

SOURCES OF FINANCING FOR SMALL AND MEDIUM BUSINESSES IN GREAT BRITAIN

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Small and medium enterprises rather differ from large corporations by its structure of financing. There are the own funds and borrowed sources in the system of SME's financing. The process of forming its own funds of the enterprise is related with the effective management and the activity of the organization as a well-organized structure. In this case the company needs to maximize their profits in order to be able to generate their own capital [5, p.3]. Profit maximization may be reached by the increasing revenues and reducing costs. However, this source is not all the gross profit obtained as a result of economic activity of the enterprise, but only the part of it that remains after the payment of taxes and payments to the budget named as the net profit [3,p.12]. It is used for the formation of accumulation funds and consumption, and the reserve fund. But, in the conditions of crisis the lack of own funds makes it necessary for SME to find other sources of financing.

The most important borrowed sources of financing for SME are the bank loans. That is why the credit crisis has a great impact on their activity. According the data of British Business Bank (2015) the proportion of SMEs seeking external finance had increased to 18% in 2015 in comparing with 2014 (12%). The proportion of start-up enterprises seeking external finance had also increased from 12% in 2014 to 25% in 2015 [2]. However, the data show that success rates remain lower for start-up small and medium enterprises than for SMEs as a whole [2]. Awareness of such debt products as credit cards, leasing, grants is high as among start-up small and medium enterprises so for other SMEs (fig. 1).

Demand for external finance from SMEs decreased during the recession. Because the small and medium businesses became more attentive while taking on additional debt in the conditions of crisis. At the same time they reduced their expansion plans. Furthermore, as the recovery took hold, SMEs have increased their cash reserves that has led to a reducing in the use of external sources of finance [1]. The amount of loans of SME in the period of global crisis should be analyzed in order to see the trend during that period, before and after it.

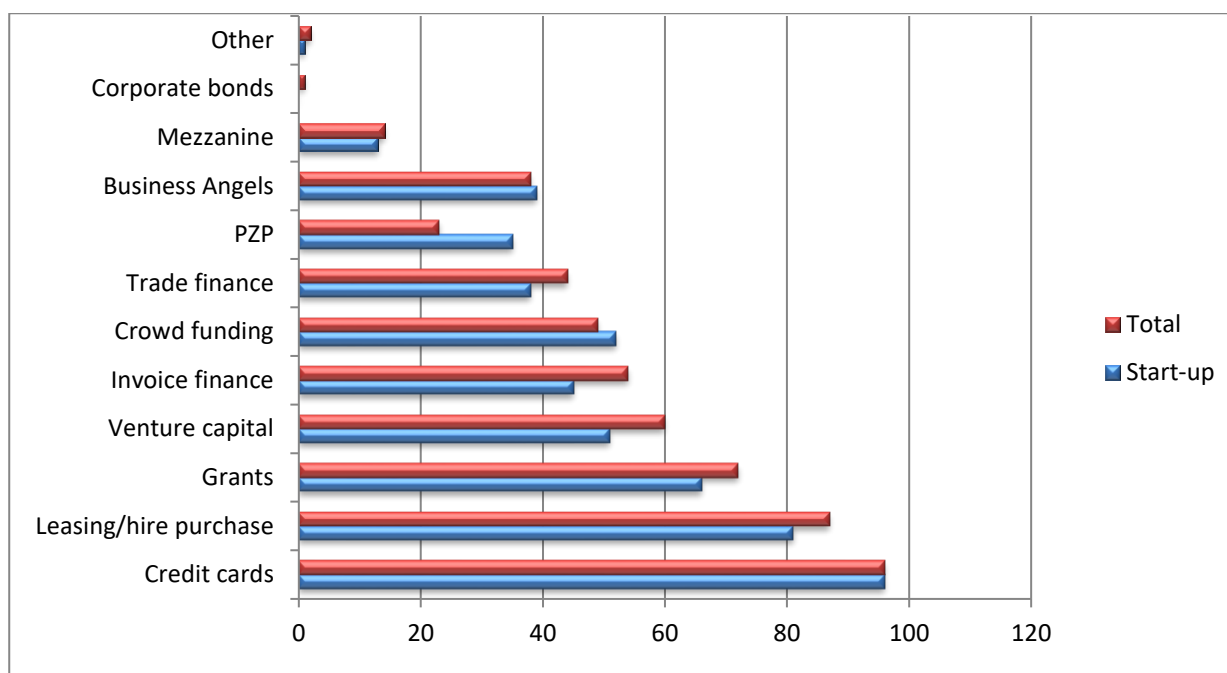


Fig.1. Awareness of external forms of finance

Source: Business Bank Finance Survey

Analyzing the loans of SMEs in the period of global crisis, before and after it is observed that external lending of SME has grown since 2007 and reached its maximum in 2008. Since 2010 they began to decrease and amounted to 104 billion pounds in 2011 (Fig.2).

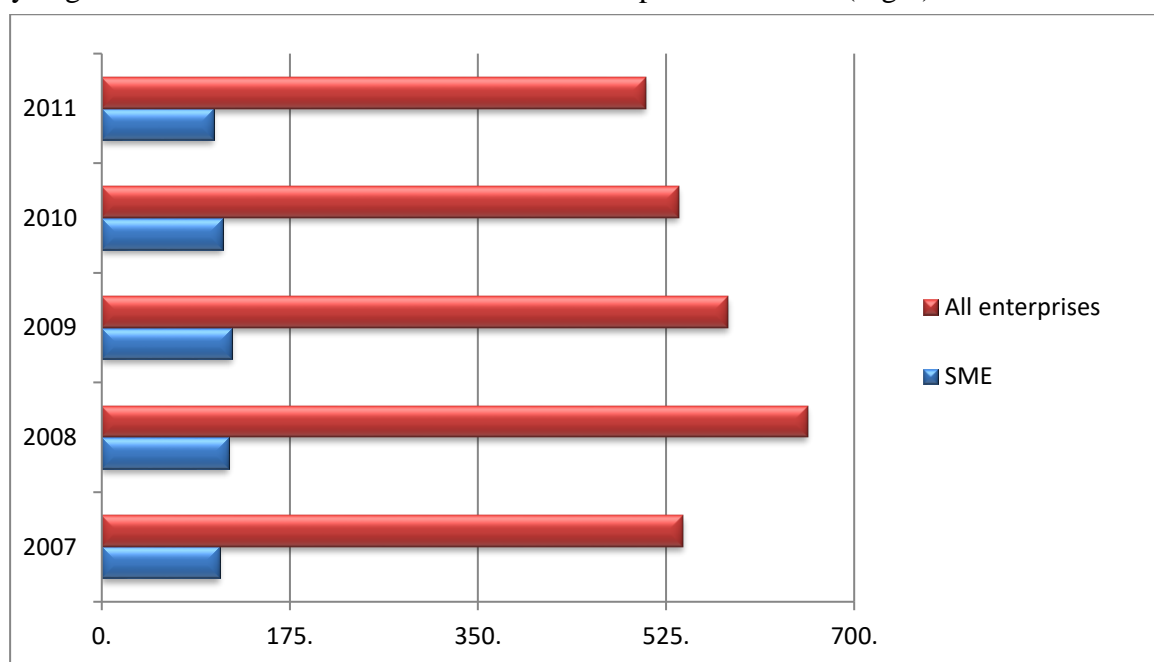


Fig. 2. Lending of small and medium businesses in Great Britain, 2007-2011, pounds

Source: British Bankers Association (BBA)

It has been observed the decrease of liquidity during the global crises [1]. Such situation makes it necessary for SME to search other alternative sources of financing.

The alternative sources of small and medium business financing are venture financing, leasing and factoring. However, at the same time these sources of financing may play an important role in providing the short-term liquidity for SMEs but they are not always useful for long-term

financing [4]. Thus, the problem of optimal balance between self-financing and external borrowing should be solved.

References

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