



BANK LOANS IN THE FINANCING SYSTEM OF SMALL AND MEDIUM BUSINESSES

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ABSTRACT-----

In this scientific article, methodological and practical aspects of financing the activities of small business entities in the context of deepening structural changes in the economy of Uzbekistan were studied and scientific proposals aimed at its improvement were developed. The article notes the need and importance of financing small and medium businesses, which are drivers of economic growth and sources of jobs.

KEYWORDS. *Business, credit, entrepreneur, finance, entity, stock market, banking, resource, segment, economy.*-----

INTRODUCTION

Today, 90% of businesses in developing countries are small and medium-sized enterprises, and they generate more than 50% of jobs and economic development. Officially established small business enterprises contribute up to 40 percent of the country's GDP. In informal business enterprises, these indicators are much higher. The World Bank estimates that 600 million jobs will be needed to keep up with the growing workforce by 2030. This, in turn, requires making business development a priority in each country. Solving problems related to the development of activities of small and medium-sized business entities is very urgent from the point of view of ensuring the stable development of the country's economy. President of the Republic of Uzbekistan Sh.M. As Mirziyoev admitted, "...studying the entrepreneurial potential of each household, solving problems related to financing expansion, convincing entrepreneurs and providing them with practical assistance - should become a daily rule in the activity of the entire Macroeconomic Complex" (Mirziyoev Sh.M. 2017) .

This article identifies current problems of financing small and medium-sized business entities and develops scientific proposals aimed at solving them.

The object of the study was the lending practice of commercial banks to small business entities.

MATERIALS AND METHODS

F. Allen and D. Gale recognize the existence of two systems of financing 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 (Allen and Gale, 2000). In our opinion, this conclusion of F. Allen and D. Gale is of great practical importance for countries with transition economies. The reason for this is that, firstly, commercial banks have a leading position in the small business lending system in these countries; secondly, there is no opportunity for small business entities to attract resources through the stock market.

According to the conclusion of Chanel-Reynaud and Blois (2001), good communication between small and medium enterprises with large enterprises increases their access to loans from commercial banks. Because before entering into business relations with small and medium-sized enterprises, large enterprises analyze their ability to



meet market requirements. It also constantly monitors the status of small and medium-sized enterprises that are partners of large enterprises.

This scientific conclusion of J. Chanel-Reynaud and E. Blois is based on the analysis of the experience of developed countries and is therefore reliable. The researches carried out by them are based on the analysis of specific data and serve to substantiate the fact that large business plays an important role in the development of the activities of small and medium-sized business entities.

B.B. Berkinov in his monograph "Ways to increase the potential of family entrepreneurship" shows that the development of family entrepreneurship depends on its material and technical resources, as well as the state's conditions for engaging in these types of activities, and the level of creation of the credit system.

I.M. According to Alimardonov, "tax benefits play an important role in the state support of the financing process of business entities. First of all, the state should revise the tax policy.

In our opinion, it is of great scientific and practical importance to substantiate the possibilities of applying the conclusions, proposals and recommendations of economists aimed at improving the financing of small and medium-sized business entities in the practice of our republic.

Research methodology. Methods such as abstract thinking, systematic approach, complex assessment were used in the research.

Development of small and medium business is one of the necessary conditions for sustainable development of the economy of Uzbekistan. At the same time, further development of small and medium-sized business entities, increasing their role and importance in the socio-economic development of the country creates the need to improve the system of financing their activities.

It is known that the active development of small and medium-sized businesses cannot be carried out without adequate financing. In modern conditions, lending in one form or another is one of the main methods of accelerating business activity and economic growth of our country. Thanks to the use of debt funds, entrepreneurs have the opportunity to modernize production, develop new lines of activity, and in difficult economic conditions, additional financing helps to avoid bankruptcy.

Small and medium-sized businesses are in need of sources of funds during their activities, but the demand arising from them is often not fully satisfied, which is associated with high risks specific to this segment. Therefore, it is important to have a multi-level financing system capable of meeting the needs of each entity, as well as minimizing the risks faced by potential lenders. In particular, the share of credit risk is high, and its essence lies in the high probability of damage from the creditor due to the debtor's failure to fulfill his obligations or not fulfilling them properly.

For the effective operation of the system, close cooperation of all its participants is necessary. In particular, individual institutions providing loans to small and medium-sized business entities can be considered as a system only if there are stable relations between them. Thus, the small and medium business lending system should be understood as a set of entities that interact with each other using special tools to organize an effective process of lending to the borrower, taking into account his needs and performance characteristics.

Today, many institutions are involved in the process of ensuring the development of small and medium-sized businesses. They can include the state developing special programs to support microfinance organizations, commercial banks and related entities.

It should be noted that among the registered participants of the small and medium business lending system, the main ones are commercial banks that provide financing in the form of loans. It is bank lending, in some cases combined with state influence, that is the essence of the national system of financing small and medium-sized business entities, which is confirmed by the volume of credit resources provided.



At this point, it should be recognized that the loans of the country's commercial banks occupy an important place in the system of financing the activities of small and medium-sized business entities. While short-term loans of banks are important in meeting the needs of small and medium-sized business entities for working capital, their long-term loans are an important source of financing costs related to the modernization, technical and technological rearmament of small business entities.

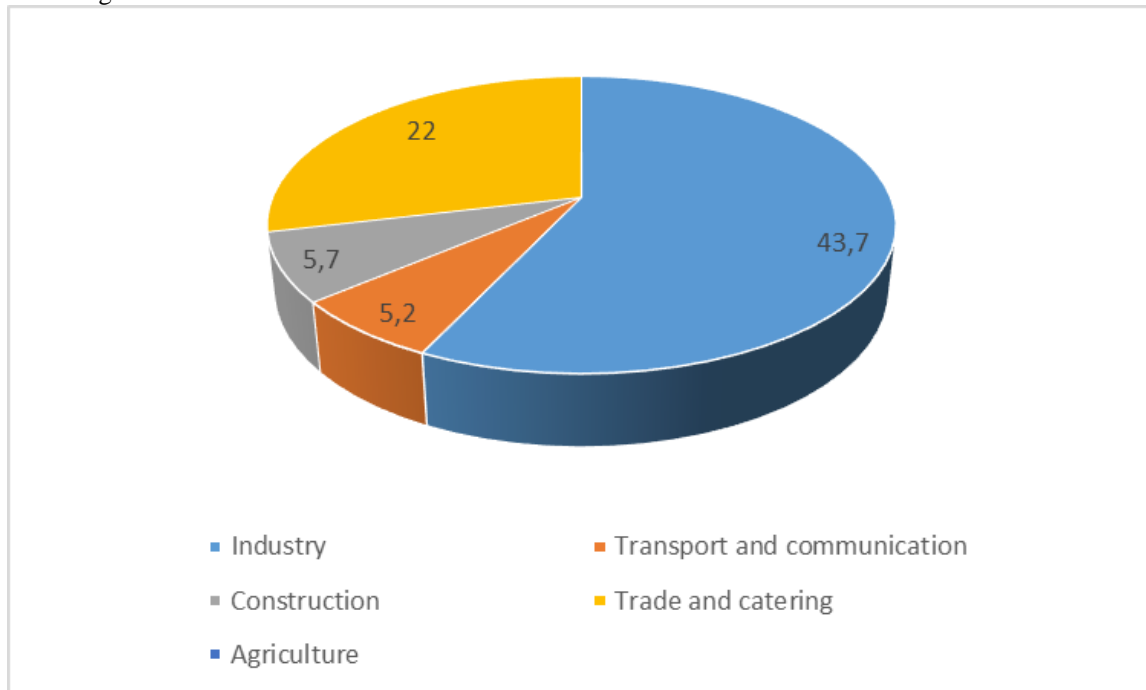


Figure 1. Loans directed to the real sector of the economy

In particular, 43.7% of loans to the real sector of the economy were allocated to industry, 22.0% to trade and catering, 11.6% to agricultural development, 5.7% to construction, and 5.2% to transport and communication.

Also, by the end of 2022, the balance of credit investments allocated to the economy reached 403.1 trillion soums, an increase of 21.4%.

In 2022, as part of the family entrepreneurship development program, the centralized supply system for the delivery of products and equipment and the provision of services was abandoned, and the "marketplace" electronic trading area was launched, which includes a free choice and competitive environment for purchasing them.

9.9 trillion to about 425,000 residents and entrepreneurs based on the recommendations of the mayor's assistants through the electronic trading platform. 8.6 trillion soums loans were allocated. goods and services worth soums were delivered. Today, on average, 196 out of 1,000 households across the country have been provided additional income opportunities within the framework of these programs.

Also, in 2022, in order to support business entities facing financial difficulties, the practice of extending the repayment terms of loans allocated by commercial banks is being continued.

Along with the above-mentioned facilities, there are also a number of disadvantages that are waiting to be solved in the regional development of small business. In particular, the analysis of the activity of small business and private business entities shows that for the territorial development of small business in our republic, it is necessary to expand the network of market infrastructure, especially in rural areas. At the same time, commercial banks and non-budgetary organizations need to activate long-term loans to entrepreneurs. Also, the cases of red tape and



formalities in relation to small business and private business entities have not been completely eliminated by the control bodies.

In our opinion, the following measures should be taken to solve the problems related to the improvement of financing of small business and private business entities:

- in order for banks and financial institutions to achieve success, to qualitatively change the system of interaction with customers, to form a new way of working with customers, to create a new way of working based on standard technologies with an individual approach to each customer;

- we think that it is necessary to use foreign experiences in expanding the quality and types of financial services provided by banks.

CONCLUSIONS

In short, small business and private entrepreneurship as an integral component of the national economy during the transition to the market economy has become an important tool for regional economic development and solving economic and social problems.

Taking into account the rate of population growth in our republic, the need to increase the employment of the population in the regions and create new vacancies requires the development of small family business and private entrepreneurship, its comprehensive support and the elimination of the above-mentioned shortcomings.

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