalnykh of banks considers financing of small and sredkny business as one of the main sources of the dokhod, and in regions banks are very interested in cooperation with small business.

#### **5. Conclusion**

The analysis of development of small and medium business allowed us to make the following suggestions for improvement of financing of small and medium business in the territory of the Republic of Kazakhstan:

- 1) Annually to compensate the state a difference between the market and preferential credit rate, provided by bank of the second level. It will allow banks to increase crediting volume, without incurring thus losses from decrease in profitability (Teo et al., 2008).
- 2) It is necessary to define degree of competence of workers at each level of hierarchical structure of bank, having provided them certain rights and strictly controlling responsibility of each worker. Such division of credit powers in commercial banks will increase overall performance of their credit divisions.
- 3) It is necessary to adjust high-quality information and analytical providing.
- 4) It is necessary that the credit department solved problems of strategic planning, methodical and instructive providing, the analysis and control over the implementation of conditions of business deal. It will raise level of the organization of credit work in many banks (Singer et al., 2007).

5) On the basis of the Central bank it is necessary to create credit bureau which will contain data on unfair borrowers. NB RK can collect and store such information, and also report the credit organization for its inquiry data about enlisted in "black list".

6) Each Kazakhstan commercial bank within the credit policy has to develop own technique of the analysis of solvency of clients and in process of change of operating conditions, market conditions and priorities of credit policy to introduce necessary amendments.

7) It is necessary to apply modern financial instruments, in particular: the complex financial operations, allowing lowering a real rate of percent for the credit (it has to be available to the borrower and it is favorable to the creditor) by an optimum combination available bank of financial products. The resource is more available, the demand for it and the more so available credit investment potential can be fully used is higher.

8) Development of microcredit will allow increasing number of subjects of small and average business, and it will increase number of the busy population (Woldesenbet et al., 2007).

Thus, small and average business conducts to economy improvement as a whole and, therefore, the best exit for Kazakhstan is a creation of such policy of the state which would be directed on expansion and development of the enterprises of small and average business in our country.

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