ALTERNATIVE METHODS OF SMALL BUSINESS FINANCING IN UKRAINE

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Abstract. *Today's realities show a crisis in the solvency of domestic businesses, which is caused, in particular, by lower interest rates after 2008. This encourages small businesses to attract alternative financing methods. Access to external financing in times of crisis is becoming more difficult, especially for small businesses. The purpose of the study is to examine the practice of alternative methods of financing small business in Ukraine in a pandemic and solvency crisis in 2020. The results show that in developing countries, in particular in Ukraine, lending as a form of financing for small businesses is underused due to high interest rates. Small businesses mainly rely on financing from creditors (suppliers) and management of accounts payable, receivables. Government support is also low. The main methods of financing include financing at the expense of creditors, in particular, it may be deferred payments for goods, works and services. At the same time, small business did not significantly increase the amount of financing through loans on a long-term basis in 2010-2019. Compared to long-term liabilities, corporate equity is a more widely used source of financing in Ukraine. In the period of economic recovery (2017-2018) there was an increase in the share of long-term commitments and provision and a reduction in the share of equity capital in the balance of small enterprises. This means that the structure of financing depends on the country's economy: in a crisis, borrowing is reduced. In Ukraine, starting from 2017, there has been an increase in the level of efficiency of state support for the agro-industrial complex of Ukraine through the expansion of public funding instruments, taking into account the various needs and problems of individual industries.*

Keywords: *alternative methods of financing, small business, small business, capital structure of small enterprises.*

JET Classification: D22, G18, G21, G28

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Introduction. Today's realities show a crisis in the solvency of domestic businesses, which is caused, in particular, by lower interest rates after 2008. This encourages small businesses to attract alternative financing methods. The economic activity of small businesses is further negatively affected by the coronavirus pandemic. As a result, such sectors of the economy as tourism, trade, agricultural production, and industry suffer. Access to external financing in times of crisis is becoming more difficult, especially for small businesses, and access to capital remains a problem in times of economic recession (Cowling, Liu & Ledger, 2012; Geho & Frakes, 2013). Exceptions are qualified small enterprises with a high level of productivity (Geho & Frakes, 2013) or small enterprises with innovative projects (Comeig, Del Brio & Fernandez-Blanco, 2014), or providing direct financing and obtaining bank loans through government policy despite the recession (Rumiński, 2012). For example, in New Zealand and the United Kingdom, despite the decline in 2008, small businesses used similar financing methods to deliver positive results (Smallbone, Deakins, Battisti & Kitching, 2012). This means a high level of adaptability and flexibility of small business, resilience in the absence of control over changing circumstances (Smallbone, Deakins, Battisti & Kitching, 2012). In Ukraine, the situation is complicated by high interest rates and the unavailability of loans for small businesses due to their high cost. In addition, there is no practice of state support for small business in Ukraine. The recent practice of financing agricultural enterprises is insufficient to assess the effectiveness of various forms of external financing. The implementation of the Strategy for the Development of Small and Medium-Sized Enterprises in Ukraine for the period up to 2020 in Ukraine has not provided obvious results in the context of financial support of small enterprises by the state (Verkhovna Rada of Ukraine, 2020).

Literature review. The scientific literature discusses discrimination against small businesses in lending, in particular, unequal access to commercial credit due to the possible risks of non-repayment (Cheng, 2015; Bates & Robb, 2016). Small businesses can attract different forms of financing by combining different configurations (Atherton, 2012). Borrowers of small and medium enterprises (SMEs) with a low probability of success of the project attract resources without collateral (collateral) with high interest rates, while SMEs with a high probability of success - loans with real estate at low interest rates, Comeig, Del Brio & Fernandez-Blanco, 2014). This provides access to good financing conditions for small businesses with efficient projects. For example, in Poland, SMEs receive direct financing and bank loans (Rumiński, 2012), which in the conditions of economic downturn ensures the development of entrepreneurship due to high flexibility.

External constraints determine the financing of small enterprises (investment in research and development, capital investment) to a greater extent than internal ones (Czarnitzki & Hottenrott, 2011). Among the risk factors for not receiving external financing - the location of a small business, geographical concentration (Bates & Robb, 2016). Other important characteristics are activity scale, age, type of ownership, form of ownership, operating sector, asset structure, age and gender of the business owner, management experience and education (Abdulsaleh & Worthington, 2013). One of the determining factors in borrowing is the level of capitalization: companies with low capitalization have less chance of survival, there may be a shortage of funding (Atherton, 2012). Deregulation of the banking sector, which expands access to corporate finance, provides growth in the total factor productivity of small businesses through investment in production projects (Krishnan, Nandy & Puri, 2015).

The practice of different countries proves the importance of small business development and financing (Smallbone, Deakins, Battisti & Kitching, 2012; Rumiński, 2012). Among the main sources of funding are borrowing, capital financing and government support (Figure 1).

Figure 1. Sources of small business financing

Source: Abdulsaleh & Worthington, 2013.

Given the above, the issue of research of alternative methods of financing small business in Ukraine is particularly relevant. Developing countries are gradually implementing small business financing through a variety of methods.

Aims. The purpose of the study is to examine the practice of alternative methods of financing small business in Ukraine in a pandemic and solvency crisis in 2020.

Method. This study is based on a qualitative and quantitative methodology for evaluating alternative methods of financing small business in Ukraine. For this purpose, the following indicators of the State Statistics Service of Ukraine were used:

1. Number of small enterprises in Ukraine in 2010-2019, in particular in terms of economic sectors.
2. Volume of sold products (goods, services) of small enterprises by types of economic activity in Ukraine in 2010-2019.
3. Indicators of the balance sheet of small enterprises in 2013-2019 to study the structure of assets and, accordingly, sources of funding.

Content analysis of state support programs was conducted on the basis of data from government programs of Ukraine in various sectors of agriculture. Data from the Ministry of Agrarian Policy and Food of Ukraine (2019; 2020) were used to summarize the effectiveness of small business financing methods in Ukraine. The agricultural sector was selected for analysis due to the existence of enterprise financing practices in 2017-2020.

Results. In developing countries, particularly in Ukraine, lending as a form of financing for small businesses is underused due to high interest rates. Small businesses mainly rely on financing from creditors (suppliers) and management of accounts payable, receivables. Government support is also low.

Over the last ten years, the number of small enterprises in Ukraine has increased by 5,087 units (Table 1) due to the implementation of the SME Development Strategy. Thus, 95.2% of all enterprises are small enterprises, while their sales are only 19.1% of the total volume in 2019 (Table 1-2). At the same time, the share of sales volumes is slowly growing in 2010-2019 (from 16.9% to 19.1%). Among small enterprises, a significant share of enterprises in agriculture (13.23%), industry (11.70) and processing industry (9.54%), but the largest share is occupied by wholesale and retail enterprises; repair of motor vehicles and motorcycles (27% in 2019). This determines the level of financing and methods, because the sector of the economy is one of the factors in attracting funds to small businesses. It is obvious that enterprises in capital-intensive industries are more likely to raise funds of various forms.

Table 1. Dynamics of the number of small enterprises in Ukraine in 2010-2019

Indicator	2010	2016	2017	2018	2019	Absolute deviation 2019/2010, +/-
Number of small enterprises, units	357241	291154	322920	339374	362328	5087
in % to the total indicator of the corresponding type of activity	94,3	95,0	95,5	95,4	95,2	0,90
Agriculture, forestry and fisheries	47213	42477	47714	48183	47924	711
Specific weight, %	13,22%	14,59%	14,78%	14,20%	13,23%	0,01%
Industry	41373	33695	37066	39322	42396	1023
Specific weight, %	11,58%	11,57%	11,48%	11,59%	11,70%	0,12%
Processing industry	36086	28596	31239	32780	34573	-1513
Specific weight, %	10,10%	9,82%	9,67%	9,66%	9,54%	-0,56%

Source: State Statistics Service of Ukraine (2020).

During 2010-2019, the volumes of sold products (goods, services) of small enterprises increased by 1271.61%, and the share by 2.2%. Thus, the agricultural sector provides 11.21% of the total sales of small business, industry - 12.17%, construction - 9.7%, wholesale and retail trade; repair of motor vehicles and motorcycles - 45.76%. Obviously, this determines the methods of financing small business in Ukraine.

Table 2. Dynamics of volumes of sold products (goods, services) of small enterprises by types of economic activity in Ukraine in 2010-2019

Indicator	2010	2016	2017	2018	2019	Absolute deviation 2019/2010, +/-
In total, billion (UAH)	568,27	1177,39	1482,00	1766,15	1839,88	1271,61
in % to the total indicator of the corresponding type of activity	16,9	18,9	19,2	19,2	19,1	2,20
Agriculture, forestry and fisheries, billion (UAH)	22,67	144,02	177,51	198,13	206,24	183,57
Specific weight, %	3,99%	12,23%	11,98%	11,22%	11,21%	0,07
Industry, billion (UAH)	54,08	152,41	188,35	227,65	223,97	169,89
Specific weight, %	9,52%	12,94%	12,71%	12,89%	12,17%	0,03
Construction, billion (UAH)	36,61	82,76	110,29	146,37	178,55	141,94
Specific weight, %	6,44%	7,03%	7,44%	8,29%	9,70%	0,03
Wholesale and retail trade; repair of motor vehicles and motorcycles	352,38	572,08	723,18	854,13	841,96	489,58
Specific weight, %	62,01%	48,59%	48,80%	48,36%	45,76%	-0,16

Source: State Statistics Service of Ukraine (2020).

The dynamics of the balance sheet of small enterprises (Table 3) shows an increase in non-current assets (by UAH 443.8 billion), current assets (by UAH 1186.0 billion), equity capital (by UAH 147.2 billion), long-term commitments and provision

(UAH 158.8 billion), current liabilities and provision (UAH 1324.6 billion), liabilities related to the irreversible assets and groups of leaving and net cost of non-assets - state pension fund (by UAH 1.9 billion). This means the predominance of such financing methods as creditors' funds, in particular, it may be deferred payments for goods, works and services. At the same time, current liabilities and provision do not significantly outweigh current assets, which means high liquidity of small businesses and the ability to settle liabilities on time. At the same time, small enterprises did not significantly increase the volume of financing at the expense of credit funds on a long-term basis (UAH 158.8 billion), in fact, 1 small enterprise accounted for UAH 491.66 thousand. long-term liabilities in 2019, while in 2010 the load was much higher - 836.56 thousand UAH.

Table 3. Dynamics of balance sheet of small enterprises in Ukraine in 2013-2019

Balance sheet item, billion (UAH)	**2013**	**2016**	**2017**	**2018**	**2019**	Absolute deviation, 2013/2019 +/-
non-negotiable assets	637,9	760,4	916,5	1028,2	1081,7	443,8
current assets	985,5	2355,2	1810,0	2075,5	2171,5	1186,0
non-negotiable assets and groups of leaving	1,7	2,7	4,3	3,0	4,3	2,6
equity capital	479,9	224,7	278,9	416,5	627,1	147,2
long-term commitments and provision	298,9	451,5	557,2	602,9	457,6	158,8
current liabilities and provision	844,8	2440,0	1892,1	2084,3	2169,4	1324,6
obligations, related to the irreversible assets and groups of leaving and net cost of assets of non-state pension fund	1,5	2,3	2,6	3,1	3,4	1,9
Balance	1625,1	3118,4	2730,7	3106,7	3257,5	1632,4

Source: State Statistics Service of Ukraine (2020).

Compared to long-term liabilities, the equity of enterprises is a more used source of financing: in 2010, 1 small enterprise accounted for UAH 1,343.42 thousand. equity, in 2019 - 455.72 thousand UAH. This means a change in the financing structure (Table 4) and the ratio of equity and debt capital (from 1.61 in 2010 to 0.93 in 2019 in favor of long-term loans).

Current assets account for 66.66% of the balance sheet of small enterprises. The share of equity in 2010 was 29.53%, in 2019 - 19.25%, while long-term commitments and provision - 18.39% and 14.05%, respectively. In the period of economic recovery (2017-2018) there was an increase in the share of long-term commitments and provision and a reduction in the share of equity capital in the balance of small enterprises. This means that the structure of financing depends on the country's economy: in a crisis, borrowing is reduced.

Table 4. Structure of balance sheet of small enterprises in Ukraine in 2013-2019

	2013	2016	2017	2018	2019	Absolute deviation, 2013/2019, +/-
non-negotiable assets	39,25%	24,39%	33,56%	33,10%	33,21%	-6,05%
current assets	60,64%	75,53%	66,28%	66,81%	66,66%	6,02%
non-negotiable assets and groups of leaving	0,11%	0,09%	0,16%	0,10%	0,13%	0,03%
equity capital	29,53%	7,21%	10,21%	13,41%	19,25%	-10,28%
long-term commitments and provision	18,39%	14,48%	20,40%	19,41%	14,05%	-4,34%
current liabilities and provision	51,98%	78,24%	69,29%	67,09%	66,60%	14,61%
obligations, related to the irreversible assets and groups of leaving and net cost of assets of non-state pension fund	0,09%	0,07%	0,09%	0,10%	0,10%	0,01%
Balance	100,00%	100,00%	100,00%	100,00%	100,00%	0,00%

Source: State Statistics Service of Ukraine (2020).

Given that in 2017-2020 the agricultural sector of Ukraine uses a variety of forms and methods of financing, it is advisable to consider the practice of this sector. The last few years in Ukraine there has been an increase in funding for agriculture through various methods of state support: through state support programs (including intensification of compensation programs for machinery and equipment in 2017-2019), which provide compensation for machinery, construction, equipment, cheaper loans and more.

State support of the agro-industrial complex provides for state regulation in the form of indirect support (tax benefits) and direct support (appropriations, loans).

In 2017, at the request of the IMF, the preferential VAT regime was abolished and budget subsidies were introduced in order to develop agricultural producers who sell products on the domestic market to a greater extent. Compensation for the cost of agricultural machinery and equipment of domestic producers was also introduced. At the same time, since 2017, the government has been constantly expanding the range of state support instruments. In general, the financing of the agro-industrial complex is growing every year, but the systemic problems of the industry remain unresolved.

Today, the government's priority is to stimulate the development of farming and the formation of an effective model of socially responsible, productive farm owners. In particular, for 2019, financial state support is provided on the basis of previously existing government programs (Table 5).

It should be noted that the conditions for providing state support differ depending on the form of economic activity. For cooperatives (associations of agricultural producers) compensation of 70% of the cost of machinery and equipment is provided. For large manufacturers who need assistance of another nature, cheap loans are provided, the cost of equipment is reimbursed in the amount of 25%.

Table 5. Government programs of state support for agriculture

Branch of agro-industrial complex	Essence of state support
Livestock	Subsidies for keeping cattle in the amount of 900 UAH for 1 unit Partial reimbursement of breeding animals (50%) Compensation for the construction of animal complexes (financing through bank loans) in the amount of not more than 25% of credit funds up to 5 years
Machinery and equipment	Compensation for the cost of purchased equipment: 25% due to the budget program “Financial support for agricultural producers” and 15% due to “Financial support for farm development”
Plant growing	Compensation of 80% of the cost (excluding VAT) of seeds of domestic production (not more than in the amount of 80 thousand UAH per 1 farm) Compensation of 80% of the cost for the purchase of planting material in the fields of viticulture, hops and horticulture, construction of refrigerators, freezing facilities, purchase of processing lines Compensation for the cost of construction of storage facilities, grain processing (30% of the cost)
Subsidies	60 000 UAH for the established farm / 3000 UAH per 1 ha 12 000 UAH per 1 member of the farm, but not more than 40,000 UAH
Loans	Partial compensation of the interest rate for up to 12 months to cover production costs, 36 months - capital costs Cheaper loans (compensation of 1.5% of the discount rate: up to 1 year up to 500 000 UAH; up to 3 years up to UAH 9,000 000 UAH) Loans for livestock industries (compensation of 1.5% of the discount rate on 1 short-term and / or 1 medium-term loan)

Source: Ministry of Agrarian Policy and Food of Ukraine (2019).

Table 6 shows the actual amount of funding for state support for the development of agricultural enterprises of Ukraine in 2017-2019 under various budget programs.

Table 6. Dynamics of financing of state support for the development of agro-industrial enterprises of Ukraine in 2017-2019, million (UAH)

№	Program/direction	2017	2018	2019 (till 18.09)	Growth rate, %, 18/17
2801030	Financial support of measures in the agro-industrial complex by reducing the cost of loans	263,40	265,91	80,59	0,95
2801230	Financial support for the development of farms, including	101,13	203,26	136,23	101,00
2801350	State support for the development of hop growing, establishment of young orchards, vineyards and berries and their supervision	224,90	394,33	119,12	75,34
2801540	State support of the livestock industry, including	166,47	2389,84	14,07	1335,58
2801580	Financial support for agricultural producers, including	47,10	912,86	1036,19	1838,13
Total, including:		803,00	4166,22	1386,19	418,83

Source: Ministry of Agrarian Policy and Food of Ukraine (2020).

In 2018, there was a significant increase in funding within the budget programs to support the development of agriculture. Cheaper loans remain a relatively ineffective instrument of state support, as the amount of funding under this program does not change and is only 6% in 2018 of the total funding of agricultural enterprises. Financial support for farms increased significantly (by 101% in 2018), and its share was only 5%, including compensation for the cost of machinery and equipment - 3%, subsidy per 1 hectare for newly established farms - 1%, cheaper loans only 0.20 %. The amount of funding for the program “State support for the development of hop growing, establishment of young orchards, vineyards and berries and their supervision” has increased significantly - by 75%, and the share in 2018 was 9.5%. The largest amount of funding fell on livestock - 57%, and growth - by 1335%, which indicates the effectiveness of the program. It is worth noting the effectiveness of budget subsidies for keeping cows (12.29%), for raising young cattle (7.7%), reimbursement of breeding animals (5%), reimbursement of the cost of facilities - 31%. Thus, the most effective tool is to reimburse the cost of construction. Financial support for agricultural producers by reducing the cost of agricultural machinery and equipment is also an effective tool, because in 2018 the growth was 1838%, and the share - 22%. Thus, we see an increase in the efficiency of state support for agricultural enterprises, as the purchasing power of farms has been increased, equipment has been updated, and facilities have been built. It should be noted that as of September 18, 2019, the amount of state support is significantly lower than in 2018, in general, accounting for only one third of the amount of funding in 2018. The following banks financed PJSC CB Privatbank, PJSC Oschadbank, PJSC Ukreximbank, and PJSC JSB Ukrgasbank.

Discussion. This study allows us to draw conclusions about the reduction of small business financing in the crisis (Cowling, Liu & Ledger, 2012; Geho & Frakes, 2013), in particular through long-term loans, the economic recession is changing the capital structure of small businesses in Ukraine. Small businesses in Ukraine have uneven access to credit due to the predominance in the structure of the economy of enterprises in the field of trade. Similar findings are contained in a study by Cheng, 2015; Bates & Robb (2016), noting the possible risks of non-repayment of loans. Small business in Ukraine has several forms of financing at its disposal, and the structure of financing is changing during the crisis. High interest rates in Ukraine still remain an obstacle to attracting financial resources, which correlates with the conclusions (Comeig, Del Brio & Fernandez-Blanco, 2014). At the same time, this trend is complemented by a low level of collateral supply by small businesses due to the predominance of wholesale trade. Only in the agricultural sector do companies have the opportunity to offer collateral or submit a project for consideration to increase the probability of success in obtaining financial resources.

Despite the increase in funding, compared to EU countries, where 21% of gross agricultural output is compensated by the state, in OECD countries - 19%, in Ukraine in 2018 the share was 9.5% (Ivaskevych, 2018). The disadvantages of financing agricultural enterprises is a transparent mechanism for the access, distribution costs, particularly for small and medium producers, inefficient use of resources (lack of systemic innovation, new technologies), impaired objectivity mismatch distribution and final beneficiaries declared. The actual amount of financing of the agro-industrial complex is less than 5% and is less than planned. At the same time, scientists note the systemic underfunding of agriculture (Radchenko, 2016). For example, 41% - 0.942 billion UAH - “Myronivsky Khliboprodukt” has received all paid subsidies since the beginning of 2017, according to the State Treasury. The second place in state support was taken by Ukrlandfarming Group of Companies, which paid 0.236 billion UAH (10%). At the same time, the requirements were met, according to which the monthly amount of the budget subsidy for poultry producers cannot exceed 50% of the allocated appropriations for the budget subsidy in the current month. That is, small farms received almost no state support. Although the current mechanism of budget allocation “excludes the human fact”, this proved to be insufficient for logic and efficiency. Thus, the support of the agricultural sector implemented in the first half of 2017 shows that the new mechanism has not got rid of previous, systemic problems, and has acquired its own, which nullifies the stated efforts of public policy (Dumanska, 2018).

The current system of using funds under budget programs does not provide access to most small producers to them, and therefore does not allow the development of new areas of agriculture (organic production in particular). In Ukraine, there is no extensive system of regional advisory services, whose activity is to expand the professional knowledge of producers, skills of both government officials and businesses (Dumanska, 2018). Therefore, one of the ways to improve the mechanism of state support is decentralized distribution of funds to ensure equal access of all producers to funds. Cheaper loans for agricultural enterprises are one of the effective tools of state support, but in Ukraine it is characterized by a low level of efficiency due to bureaucratization and limited banking institutions that act as partners.

Conclusion. This study allows us to draw the following conclusions. In developing countries, particularly in Ukraine, lending as a form of financing for small businesses is underused due to high interest rates. Small businesses mainly rely on financing from creditors (suppliers) and management of accounts payable, receivables. Government support is also low. The main methods of financing include financing at the expense of creditors, in particular, it may be deferred payments for goods, works and services. At the same time, small business did not significantly increase the amount of financing through loans on a long-term basis in 2010-2019. Compared to long-term liabilities, corporate equity is a more widely used source of financing in Ukraine. In the period of economic recovery (2017-2018) there was an increase in the share of long-term commitments and provision and a reduction in the share of equity capital in the balance of small enterprises. This means that the structure of financing depends on the country's economy: in a crisis, borrowing is reduced. In Ukraine, starting from 2017, there has been an increase in the level of efficiency of state support for the agro-industrial complex of Ukraine through the expansion of public funding instruments, taking into account the various needs and problems of individual industries.

Author contributions. The authors contributed equally.

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