

Chapter 1

State Institutions of Financial Support for Small Business in Volatile Economies: Possible Application of Russian Experience in Ghana

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ABSTRACT

Financing of small and medium-sized enterprises (SMEs) today is one of the major areas of state support in volatile economies, as it is recognized as the most pressing problem affecting the activities of small businesses. The scale of development of SMEs in Russia today and its contribution to the economic recovery is clearly insufficient and impossible to expand without special measures of state support. This chapter will analyze the current state, dynamics, and financial constraints of SMEs in Russia; classify state supporting institutions; suggest basic methods to curb the situation; and disclose prospective financial supporting tools for SMEs development. The authors established the possibility of applying the Russian experience in supporting SMEs in the Republic of Ghana. This is due to the similarities in economic issues in these countries such as depreciation of currency and fall in oil prices. The authors analyzed the volumes and results of major government activities of the Russian Federal State and identified prospects for their development and implementation in Ghana.

INTRODUCTION

Financing plays an essential role in the life span of businesses from start-up and throughout its operations. One of the major challenges faced by small and medium-sized enterprises is the inability to secure loans from banks due to the inflexibility in terms and conditions attached to credits or loans. The government

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of Russia has devised various methods to expand the operations of small and medium-sized businesses especially financing, within the economy. However, one cannot state categorically that these methods are without flaws since most of them could not be fully imposed due to the economic issues over the years.

In tackling the issue of financing businesses, the government of Russia has established supports for small business in different forms including the measures provided by the ministry of economic development in the allocation of funds to the entities of the federation for the development of entrepreneurial activities. They have also taken into consideration the issue of subsidies for SME development, provision of financial assistance to microenterprises, financing of guarantee funds of all regions and the development of business incubators. This is because increasing the share of GDP coming from the SME sector has become a government priority.

The steady recovery of the Russian economy from the 2014-2016 crisis induced the idea of possible application of the Russian experience in other volatile economies, specifically Ghana. Ghana is recognized as the second largest producer of both cocoa and gold in Africa. Aside sanctions imposed on Russia, there are several correlating factors that match within these two economies. As such, strategic and tactical methods adopted by the government of the Russian Federation during the crisis period will be a great source of guidance in addressing business performances and the overall economic indicators in Ghana.

This research therefore seeks to examine and substantiate directions of the development of financial support institutes for small and medium-sized businesses in Russia.

To achieve the established goal, the following methodology was used in the research process. The essence and dynamics of SME development in Russia was analyzed. According to official statistics and rating agencies, the main characteristics and limitations to SME financing process in Russia have been identified, which allowed to the authors to deal with the main problems of attracting financing and the objective basis for state financial support. In order to determine the effectiveness of financial support for SMEs in an unstable economy, the authors analyzed the volumes and results of major government activities, namely direct subsidies, the activities of the guaranteed funds and incubators supported by the Federal State, and identified prospects for their development. Based on the analyzed material, taking into account the characteristics of the SME in Ghana and bilateral relations between these two countries, conclusions were drawn about the possibilities of applying the Russian experience.

BACKGROUND

This topic was chosen because of the insufficient contribution of small business to the economy of Russia. This seems to be a common problem for most emerging countries with volatile economies. Few researchers including (Wang, 2016), (Shinozaki, 2012), (Khan & Khalique, 2014), (Shevchenko & Ellah, 2018) and (Hussain, 2012) have sought to find out the crucial factors influencing the performance of businesses and how to improve upon them. The known works of classical economic theory are devoted to the problems of entrepreneurship. Keynesianism also talk a lot about the importance of state regulation of small and medium-sized businesses in the national economy. Problems with development of small businesses are well described in the works of some Russian researchers including Vasilevskaya (2016), Mahalina and Mahalin (2016), Parshin (2017), Fateeva (2016) among others. Hence the authors find this topic relevant to the development of financial support to small and medium-sized businesses in volatile economies. Practically there are no known works of researchers on implementation of the Russian experience in other volatile economies. The authors therefore consider it as an opportunity to tap

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