

METHODOLOGY OF LENDING TO SMALL BUSINESS SUBJECTS FROM FOREIGN AND LOCAL BORROWED FUNDS

Rustamov Maksud Suvankulovich

Scientific researcher of the Tashkent institute of finance

Tashkent, Uzbekistan. rustamov.m.s@mail.ru

ORCID: 0000000233295971

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Abstract. *In the article, the increase in the volume of loans provided by banks to business entities at the expense of foreign and local funds is distinguished by its place in development. In addition, suggestions were made on ways to provide all-round support for small business development and timely credit funds.*

There is no doubt that the competitiveness of the national economy also depends on the high share of small business in indicators reflecting the processes of economic activity and its results.

The ability to create new jobs at low cost, the ability to occupy market segments that cannot be penetrated by large businesses, especially in the service sector, and the fact that it is a very convenient organizational form for mastering small local resource bases shows that the importance of small business development is incomparable. For this reason, the issue of rapid development of small business is closely connected with the issues of localization of production, development of the service sector, as well as increasing the country's export potential.

One of the sources of financial support for small business entities is credit lines opened at the expense of funds allocated by international financial organizations and foreign banks. Structural changes in the economy of our republic require large

investments.

Currently, foreign credit lines are of great importance in the development of the economy of Uzbekistan, in the financing of projects implemented in small business enterprises. Loans at the expense of foreign credit lines are granted to small business entities for investment projects that involve the processing of export and import-substituting products, agricultural products and other raw material resources, and the production of consumer goods of daily need. Because small business enterprises need to introduce the latest techniques and technologies in production in order to produce exportable products. Financing of investment projects is being accelerated by attracting foreign credit lines to this sector by commercial banks.

Key words. *small and medium business, credit, savings, loan interest, compensation, guarantee, credit lines.*

Introduction. *The ability to create new jobs at low cost, the ability to occupy market segments that cannot be penetrated by large businesses, especially in the service sector, and the fact that it is a very convenient organizational form for mastering small local resource bases shows that the importance of small business development is incomparable. For this reason, the issue of rapid development of small business is closely connected with the issues of localization of production, development of the service sector, as well as*

increasing the country's export potential.

Despite the support of small and medium-sized businesses from international financial organizations and commercial banks, small and medium-sized businesses face more financial obstacles than large companies. International experience shows that commercial banks and credit unions are using traditional methods of lending to small and medium businesses.

Financial support of small business and private business entities by banks on the basis of loans is defined as one of the main directions of the reforms implemented in our country. Decree No. PD-5992 of the President of the Republic of Uzbekistan dated May 12, 2020 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" states that "the scope and quality of services provided to small and medium-sized business entities, including business entities using information and communication technologies "The task of improving the service through the provision of services is defined, that banks should study foreign experiences in lending to small business entities and look for opportunities to apply them [1]", it is important for our republic to scientifically substantiate the possibilities of studying, generalizing and using these advanced foreign experiences in the practice of Uzbekistan. earns.

Over the past period, more than 13 trillion soums of preferential loans have been allocated within the framework of "Every family is an entrepreneur", "Our youth is our future" and other social programs aimed at attracting a large segment of the population to entrepreneurship and expanding their sources of income, reaching more than 600,000 families [2] is the product of a big step towards the development of entrepreneurship. Adopted

programs serve as an incentive for the population to engage in business activities in the regions, to improve their lifestyle and increase their employment. Of course, along with the achievements in this field, there are also problems that stand in the way and are waiting for their solution. The development of scientific proposals and practical recommendations as a result of the in-depth analysis of the problems arising in practice in the field of lending for the development of small business entities and the study of foreign experience aimed at their elimination is an urgent issue. At the same time, the acquired experience and international practice define the need to form a comprehensive system of complex and mutually complementary credit opportunities.

Literature review. Scientists from abroad and our republic conducted scientific research on the scientific, theoretical and methodological bases of crediting small business and private entrepreneurship activities and their material support. In particular: according to economists F. Allen and D. Galer, they recognize the existence of two systems of financing the activities of small and medium-sized business entities - a system based on the activity of banks and a system based on financial markets, and emphasize that the first system is relatively important [4]. This conclusion of F. Allen and D. Gale is of great practical importance for the countries of the transition economy. This is due to the fact that, firstly, commercial banks have a leading position in the small business lending system in these countries, and secondly, there is no opportunity for small business entities to attract resources through the securities market. Implementation of this system increases the possibility of lending in banks and serves to strengthen the resource base.

N.Yamori analyzed the importance of the state credit guarantee system for financing small business and entrepreneurship in Japan. Financial institutions ask small businesses to apply to the Credit Guarantee Corporation before issuing loans. If the credit guarantee fund indicates that it will guarantee the loan in response to this application, the bank will issue the loan. In addition to the loan percentage, the company makes guarantee payments to the Credit Guarantee Fund through banks. If these companies declare bankruptcy, the creditor requests that the bank's losses be covered by the Credit Guarantee Fund. In this case, the Japanese government and local governments support the Credit Guarantee Fund with direct subsidies, payments, and insurance through the Japan Finance Corporation. The loan guarantee system is designed for the financial application of small business entities, and borrowers must meet several requirements, including the size of the business, the industry sector [5].

According to R. Shchenin, the system of public orders in the European Union countries is an important and unique form of financial support for the activities of small business entities. For example, "In France, 25-30% of federal contracts go to small business units [5]".

According to Italian researcher Kelvin Miller, "lending to agricultural entrepreneurs has a higher risk compared to other sectors [7]". The reason is that climate change and unemployment of workers will have a strong impact on the agricultural sector. The opinion of the scientist is very reasonable, global warming, i.e. the occurrence of natural phenomena, if there is a coast in one place, and the occurrence of floods in another place can cause problems related to repayment of loans given by banks.

The article also widely used the methods of grouping, comparison, systematic approach, comparative comparison, analysis and synthesis.

Analysis and results. By expanding the allocation of loans to small businesses and private business entities for investment purposes and the formation of initial capital, as well as by increasing the volume of microcredit, the policy aimed at wide involvement of the population, especially low-income families, in business activities and improving their well-being is having a good effect in our country.

Today, by supporting the country's socio-economic development, active entrepreneurship, innovative ideas and creative potential, large-scale work is being carried out to create decent living conditions for the population, improve the business environment, and ensure employment. We can say that the adoption of the Resolution No. PD-3777 of the President of the Republic of Uzbekistan dated June 7, 2018 on the implementation of the program "Every family is an entrepreneur" was a real practical help for entrepreneurs.

Loans by commercial banks:

1. recommendation letters of heads of sectors for socio-economic development of regions and neighborhood citizens' assembly for the development of family entrepreneurship up to one hundred and fifty times the amount of the base calculation;
2. third-party guaranty, insurance policies, pledge of assets purchased on credit, Fund guaranty and other types of security within the framework of legislation to state-registered small business entities in an amount up to one thousand times the base calculation amount;
3. more than a thousand times the amount of the basic calculation is allocated based on the types of provision specified in

the framework of the legislation in lending investment projects of business entities.

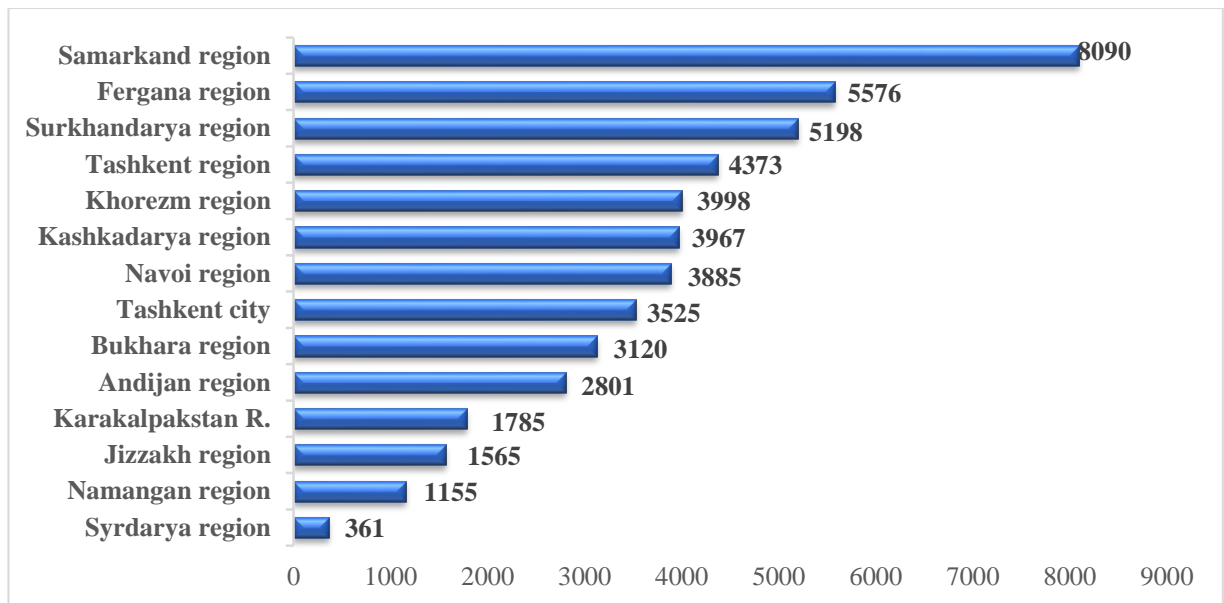


Figure 1. The number of family businesses operating in the region [8]

The analysis of the data in Figure 1 shows that, according to the State Statistics Committee, as of July 1, 2021, a total of 52,690 family enterprises were registered in our republic, of which 49,399 are operating. The highest figure is 8090 in Samarkand region, and the lowest figure is 361 in Syrdarya region. It requires rapid development of work in this regard in Syrdarya region.

Many decrees and decisions are being adopted in our republic for the purpose of developing small business entities. In particular, the adoption of the decision of the President of the Republic of Uzbekistan No. PQ-5268 of October 27, 2021 "On additional measures to reduce the

burden of business entities related to the fulfillment of credit obligations in foreign currency" adopted in order to give relief to the remaining small business entities, reduced the credit burden of entrepreneurs. The reason for this is that the loans taken in foreign currency become an additional burden for the entrepreneur in a situation where the exchange rate is increasing. According to this decision, "to reduce the currency risks of business entities, loans allocated in foreign currency in the amount of up to 1 million US dollars will be transferred to the national currency" by commercial banks.



Figure 2. Loans allocated to business entities at the expense of foreign credit lines [11] (million USD equivalent)

Analysis of the data in Figure 2 shows that in 2018-2020 and the first half of 2021, commercial banks provided 7.4 bln. Loans exceeding US dollars were allocated. In particular, in 2018, 1.3 billion USD, 2.1 billion in 2019. USD (or 162% compared to 2018), 2.9 billion in 2020. USD (or 172 percent compared to 2019), 1.0 billion in the first half of 2021. Loans are allocated in the amount of US dollars. During this period, loans allocated at the expense of foreign credit lines attracted under the state guarantee amounted to 1.8 billion. We can see that the US dollar or 24% of the total disbursed loans. In 2018-2020, at the expense of credit lines attracted by the state guarantee, almost at the same level, an

average of 540 million per year. Although US dollars (579 million US dollars in 2018, 564 million US dollars in 2019, 467 million US dollars in 2020) have been allocated, their share in the total volume of loans is due to the rapid growth of loans allocated at the expense of credit lines drawn directly without state guarantee. decreased due to growth.

Financial support of business activity at the expense of credit lines of international organizations is one of the important sources for business development. In recent years, if we look at the analysis of loans allocated to business activities at the expense of foreign credit lines, the following results have been revealed.

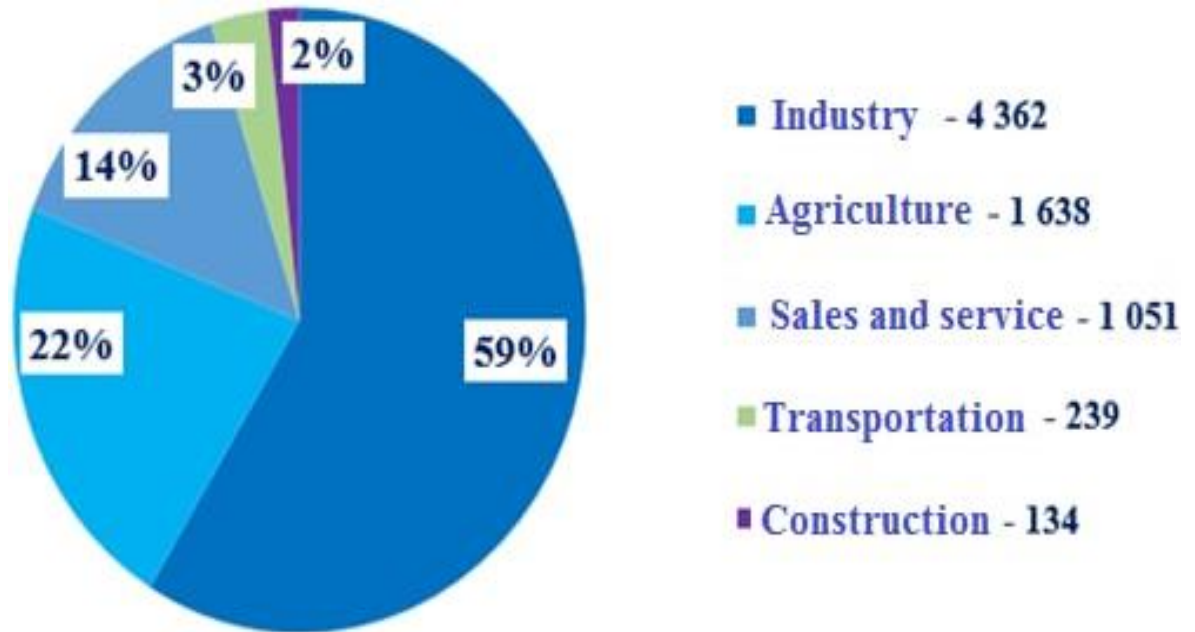


Figure 3. The share of loans allocated at the expense of foreign credit lines in 2018-2021 by sector in million US dollars [11] (1st quarter of 2021)

Analysis of the data in Figure 3 shows that 4361.8 mln. will be provided to the industry during 2018-2021 at the expense of foreign credit lines. US dollars (or 59% of total funds), agriculture - 1638.3 mln. US dollars (22 percent), trade and services - 1051.2 million. dollars (14 percent), transport - 239.0 million. US dollars (3 percent), construction - 133.5 million. funds in the amount of USD (2 percent) were directed.

Also, "the equivalent of business entities that have valid agreements on providing compensation when loans received from commercial banks in foreign currency are transferred to national currency, the equivalent of 1 million US dollars, the interest rate does not exceed 1.75 times the main rate of the Central Bank,

loans that exceed the main rate, but not more than 5 percentage points the provision of compensation by the State Fund for the Support of Entrepreneurial Activities to cover the interest costs [3]" protects business entities from excessive risks. "Starting from November 1, 2021, loans (debts) raised from the funds of international financial institutions and foreign government financial organizations for the financing of business projects in foreign currency on behalf of the Republic of Uzbekistan will be re-credited to financial organizations participating in the project for a period of not less than 10 years or for the period of their involvement [3]" this opportunity creates an additional incentive for business entities.

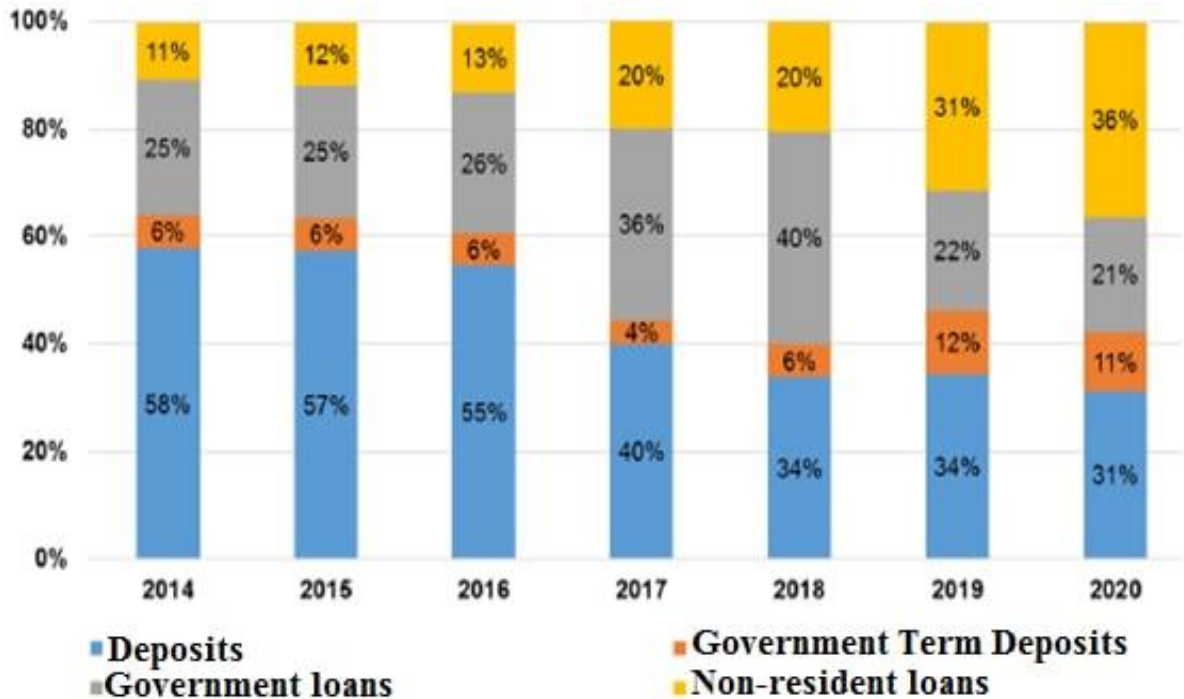


Figure 4. Sources of financing of loans allocated to the economy in 2014-2020 [3]

Figure 4, the analysis of financing sources of loans to the economy, shows that while the share of deposits in the total sources of financing is decreasing, we can see that the share of loans from non-residents is growing at a high rate. In 2020, the share of non-resident funds in financing sources was 36% of all financing sources, and this is the highest indicator in the last 7 years. Studying the active use of long-term loans by international financial institutions is considered a big source for our research. International financial institutions have large financial resources and significant powers, and now these organizations form the basis of world financial and credit relations. Cooperation with international financial

institutions not only allows the country to attract large amounts of money to the economy, but also opens up the opportunity to have its own place and voice in global financial relations. Expanding cooperation with international financial institutions is an important issue for every country.

Based on the decision PD-3225 of the President of the Republic of Uzbekistan dated August 17, 2017 "On the establishment of the State Fund to Support the Development of Entrepreneurial Activities", the "State Fund to Support Entrepreneurial Activities" was established. has been helping their development by giving.

1-table. Information on loans allocated on the basis of financial assistance provided by the State Fund for Business Support in 2018-2021 [8] (million soms)

Provinces	Warranty			Compensation		
	Contract number	Warranty	Credit	Contract number	Compensation	Credit
Republic of Karakalpakstan	461	374 044	892690	974	223987	1553289
Andijan region	977	619589	1468926	2325	444876	3287012

Bukhara region	832	707748	2208087	2300	491481	423287 4
Jizzakh region	622	465391	1268517	2108	333719	248303 6
Kashkadarya region	1379	467343	1213150	2840	298943	215069 2
Navoi region	429	370219	926075	1329	229528	186409 9
Namangan region	796	451586	1021303	2213	283770	210794 0
Samarkand region	720	421523	1057453	3720	379318	366936 0
Surkhandarya region	737	522457	1435384	1210	338971	225095 4
Syrdarya region	603	432129	1002501	663	186181	149113 6
Tashkent region	766	810110	2055176	2115	518677	406594 5
Fergana region	925	550383	1669128	3230	337885	269329 3
Khorezm region	922	1139632	2819315	2794	588008	431454 4
Tashkent city	520	730 767	2033981	1521	501346	528757 0
TOTAL:	10689	8062923	2107168 7	29342	5156689	414517 45

The analysis of the data in the 1-table shows that in 2018-2021, a total of 10,689 guarantee agreements were signed for financial assistance to small business entities in the Republic of Uzbekistan, loans amounting to 21,071.7 billion soums were allocated. The state fund has guaranteed 8062.9 billion soums. Similarly, in 2018-2021, 29,342 contracts were signed, and compensation contracts of 5,156.7 billion soums were issued for credit funds of 41,451.8 billion soums to small business entities [8].

Conclusions and recommendations. As a result of the carried out scientific research, we can make such conclusions that we are witnessing that the work being carried out on improving the system of attracting the population to

entrepreneurship, reducing poverty and developing entrepreneurship is developing day by day. We have also developed the following proposals for the development of financial support for business activities:

- increasing the interest and interest of the population in doing business;
- introduction of a training system aimed at forming the necessary skills in the field of entrepreneurship among the population, wide involvement of international organizations, non-governmental non-profit organizations and non-governmental educational organizations in this process;
- to extend the use of the financial services of the "State Fund for the Support of Entrepreneurial Activities" to entities engaged in entrepreneurial activity and to

continue its promotion;

- to create a full-fledged system aimed at expanding and developing their activities by realizing the potential of residents and other small business representatives with entrepreneurial skills and experience;

- it is based on the bank's proposal to create an additional lending opportunity equal to the value of the pledged property for loans allocated to small business entities;

- it is proposed to carry out control over the purposeful use and timely repayment of loans given to small business entities by commercial banks together with the organizations involved in the lending process, that is, by sharing the risk;

- the bank's proposal to introduce a centralized underwriting service in allocating loans to small business entities;

- in order to create additional convenience for the client, when the collateral provided by the bank for the loan

to small business entities exceeds 200 percent, the proposal is based on setting an exemption from the interest payment or the grace period;

- a proposal to introduce an integrated system consisting of the possibility of obtaining mutually complementary loans in lending to small business entities is based;

- organization of lending to small business entities with the introduction of a portfolio credit line. it is based on the proposal to create the opportunity for the client to use several different credit services on the basis of a one-time contract;

- the bank's offer of a package of services for small business lending should include the processes from the business plan to the withdrawal of the loan;

- organization of a credit management service to control all the processes until the issuance of loans and their extinguishment.

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