

Financing of Smes in Azerbaijan world wide Experience in Mechanism Improvement

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Abstract The article is devoted to the study of the features of the financial and credit mechanism of SME support in foreign countries in order to identify the main directions of the development of financial and credit support to SMEs in Azerbaijan. Thus, it is necessary to effectively seek and improve the mechanisms used to support small and H Maliyev : World experience in improving the financing mechanism of SMEs in Azerbaijan medium enterprises, and one of such mechanisms could be a financial-credit mechanism through the issuance of state guarantees to SMEs, as well as the compensation of part of state guarantees. The purpose of this article is to study the problems of financing and lending to SMEs in Azerbaijan, to identify theoretical approaches to financial support to SMEs, key concepts, features of formation and historical development paths, as well as to analyze the effectiveness of financial and credit mechanisms to support it consists of. The research was carried out mainly on the basis of scientific abstraction and systematic approach, logical generalization. The study concludes that it is expedient to use successful foreign experience in providing credit support to SMEs, and to expand its use, it is necessary to improve the financial and credit mechanism to support SMEs and simplify the procedure for obtaining it.

Keywords: financial-credit mechanism, small and medium business, venture financing, preferential taxation, state guarantees, types of financing, compensation

Introduction The article is devoted to studying the features of the financial and credit mechanism support of SMEs in foreign countries in order to identify the main directions of development of financial and credit support of SMEs in Azerbaijan. That is necessary to effectively search and improve the used ones mechanisms of supporting SMEs, and one of such mechanisms could be a financial and credit mechanism through the issuance of state guarantees to subjects of SMEs, as well as compensation for part of state guarantees. The purpose of this article is to study the problems of financing and lending to SMEs in Azerbaijan, to identify theoretical approaches to the financial support of SMEs, key concepts, features of formation and historical development, and also to analyze the effectiveness of the financial and credit mechanism. The research was conducted mainly on the basis of scientific abstraction and systematic approach, logical generalization. As a result of the research, the conclusion is made about the expediency of using the successful foreign experience of credit support for SMEs. To expand its use, it is necessary to improve the financial and credit mechanism for supporting SMEs and simplify the procedure for obtaining it. Azerbaijan's foreign experience on stimulation and support by issues of finding ways to use it so that it can be applied in economic life are discussed. Currently, in-depth study and analysis of the foreign experience of countries with a market economy plays an important role for our country. Expanding relations with the state and authorities at all levels that support SMEs has greatly expanded the understanding of how small business is supported abroad, and what measures should be taken to increase the special weight of SMEs. SMEs contemporary market of the economy is an elementary system.

Objectives The importance of the SME sector to its comprehensive development and promotion of every state determines the attitude.

Materials and methods In most foreign countries, SMEs receive serious financial and credit support from the state through special structures and funds designed to create a favorable climate for the development of the sector in question in the country.

Results As an example, let's take a look at some of them. Systematic approach to the financing mechanism of SMEs in the world experience United States of America (USA). It is known that the American experience of state support for SMEs is particularly noteworthy, because the United States is not only a country of large multinational corporations, but also of small enterprises, where more than 50% of employees in the private sector are employed. The most important task of the US federal government is competition maintain and develop the environment , which is to reduce production costs encourages manufacturers to switch to more efficient technologies through the mechanism [1, p.81]. The Small Business Administration (hereinafter - KBA) - the central government agency for small business development in the United States - implements a number of programs aimed at supporting business, including the Small Business Development Centers program [2, p.42].

KBA provides loan guarantees to small and medium-sized enterprises, various types of financing, which can range from microloans to large loans . As a result, SMEs get direct loans at lower interest rates compared to borrowing from the private capital market. When issuing guaranteed loans, KBA H. Maliyev: The world experience in improving the financing mechanism of SMEs in Azerbaijan provides lenders with a state guarantee for part of the debt capital (up to 90%), which reduces the risk of lending.

Other areas of KBA's activity include financing of small enterprises created by the joint efforts of two or more companies and providing microloans, which, as a rule, do not generate income and are often completely irrecoverable. Small Business Development Centers provide a wide range of services related to specific projects in various areas, as well as services related to technical influence, management assistance and loan applications.

Under the auspices of KBA, there is an effective Internet Institute, where aspiring entrepreneurs and students preparing to start their own businesses can receive free training and use information resources. A joint effort of the KBA and the US Department of Commerce has opened 19 export promotion centers that screen candidates for capital for export-oriented projects and also provide loans for small businesses' foreign trade operations.

US federal authorities pay special attention to stimulating the development of innovative small businesses, both by allocating subsidies (grants) and by signing contracts for the development of new products and technologies.

Great attention is paid to the promotion of small business at the regional level. The US administration and Congress consider connecting small business with national exports one of the main tasks. Despite the fact that the globalization of major industries such as automobile manufacturing, electronics, and mechanical engineering led to an increase in the volume of international trade, most American companies were left out of these processes. In addition to supporting small business financing, the United States also has a number of Small Business Investment Companies (SBICs) controlled by the federal government that help small businesses run by owning property or providing long-term loans. In addition, early capital funds are actively involved in many small business issues.

credit unions that specialize in serving the low-income population . Because of their status as consumer cooperatives, credit unions in the United States are classified as nonprofit organizations and are exempt from federal income tax. Credit unions have certain advantages in granting loans because their founders are often entrepreneurs or trade unions. Because of the cooperative nature of these institutions, their managers often have information about where borrowers will raise the funds to repay the loans, and such payments can often be deducted from credit union members' salaries or depositors' deposits.

Supporting SMEs across Japan

Japan. Support and development of SMEs in Japan is distinguished by the high level of influence of the state on the main processes of reforms in the country's economy. The rapid development of the Japanese economy is mainly based on the close interaction of large, medium and small enterprises.

In Japan, SMEs receive assistance not only from the government and a number of specialized organizations created by it, but also from prefectural administrations, local foreign trade and industry departments, and chambers of commerce and industry.

The state policy on the promotion of SMEs covers the following areas:

- to ensure competitiveness in enterprises through the allocation of subsidies and loans - direct loans (the Development Bank of Japan gives them to small enterprises operating in the most promising industries) and guaranteed loans (thanks to the application of tax incentives, commercial banks are ready to lend to small entrepreneurs);
- promotion of reconstruction and modernization of economic activity, improvement of working conditions, facilitation of trade;
- collection and analysis of data on the economic indicators and technical supply of SMEs to assess the efficiency of state support [7, p.31].

The current system of small business financing in Japan is local government

institutions, including the Small Business Corporation established with the participation of the Japanese government.

In addition to direct government financial support, the problem of small business lending in Japan is mainly solved through a fairly complex system of loan guarantees and small business insurance, which consists of 52 prefectural credit guarantee associations - public organizations operating on a commercial basis. By receiving 1% of the loan amount from small firms as collateral, such an association creates an insurance fund, which is replenished by membership fees.

By guaranteeing a small business, the association insures up to 4/5 of the guarantee amount and assumes the corresponding part of the debt of the small business entity in case of bankruptcy. At the same time, the credit guarantee association reserves the right to claim damages from the small business. Thanks to the operation of this system, small business entities can get loans even if there is no collateral, but only with the guarantee of the association.

Creation of centers for improving the technical level of small and medium-sized companies, consulting, increasing the qualification of technical staff, etc. allocation of subsidies, covering up to 50% of costs, has become widespread. An integral element of the financial system of Japanese small business is training costs for retraining personnel and compensation costs, which include 2/3 of the costs of professional development of employees.

HMaliyev: World experience in improving the SME financing mechanism in Azerbaijan. It should be especially emphasized that Japan has a large number of research organizations that study the modern problems and development trends of SMEs, and they mainly include the SME Development Strategy Council, the SME Agency, the Support of Regions in Japan.

and Innovative Development Organization, Economic, Trade and Industrial Research Institute, Japan Association, management consulting for SMEs, etc. is attributed [3, p. 27].

Government policy in financing SMEs in the UK

Great Britain. Government policy in the UK is aimed at encouraging commercial banks to lend to SMEs. The main government program in this direction is the Loan Guarantee Scheme, which allows commercial banks to finance businesses whose representatives cannot take out loans on their own. Under this program, the government guarantees 70% of loan defaults and up to 85% in disadvantaged areas. Under this program, state guarantees cover 70-80% of loans given to SMEs by commercial banks.

In addition to creating conditions for the interest of banks in the financing of SMEs, the state also implements a number of specific targeted programs that provide financial assistance to small businesses:

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- "Local Business Assistance Agencies" program for small firms at the regional level

is an association of approximately 200 independent bureaus that support

- Financial assistance is provided to the unemployed who intend to start their own business within the framework of the "Business Opening Assistance Scheme" program;
- Insurance premiums are paid on behalf of successful businessmen within the "Credit Guarantee Program";
- Since the beginning of the 90s, the Confederation of British Industry has been implementing the "Business Expansion Program", which provides an additional source of finance for the development of small businesses by receiving a special contribution from legal entities and individuals related to this business. In addition, the state also provides special programs that help young people create or expand businesses, train entrepreneurs for small businesses, and assist municipal authorities in the development of local SMEs.

State support for SMEs in Italy, Germany and France

Italy. Targeted subsidies and concessional loans play an important role in the Italian state support system for small businesses. Loans for the implementation of projects for the creation of new firms are usually granted for a period of 15 years, and in the case of modernization or expansion of existing firms, for a period of 10 years. Taking into account the size of the loan, the interest rate is 36-60% of the market. In addition, although special benefits are provided to young entrepreneurs in Italy, at the same time, periodic audit control of their activities is carried out and the cancellation of benefits is ensured in case of gross violations of the law.

For Small Businesses to promote venture capital entrepreneurship

A Closed Investment Fund was created which in turn is only on the stock exchange can invest in unregistered enterprises. At the same time, the fund capital cannot be invested in government bonds or shares issued by other closed-end funds. The fund's main source of profit is the sale of shares of companies created with the participation of the fund's shareholders. In addition, the Innovation and Technology Fund and the Applied Research Fund operate in Italy to support Scientific business, research activities and design work. Germany. In Germany, decisions about the activities of SMEs are made at the federal, state, city and state level, in the municipalities, and for this purpose the EU Commission in Brussels is increasingly involved. In order to free the government authorities from a number of functions, a large number of functions for supporting SMEs are transferred to some public institutions, especially specialized banks such as the German Bank for Reconstruction and Development KfW, as well as self-regulatory organizations of private business, for example, artisans and chambers of commerce and industry, etc. is given.

State support for SMEs in Germany includes more than 500 programs of federal and regional importance that promote investment activity. Investments are the most important prerequisite for the emergence of new enterprises in the market and the adaptation of existing enterprises to the constant changes in the economy and innovation.

The aid is used to provide technologies and relevant economic information, as well as financing from the state budget for economic and technical advice, training and professional development of SME employees and managers. State support is expressed in the allocation of state investment allowances/subsidies, as well as concessional loans to SME projects. In addition, long-term investments in the rationalization, modernization, expansion, and transformation of production help to form the initial capital of the enterprise [5, p.91].

France. In the early 1990s, France adopted a program to help stimulate production and create new jobs in small and medium-sized enterprises. In general, about 50 large organizations deal with lending to SMEs in France, the most important of which are the National Credit Guarantee Fund, the Regional Development Society, the Industrial Development Institute and the Innovation Financing Company. Since 1996, the Special Bank for the Development of Small and Medium-sized Enterprises has been operating in France, which has a mixed ownership form and belongs to the state, as well as a parastatal (semi-governmental) fund for deposit and asset

management. In addition, private financial institutions are also among the shareholders. The bank provides interest-free loans to SMEs and in some cases subsidies of around 30,000 Euros.

One of the main principles of the bank is the expansion of local business areas, therefore H. Maliyev: The world experience in improving the financing mechanism of SMEs in Azerbaijan, most of the operations are carried out by numerous regional divisions in close cooperation with local branches of commercial banks. Taking into account the importance of start-up capital for a new entrepreneur, the state provides a 6-month allowance to unemployed people who want to start their own business, which amounts to approximately 43 thousand Euros. Almost a quarter of aspiring entrepreneurs in France use this resource. In addition, tax incentives are provided by the French government for funds to lend to SMEs and to invest funds allocated to such enterprises for the purpose of leasing equipment. South Korea. Beginning in the 1980s, the state in South Korea began to actively support the development of SMEs, including financing. Access to credit resources for small and medium-sized firms was greatly facilitated, they began to provide them with targeted loans for scientific and technical research and modernization, and commercial banks were obliged to finance at least 30% of the total volume of loans granted to small and medium-sized companies. A number of institutions were established, such as the Small and Medium Business Bank, the Small Business Federation and the Technology Insurance Fund. Currently, government financial support to SMEs in South Korea is mainly implemented through the Small and Medium Enterprises Structural Change Fund, Industrial Development Fund, Social Support Fund, Civil Investment Fund and other funds. The government provides financial assistance to SMEs on preferential terms for installation of new equipment and replacement of obsolete equipment. At the same time, small and medium-sized enterprises are essentially the only borrowers of the Credit Guarantee Fund of the Republic of Korea, which includes the financial resources of both the government and specialized commercial financial institutions (the share of large enterprises in the total volume of loans issued by this fund is less than 1%).

Israel. Research shows that the Small Business Support Fund operates in Israel, and its main tasks are not only providing direct concessional loans to small businesses, but also paying up to 75% of the business support costs of projects, as well as the state providing 40% of the amount of loans given to entrepreneurs. warranties are included. When taking a loan, the entrepreneur is obliged to assume his share of the risk by putting at least 25 percent of his funds from the loan amount given by the fund. When organizing an export-oriented business, dedicated funds are allocated for market research, marketing activities and even for organizing an advertising campaign. In order to attract more intensive financial resources for the development of SMEs in Israel, guarantees are given regarding their risks when granting loans to small enterprises to private banks. The state guarantee is up to 80% of each loan and 30% of the total loan portfolio.

Czechia. In the Czech Republic, as a clear example of developed countries, back in 1992 the state , namely the Czech-Moravian Guarantee and Development Bank

(CMZIB) was established and began to operate. Czech-Moravian Guarantee and Development

The main activity of the bank is the guarantee of loans by SMEs (up to 70%).

up to), subsidizing interest rates on existing loans, targeted implemented through lending to SMEs through government programs investment projects. Supporting SMEs of this country field offers a number of tools, one of which is a coordinated policy, and the use of such conditions allows to significantly reduce the financial burden on the entrepreneur, as well as reduce the credit risk for commercial banks that provide loans to small businesses. Generalizations on the financing of SMEs in the world experience Based on the above, it can be concluded that the problem of ensuring the availability of credit resources for SMEs has not yet been unambiguously resolved. At the same time, it is necessary to understand that the main point in the formation of the SME lending mechanism is the creation by the state of conditions in which financial resources from various sources will be widely available for SMEs.

Even in the most developed countries, during the long period of formation of forms and methods of state support for SMEs, incentives were created for banks, large firms, private companies and private investors who provide such enterprises with various credit resources to actively invest in the development of SMEs. At the same time,

let's also note that for enterprises with not so great chances of success and a high level of risk, there are still opportunities to get concessional loans at the expense of budget funds specially allocated by the state for these purposes.

Realities for the financing of SMEs in Azerbaijan The conducted studies show that such conditions are practically not created anywhere in transition economy countries. At the same time, the development of SMEs remains the most important strategic task for this group of states. This is due to the fact that, firstly, when the market reforms started, the private sector in this sector, and therefore the finance

savings were practically absent. Secondly, the monopolistic tendencies and structures inherited from the administrative-emirate system in the economy have a significant impact, because it is precisely the extensive and active development of SMEs that is intended to contribute to the creation of a normal competitive environment. Finally, the third is the need to form a full-fledged class of middle entrepreneurs as the social base of a market economy and a stable civil society.

Therefore, in almost every country with a transition economy, the government

the policy , special attention is paid to solving the issues of financial sources of SMEs.

Discussion Nevertheless, research shows once again that this problem is far from being solved in most countries with economies in transition. This is primarily due to the lack of necessary financial resources of governments that can be used for financial support for the development of SMEs. Therefore, in the financial support of KOS, it is necessary to attract the funds of foreign and international organizations and then preferential loans should be paid to the collection of funds at the expense of extra-budgetary funds.

H. Maliyev: World experience in improving the financing mechanism of SMEs in Azerbaijan

In modern conditions, the mechanism for ensuring the efficient operation of SMEs should be adapted to the strengthening of state financial support to SMEs.

For this, first of all, you need to have the following:

- formulation of the concept , selection of priorities and justification of the role of SMEs in the economy;
- development of the state policy on the support and development of SMEs in the economy;
- Improvement and development of regulatory support of SMEs;
- improvement of legislation in the field of investments and favorable in the country investment environment;
- Improvement of taxation of SMEs;
- Development of credit and financial mechanisms aimed at the development of SMEs and introduction of new financial technologies;
- Activation of direct and indirect participation of the state in financing the development of SMEs [11, p.87].

The result and conclusion Thus, it can be noted that it is impossible to directly transfer the American, German or other foreign country models of financial and credit support to small and medium businesses to the domestic economy. The study of foreign experience can only make it possible to determine the general features of financial and credit support mechanisms that should be taken into account in the local experience.

In conclusion, it can be concluded that if appropriate conditions are created at the national and regional level that provide comprehensive support to SMEs, and if relatively risk-free financing (crediting) and opportunities to obtain a normal rate of return are created, then investor funds will inevitably flow into the SME sector and thereby will contribute not only to the formation and development of the latter, but also to increase the efficiency of the country's economy as a whole.

Summary

The article is devoted to the study of the features of the financial and credit mechanism of supporting SMEs in foreign countries in order to determine the main directions of the development of financial and credit support to SMEs in Azerbaijan. Thus, it is necessary to effectively search and improve the mechanisms used to support SMEs, and one of such mechanisms can be a financial-credit mechanism by providing state guarantees to SMEs, as well as compensating a part of state guarantees. The purpose of the research work is to study the problems of financing and crediting of SMEs in Azerbaijan, to determine the theoretical approaches, main concepts, features of formation and historical development paths of financial support to SMEs in terms of the development trends of the modern world experience, as well as to determine the effectiveness of the financial and credit mechanism for its support consists of analysis. The research work was performed mainly on the basis of scientific abstraction and systematic approach, logical generalization. As a result of the research, it was concluded that it is appropriate to use successful foreign experience in providing credit support to SMEs, it is necessary to expand the use of it, improve the financial and credit mechanism for supporting SMEs and simplify the procedure for receiving this support.

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