

Financing as the obstacle for the development of the SME sector in RA

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Ֆինանսավորումը՝ որպես ՀՀ ՓՄՁ ոլորտի զարգացման խոչընդոտ *Բաղդասարյան Գևորգ Բ.*

ՀՊՏՀ, Կառավարման ֆակուլտետ, առկա մագիստրատուրա, 2-րդ կուրս (Երևան, ՀՀ)
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Ամփոփում. Հայաստանի Հանրապետությունում ՓՄՁ ոլորտում առկա են բազմաթիվ խնդիրներ, որոնց լուծումը երկարաժամկետում կհանգեցնի դրական սոցիալ-տնտեսական տեղաշարժերի, կնպաստի եկամուտների հավասարաչափ բաշխմանը, տարածքային զարգացմանը և վերջիվերջո տնտեսական աճի համար կատեղծի իրական նախադրյալներ: Այսօր ոլորտում առկա խնդիրները խոչընդոտ են հանդիսանում ոլորտի ներուժային մակարդակին հասնելու համար, իսկ միջազգային փորձը ցույց է տալիս, որ շատ երկրների տնտեսական համակարգերը կառուցված են հենց այս ոլորտի հիման վրա, որը էական ազդեցություն է ունենում ՀՆԱ ձևավորման վրա:

Հոդվածում փորձ է արվել առանձնացնել ոլորտի զարգացման հիմնական խոչընդոտները:

Հանգուցաբաներ՝ ՓՄՁ, ՓՄՁ ֆինանսավորում, ֆինանսավորման հասանելիություն, Համաշխարհային մրցունակության համաթիվ

Финансирование как препятствие для развития сектора МСП РА

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Аннотация: В сфере МСП в Республике Армения существует множество проблем, решение которых приведет к положительным социально-экономическим изменениям в долгосрочной перспективе, будет способствовать равному распределению доходов, региональному развитию и в конечном итоге создаст реальные предпосылки для экономического роста. На сегодняшний день проблемы в отрасли являются препятствием для выхода на потенциальный уровень отрасли, а мировой опыт показывает, что экономические системы многих стран строятся на основе этой отрасли, оказывающей существенное влияние на формирование ВВП.

В статье предпринята попытка выявить основные препятствия на пути развития отрасли.

Ключевые слова: МСП, финансирование МСП, доступ к финансированию, индекс глобальной конкурентоспособности

Introduction: Armenia has a small domestic market that is vulnerable to external shocks and an unfavorable geographic location, so enhancing economic competitiveness and generating economic growth through exports has been identified as a top policy priority for the country.

The level of dollarization of the Armenian economy is still high, which further increases the vulnerability to external shocks. Recently, the strengthening of the dram against the dollar has caused great damage, especially to exporting organizations. In this context, the study of international experience shows that many countries, in the framework of supporting SMEs, pay great attention, especially to those organizations whose

products are subject to export. Such organizations receive government support mainly in the form of concessional loans.

Analysis: According to the "Global Competitiveness Index" 2019 report, Armenia ranks 68th among 141 countries in terms of competitiveness. In this report, countries' competitiveness is assessed according to 12 pillars of competitiveness, such as macroeconomic environment, product market, infrastructure, financial system, healthcare, etc. Armenia ranks 52nd among 140 countries in the "SME financing" sub-index, and 56th and 69th in the "Financial System Stability" and "Financial System Development" sub-indexes, respectively [5]. In the

context of conducting a study and analysis, an attempt was made in this article to maintain comparability as much as possible, but taking into account the fact that in 2021 The "Global Competitiveness Index" report has not been officially published, we have considered the data of the 2019 report.

One of the key factors for the development of enterprises is the availability of competitive and affordable financial services. This factor is of key importance for all enterprises in the country, regardless of size, location, nature of activity. The availability of finance mainly refers to factors such as collateral, loan tenure, service fees and commissions, collateral requirements, etc. It is important that a variety of services are available in the financial market to make lending to SMEs more targeted and appropriate.

Access to finance is now considered one of the problems for small and medium-sized businesses around the world. As stated in the World Bank report, SMEs have very few opportunities to obtain bank loans compared to large enterprises. To solve this problem, they rely on their own funds or the funds of friends and family to start and initially manage their business. The International Finance Corporation (IFC) estimates that 65 million companies, or about 40% of formal micro, small and

medium-sized enterprises in developing countries, need US\$5.2 trillion in financing annually [6].

According to the SME Finance Forum, the SME financing gap in Armenia is 10.84% of GDP, which is relatively lower than the corresponding indicator for the rest of the region. Another indicator calculated by this center, "the share of financially limited companies", is quite high for Armenia and amounts to 37.26% :

According to another analysis, the SME Policy Index 2020, access to finance for SMEs in Armenia is still limited and bank finance continues to dominate. According to this factor, Armenia received 3.81 points out of 5 possible [6].

According to the CESEE Bank Lending Survey, the level of awareness of SMEs about the availability of modern financial technologies and tools and the peculiarities of attracting financing with their help is low, as a result of which there is no active demand for such tools. The same report states that difficulties in lending to SMEs are associated with a number of significant obstacles: lack of creditworthiness and/or good credit history, lack of opportunities to develop a business plan (difficulties in properly representing the viability and feasibility of a business requiring financing), adequate lack of collateral (adequacy of the value of collateral, degree of liquidity), etc [8].

Table 1: Indicators of increasing access to finance [1]

Report	Index	Number of countries	RA position	Rating
SME Policy Index 2020	Access to finance for SMEs	EaP, 6	2	3.81
Global Competitiveness Index 2018	SME financing	World 140	81	
	Development of the financial system	World 140	87	
	Access to venture capital	World 140	72	
SME Finance forum 2018	SME financial gap relative to GDP	EaP, 6	6	10.84%
	Percentage of financially constrained organizations among organizations of the same size	EaP, 6	3	37.26%

Figure 1 below shows the main problems that make it difficult to finance SMEs in Armenia:

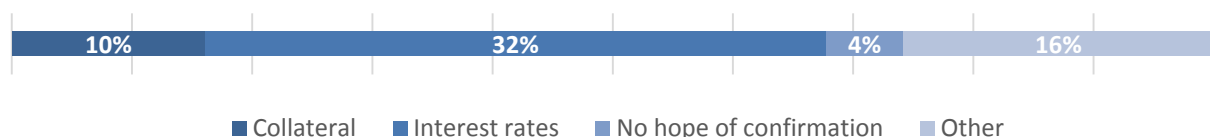


Figure 1: Barriers to access finance for SMEs [6]

This makes it clear that access to finance for SMEs in Armenia remains problematic for a number of reasons. First, complex lending procedures are identified that can cause difficulties for SMEs. Here, ignorance of banking processes among many business owners can be singled out as a problem, which further complicates this process. The second

biggest hurdle is high interest rates and then the lack of collateral for financing.

The fact that there are still quite a lot of such organizations in the Republic of Armenia, the life of which is only 1, 2 or 3 years also indicates problems in the industry (Figure 2).

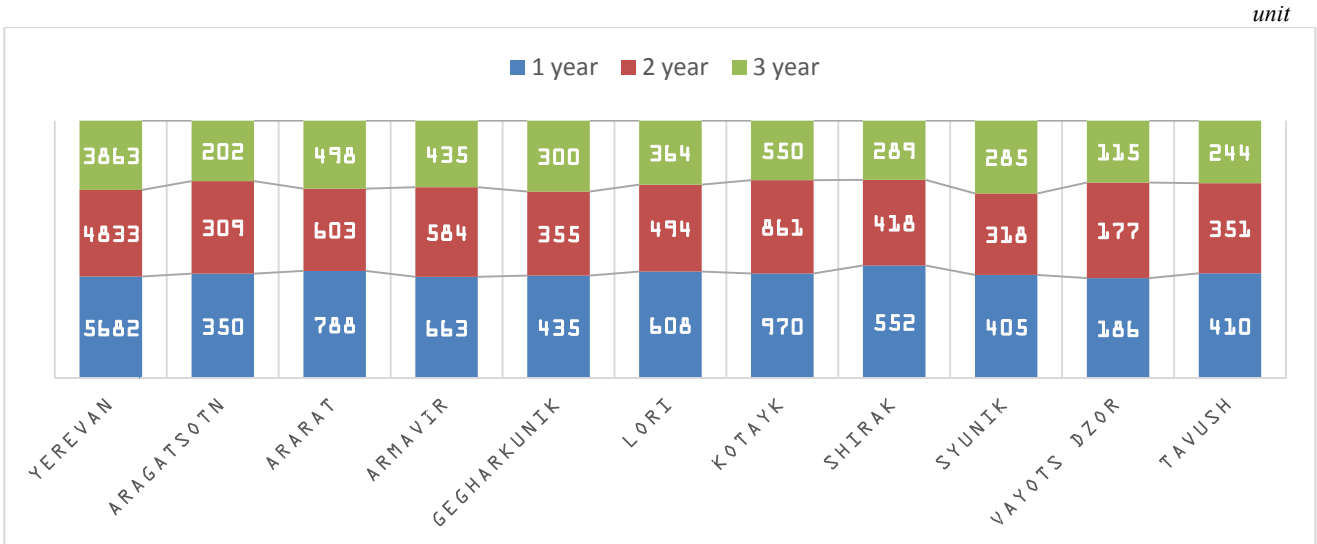


Figure 2: The structure of the number of economic entities surviving for one, two or three years according to the regions (marzes) of the Republic of Armenia and the city of Yerevan (2021) [2]

It can be seen from the diagram data that exclusively in all areas, incl. In Yerevan, people with only 1 year of life predominate. In Yerevan in 2021 according to the data, the number of entrepreneurs who survived in 1 year was 11049, which is more than 30% of all economic entities in

Yerevan. By the number of economic entities living 1 year Yerevan is followed by Kotayk, Ararat and Armavir regions.

And in terms of the number of liquidated and newly created enterprises, we have the following picture.

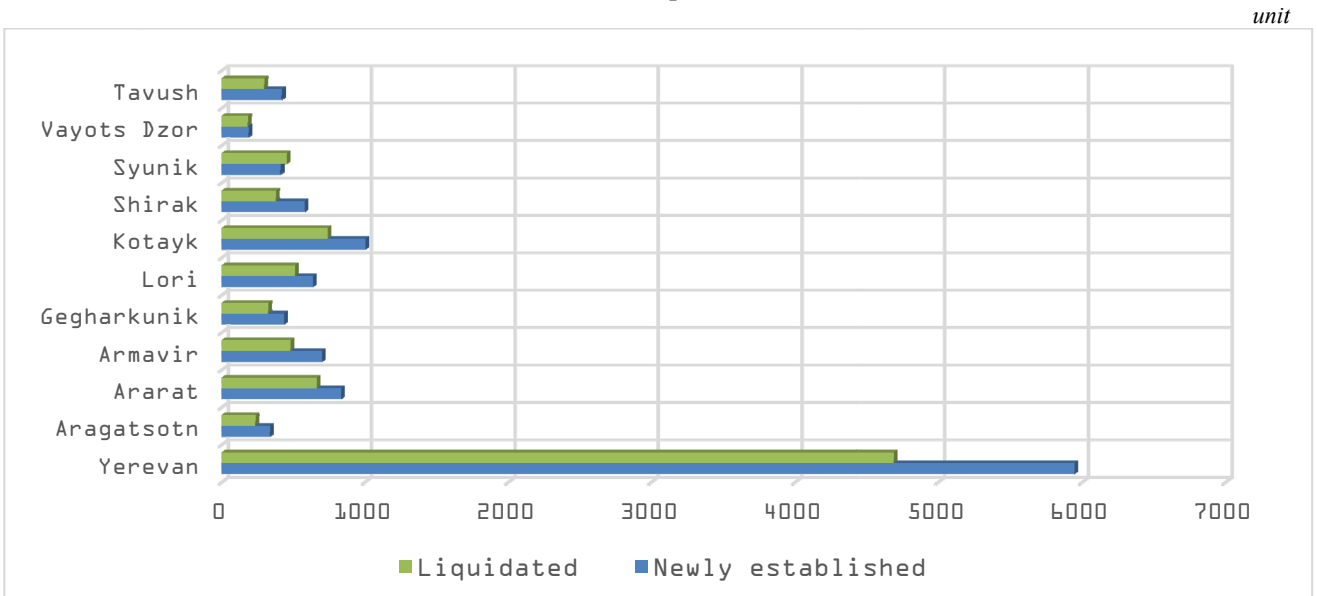


Figure 2: Structure of the number of liquidated (dead) and newly established economic entities by regions (marzes) of the Republic of Armenia and Yerevan city (2021) ⁴

⁴ Diagram built by the author

It can be seen from the graph data that in 2021 with data for all marzes and cities, that the number of newly created economic entities exceeds the number of liquidated ones by an average of 23%. The only exception is the Syunik region, where more organizations were liquidated than were created. here, in 2021, the number of liquidated organizations exceeded the number of newly created organizations by 40 or 9.7 percentage points. There is a lot of volatility in the industry. In 2021, a total of 13,471 organizations were created and 3,609 were liquidated.

The Coronavirus (COVID-19) outbreak has also contributed to deepening the problems in the industry, which has led to a slowdown in global economic growth in the global economy, as the existing restrictions hurt key sectors of the economy. export-oriented industry and agriculture, tourism and hotel industry. In the case of the tourism sector, a certain positive picture is already visible all over the world, and with some reservations, one can even say that the pace of development of the industry is returning to its previous level.

The impact of the pandemic on the SME sector is discussed in more detail in the “**Small and Medium-Sized Entrepreneurship Development Strategy of RA 2020-2024**”. In particular, it is noted that small and medium-sized enterprises in the Republic of Armenia are more sensitive to crises and have limited means and opportunities to resist them both financially and in terms of information. The crisis has hit the SME sector particularly hard, as they have limited resilience, far fewer customers and supply chains, small cash reserves and limited credit facilities [2].

Conclusion: Thus, it can be said that in many developed and developing countries of the world, including the Republic of Armenia, the SME sector stands out with great development prospects. Many countries have been able to maximize the potential of the industry by achieving a high level of economic development. However, there are still many countries where the SME sector is developing at a slow pace. The Republic of Armenia is one of those countries where the problems in the sector hinder the sector's growth opportunities, excluding its possible positive impact on the level of GDP. All the necessary prerequisites for starting a business have been created in Armenia. It has already been

mentioned that, according to Doing Business, RA is in a good position in the region in terms of ease of doing business. This, of course, is an important factor, but insufficient. What is more important is what conditions are created for the survival of small and medium-sized businesses. As it became clear as a result of the analysis, there are many problems in this regard. the number of liquidated organizations is quite large, which means that the newly created organization, having encountered certain difficulties along its way, being unable to meet the requirements of banks, credit organizations and not having sufficient state support, is liquidated. Lack of relevant knowledge to run a business is also a problem due to which newly created organizations have a very short lifespan. This, of course, is only a small part of the problems in this area. Only in the case of a systematic solution of existing problems, it will be possible to achieve positive progress in the region, which will create sufficient conditions for improving the living standards of people, reducing unemployment, poverty and solving a number of problems. Especially in the context of the current socio-economic crisis, the solution of these problems is becoming increasingly important.

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