

Small Business Investment processes financing package

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Abstract. The investment importance, their financing issues at the small business level reflect the current agenda of the state socio-economic development. The investment market is a set of objects and subjects actions through the investment services implementation. In general, the Russian investment market tasks are: innovative projects implementation; development of the investment potential of the market as a whole. The article defines the small business role, it presents the financial support forms for small businesses. The authors come to the conclusion that the "project finance" category is a complex tool that can be presented in different forms and types. A similar point of view has developed due to the lack of consensus among researchers and practitioners; the main features of financing investment projects in the small business segment are highlighted: the lack of their own funds to finance investment projects; the attracting financial resources difficulty in investments using credit instruments (lack of collateral); underdevelopment of small business.

1 Introduction

The role of small business across the Russian Federation is very great. This is due to the fact that by applying a certain radical path of development, using sources of raw materials at the local level and operating in the absence of large material investments, thanks to small businesses, the production volumes of many consumer goods are expanding, problems associated with employment and unemployment are being solved. It increases the pace of scientific and technological progress and become a positive alternative to criminal entrepreneurship [1].

At the same time, their levels are different, so the macro level of financing investment projects for small businesses is achievable when their volume at the meso level is sufficient. In this case, one of the difficult tasks is put on the regions related to the provision of the

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most favorable factors (it relates both to natural and climatic conditions and to economic benefits, including regional benefits, which include a reduction in the property tax rate, which is considered the prerogative of the regional level regarding adjustments to its value.) of its development to attract investors [2]. It means that investments at the mesolevels are, among other cases, directly dependent on all the conditions that the region will provide for effective investment activity. The investment market is a set of objects and subjects actions through the investment services implementation. In general, the Russian investment market tasks are: innovative projects implementation; the investment potential development of the market as a whole.

1.1 Literature review

The issues of investments, investment projects financing are covered by the following researchers: A.I.Bolvachev, T.G.Bondarenko, N.M. Chuikova, A.Yu. Annenkov [3], S.A. Anokhina, N.V. Lavrukhina [4], P.P. Kovalev [5], K.A. Naminova, A.A. Mikhailinov [6], K.A. Naminova, P.A. Dumsky [7], I.A. Ivanenko [8], V.I. Buvaltseva, V.V. Chechin [9], O.V. Borisova, N.I. Malykh, L.V. Oveshnikova [10], B.F. Zabelina, A.N. Moshnova, V.M. Nikishina [11], Michi Nishihara, Takashi Shibata, Chuanqian Zhang [12], Junhong Yang, Alessandra Guariglia, Yuchao Peng, Yukun Shi [13], Katarzyna Bilicka [14] and others. Foreign experience in financing, digital financing, investments of micro and small enterprises is presented in the works of the following researches: Aijie Lin, Yulei Peng, Xi Wu [15], Varun Jindal, Rama Seth [16] and others.

The financing main object is an investment project. The Law provides the following definition: "... substantiation of the economic feasibility, volume and timing of capital investments, including the necessary design and estimate documentation developed in accordance with the legislation of the Russian Federation and approved standards (norms and rules), as well as a description of practical investment actions (business plan)" [17].

S.A. Anokhina, N.V. Lavrukhina define "... an investment project should be understood as a set of measures to achieve a specific goal" [4].

P.P. Kovalev notes "... an investment project is a comprehensive action plan that includes design, construction, technologies and equipment acquisition, launch of production and reaching the planned production capacity, as well as personnel training, that is, actions implementation aimed at creating a new or modernizing the existing production of goods (works, services) in order to obtain economic benefits, which require justification of expediency" [5].

A team of authors led by A.I. Bolvachev distinguishes the following: "... an investment project is understood as a set of actions that includes capital investments in outflows form in order to subsequently receive funds inflow and increase the company capital. Investment projects that do not increase the value of the company cannot be called investment and be implemented, in principle, because they do not fulfill the main condition for their implementation, it means obtaining economic benefits" [3].

2 Data and Methodology

2.1 Data

Support programs for the study object are a comprehensive state work for SMEs development. The purpose of the program is to provide conditions for start-up small and medium-sized businesses and continuing their activities [18].

The state instructs start-up entrepreneurs to make the first steps in business, allocates subsidies and grants, provides working spaces [19-20]. It is free of charge or the price is reduced.

Theory and practice show the presence of two groups of small business financing: basic (direct) and derivative (indirect). The difference between two forms is that in the first case, small business takes money, which will be directed to the functioning of the small business entity itself. These forms include the following ones (Fig. 1).

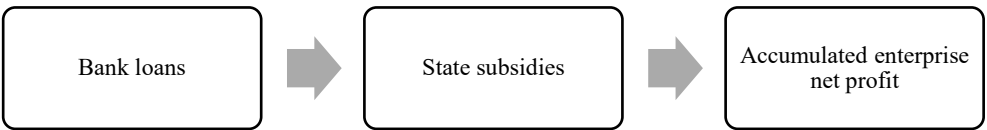


Fig. 1. Direct Small Business Financing Forms

Let us turn to the analysis of financing investment projects main forms that are available to enterprises of the indicated size.

1. Preferential lending

The volume of loans under the "umbrella" guarantees of the SME Corporation (CMSP) in the first quarter of this year amounted to 18 billion rubles.It was reported in the corporation press service.

The Funds were received by 1.5 thousand enterprises and individual entrepreneurs.

At the same time, 99% in terms of the quantity and 90% in terms of the received loans amount are accounted for small and micro business representatives. The "umbrella" mechanism gives entrepreneurs the opportunity to get a loan on more favorable terms than standard ones.

Guarantees increase banks confidence that “the funds they have issued will be returned.”

According to the SME Corporation, most often small and medium-sized business addressed themselves to banks for working capital replenishment (15 billion rubles).

The most demanded "umbrella" guarantees were in trade, manufacturing, agriculture, construction, transport and robotics [21].

We present the directions for spending a preferential loan for small business in Figure 2.

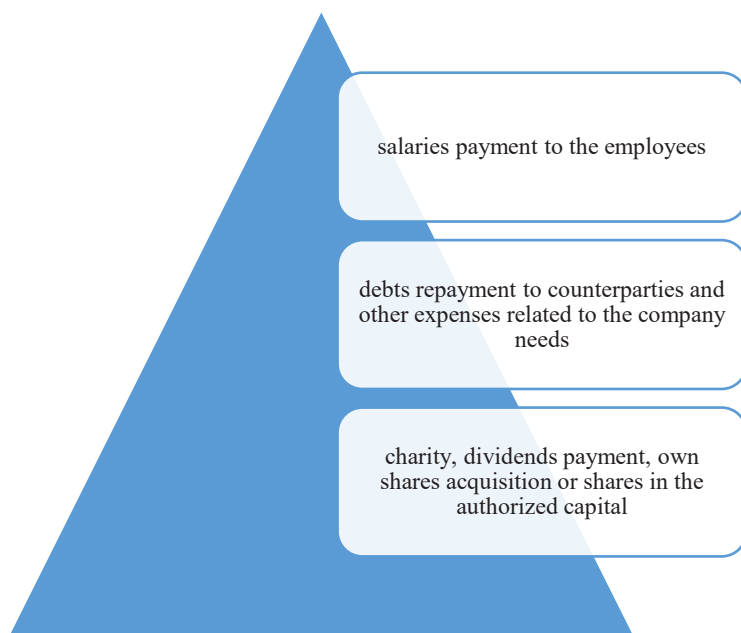


Fig.2. Directions for spending a preferential loan for small business

2. Subsidies for start-up entrepreneurs.

Subsidies are considered as additional funds that are provided by the government to help small business solve financial problems, with a small business launch and development.

Subsidies types:

Grants. A grant is some money that does not need to be repaid. Grants are provided for both start-up capital and for business development. Grants are often given for specific purposes, such as new working places creation or innovative technologies development.

Loans. Loans are provided on terms that are more favorable than conventional loans. In addition, loans are provided for a long period of time, which enables entrepreneurs to obtain the necessary financing for their business development.

Tax incentives. Tax incentives occupy one of the most important issues in the activities of an economic entity. The provision and receipt of tax benefits only has a positive effect on the activities of small and medium-sized businesses - they increase profitability, the released financial resources can be used to increase their competitiveness [22].

Among the entrepreneurs categories who are provided with subsidies by the state, we can allocate the group of young entrepreneurs under 25 years old.

Such subsidies allow young entrepreneurs to receive financial support for starting a business and access to various support measures. So, young entrepreneurs can count on:

- interest-free loans - you need to return the same amount that you have borrowed, and interest on the loan will not be charged.

- tax holidays – you receive income and do not pay taxes on it.

- grants – you get money to start your own business. Funds can be received by both individual entrepreneurs and enterprises founders. For example, young individual entrepreneurs and enterprises founded by entrepreneurs from 14 to 25 years old can receive financial assistance in the amount of 100-500 thousand of rubles. And if the business is conducted in the northern regions of the country the amount of money is up to 1 million rubles.

- Cost-free resources. In 2023, the state provides an opportunity to receive a business grant free of charge. In order to receive a business grant, an entrepreneur must correspond to certain requirements:

- to prepare a business plan;
- to register the business officially;
- to work for a year before applying for a grant.

3. State assistance. Assistance to small businesses from the state in 2023 will also include a number of other support measures:

- reducing the tax burden. Tax liability reduction or elimination.
- business registration procedure simplification. Providing state guarantees for loans and subsidizing rent for small businesses that are in the economic deprivation zone.
- loans at a favorable rate from the SME Corporation. For example, in accordance with the incentive program for SMEs, individual entrepreneurs and organizations can count on concessional lending at a favorable rate.

Bank participates in the concessional lending program, where entrepreneurs can apply for a soft loan to replenish working capital, refinance or develop business activities [23].

In general, subsidies for small business are critical to creating a favorable economic climate in which small business can thrive and grow. This case, in turn, can lead to some increase in employment, some increase in tax revenues and some increase in the country economic development level as a whole.

4. Subsidy from the Employment Center.

The State Employment Service provides subsidies to the unemployed who plan to start their own business.

5. Project financing.

Project financing. In her research, L.L. Igonina identifies a broad and narrow interpretation of the concept of "project financing [24]: "in a broad definition, project financing is understood as a set of forms and methods of financial support for the implementation of an investment project. Considering the narrow definition of project financing, it should be noted that it is a method of financing investment projects, which is associated with a special method of ensuring return on investment. This method is mainly based on the monetary income that is created by the investment project, as well as on the optimal distribution of project risks between the parties participating in the project."[25].

The analysis of "project financing" category theoretical foundations allows us to present schematically some positive and negative aspects of this method of financing investment projects (Fig. 3).

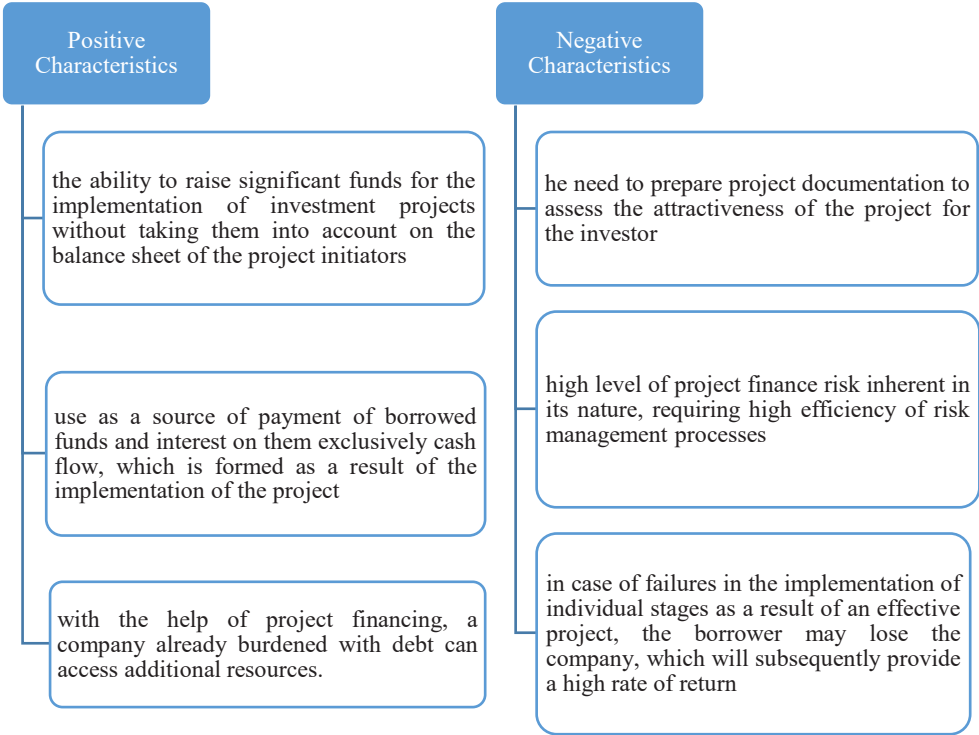


Fig. 3. Some positive and negative aspects of project financing [26].

We tend to argue that the "project finance" category is a complex tool that can be presented in different forms and types.

This point of view has developed due to the lack of consensus among researchers and practitioners (for example, the project financing models classification is presented in V.S. Pilyakin [27], E.I. Manukovskaya [28] research works, etc.).

Every investment process participant interprets this category based on their economic interests.

2.2 Materials and methods

The relevance and problemativeness of the question posed allows us to use the observation method, in terms of the regulatory framework of each country, as well as the individuality of the investment process concerning a certain territory presented in the works of researchers [1]. The analysis method made it possible to identify the characteristic features of the categories “financing”, “financial support”, “investment project”, “forms of financing investment projects”, “project financing”. The method of analyzing literary sources allowed the authors of the study to draw a conclusion about the complexity of such an instrument as “project financing”, and the difference in views in its forms and types.

The use of the logical method made it possible to characterize each form of financing of investment projects - preferential lending, subsidies for start-up entrepreneurs, assistance from the state, subsidies from the Employment Center, project financing. By using the methods of deduction and induction, the authors were able to draw the main provisions and conclusions.

3 Results

The small business role in the country market economy is determined by the following factors [29]:

- the individual entrepreneurs and small businesses number in market economy elements total number;
- the small business contribution to the federal budget and the Russian Federation constituent entities budgets formation;
- the small enterprises contribution to the gross domestic product creation (GDP) and to the production;
- increase in the employed able-bodied population number in small enterprises, reduction in the unemployed number;
- More information about this source text increase in the number of employed working-age population in small enterprises, reduction in the unemployed number;
- gaining experience in creating your own business and in managing enterprises;
- providing consumer goods, ensuring that the population needs are met.

With the "financing" concept definition the following documents are connected:

- all support measures are regulated by Federal Law No. 209-FL issued on July 24, 2007 "On Small and Medium Businesses Development in the Russian Federation".

Small and medium-sized individual enterprises objects can successfully operate if there are certain support types: legislative, personnel, property, financial, informational, organizational, methodological, technical, etc.

The "financing" or "financial security" concept has many interpretations in legal and economic literature [30].

The most widespread ones are the following:

- financing is the process of the company's capital formation in all its forms;
- financing is the funds provision (monetary support) for expanded reproduction needs.

Several activity areas are applied: subsidizing, co-financing, organizing fairs and exhibitions, training, advising highly specialized staff, leasing real estate for small business.

In many developed countries, there is a practice of applying significantly low incometax rates for small and medium-sized businesses [32].

4 Discussion

In the process of the implementation of state policy, such a basic instrument as programs to support small business is used at the federal, regional and municipal levels [32, 33].

The entrepreneurship support infrastructure includes a system of state and regional funds to support small and medium-sized business [34]. The Federal Fund for Entrepreneurship Support is a state non-profit organization in the form of an institution aimed at financially supporting the federal policy in the field of state business support.

The implementation of business support programs at the regional level is associated with a number of financial, organizational and legal difficulties. Moreover, they currently exist in almost all Russian regions and are being developed for a fairly long period of time. However, it should be noted that the regional programs that are currently being implemented do not provide significant results for economic development and a real positive impact on the economy of the constituent entities of the Russian Federation as a whole. The feasibility and implementation of a regional program is associated with a number of conditions, one of which is an assessment of the region's capabilities. Programs that fail to meet projections and budget are doomed to fail. An analysis of the practice of

state planning shows that the cause of failures in the implementation of programs was global errors in strategic planning and analysis of prospects [32].

At the present moment, state support for SMEs is implemented by various state authorities and specialized organizations, among which are the following: the Ministry of Economic Development of the Russian Federation, the Ministry of Agriculture of the Russian Federation, the Federal Corporation for the Development of Small and Medium Enterprises Joint Stock Company (SME Corporation), the Joint Stock Company Society "Russian Bank for Support of Small and Medium Enterprises" (JSC "SME Bank"), Fund for the Promotion of the Development of Small Forms of Enterprises in the Scientific and Technical Sphere, Joint Stock Company "Russian Export Center", Russian Agency for Insurance of Export Credits and Investments, Export Insurance Agency "EXIAR, Industry Development Fund (IDF).

Joint Stock Company "Russian Bank for Small and Medium Enterprises Support " (JSC "SME Bank") implements a financial support program for small and medium-sized business in a two level system: financial support through authorized partner banks and through infrastructure organizations, which includes leasing companies, factoring and microfinance organizations.

JSC Russian Export Center (REC) is a state institution for supporting non-commodity exports that provides Russian exporters with a wide range of financial and non-financial support measures, as well as interacts with relevant ministries and departments that carry out functions for the Russian Federation foreign economic activity development. Also, the REC group includes the Russian Export Credit and Investment Insurance Agency (RECIIA), which insures Russian exporters, in particular, against the risks of non-payment by a foreign buyer.

The Industrial Development Fund main objective is to provide loans to industrial companies on favorable terms in order to develop import-substituting and export-oriented industries and switch to the best available technologies. The Industrial Development Fund offers preferential conditions for co-financing projects aimed at developing new high-tech products, technical re-equipment and creating competitive industries based on the best available technologies [35]. For the industrial projects implementation, the Industry Development Fund provides targeted loans at a rate of 1%, 3% and 5% per annum for up to 7 years in the amount of 5 to 750 million rubles [36].

Thus, since 2005, the Ministry of Economic Development of the Russian Federation has been implementing a program to provide subsidies from the federal budget to the budgets of the constituent entities of the Russian Federation in order to support small and medium-sized business at the regional level. The program is implemented by distributing federal budget funds on a competitive basis to the regions of the Russian Federation. The federal budget funds are provided to the regions on the co-financing terms.

Financing is carried out within the framework of the state program of the Ministry of Economic Development of the Russian Federation: "Economic development and innovative economy", the 2nd subprogram is "Development of small and medium-sized business" [31].

Any investment project has a certain life cycle, consisting of definite cycles, the essence of which is to determine the time frame for the project life, from the start of investment and capital gains.

Despite the positive aspects of small business functioning, there is an objective need for government intervention, from the standpoint of support and regulation.

In this case, A.A. Agafonov notes the reasons for the need for state support for the small sector of the economy (Fig. 4).

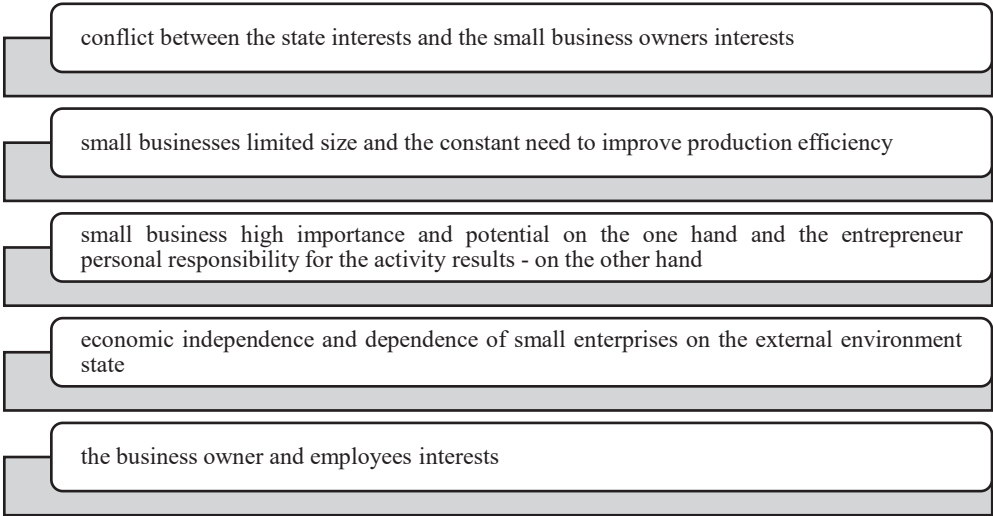


Fig. 4. The necessity reasons for state support for the small sector of the economy [26].

Practice shows that when choosing forms of financing, small business organizations most often rely on their own funds as the cheapest financing, and not on borrowed funds. This is explained, to a greater extent, by the non-fulfillment of the terms of the entrance loan [2].

5 Conclusion

Theoretical foundations analysis of the "investment project" category allows us to draw our own conclusions:

- an investment project is a specific plan, capital investment for the purpose of generating income;
- an investment project, ultimately, is associated with such a concept as efficiency, determined by ensuring the initial investment amount return and the required return for the investor who provided the capital.

The theoretical analysis carried out by us in relation to small business, small business financing, investment project, allows us to derive the study object main features:

- lack of their own funds to finance investment projects;
- attracting financial resources for investments using credit instruments is difficult due to the lack of collateral;
- small business under development.

The study made it possible to combine modern views of researchers on the issues under consideration, highlighting both a theoretical overview of the components of the process under study, and to determine their current trends and identify current problems. The study is useful for research theorists and practitioners in this field; its practical significance is aimed at finding and applying the main forms of financing investment projects in the small business segment.

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