

**POSSIBILITIES FOR FINANCING OF SMALL AND MEDIUM
ENTERPRISES THROUGH THE "GROWTH MARKET" -
"BEAM" OF BSE-SOFIA**

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Abstract

The article discusses issues related to financing the activity of small and medium-sized enterprises, by using the opportunities for listing their companies on the stock exchange and raising funds from the capital markets.

The main points in the article will be aimed at eliminating companies' inadequate knowledge of the opportunities that the capital market provides; increasing the expertise in the companies by simplifying the available information to show the available opportunities for raising capital through the BSE; to try to overcome the existing prejudices regarding a possible public status of a company and especially the related administrative commitments.

Keywords: *BSE-Sofia, BEAM, capital market, financial markets, financing policy, capital and ownership structure*

JEL Codes: *G10, G32, D53*

INTRODUCTION

In order for an investment project or an entrepreneur to start an economic activity, they need financial resources to form their capital. There are many definitions of capital in the theory, but from a financial and accounting point of view, capital is an aggregate expression of all the means that a given economic entity holds for use in various spheres of its business. Capital includes not only material but also non-material economic goods that can be acquired and used in economic activity.

Funding for the company can generally be defined as cash assets that can be used as an investment resource and can be seen as part of the company's financial strategy.

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The choice of source of funding for the company depends not only on its viability, but also on the distribution of final income as well as on the effective use of invested funds and financial sustainability.

Analyzing different sources (Alexandrova, 2001; Petrov, 1997; Nile, Pike 2006; Bodi, Kane, Marcus 2000; Pinches, 1987; Gitman, 2005) helped to develop the next classification of sources of financing for companies.

- *Internal sources of funding* - these are own funds generated by the company to ensure its development.
- *External sources* - they characterize the part of the financial resources that is formed outside the company.
- *National funding sources* - formed at the expense of national capital and differ in a variety of forms and are usually more accessible to small and medium-sized businesses.
- *Foreign sources of financing* - formed at the expense of foreign capital and mainly guarantee the realization of large real projects in the company related to their restructuring, reconstruction and technical retrofitting.
- *Own sources* - they represent a certain amount of attracted funds in the company, securing their investment activity and entitling them to ownership.
- *Loan sources* - financial liabilities of companies subject to return under pre-defined conditions.
- *Attracted sources* - this is funding the company through a free grant.
- *Risk sources* - these are borrowed and attracted funds that are related to expense and obligation to pay.
- *Riskless sources* - these are the means of retained earnings and depreciation.
- *State funding sources* - they are at the expense of the state.
- *Collective sources* - are collective investors, private equity, insurance companies and private pension funds.

Under the dynamic economic conditions there are four main forms of financing the company's activities: 1) self-financing through undistributed profits, 2) shareholder financing, 3) debt financing, 4) financing through leasing.

Possible sources of funding to a large extent depend on the organizational legal status of the enterprise. The sole trader relies heavily on own funds and less on loans and has fewer opportunities in choosing sources of funding. On

the other hand, the activity carried out by brokerage companies has a wide range of financing opportunities.

Small and medium businesses still rely entirely on bank lending because they do not know what growth opportunities the capital market can give them. In this regard, we will try to bring a little more clarity about the fact that it can finance its business, make it more recognizable, attract a strategic investor, sell part or all of its business with better judgment, and etc., through the opportunities provided by the Bulgarian Stock Exchange.

For this purpose, the article will examine in detail the financing opportunities for small and medium-sized businesses through the new trading segment approved by the FSC on the Bulgarian Stock Exchange or the so-called Bulgarian Enterprise Accelerator Market (BEAM) on which small and medium-sized companies will now be able to raise capital under more mild conditions.

In this respect, in 2016, the responsible state institutions together with business representatives developed a Capital Market Development Strategy and launched a voucher scheme for the provision of Securities Issuance Services on Capital Markets aimed at providing access for Bulgarian small and medium - sized enterprises (SMEs) to financing from capital markets by providing incentives to connect with service providers in the field of securities issuance.

The voucher scheme is a grant of BGN 50,000, which serves to cover the costs of conducting the listing process on the Bulgarian Stock Exchange or abroad. Expenditure on this procedure outside of Bulgaria, of course, could not remain within the stated subsidy. The envisaged funds would eventually cover the fees of the institutions with which the process is related - the Bulgarian Stock Exchange, the Central Depository and the Financial Supervision Commission, as well as the advisory service from a licensed investment intermediary.

For the start of the application, which is the first stage of the scheme, a total budget of BGN 1.661 million is planned, with a grant of at least 30 SMEs. Any SME that will claim a voucher will have to increase its capital by at least BGN 500,000 and the public offering process should take place over a period of 9 months so that after the successful listing, the voucher will be "redeemed". Since the documents state that the subsidy is intended to lend securities, this means that SMEs can increase their capital by issuing a number of new shares or issue a corporate bond issue. An important moment of the process is the selection of a licensed investment intermediary.

Micro, small and medium-sized enterprises that belong to certain economic sectors can apply for a voucher with a listing grant which are

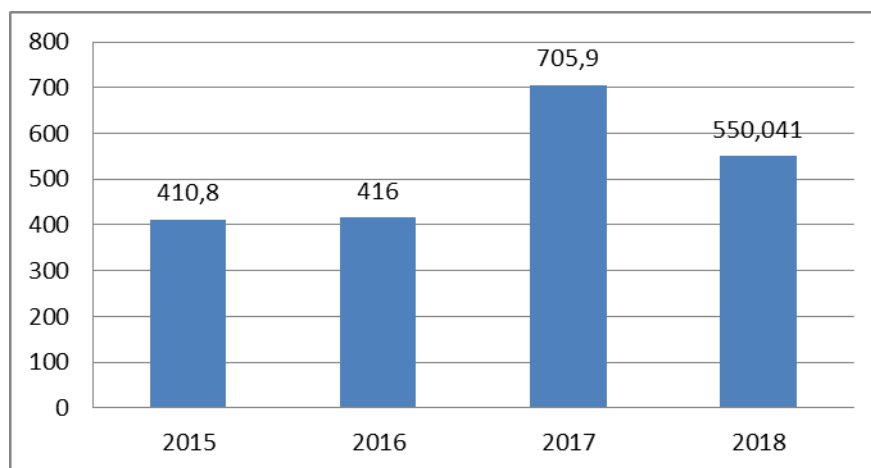
priorities according to the national policy for promoting SMEs: production (without agriculture), information and communication technologies (ICT), publishing, media production.

The Bulgarian technology company BIODIT is the first company approved under the "Voucher scheme for the provision of securities market services on the capital markets". BIODIT develops and implements biometric identification products used to control access to hotels, manufacturing enterprises, cars and ATMs. It also operates in markets outside Bulgaria - in Spain, Belgium, Sweden.

A BRIEF ANALYSIS OF THE CAPITAL MARKET IN BULGARIA

In Bulgaria the issue of securities is conducted on the stock exchange in Sofia. Without deepening the analysis as to whether the Bulgarian capital market fulfills its assigned functions, which are inherent in such a market in the developed economies, it can generally start with the observation that Bulgaria fits into the overall picture of the region of a relatively more profound, underdeveloped financial sector. What is characteristic of Bulgaria, however, is that, even on this low basis, the share in the capital market is quite small.

Figure 1. Presents data on the total annual turnover on an official market of BSE for the period 2015-2018



Source: BSE Sofia and own calculations

The total turnover with shares on the regulated market in 2018 is slightly above BGN 550.00 million, decreasing compared to 2017, slightly below BGN 200.00 million.

This is a 2017 year-on-year increase when the growth rate is significantly higher than in 2016, reaching just over 700 million leva, with growth of over 80%. However, this is not enough to compensate for the general drop in share trading

The total realized turnover cannot reach the levels realized in 2008 - BGN 2 129 million and is very far from the levels before the global crisis - BGN 8 310 million in 2007 and over BGN 3 300 million in 2005 and 2006. In 2015 the lowest realized turnover on the official market was registered slightly over BGN 400 million.

Table 1. Market capitalization on GDP at BSE Sofia

Indicator	31.12.2015	31.12.2016	31.12.2017	31.12.2018
Market capitalization (mln. lev)	8 587	9683	23 621	26 765
GDP by BNB (million lev)	84 236	88 939	101 043	103252
Market capitalization / GDP	10,19%	10,89%	23,38%	25,92%

Source: BSE Sofia

The positions that were acquired before 2008 were lost under the influence of the global financial crisis. The rapid growth of stock market capitalization from 10% of GDP in 2004 to 51% in 2007 was severely reduced and reduced to 10.19% in 2015. In 2018, it was 25.92% and substantial growth over the previous three years.

According to data from the World Bank (Strategy for Development of the Bulgarian Capital Market, 2016, p. 1) in 2013, the growth of the market capitalization in terms of GDP every 10 percentage points leads to an increase of approximately 2500 dollars of GDP per capita. In 2018, BSE capitalization is 25.92% of GDP, in developed countries in Europe it is 60-100% and in the United States and Great Britain - 120% of GDP (Strategy for Development of the Bulgarian Capital Market, 2016, p. 1). This shows that with a proper state policy towards the development of the capital market and the stock exchange as a channel for attracting investments, it can be a prerequisite for the future development of the Bulgarian economy.

In total, 41 new emissions of securities are listed for trading on the stock exchange, of which one is the initial public offering of shares, 16 are emissions of bonds.

For comparison, a total of 43 new emissions of securities were registered for trading in the stock exchange, of which 2 were secondary public offering of shares, nine bond issues.

In 2016, we have one primary public offering, 3 secondary public offerings, and eight bond emissions of 23 new emissions. In 2015, we have 18 new emissions. Despite the low levels of new emissions during the analyzed period, the financing through the emission of shares and bonds through the Bulgarian capital market would be possible for realization.

Increase in capital stock registered for trading on the BSE-Sofia for the period 2015-2018, especially for the SPVs, except for the cases of the mandatory initial capital increase, is in the range 7-12 emissions. One of the most important indicators showing the development and market situation is liquidity. The limited liquidity (by individual positions or aggregated) is traditionally defined as one of the major problems of the Bulgarian capital market. In theory and practice, there are different approaches to measuring and investigating this indicator. Very often in our country liquidity is identified with turnover, and less often with trade volumes (CED, 2005, p. 13).

For the purposes of this analysis, we assume that liquidity is measured by the ratio of turnover / capitalization in percentage terms (CED, 2005, pp. 9-14).

Table 2. The annual stock market liquidity ratio

towards 31.12	2015	2016	2017	2018
Liquidity ratio - %	4,78	4,30	2,99	2,06

Source: BSE Sofia, Own calculations

CHARACTERISTICS OF THE "BULGARIAN ENTERPRISE ACCELERATOR MARKET" (BEAM) ON THE BULGARIAN STOCK EXCHANGE – SOFIA

The goal of the SME Growth Market is to reduce the administrative burden for small and medium-sized companies that seek to register for stock market trading and issue securities.

This market can also be seen as an intermediary on the path of a company to the regulated market.

In order to become a public company and to start trading its shares on the stock exchange, there are a number of requirements on the one hand, the requirements of which must be met before its listing, such as audited financial statements, drawing up a prospectus for capital increase. On the other hand, there are strict regulatory requirements that lead to a significant increase in the administrative burden (the publication of three monthly reports, the appointment of an investor contact person, etc.) to businesses, especially when it comes to small and medium-sized companies.

The SME-BEAM growth market foresees considerably lower requirements for traded companies. Reliefs are both in the process of admission to trading and their subsequent life as listed companies. The most significant are the reliefs for companies to raise capital up to EUR 1 million or to raise capital by up to EUR 1 million on already admitted to trading on a market. For SMEs BEAM does not need an approved prospectus for an initial public offering by the Financial Supervision Commission. A prospectus is required only to raise capital over EUR 1 million (up to a maximum of EUR 20 million) and to increase the capital of more than EUR 1 million to a BEAM company already admitted to trading. Companies are not obliged to publish three monthly reports, they are obliged to publish only annual and half-yearly financial statements (BSE-Sofia, 2019, Part III Rules for Admitting Financial Instruments to the SME Growth Market).

In the case of an increase in capital, there is no legal obligation for each shareholder to acquire a portion of the new shares, which corresponds to its share in the capital before the increase. The governing bodies of companies traded on this market may carry out disposals of fixed assets over a certain amount and transactions in which claims or liabilities arise above a certain amount without the prior approval of the general meeting of shareholders.

Under mitigated requirements compared to public companies traded on the BSE main market, they may convene their general meetings and are not obliged to draw up and maintain a list of persons who have permanent or incidental access to the essential information for them, are not obliged and to appoint a special investor liaison person to the employment contract. Shareholders in companies are under no obligation to disclose their shareholding after passing a certain threshold and/or the acquisition of a certain percentage of the company's voting shares and are not under an obligation to conduct tender offers for the redemption of shares of minority shareholders after

acquiring a certain percentage of the voting shares and the passage over a certain threshold (BSE-Sofia, 2019, Part III Rules for Admittance of Financial Instruments to the SME Growth Market). In order to be admitted to the growth market for SME BEAM, companies must meet certain requirements, the main ones of which are registered as joint-stock companies in Bulgaria or abroad, in their articles there should be certain texts related to admission to trading on a market BEAM, which are related to the purpose of protecting investors, as well as explicit powers of the General Meeting of Shareholders. At the same time, financial instruments that are registered for trading must be dematerialized or immobilized; no restrictions or conditions are foreseen for their transfer and they have not been registered for trading on the main market of BSE (BSE-Sofia, 2019, Part III Rules for admission of financial instruments to the SME Market Growth).

The document to be admitted to trading is a template and contains detailed information about the company and its management and supervisory bodies.

At the same time, as part of the admission document, the company must present an audited financial statement for the preceding financial year and have a contract with an Advisor approved by the Bulgarian Stock Exchange for a period of at least 2 years.

The first company, approved by the Bulgarian Stock Exchange as SME Advisor for "Bulgarian Enterprise Accelerator Market" is IP Aval In AD. The counselors' task is to actively participate in the preparation of the necessary documents for admission to the BEAM market so that the companies comply with the rules of the market and with the applicable legislation. Active interaction between counselors and companies continues after consultation with disclosure and financial reporting obligations.

Any company that wants to raise capital on the BEAM market needs to sign a contract with an advisor approved by the BSE for at least two years. Counselors have serious requirements regarding their competence and experience in financial market operations.

Upon registration in the BEAM market, companies are required to disclose any relevant information relating to them or their financial instruments within 3 days of its occurrence - e.g. changes in the statutes, invitations and materials for general meetings, protocols of general meetings held, decisions on dividend distribution or capital increase (BSE-Sofia, 2019, Part III Rules for Admittance of Financial Instruments to the SME Growth Market). The market is attractive for ambitious and innovative companies with an existing business

who are looking for additional funding to develop their business, increase publicity of the products and services offered, and expand their shareholding base. At the same time, according to Ivan Takev, CEO of BSE, "The BEAM Market" would have a key role to create jobs and the economic prosperity of the Bulgarian economy.

WHY SHOULD AN SME BECOME PART OF THE "SME GROWTH MARKET - BEAM"?

In order to start a new business, the owners of SMEs need at least a perspective idea and the corresponding financial means. The idea is not the subject of this article, the interest is the question of the means. The importance of the financial factor doubles when it comes to new science-intensive (projects for innovation and innovation) developments. Such projects are usually estimated for several years, require many preparatory work and investments, which, unlike commercial operations, do not bring returns immediately (usually after several years of tense work in a new direction).

But even if the entrepreneur has enough financial resources, he must diligently consider and account for all the consequences of the unsuccessful completion of the project, as the implementation of any major project, especially related to the implementation of scientific and technological innovations, it always has a high risk. As a risk-sharing option, as an opportunity to provide the necessary financial security for the successful development, listing of the company on the stock exchange can be accepted.

Publicity enables the company to broaden its spectrum of shareholders that can provide additional know-how, increase their capacity, become more competitive and more sustainable, and other strategic advantages, while at the same time providing the majority shareholders with control over the business of the company.

CONCLUSION

When a company becomes part of the capital market, it falls into the field of investment, both local and foreign, giving it the opportunity to present its business and prospects to a broader investor circle. In this way, companies generate interest in themselves not only at the investment but also at the product level. The general economic theory and practice shows that the positioning of a well developed and functioning capital market is generally perceived by

investors as a signal of maturity of the company and positive prospects. At the same time, investors in SMEs in the SME Growth Market have adequate protection provided through the application of EU rules, in particular the Market Abuse Regulation, the Prospectus Regulation or MiFID II. As well as the opportunity for the companies to be transferred to the main market on the BSE at a later stage with mitigated requirements.

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