

[DOI: 10.20472/IAC.2016.024.010](https://doi.org/10.20472/IAC.2016.024.010)

KHATUNA BARBAKADZE

Ivane Javakhishvili Tbilisi State University, Georgia

ABOUT FINANCIAL ASSURANCE OF SMALL AND MEDIUM ENTERPRISES

Abstract:

Actuality. In Georgia small enterprises are developing relatively quickly in some sectors, large capital is accumulated in this field and less support is needed from government. Relatively small enterprises of industrial sectors of economic sectors still require special state innovative support to increase profit and cost-effectiveness. Therefore, the industrial sectors of the economy mostly needs financial assistance from the state. We talk not about the financial support of all kind of small business, but about the small industrial enterprises who are creators of material wealth. Also, it should be taken in consideration priority and actuality of small enterprises development as for country's economy as well as for society. Whereas, formation of middle class depends on small business development and by the size of middle class is determined how open is the national economy in conditions of globalization.

The aim of the research. The aim of the research is to learn deficiencies associated with development of small and medium enterprises, particularly related to financial provision and ways of improvement.

Research Methods. During the research, due to practical importance and complexity of the problem, it has been used systemic, historical and logical generalization methods. Also it has been used scientific abstraction, analysis and synthesis methods.

Conclusion. The findings and results from the survey will contribute to the development of industrial small enterprises and will raise work efficiency in Georgia, which will be not only the economic consequences for the country's economy, but will solve social problems, particularly, will contribute to middle class formation.

Keywords:

Small and medium enterprises. Innovative projects. Securities market. Banks and financial institutions.

Introduction. Small industrial enterprises most of all require financial support from state in order to increase profitability. Financial support should be considered not for all kind of small business, but only for small industrial enterprises who are creators of material wealth. Also, it should be taken in consideration priority and actuality of small industrial enterprises development as for country's economy as well as for society. Whereas, formation of middle class depends on small business development and by the size of middle class is determined how open is the national economy in conditions of globalization.

Theoretical Part. Small entrepreneurship is integral part of national economy in each country. It's advantage is that small entrepreneurship has ability to create new jobs quickly and with minimal expenditure, it encourages entrepreneurial skill of a human which can not be revealed in large companies and state institutions. Main economic function of small business is to create wide range of good and services in quick differentiation conditions of consumer demand. In addition, small business encourages mobilization of production and financial resources of society, makes positive contribution for shaping competitive environment, encourages problems related to employment and finally develops democratic basis and forms of market relations.

In terms of separating small enterprises as a discrete group, most complete and objective criteria for determination size of enterprises is the strength level of enterprises by relevant sectors, which has some advantages in comparison with criteria of turnover and number of employed people. Grouping of enterprises by size is necessary because it has great importance while assessment of decreased economic pace. While determining by capacity, enterprises are stimulated to use their own capacities effectively and by this time will be abolished inappropriate and inconsistent usage of preferences. Till working out specific events for financial support it should be solved classification issue of enterprises, after which by number of employed people and by annual turnover will be revealed to which category belongs the enterprise. At the same time, it should be considered that small enterprises should be independent.

Existing situation in Georgia. In Georgia small enterprises are developing relatively quickly in some sectors, large capital is accumulated in this field and less support is needed from government. Small enterprises of industrial sectors of economic sectors still require special state innovative support to increase profit and cost-effectiveness. Development of state lever financial assurance should be considered not only for all kind of small business but only for small industrial enterprises who are creators of material wealth.

During recent years in Georgia entrepreneurship is developing rapidly and accordingly, number of enterprises is significantly increasing, particularly in 2013 exceeded 593 239 units. Despite significant growth of the number of enterprises, production growth rates are still low, especially in small business sector. Georgia by the level of small business development stays significantly back in comparison with developed countries, where share of small business is more than a half of GDP and

employed is 50-60% of working - age population, for example in USA per 1000 capita is 68 small enterprises and in the same sector is employed 49% of working-age population, Accordingly, in European Union countries 45 small enterprises and 72%, in Georgia per 1000 capita is 15 small enterprises and share of employed people in this sector does not exceed 30% (National Statistics Office of Georgia, 2014)

Despite the lack of government expenditures, we think that small entrepreneurship should be financed from state budget, because, first of all, this is the source for budget revenue growth. Intervention from state is necessary from the state side for redistribution of financial resources, while private capital does not consider long term state interests and financial resources are allocated mainly in those projects, which do not increase GDP. As a rule, private financial sector mainly finances short-term profitable projects and financing of industrial sector is out of its commercial interests, while the last one has long-term production cycle and is less profitable in financial terms. Industrial sector is less attractive for private investments, while this field is distinguished with huge capital, labour intensive and energy intensive production and is characterized by increased risk from foreign production because of high competition.

State support in small entrepreneurship mainly should be directed on those enterprises which operate in the field of production, particularly on those industrial enterprises which owe competitive preconditions, which are using local raw materials and high technologies. Support of small entrepreneurship will cause mitigation of poverty and unemployment problems, increase of self employment motivation in population, decrease in migration abroad, improve people's living standards, which will ensure possibilities of social – economic development, which nowadays does not have an alternative. Development of small and medium entrepreneurship has crucial role in middle class formation, which requires creation and implementation of support system from the state. (Meqvabishvili, 2010).Complex of state support events should be totally directed to economy development.

Financial assurance issue for small enterprises as a rule is related to tax collection process. Tax collection, its accumulation in state budget and further investment of capital in economy represents financial assurance, which is directly related to tax revenue accumulation from small undertakings and indirectly related to fulfillment of revenue part of the budget. Formation of budget expenditures happens through tax revenues, which directly or indirectly develops small enterprises and represents local source of its financial assurance. Optimal ratio between tax revenues of budget and investment assets of entrepreneurs with usage of stimulation instruments of investments is a problematic issue. Investments represent revenue part of the budget, so state support in investment attraction is necessary, also optimal options of state support should also be determined, which is important not only for small enterprises, but also for macroeconomic issues.

While discussing role of state and stimulation events in financial assurance of entrepreneurship, comparison of leader market economy countries and tax system of Georgia, as well as optimal ratio of direct and indirect taxes is very necessary. In

developed countries, where income level of society is high, direct taxes have advantages. The situation in Georgia is different and the reason is low level of income and accordingly, in revenue part of state budget of Georgia indirect taxes have much higher share. Indirect taxes which mainly are paid by consumers is related to value added tax.

Also should be mentioned disadvantages of profit calculation method, which puts borrowers and investors in unequal conditions. While calculation the profit, interest payable on borrowed amount will be deducted from income but not the dividends payable on investments. For financial assurance, taking in consideration above mentioned will encourage attraction of resources by credits more than by investments while in first case volume of corporate tax will be significantly reduced. In order to improve investment environment, attraction of external as well as inner saving resources in framework of existing abilities in economy will be possible on the basis of stimulation activities. So, it should be find ways of financial assurance which will be most optimal and close to practice. In this sense, usage of tax lever is the source for financial assurance of small enterprises, while discussion of financial assurance sources is always related to usage of tax exemptions. Tax system should be oriented not only on budget revenue growth, but on employment of society and poverty reduction, for which new created small enterprises with tax exemptions, as well as liberalization of penalties and fines on small enterprises will play crucial role. For financial assurance of small enterprises exemptions on profit tax has great effect, in particular, on that amount of profit which is invested. Same approach can be applied on that part of profit which is directed in reserve or other funds, also investment of this amount of money in production is very important.

It should be mentioned that in Georgia small enterprises were privatized mainly through voucher privatization, which caused property deconcentration and weak management of stock package. Privatization of industrial enterprises did not bring desired result of investment activities. As a result of voucher privatization, property turned out to be crushed between small investors, who do not possess necessary capital for the development of enterprises and what is most important experience of management. As a rule, privatization promotes restructuring and high rate of property concentration, active participation of banks and control of enterprises from the side of investors contributes to effective development of financial restructuring.

In Georgia, due to existing stock market situation, only and real source for financing small and medium enterprises is bank credit, so special attention should be paid to development of such external sources of financing as capital attraction stimulation by issuing stocks and other securities through intermediation of different investment institutions.

For financial assurance of small enterprises, while financing budget funds with money emission, maximal level of budget deficit should comply to minimal level of inflation. Devaluation caused by increased money supply causes nominal increase of GDP. If in conditions like this money supply does not change, deficit of banknotes will occur, which itself will cause decrease of volume realization. Therefore, the second

issue which should be resolved positively is to maintain good realization volume after emission period. Maintaining of realization volume ensures nominal performance of budget and avoids budget crisis. In real situation, in order to maintain realization volume, emission should not happen simultaneously and with large volume, emission process should be carried out with small doses.

Assurance of investments from inner sources will ensure production restructuration with the further aim of modernization. Example of market economy countries illustrates that big volume of reinvested capital should be created from inner sources. Inner sources of financing include operational cash flow received after operational restructuration as well as increasing of money funds. Herewith, amortization issues are very important: it is necessary to direct amount of amortization on investments and not on fulfillment of wage-fund. In comparison with inner sources of production, state policy has more priorities, which encourages lending of enterprises. Financial assurance of small enterprises should be implemented through commercial banks by its credit relations with small enterprises. In this regard, state participation should mainly be expressed in provision of cheap credit resources, which should be based on activation of commercial banks role and their intervention in financial assurance of small enterprises.

Also, recapitalization of banks is not desirable, because in the end it is carried out by the state on account of tax payers, who are additionally taxed. One of the advantages of operational restructuration is increase in covering of bank credits and liabilities. In case of unavailability of other sources, because of liquidity-profitability problem, necessity of banks recapitalization won't be considered by the state because enterprises will be obliged to conduct operational restructuration and to cover old debts.

Thus, financial restructuration should be the part of financial assurance of small entrepreneurship, which implies tax arrears deferment with future repayment obligations. In the framework of overdue loans the enterprise has right to conduct operational restructuration, received funds will be used not only for debt repayment, but also for production process. Only financial funds received as a result of real good turnover will be used for debt payment. Implementation of above mentioned mechanism is in interests of small enterprises as well as in interests of state. Above mentioned mechanism can be used between small debtor enterprises and private creditors. We believe that for banks postponing debts of small enterprises is more perspective till enterprises will conduct operational restructuration and will become cost effective in order to repay debts.

It is noteworthy that if state policy which stimulates banks will write off debts of small enterprises, rebounded results may happen, conduction of operational restructuration can be stopped by weakened financial discipline. Anyway, state should not avoid responsibility about formation of financial restructuring system of enterprises financial debts, but anyway above mentioned depends on voluntary negotiations between banks and enterprises.

Not only financial restructuration of enterprises has great importance for small enterprises financial assurance, but also banks recapitalization, i.e fulfillment of their

capital, which will be implemented by writing off or postponing bad loans. Bad debts are due to untimely paid percentages, also by unpaid loans. After this bank faces liquidity-profitability dilemma and is not able to pay percentages of deposits to depositors and to fulfill other obligations.

Primary objective for financial support in industry is strategy development for innovative activities, which has high effectiveness in long-term period, while in short term its financing from banks and financial institutions has less attractiveness. One of the prerequisite in innovative field for successful development of state programs and projects is creation of typical projects and its further replication. These projects often require modern technologies for promotion of local productions.

Difficulties of innovative field development is mainly related to existence of state as well as commercial sources, although lack of sources is the main reason of decrease in innovations. Support of innovative field must be reflected in state policy, while development of economy is impossible without reproduction of production market. It should be noted, that in Western countries large companies invest annually 5-7% of profit in scientific projects. State should develop a realistic innovative policy. For support of innovative activities and for creation of new jobs, it is necessary to develop activities which will ensure rules and conditions for small and medium enterprises to participate in state orders. State participation in financing of small enterprises and innovative field with direct as well as indirect methods should be considered as an important form of state support of restructured enterprises.

Disruption of effective cooperation between enterprises and research organizations has significantly delayed development of innovative activities. As a rule, the process from scientific invention till inculcation in production is very difficult. Order of enterprise to scientific-research institute pass through many stages: Laboratory, pilot-production exams and last, serial commercial production. Disruption of effective cooperation between enterprises and research organizations made impossible implementation of scientific processing, while customer (enterprise) does not have funds for making enquiry and institution does not have funds for making order. It is fact that there is a solvent demand on scientific-technological production. Gap between scientific processing and its inculcation has such catastrophic scale that particularly there is created situation when enterprises prefer to purchase new technological processings abroad. Industrial enterprises were forced to reduce volume of scientific production and move to simple kind of production, which caused decrease in scale of scientific research and financial volume.

Research Methods. During the research, due to practical importance and complexity of the problem, it has been used systemic, historical and logical generalization methods. Also it has been used scientific abstraction, methods of analysis and synthesis.

Conclusion. International experience shows that for small and medium business development should be developed strategy and activities for its performance. Small and medium business development needs complex preparation of preconditions and

implementation of well thought activities. Therefore, complex program development is necessary for support of small and medium business development from state where with concrete activities will be mentioned concrete dates and concrete responsibilities. For complete activation of economic and social factors of small and medium enterprises, appropriate changes should be implemented in tax code for support of small and medium enterprises.

The main problem hindering the development of entrepreneurship in the country lies in the lack of financial resources. For improvement of above mentioned situation, formation of effective economic relations between banks and small enterprises is necessary. Not only financial restructuring of enterprises has great importance for small enterprises financial assurance, but also banks recapitalization, i.e fulfillment of their capital, which will be implemented by writing off or postponing bad loans. Promotion policy of small and medium enterprises should be formed on each stage of economic development, accordingly to created social-economic conditions of country.

Literature review. Financial assurance of small and medium enterprises is actual topic for international as well as for national scientific publications and articles. While article processing is used publications of authors about theoretical abilities of small and medium enterprises, its advantages as well as disadvantages.

References:

- „Entrepreneurship in Georgia“ National statistic office of Georgia, Tbilisi, 2014, www.geostat.ge;
- „Small and medium enterprises development support policy in Georgia“. National platform policy document of eastern partnership civil society forum - Second working group: Economic integration and convergence with EU policies.
http://eapnationalplatform.ge/admin/editor/uploads/files/publications/Policy%20Paper_WG2_Mcire&Sashualo%20biznesi.pdf
- Meqvabishvili, E. (2010) „Small and medium entrepreneurship development as a main condition for middle class development“. <http://social-democrats-georgia.blogspot.com/2010/07/blog-post.html>
- Tokhmazishvili, M. Support of small and medium enterprises development (development of value growth) <http://www.nplg.gov.ge/gsd/cgi-bin/library.exe?e>
- Chitanava, N. (2000) Modern conditions of social-economic development in Georgia. Social – economic problems of transition period, Tbilisi, collected articles
- Rusiashvili, G. (2002) Financial assurance objectives of small enterprises – journal "Economy" № 10-11 – p. 90-100