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THE USE OF INNOVATIVE FINANCIAL INSTRUMENTS FOR FINANCING SMALL AND MEDIUM BUSINESSES

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Innovative financial instruments are a way of deploying EU budgetary resources, and are complementary to grants or subsidies. Financial instruments are regulated in a dedicated section of the EU Financial Regulation [1].

Small and medium enterprises' financing constraints are an important reason for its development in recent years, national policy and legal aspects are also efforts to promote the development of small and medium businesses, or SMEs, the SME financing is still a lot of the biggest obstacles to entrepreneurs.

Economic development in small and medium enterprises play an important role in Belarus. There are more than 10million small and medium enterprises, which was the 99% of the total number of registered companies, the total industrial output value and profits were up 60% of the country and 40%, provided About 75% of urban jobs, so how to properly resolve the problem of financing of small and medium enterprises is of great significance.

Small business credit scoring is based on the analysis of large amounts of historical data about the SME's owner as well as the firm. It may thus be applied to informationally opaque SMEs. The data are entered into a loan performance prediction model, which yields a score for the loan. The approach allows reduction in costs and time of granting a loan, greater consistency of credit evaluation and focus on difficult cases or large loan requests. The scoring method was first adopted in consumer lending, based on the large amounts of data readily available for banks on the performance of consumer credits and on the characteristics of borrowers. In the case of SME lending, however, the data needed to manage credits on a statistical basis may be available only to large banks, which are in fact the main adopters of credit scoring, or to smaller financial institutions that share or 'pool' data. There exist also credit reference agencies that provide credit scoring systems to banks which lack their own historical database. The credit scoring provided to banks by external agencies can cover both the business and the individuals in the business, based on their personal credit experience and rating [2].

Specific challenges limit traditional bank lending to SMEs. These are largely related to the greater difficulties that lenders encounter in assessing and monitoring SMEs relative to large firms.

– First, asymmetric information is a more serious problem in SMEs than in larger firms. SMEs often do not produce audited financial statements that yield credible financial information and have no obligation to make public disclosure of their financial reports, although they are generally obliged to produce them and make them available to relevant authorities upon request.

– Second, the principal/agent problem, which is inherent in all financing operations, is particularly acute in the case of SMEs. Once financing is received, the entrepreneur may use funds in ways other than those for which it was intended. An entrepreneur might undertake excessively risky projects since all of the "upside" of the project belongs to the entrepreneur while a banker would prefer a less risky operation, even if profitability is less than under the riskier alternative.

For some hybrid or equity instruments, policy makers also face the challenge of kick–starting the offer for SMEs, or extending it to SMEs with lower credit ratings and smaller financial needs than those usually served by private investors, while ensuring long–term sustainability. In the aftermath of the global financial crisis, as private investors withdrew from some market segments, public policies have also aimed at sustaining these markets, with governments stepping in to fill, at least in part, the financing gap for 109 innovative or growth–oriented enterprises. As a result, the public share of funding in these higher risk segments has significantly increased. A key challenge now is to leverage private resources and develop appropriate risk–sharing mechanisms with private partners [2].

The innovative financing instruments represent a financing method of the budgetary expenses within the European Union applicable to other types of intervention than funding through grants. Through the innovative financing instruments the direct financing is not ensured, but the contribution consist in risk or indebtedness reduction tools, loans or guarantees. The aim of the European Union is not to replace funding through grants, but rather to supplement funds provided through grants.

The aim is to boost the real economy through increasing the access to finance for enterprises and industry producing goods and services. Spending through innovative financial instruments is another way of spending EU budget than giving grants or subsidies.

– **Innovative financial instruments are a range of activities such as:**
– participation in equity (risk capital) funds
– guarantees to local banks lending to a large number of final beneficiaries, for instance small and medium–sized enterprises (SMEs)
– risk–sharing with financial institutions to boost investment in large infrastructure projects (e.g. the Europe 2020 project bonds initiative or the connecting europe facility financial instruments).
– **Financial instruments are used under a number of EU programmes**, such as
– Horizon 2020
– the programme for the competitiveness of enterprises and small and medium–sized enterprises (COSME)
– the EU programme for employment and social innovation (EaSI)
– the Creative Europe Programme
– In addition, the European fund for strategic investments (EFSI), while not itself a financial instrument, is used to increase the scope of support under a number of the EU financial instruments, especially those for small and medium–sized enterprises (SMEs) [1].

In spite of their growing importance for financiers and SMEs, evidence on the use of these various tools by SMEs, and how they respond to their needs, is currently patchy. The lack of hard data on non–debt financing instruments represents an important limitation for the design, implementation and assessment of policies in this area. This limitation is particularly critical when seeking to take account of SME heterogeneity in the process of policy design. Micro data and micro level analysis are essential to improve understanding about the different needs of the SMEs sector and may help to better understand the potential and challenges of new business models emerging in the financial sector.

List of used sources

1. "Innovative financial instruments [Electronic resource]: Innovative financial instruments". – Mode of access: https://ec.europa.eu/info/business–economy–euro/growth–and–investment/financing–investment/innovative–financial–instruments_en. – Date of access: 28.03.2018.

2. “New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments [Electronic resource]: Innovative financial instruments". – Mode of access: https://www.oecd.org/cfe/smes/New–Approaches–SME–full–report.pdf. – Date of access: 28.03.2018.