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Prospects for the Financial Instruments System Development for Small and Medium Enterprises

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ABSTRACT

Financial availability for small and medium-sized enterprises is the most important factor for the companies' growth. The current structure of the financial market determines bank lending as the main source of attracting external financing. At the same time, SMEs are in need of alternative financing instruments, including equity financing. The **purpose** of the paper is to assess current changes in the attracted financing structure in the SME segment and determine the development prospects of a system of capital raising instruments. Due the purpose, two **tasks** were defined: to analyze the dynamics of financial availability and the need of target segment in modern convenient financial tools. The following scientific **methods** were used in the study: observation, comparison, retrospective and system-structural analysis, analysis by segments, generalization. The key advantages of individual financial instruments and factors influencing their development are identified. The risks of creating non-competitive conditions for the development of instruments due to different approaches to regulation, as well as the use of preferential lending programs, have been identified. To prove the proposed approach, an analysis of the depth of lending penetration in the micro, small and medium-sized business segments, as well as the dynamics of the involvement of new borrowers, was carried out. The promising role of equity financing is outlined, while the institutional consequences of involving citizens in the development process of Russian companies are highlighted. The risks of the lack of a long-term vision of the financing instruments structure in strategic documents are identified, which does not allow the formation of numerical guidelines for supporting various groups of instruments. The proposed study made it possible to identify a number of significant areas for the development of non-bank financing of SMEs. The work updates: the possibilities of forming a system of debt and equity financing that meets the future needs of the target audience. The author's definition of the prospects for the development of a system of financing instruments for the SME segment is given, which is based on an analysis of the dynamics of individual financial instruments and a study of the long-term need for external financing at various stages of company development.

Keywords: small & medium-sized enterprises; SME; financial affordability; bank lending; microfinancing; crowdfunding; SME bonds; SME shares; financial instruments system; lending and equity financing

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INTRODUCTION

The issues of improving financial affordability for various groups of the population and businesses are part of the current economic agenda. Small and medium-sized enterprises (further — SME) are a crucial engine for effective economic development, providing employment and economic growth. At the same time, it is precisely this sector of the economy that experiences a need for financial resources for development and remains underfunded in many countries [1–4].

In the Russian Federation, increasing financial affordability, including for small and medium-sized enterprises, is considered one of the key tasks. The activities aimed at addressing it are outlined in strategic and program documents, such as the “Financial Market Development Strategy until 2030”,¹ “Strategy for the Development of Small and Medium Enterprises”,² The national project ‘Small and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiative’.³

In economic science, there are many definitions of financial affordability. A comparative analysis of various approaches to assessing financial affordability, used by international and Russian organizations, including a set of indicator systems, is presented in the work of E.A. Kalacheva and E.A. Kirienko [5].

The International Network for Financial Literacy (OECD) identifies financial literacy, awareness, physical accessibility, and price accessibility as indicators for assessment. The Center for Financial Inclusion considers the quality of financial services, their affordability, convenience, and respect for consumers among its main evaluation criteria.

The authors of the paper [5, p. 133] note that the approach of the Bank of Russia, which assesses financial accessibility through the state of the financial market, providing various economic entities the opportunity to obtain a certain set of financial services; in this context, a separate segment of SMEs is specifically mentioned. The definition of financial accessibility adopted by the Bank of Russia,⁴ suggests important criteria:

- the presence of infrastructure for providing financial services;
- the demand for financial services;
- the quality and usefulness of the provided financial services.

The purpose of this study is to assess the current changes in the structure of financing attracted by small and medium-sized enterprises (SMEs) and to determine the prospects for the development of the capital attraction tool system.

This paper attempts to characterize the changes in financial accessibility for SMEs in Russia in terms of the availability and accessibility of financial instruments, their range, and their alignment with the various financial needs of companies at different stages of their operations. During the analysis, hypotheses are tested:

- the criticality of having infrastructure for the provision of financial services;
- the necessity of developing various financial instruments considering the prospects of their demand by the target segment;

¹ Strategy for the Development of the Financial Market of the Russian Federation until 2030. Approved by the Order of the Government of the Russian Federation from December 29, 2022, No. 4355. Collection of Legislation of the Russian Federation, January 2, 2023, No. 1 (Part III), Art. 476.

² The strategy for the development of small and medium-sized enterprises in the Russian Federation until 2030. Approved by the Order of the Government of the Russian Federation from June 2, 2016, No. 1083. Collection of Legislation of the Russian Federation from June 13, 2016, No. 24, Art. 3549.

³ National project “Small and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiative”. The project passport has been approved by the Presidium of the Council under the President of the Russian Federation for Strategic Development and National Projects (protocol from December 24, 2018, No. 16). URL: <https://economy.gov.ru> as at 15.04.2021 (accessed on 29.02.2024).

⁴ Key concepts in the field of financial affordability. URL: http://www.cbr.ru/develop/development_affor/dic/ (accessed on 29.02.2024).

- the possibility of determining the vector for the development of the financial instruments system.

Based on the conducted analysis, the author **concludes** that it is necessary to minimize the risks associated with stimulating the development of certain financial instruments and to form an optimal structure that allows for external financing at different stages of a company's life.

THE ISSUE OF ASSESSING FINANCIAL AFFORDABILITY

The affordability of a financial instrument is confirmed by its demand from consumers (the demand for the service must be identified). At the same time, the affordability of the financial instrument is only possible when the regulatory, economic, infrastructural, and mental prerequisites for offering the service have been established. Professional participants in the financial market should find it beneficial to provide financing services; otherwise, the instrument will be limited in its development.

For the formation of the market for exchange-traded bonds of small and medium-sized enterprises (SMEs), a class of investors must be established who are willing to invest temporarily free funds under certain conditions, understanding and accepting the associated level of risk. It is also necessary to have an exchange platform that provides conditions for interaction with small issuers and small placement volumes. The presence of market infrastructure in the form of organizers, underwriters, auditors, and credit rating agencies is important, as they are willing to engage with issuers for a relatively small absolute amount of compensation for consulting and training services.

An important factor of financial affordability in the modern world is also technological or digital accessibility. Convenience for the consumer, the speed of transactions, the ability to receive standardized services anywhere, regardless of

whether there is a financial institution's office nearby — all these advantages are offered by the digitalization of the financial sector, which is built on a developed financial infrastructure based on modern technologies [6].

The analysis of the indicators of financial instrument development, such as the volumes of financing provided, the number of transactions, "depth of penetration", meaning the share of those who have utilized the financial service in the target segment, as well as the presence and quality of infrastructure, allows us to conclude the demand for the financial instrument. Sustained growth in funding volumes over a long period of time, along with an increase in the depth of audience engagement, indicates the presence of demand, the tool's popularity, and, consequently, the growth in the affordability of financing.

At the same time, in addition to the increase in funding volumes, the types of instruments available in the market are also important: whether they are short-term or long-term, whether they provide the opportunity to attract debt financing, or if there are instruments for raising equity capital. It is important whether financial instruments are available for microbusinesses or for businesses that do not have sufficient collateral. Do financial instruments stimulate company growth, or do they lead to over-indebtedness and ultimately bankruptcy?

Some scientific papers [7–10] explore the system of support tools for SMEs, including administrative, tax, consulting, and financial measures. Thus, in article [7], an attempt is made to systematize them using functional and institutional approaches. L. V. Chebukhanova [8] systematizes the financial instruments of small innovative companies based on the company life cycle approach. In the papers of G. N. Kutsuri, K. R. Kostokov [9], and V. I. Abramov, N. O. Bezrukov [10], various tools for supporting SMEs are analyzed in light of the economic situation caused by sanctions and the current economic environment.

The analysis of the scientific literature conducted did not provide an answer to the question of whether the increase in lending volumes to SMEs signifies a real improvement in financial affordability, and to what extent the emergence and development of new financing instruments (often referred to as alternative financing tools) enhance the situation regarding financial accessibility for various segments of SMEs.

At the same time, it is important to define the current structure of financing attracted by the SME segment, to form a forward-looking vision of the needs of the target segment, and to establish benchmarks for a symmetrical offering in the financial market. The target structure will serve as a guideline for the development of relevant financial instruments, which will contribute to a certain degree of financial freedom for companies.

It seems reasonable to ensure equal conditions for the development of instruments, that is, to base it on unified approaches in regulating and protecting borrowers and investors across various financial instruments. At the initial stage, it is also necessary to inform the business about the available opportunities, fully disclosing information about the potential risks and limitations of the tools.

TARGET STRUCTURE OF FINANCING

Over the past decade, the situation with financial instruments for small companies has changed significantly. In 2016, the “Strategy for the Development of Small and Medium Enterprises” (further — Strategy),⁵ was adopted, which outlines the main directions for improving financial affordability for the SME segment:

- development of lending with a focus on long-term lending;

- development of microfinance;
- development of the national guarantee system for supporting small and medium-sized enterprises;
- development of securitization, leasing, and factoring;
- development of direct financing tools (venture capital, business-angel investments, hybrid financing);
- development of new financing tools (market financing).

It should be noted that most of the tools listed in the Strategy have found their application in the Russian market. New financing tools have also emerged that are not mentioned in the Strategy.

In addition to the Strategy, several other program documents have been developed. In 2018, the passport of the national project “Small and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiative” was approved, which outlines support measures for financial instruments such as lending, including secured by intellectual property, leasing, microfinancing, securitization, the development of exchange instruments, and crowdfunding for the SME segment.

At the same time, the document does not outline a vision for the target structure of financing tools for SMEs. The target indicators for the support of financial instruments are defined in absolute values, which allows for the calculation of the market volume that will receive support. However, the lack of a clear definition of the supported (subsidized) market segment prevents us from determining the contribution of the efforts made to enhance financial affordability, as well as assessing the initial and target funding structure of the SME segment.

The roadmap of the Bank of Russia for the development of financing for small and medium-sized enterprises⁶ includes specific

⁵ The strategy for the development of small and medium-sized enterprises in the Russian Federation until 2030. Approved by the order of the Government of the Russian Federation from June 2, 2016, No. 1083. Collection of Legislation of the Russian Federation. June 13, 2016, No. 24, Art. 3549.

⁶ The roadmap of the Bank of Russia for the development of financing for small and medium-sized enterprises. Approved by the order of the Bank of Russia from September 13, 2018,

measures to enhance financial affordability, but it does not provide a targeted vision for the structure of SME financing. “The Strategy for Increasing Financial Affordability in the Russian Federation for the period 2018–2020”⁷ sets target guidelines for enhancing the development of alternative instruments to bank lending and for the development of long-term investment financing. Thus, the analysis of all strategic documents does not provide an understanding of the target structure of financial instruments for the SME segment and does not offer guidelines on the criteria for improving financial affordability as a whole.

Let’s examine the existing funding structure of the SME segment and assess the dynamics of its changes. Bank lending has traditionally been the most popular tool for attracting financing in the Russian financial market. In the small and medium-sized business segment, bank lending is also the most common tool for attracting external financing.

The development of bank lending to SMEs is supported by the regulatory efforts of the Bank of Russia aimed at stimulating lending. In terms of stimulating regulation, the Bank of Russia has adopted a number of relaxations aimed at reducing costs and simplifying banking procedures for lending to SMEs. The measures of the Bank of Russia aimed at improving financial accessibility are outlined in the Bank of Russia’s Roadmap for the Development of Financing for Small and Medium-sized Enterprises, and include:

- regulation that stimulates lending;
- increasing informational openness and transparency, including the publication of statistics and analytics on the Bank of Russia’s website;
- digitization of certain compliance procedures;
- providing market creditors with information contained in government agency databases;
- increasing financial literacy;
- developing alternative instruments to bank lending.

The accumulation of experience in lending and data on the SME segment by banks contributes to the ability of credit organizations to adjust internal risk assessment methodologies, build decision-making models, and enhance interaction with small companies. Overall, the increase in the transparency of data about entrepreneurs in government registration systems, the digitalization of reporting, the improvement of inter-agency electronic interaction, and the accumulation of information in credit bureaus have positively impacted the availability of external financing, particularly bank lending.

The government of the Russian Federation, together with the Bank of Russia, is developing and implementing preferential lending programs aimed at addressing specific issues. For example, during the pandemic, preferential lending programs were initiated to support the ongoing activities of SMEs and to preserve employment with a broader reach of companies. In the period of high interest rates in 2022, a revolving credit program was developed, and in 2023, programs aimed at long-term investment lending were introduced.

The increase in the availability of lending is facilitated by the use of credit guarantees, which provide the lender with a partial guarantee of repayment of the loans granted in the event of borrower default. The national guarantee system for supporting small and medium-sized enterprises is reflected in the

No. 2387. URL: http://www.cbr.ru/Content/Document/File/144001/Road_Map_development_2023-24.pdf (accessed on 29.02.2024).

⁷ Strategy for Increasing Financial Affordability in the Russian Federation for the Period 2018–2020. Approved by the Board of Directors of the Bank of Russia on March 26, 2018. The document has not been published. Posted on the Bank of Russia’s website. URL: <http://www.cbr.ru/> and the legal system of Consultant. URL: <http://www.cbr.ru/> and the Consultant legal system. URL: <https://sconsweb-it01.vip.cbr.ru/cons/cgi/online.cgi?req=doc&rnd=TKVT6w&base=LAW&n=295167#D8p1zyT2Poj1p4aN1> (accessed on 29.02.2024).

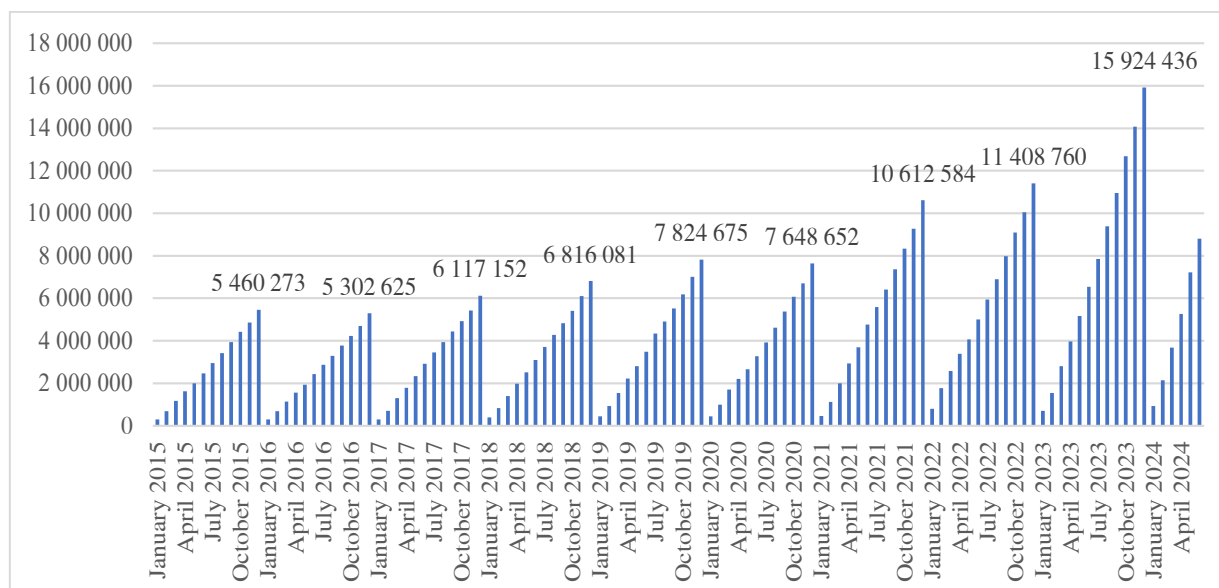


Fig. 1. Dynamics of SME Loan Volume in the Russian Federation (Cumulative Total in Nominal Prices)

Source: Based on Bank of Russia data. URL: http://www.cbr.ru/statistics/bank_sector/sors/ (accessed on 29.02.2024).

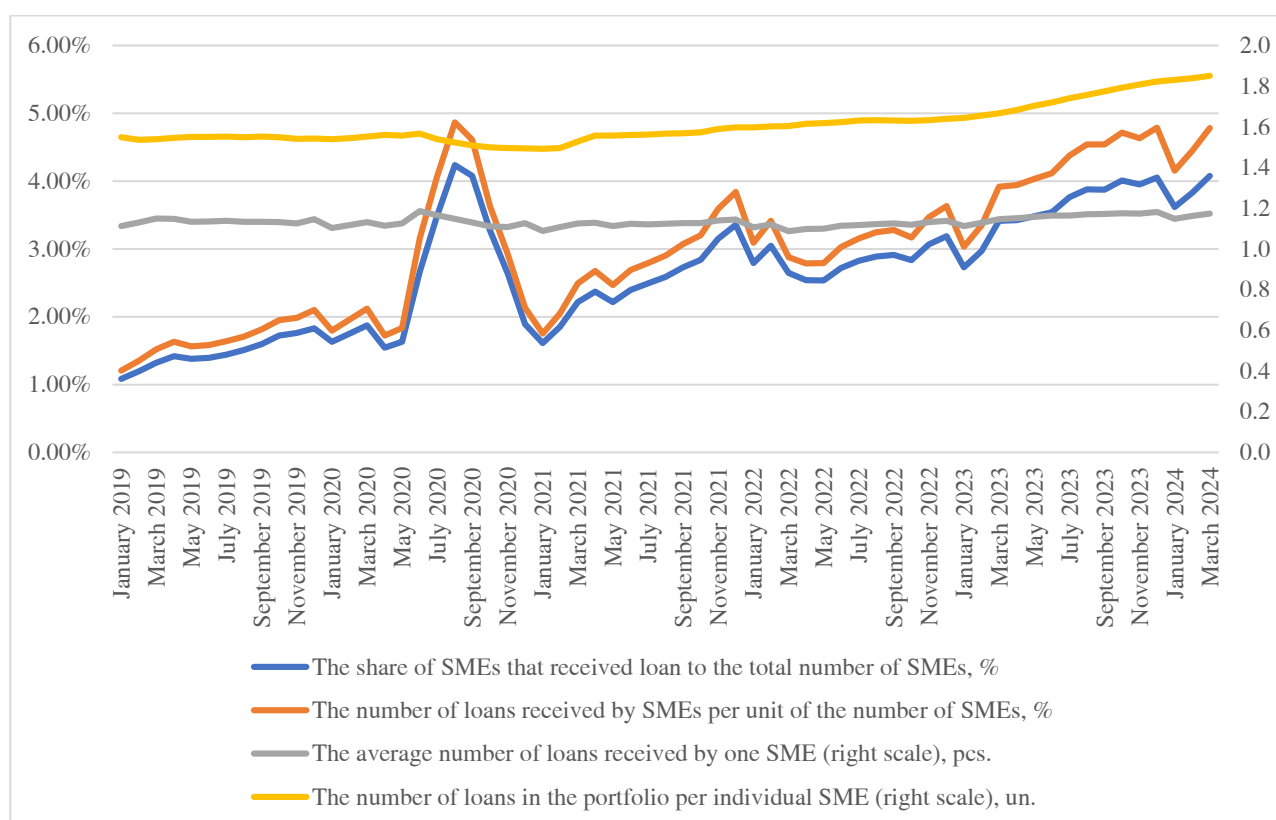


Fig. 2. Dynamics of Some Indicators of Lending to SMEs

Source: Compiled by author based on Bank of Russia and Federal Tax Service Data.

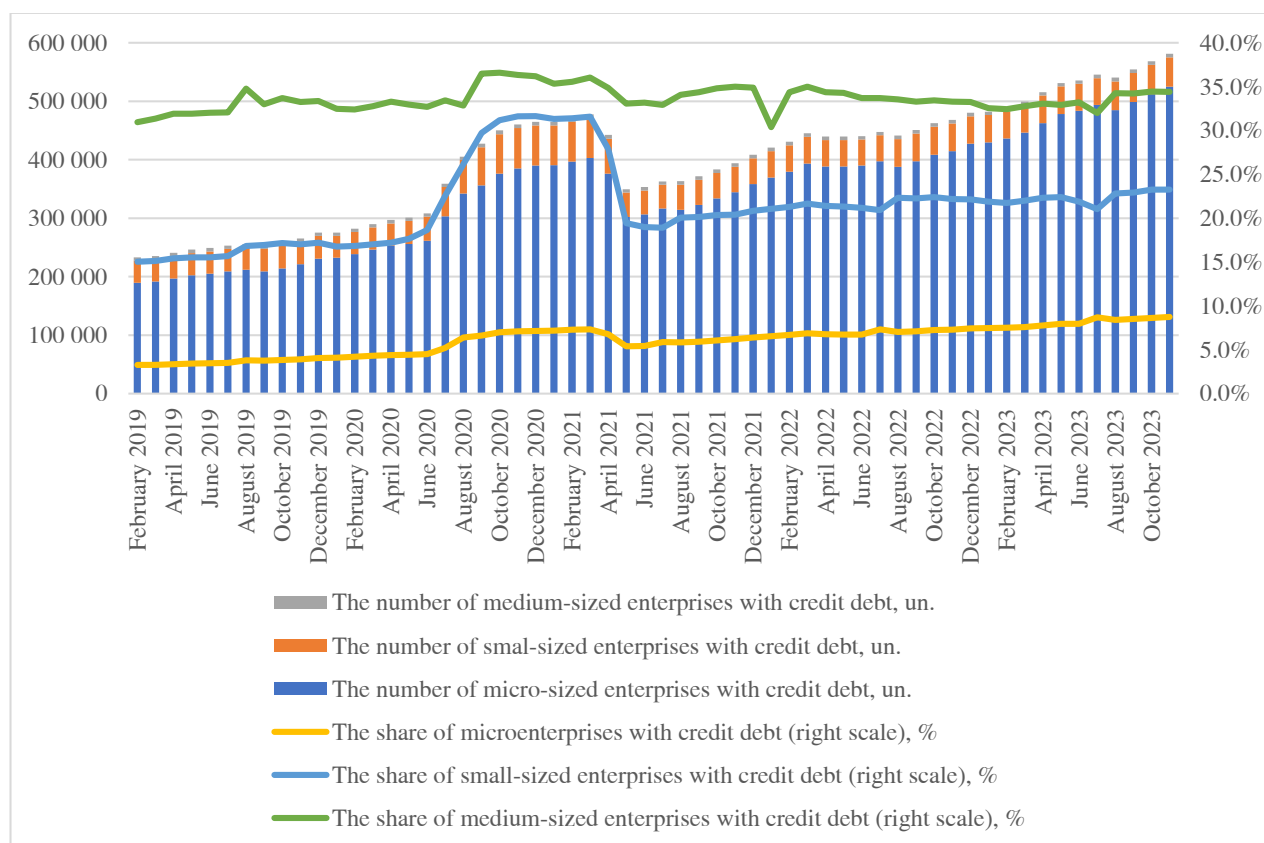


Fig. 3. Number of SMEs with Credit Debt; their Share of the Total Number of SMEs by Enterprise Size ("Penetration" of Lending), (Right Scale)

Source: Compiled by author based on Bank of Russia.

Federal Law "On the Development of Small and Medium-Sized Enterprises"⁸ (Art. 3, p. 9). Activities for its development and support are outlined in the national project "Small and Medium-Sized Enterprises and Support for Individual Entrepreneurial Initiative".

The volumes of lending to the SME segment have increased almost threefold in nominal terms from 2015 to 2023 (Fig. 1) — from 5.5 trillion rubles to nearly 16 trillion rubles.

Taking into account the preservation of the number of SMEs during the period under consideration, the growth in lending volumes can be seen as a factor improving the availability of credit resources for the SME segment. However, the issue of increasing

the accessibility of bank lending remains categories of borrowers. It is possible that the same borrowers are receiving loans and the volume of loans granted is increasing for a specific audience, while the majority are either being denied or not even applying for loans?

PENETRATION DEPTH OF FUNDING

Let's look at the extent of SMEs' participation in lending and how it has changed. Examine the statistical series of the number of loans granted to SMEs for a specific month, in relation to the number of SMEs that received a loan in that month (Fig. 2). This indicator shows the number of loans received by a single borrower within a month. During the period from January 2019 to March 2024, the indicator has hardly changed: from 1.11 to 1.17. Considering the possibility of receiving and accounting for tranches within a credit

⁸ Federal Law "On the Development of Small and Medium-Sized Enterprises in the Russian Federation" from July 24, 2007, No. 209. Collection of Legislation of the Russian Federation. July 30, 2007, No. 31, p. 4006.

Table

Structure of SME External Financing Tools in Russia for the period 2021–2023

Tool	2020	2021	2022	2023
Lending	7649	10613	11 413	15924
Leasing	870.75	1484.3	1 425.60	2864.5
Factoring	367	526.7	482	725
Microfinance	52.4	50.5	70	105
Stock Market Bonds	6.4	7.9	6.5	12
Crowdfunding	3.5	9.5	14.3	30.5
Total:	8 949	12 692	13 411	19 310

Source: Calculated by author based on Bank of Russia, Association of Factoring Companies, Expert RA data URL: http://www.cbr.ru/Collection/Collection/File/44010/stat_bulletin_lending_23-03_34.pdf; <http://www.cbr.ru/analytics/microfinance/2022/>; <https://asfact.ru/events/itogi-razvitiya-rossiyskogo-ryinka-faktoringa-v-2022-godu/>; <https://raexpert.ru/researches/leasing/2022/>; http://www.cbr.ru/Content/Document/File/146720/platform_services_20230515.pdf (accessed on 29.02.2024).

line in statistics, the indicator shows isolated cases of a single borrower obtaining more than one loan in a month.

Let's consider the dynamics of another indicator: the number of loans in the portfolio per borrower with outstanding debt. It can be assumed that the same borrower takes out loans repeatedly throughout the year, while others are unable to obtain credit. During the period under consideration (Fig. 2), the indicator has practically not changed: the number of loans per borrower is no more than 1.5 in 2019 and no more than 1.9 at the beginning of 2024. Considering the growth in lending volumes, one can conclude that there is an expansion in the reach of potential borrowers. There is no concentration of loans on the same borrowers; loans are granted not only to "experienced" borrowers but also to "newcomers" in the credit market.

Additionally, one can compare the dynamics of such indicators as the share of SMEs that received loans in the reporting month relative to the total number of SMEs, and the number of loans received by SMEs to the total number

of SMEs. During the analyzed period, both indicators increased fourfold: from 1.21% to 4.07% and 4.78%. The graphs clearly show a surge during the period from May 2020 to January 2021, which is attributed to the implementation of anti-crisis programs for preferential lending during the easing of COVID restrictions. During this time, SMEs in priority sectors were able to take out loans at favorable rates and not repay those if certain conditions.

Thus, the analysis of the statistics shows an increase in the availability of funding. At the same time, it is difficult to assess whether such a level of "penetration" of lending in the SME segment is sufficient. An objective criterion could be the comparison of the share of SMEs with credit debt across the micro, small, and medium business segments. This is the approach used by the Bank of Russia⁹ (Fig. 3).

⁹ Analytical review of lending to small and medium-sized enterprises based on the results of 2022. Moscow. 2023. Bank of Russia. URL: http://www.cbr.ru/Collection/Collection/File/45145/inf_material_msp_2022.pdf (accessed on 22.12.2023).

Analysis of the dynamics of credit penetration (*Fig. 3*):

- the number of microenterprises with credit debt has tripled over the past five years; meanwhile, the number of small enterprises with credit debt has increased by only 30%, and the number of medium-sized enterprises has remained virtually unchanged;
- the “penetration” of lending has improved in the segment of micro and small enterprises over the analyzed period: from 3.3% to 8.9% in the micro segment and from 15% to 22.7% in the small business segment.

However, among microenterprises, the share of companies with credit debt is 8.9%, among small enterprises, it is 22.7%, and among medium enterprises, it is 33.5%. Larger companies find it easier to obtain loans and more frequently seek credit. The difference between “penetration” at 33.5% and 8.9% is significant and suggests that with the possibility of comfortably obtaining credit to enhance the accessibility of the lending tool in the SME segment, there is great potential for growth.

ALTERNATIVE FINANCING INSTRUMENTS

The development of other financial instruments, alternative to bank lending, also appears promising. If we examine at the structure of external financing for the SME segment, it has changed little since 2020. Bank lending has been and remains the primary tool for financing businesses in Russia, accounting for about 85% of the total financing for SMEs. As of 2023, his share slightly decreased (82.5%), which is attributed to the growth of other instruments (*Table 1*). Both the overall volume of attracted financing and the share in leasing, exchange financing, and crowdfunding have increased. The share of microfinancing and factoring has not changed significantly.

The active development of various financing instruments in Russia in 2023 has a positive impact on financial affordability.

The second largest financing instrument for the SME segment is leasing. Leasing serves as a long-term financing investment tool, which is a necessary element for economic development. Leasing companies often have the ability to offer financing on more favorable terms than bank loans, which is due to several factors.

Firstly, the leased item remains the property of the leasing company until the full buyout price is paid, so in the event of the borrower’s default, it allows the company to sell it and recover its losses.

Secondly, there are government subsidy programs under which leasing companies receive funding on favorable terms and have the opportunity to offer preferential conditions to lessees.

Thirdly, leasing companies, unlike banks, do not have to comply with regulatory capital and reserve requirements, and therefore have greater financial flexibility.

The volume of financing attracted through leasing by SMEs has increased 3.3 times over three years, while the share of this instrument in the structure of attracted financing has risen from 9.7% in 2020 to 14.8% by the end of 2023. It is difficult to assess the “penetration” of leasing in the SME segment, as there is no official statistics on the leasing industry. Despite the fact that the report from the National Rating Agency (NRA) for the third quarter of 2023¹⁰ estimates the penetration of leasing in the medium-sized enterprises segment at around 45%, and in the small business segment at half that, it is not correct to compare these values with lending due to differing methodologies.

Factoring is a tool for attracting short-term financing secured by the right to claim the delivery of goods or services. Factoring is convenient to use when the client delays

¹⁰ Leasing market: recovery continues, but risks are increasing. National Rating Agency. Analytical review. October, 2023. URL: https://rusbonds.ru/rb-docs/analytics/NRA_Analytics_12_10_2023_1_.pdf?ysclid=lur1bepleh867118978 (accessed on 29.02.2024).

payment for the goods. The volume of financing attracted through factoring has doubled from 2020 to 2023; however, its share in the financing structure remains at 4%.

The “penetration” of factoring in the SME segment is increasing, according to reports from the Association of Factoring Platforms. In 2023, about 10,000 SMEs utilized factoring. This is 32% more than in 2022.¹¹ The reason for the growing interest in the tool is the active development of online platforms that simplify and reduce the cost of the entire financing process, as well as the overall shift to digital transactions in procurement and contracts.

Factoring, such as leasing, is outside the regulatory perimeter of the Central Bank of the Russian Federation, which is why factoring terms can often be more attractive than those of bank short-term lending. Moreover, factoring companies, by providing financing to SMEs, take on the risk of non-payment by the client. Since the client is usually a large company with a clear reputation and a history of financial transactions, the risks associated with such credit are lower.

Thus, the development of factoring contributes to increasing financial accessibility for small companies, meeting the need for working capital through a technologically convenient tool.

Microfinancing is a tool for providing debt financing to micro and small businesses for both short and long terms. The volumes of microfinancing, just like the volumes of factoring, have also increased, but their share in the structure has remained at the level of 0.5–0.6%. According to the Bank of Russia, the main volume of loans in the SME segment is provided by state microfinance organizations, which, thanks to budget funding, have the opportunity to issue loans on favorable terms. At the same time, commercial microfinance organizations are increasing their activity,

mainly providing accessible services and competing with state microfinance organizations in terms of the speed and convenience of loan processing.

Microfinancing can be a convenient financial tool, although its development is hindered by the limited availability of subsidized funding allocated from the budget, without which microfinancing rates are uncompetitive compared to bank lending [11]. The terms for providing loans by commercial microfinance organizations are similar to crowdfunding rates. At the same time, crowdfunding offers greater flexibility and provides more options in terms of choosing the term, interest rate, and payment frequency than microfinancing.

On the other hand, the advantage of microfinance organizations lies in their integration into the infrastructure supporting small and medium-sized enterprises,¹² which gives microfinance organizations in entrepreneurial financing an edge over, for example, crowdfunding platforms when participating in government support and development programs for SMEs. Participation in support programs not only allows for preferential funding but also provides marketing advantages, as entrepreneurs receive support and financing in one place.

In addition to the traditional forms of attracting financing, in recent years, so-called alternative financing instruments: crowdfunding and the stock market have been actively developing. Currently, the share of these instruments in the structure of attracting external financing is less than 1%, but their popularity is growing.

The study of crowdfunding tools has been highlighted in the papers of I.A. Ezangin and A.V. Evstratov [12]. A. Yu. Mezentseva and I.V. Ryndina notes the importance of developing

¹¹ The factoring market in Russia by the end of 2023. Association of Factoring Companies. Moscow, February 2024. URL: AFC_Stat (asfact.ru) (accessed on 29.02.2024).

¹² Federal Law “On the Development of Small and Medium-Sized Enterprises in the Russian Federation” from July 24, 2007, No. 209. Collection of Legislation of the Russian Federation. July 30, 2007, No. 31, Art. 4006; Art. 15.

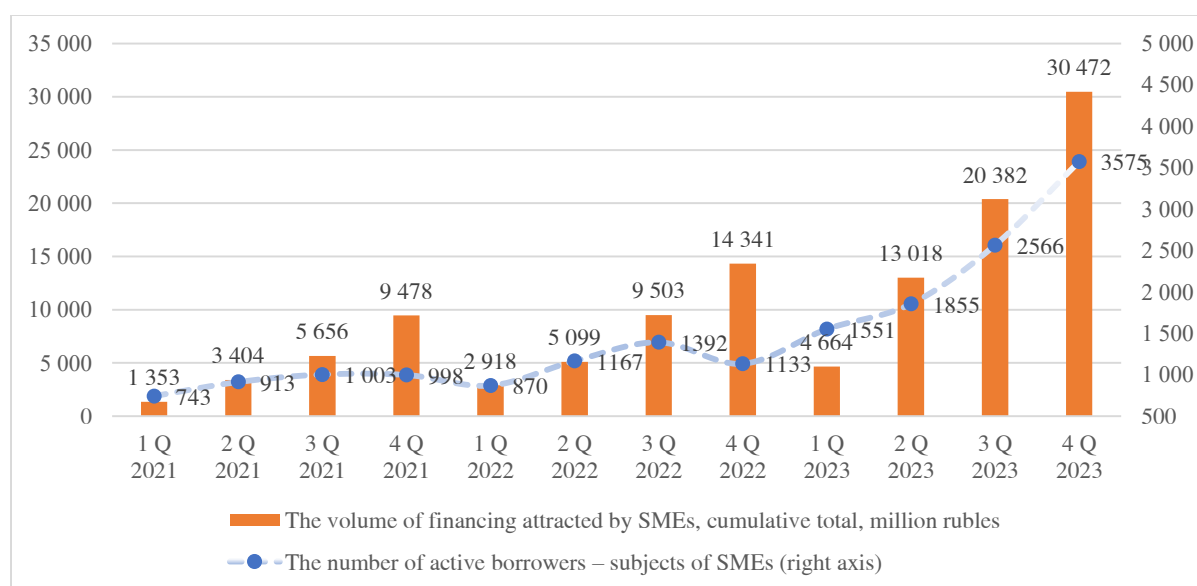


Fig. 4. Dynamics of SME Crowdfunding

Source: Bank of Russia data URL: http://www.cbr.ru/Content/Document/File/120740/press_29112023_2.pdf (accessed on 29.02.2024).

alternative financing tools to overcome sanctions restrictions [13]. The papers of E. S. Materova, M. A. Yubkin, L. N. Saffiullin, R. M. Gayzatullin [14], L. V. Chebukhanova [15], and E. G. Sheina [16] also focus on exploring the possibilities of using crowdfunding and its combination with other financing tools in project implementation. The opportunities for small companies to attract financing on the stock exchange have been examined in the works of I. N. Dzhazovskaya, M. I. Vilkova [17], and A. K. Tanda [18].

The active development of these tools is driven by both objective factors of convenience and expanded opportunities for businesses, as well as the support measures outlined in the national project “Small and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiatives”¹³ [19]. In the paper of a collective of foreign authors [20], the possibilities of crowdfunding are compared to over-the-counter initial capital raising for a growing

company as a promising tool for alternative financing in the future.

The opportunity to access the open market and attract funding from retail investors by sharing information about their business and projects allows companies not only to secure financing but also enhances their visibility among potential clients, increases transparency in operations, and fosters an investment culture within the small business sector.

Crowdfunding allows small companies and those recently entering the market to attract debt and equity financing. The active development of the tool was facilitated by the adoption in 2019 of the Federal Law of the Russian Federation from 2 August 2019, No. 259 “On Attracting Investments Using Investment Platforms and Amending Certain Legislative Acts of the Russian Federation”.

The law legalized the operation of crowdfunding platforms, established a circle of individuals attracting funding, and outlined a list of tools through which funding can be raised, introduced regulation and oversight of crowdfunding by the Bank of Russia.

Since 2020, the crowdfunding market has grown both in volume and in the number

¹³ National project “Small and Medium-sized Enterprises and Support for Individual Entrepreneurial Initiative”. The project passport has been approved by the Presidium of the Council under the President of the Russian Federation for Strategic Development and National Projects (protocol from 24 December 2018, No. 16). URL: <https://economy.gov.ru> (accessed on 29.02.2024).

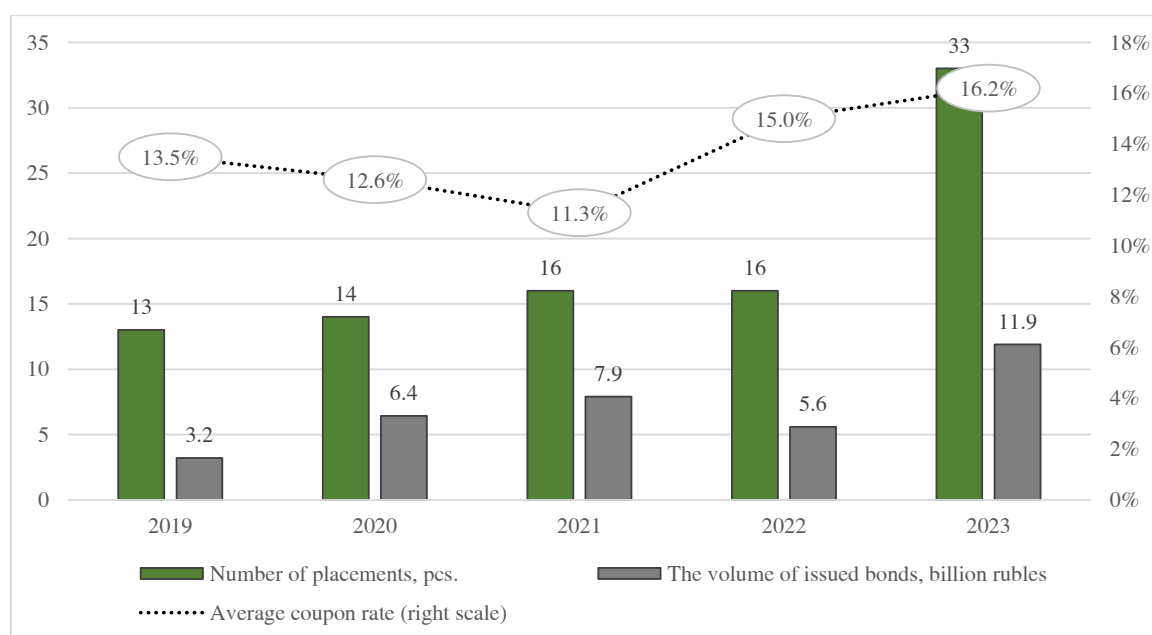


Fig. 5. Dynamics of SME Stock Exchange Bonds

Source: Bank of Russia data. URL: http://www.cbr.ru/Content/Document/File/120739/press_29112023.pdf (accessed on 29.02.2024).

of SMEs utilizing this tool (Fig. 4). In 2020, the volume of attracted financing (according to surveys conducted by the Bank of Russia) amounted to 3.5–4 billion rubles. In three years, the funding volume has tripled. The number of companies that turned to this service has also increased by 3.5 times.

The crowdfunding tool is convenient as it provides small companies the opportunity to quickly attract borrowed financing on flexible terms. As a rule, these are short-term loans for working capital replenishment. At the same time, crowdfunding platforms offer a tool for attracting long-term capital, which is particularly convenient for companies that have significant growth potential (implementing a new project or scaling their operations) but are not ready to go public. In this case, companies can place shares on crowdfunding platforms and increase their capitalization.

Until recently, stock market instruments were not associated with the possibility of attracting financing for small and medium-sized enterprises. Since the implementation of the national project, thanks to the system

of support measures, the active development of market and exchange infrastructure, as well as promotional and educational activities, the listing of small companies on the stock exchange has ceased to be an exotic occurrence [19]. Undoubtedly, the placement of bonds or stocks on the exchange has not become a widespread phenomenon and is more suitable for companies with annual revenue exceeding 120 million rubles,¹⁴ that is, for companies in the small and medium business segment. Nevertheless, in recent years, the volume and number of bond placements by SMEs (Fig. 5) demonstrate a growing interest in this instrument.

Stock bonds allow for the attraction of long-term financing, meaning they can fund the implementation of a project or the expansion of a business. The conditions for attracting funds are comparable to bank lending; however, issuing exchange-traded bonds has several advantages, including promoting greater independence for the company.

¹⁴ Requirement of the growth sector of PJSC Moscow Exchange. URL: www.moex.com/s2151 (accessed on 29.02.2024).

CONCLUSION

It should be noted that the growing popularity of alternative financial instruments to bank lending is changing the structure of attracted financing in the SME segment. The main share still consists of bank loans. At the same time, the emergence and development of new financial instruments enhance the opportunities for attracting financing and increase the accessibility of financial resources for small companies.

The further expansion of the financing tool system will depend on economic conditions and regulatory frameworks. To stimulate the development of a financing structure that best meets market needs, it seems important:

1. To identify the prospective needs of the market, such as the proportions of debt and equity financing. The need for equity financing should not be a consequence of high interest rates on loans and credits. On the contrary, the growth of companies' capitalization should be a logical consequence of the company's transition to a stage of sustainable business development. At the same time, the increase in the share of shareholders among citizens has its social consequences. It can be assumed that such a trend is likely to lead to an increase in citizens' responsibility for the development of domestic business, which undoubtedly carries a whole range of global legal and economic consequences.

2. To focus on the promising structure of the capital market when developing government support programs. State support for the banking sector through various preferential programs for citizens and businesses will create the conditions for further strengthening the share of bank lending. At the same time, it is evident that the SME segment demands various financing tools. Therefore, when developing support programs for the SME segment through various financial instruments, it is important to assess the funding capabilities of different instruments and financial institutions. Since competition among financial instruments positively affects financial accessibility, it seems reasonable to reduce support through the banking sector.

3. To support the development of competitive market infrastructure. Accessible and useful financing is formed when market participants compete within clear established rules and conditions. At the same time, a long-term quality supply of financial services is only possible when the economic interests of all participants in the process are respected.

Compliance with the balance of interests of all participants and unified approaches to regulation will contribute to further improving financial affordability for small and medium-sized enterprises.

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