

## Creating Conditions for Financing Small Business Entities through Bank Loans

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### *Abstract*

*The article highlights the issues of financing investment in small business and private entrepreneurship, the system of financial support for entrepreneurship and increasing investment activity, the existing problems in obtaining bank loans as one of the sources of financing small business and approaches to solving them.*

**Keywords:** *small business and private entrepreneurship structures; investment financing; financial support system; investment activity; bank loans.*

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In the current conditions of increasing globalization and transformation of the economy of the Republic of Uzbekistan, the implementation of active investment activities as a leading factor in the innovative development of the national economy is becoming a requirement of the times. Insufficient investment resources, unfavorable investment conditions, the weak mechanism of the state's active investment policy have a direct impact on the conduct of investment activities of business entities in the country.

At the stage of implementation of any investment project, the availability of known financial resources is required. The structure of sources of investment financing depends mainly on the state of economic policy, legislation (mainly tax legislation), investment infrastructure in the country. It should be noted that the process of investment and investment activities in the Republic of Uzbekistan is regulated by the Law of the Republic of Uzbekistan "On Investments and Investment Activities" dated December 25, 2019 and is the legal basis of these relations. A set of interrelated measures aimed at ensuring the required level and structure of investment in individual sectors, increasing investment activity of investment activities aimed at finding sources of investment and identifying priority areas for their use "[1].

The analysis shows that the development of the investment base of business structures is largely due to the state policy of financial support. In particular, the Decree of the President of the Republic of Uzbekistan Sh. [2] made the development of small business and private entrepreneurship a priority in the economic life of the country.

In this regard, one of our economists BKTukhliev noted that "the effective use of tax incentives in the regulation of investment activities leads to the expansion of the role of market mechanisms in financing investment" [3].

At the current stage of deepening market reforms and modernization of the economy, there is a need for enterprises to decide on the sources of investment.

It is in this regard that the lack of own funds in economic entities, especially in private enterprises, creates the need for loans, which are one of the sources of financing investment.

Debt (credit) financing - this leads to the establishment of strict external control over the use of financial resources in the implementation of the project and requires the registration of collateral for a certain loss and the payment of interest for the use of resources [4, p. 113].

Project financing is a predetermined period in the form of project lending, with an obligation to guarantee the return of financial resources received in the form of loans from the proceeds of the project.

Using credit capital to finance investments is much more difficult in practice because banks offer loans at high interest rates. High-interest loans put businesses in a difficult financial position. Excessive financial costs in obtaining loans (a certain percentage of the loan amount is paid for insurance, notarization) is also an additional burden. The bank will not issue its loan without these formalities. According to a survey conducted by the International Finance Corporation, 35% of respondents confirmed that formalities in banks remain the main problem [5]. For this reason, the share of loans issued by commercial banks in total investment is much lower, reaching 14.1% in 2020, and there has been no significant shift in the change in this level over the past years.

All loans are secured by fixed assets, and their availability is particularly limited in small businesses. Therefore, borrowed funds in the form of short-term loans are mainly used for

working capital replenishment or trade intermediation operations.

The problem of reluctance of commercial banks to provide loans without a reliable guarantee for projects in obtaining bank loans as one of the sources of financing investment in small business remains an obstacle to its development and competitiveness. However, the encouragement of small businesses by banks in this regard is undoubtedly a practical condition for the transition to a highly efficient market economy. The lack of collateral for small businesses, the lack of a well-established guarantee system and leasing mechanism will inevitably affect the steps of the market strategy.

From this we can conclude that one of the main obstacles to the development of entrepreneurship is, first of all, the delay in the priority of deepening market reforms in the system of financial support for small business and private entrepreneurship. However, in Germany, private banks that expand their financing opportunities to support and assist in the development of small and medium-sized companies are encouraged by the state. 2 million in this country. products produced by small and medium-sized firms account for 50% of GDP. These firms compete with large enterprises in production management and the introduction of new techniques and technologies [6]. The active movement of the financial and credit system, on the other hand, allowed small and private businesses to compete successfully with stable enterprises. The lack of financial resources for the formation of start-up capital in small and private businesses limits their investment activity and, preferably, leads to the development of the intermediation sector.

It should be noted that as a form of state support for the development of small business, it is necessary to create conditions for the provision of credit from sources of investment activity and to encourage this work.

In this regard, it is expedient to take a number of measures, which, in our opinion, include:

- providing ample opportunities for the formation of start-up capital on the basis of soft loans for the development of small and private business;
- formation of advanced structures for attracting funds from various sources to finance small businesses;
- Establishment of special structures for insuring loans to small and private businesses;
- creation of guarantee funds under the projects of small and private businesses, guaranteeing financial and credit institutions;
- It is advisable to provide benefits to small businesses, including the costs associated with obtaining and repaying loans.

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