

## **Increasing the Role of Banks and Financial Institutions in the Development of Small Business in Uzbekistan**

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### ***Abstract***

*The article examines foreign experiences in lending to small business and private business entities, increasing the role of banks and financial institutions, increasing the activity of commercial banks in the financial support of small businesses, existing problems in obtaining bank loans for small businesses and approaches to their solution.*

**Keywords:** *small business and private entrepreneurship structures; banking and financial institutions; commercial banks; financing; financial support system; bank loans.*

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It is known that the development of small businesses is an important factor in increasing the share of the middle class in society, and at the same time ensuring economic, social and political stability in the country. The level of economic development of any country indicates the extent to which entrepreneurship has developed in that country . It is no secret that the rapid development of the economy is determined by the increase in the share of small business and private entrepreneurship in its composition, and the daily increase in the share of small business and private entrepreneurship, in turn, largely depends on the business environment created in the country. Today, in Uzbekistan, the share of small business and private entrepreneurship in the country's gross domestic product is increasing year by year. In particular, as of January 1, 2022, "more than 54.9 percent of Uzbekistan's gross domestic product is accounted for by small business and private entrepreneurship" [1].

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-sized businesses. by the World Bank "As a result of the research carried out in 91 commercial banks of 45 countries, it became clear that the small and medium business segment is a profitable customer for the bank, but macroeconomic instability in developing countries and financing is one of the main problems of small business entities compared to small business entities in developed countries. Is being abandoned" [2].

The World Bank, which is considered a major financial institution in international practice, as well as other international financial institutions, conducted scientific studies aimed at improving the lending system of small and medium-sized business entities. In these studies, methods of improving lending mechanisms for small and medium-sized business entities, effective use of loans were developed. However, specific aspects aimed at further increasing the culture of service to small business entities and trust in the banking system by banks has not found their scientific solution. In particular, a number of issues, such as the coordination of powers in making decisions on the allocation of loans, the clear demarcation of responsibility between the main banks and their branches, the review of loan orders, the possibility of obtaining loans quickly, remain one of the main directions of scientific research.

The practice of lending to small business entities based on advanced foreign experiences will certainly have a significant impact on the development of small business.

Practical experience of Germany, one of the most developed countries in the world in lending to small business and private entrepreneurship importance is manifested in:

- kredits long term being small business it is issued for the purpose of financing the investment costs of its entities ;
- a certain part of the principal sum and percentage of loans is refinanced at the expense of state funds ;
- It is given with a two-year grace period.

**Table 1 For small business financing by banks in Germany loans granted [ 3 ]**

( billion euro €)

No	Credits term	2018 year	2019 Year	2020 year
<b>1</b>	<b>Germany banks by giventotal amount of loans</b>	<b>1347.5</b>	<b>1403.1</b>	<b>1476.9</b>
	Of these:			
2	Short term loans	174.3	180.8	201.9
3	Medium term loans	186.4	193.1	199.4
4	Long term loans	986.8	1029.2	1075.6

As can be seen from the data in the above table, the amount of loans given by German banks for the development of small business has been growing continuously in the last three years. In 2019, the main type of credit for small business entities, long-term loans amounted to 1029.2 billion. amounted to 46.4 billion euros in 2020. we can see that it has increased to EUR.

In the US, the Small Business Association defines a small business as a business with fewer than 500 employees. Also, there are approximately 28 million small business entities in the country today [ 4 ] .

Government loan programs provide financial assistance to troubled business owners who are ineligible for a traditional bank loan. Banks and credit organizations that participate in these programs provide government-guaranteed loans to start or expand a business. That is, the state is a guarantor for small business owners who receive loans. The Small Business Association is a government agency that offers assistance and resources to small businesses and provides loan guarantees. The Small Business Association guarantees up to 85 percent of loans up to \$150,000 and up to 75 percent of loans up to \$500,000, thus reducing the risk to the lender. The Small Business Association does not offer direct loans, only guarantees. Importantly, there are so many agency tools and services in the US that can help small business owners find the right loan for their business type and needs. The National Small Business Association (NSBA) found that there is a direct correlation between small business financing and hiring (the idea being that the more loans you give, the more workers you can hire). According to the analysis of the US Small Business Association, almost a quarter of small businesses still have no financing at all.

The experience of providing guarantees in the US small business lending practice shows that the application in the practice of small business financing has good results.

One of the countries with the strongest developing economy is Japan. Currently, there are 3.82 million enterprises operating in Japan, of which 3.8 million or 99.7 percent are small and medium-sized enterprises. They have 33.6 mln. people work, which means 70 percent of the total population is employed [ 5 ] . In Japan, companies with more than 300 employees and a turnover of 100 million yen are considered small businesses. In Japan, the small business support system is very advanced, and 180 billion yen is allocated annually for its support [ 6 ] .

In the Japanese experience in the field of small and medium business lending, factors such as a flexible support system, an integrated approach, the regulation of policies and goals taking into account the stage of development of the national economy, and the use of an effective mechanism for evaluating the implemented measures can be observed. In Japan, the main mechanism of financial support for small businesses is preferential lending (a normal loan can be obtained at 4-8 percent, "preferential loan" means half of this percentage).

In general, the Japanese model of small business development is recognized as the best model and one of the largest and most mature business support systems in the world.

Today, small and medium-sized businesses make up 97.9% of all registered enterprises in China, contribute to 58% of GDP and 68% of exports" [ 7 ] .

Despite the importance of supporting small and medium-sized enterprises in the Chinese economy, there are still some problems in financing them. Almost 66 percent of small and medium-sized enterprises face various problems when getting loans from banks. In order to overcome these problems, the Central Bank of China reduced the refinancing rate for micro and small enterprises to 50 percent. It is a comprehensive policy framework to ease the financial difficulties of small firms. Industrial and Commercial Bank of China is the country's largest state-controlled small business and private business lending institution. It has about 230 branches serving small businesses across the country. In 2018, the interest rates of the bank's loans to small businesses amounted to 4.64 percent on average. According to the Central Bank of China, in 2018, the amount of new loans allocated to small businesses increased by 19% and reached 11.76 trillion yuan [ 8 ] .

Currently, in order to make it easier for small and medium-sized business entities, China is implementing a preferential strategy, which determines the amount of loans based on the amount of their social loans. That is, in this, the government studies and evaluates the data of social loans of small and medium enterprises, after which they send the data to financial institutions. Such assessment is very useful for SMEs to obtain loans, and the highest level of SMEs will be able to obtain loans in a short period of time. 34 financial institutions and private non-bank credit organizations, in particular, "JD Finance" and "Alibaba's Sesame Credit" are expected to support the government and jointly introduce a unique service for entrepreneurs to implement such a system in the country.

In the economic development of the Malaysian state, the importance of small and medium businesses is very high. Because there are more than 907,000 small and medium-sized business entities in the country, making up 97% of the existing enterprises. Also, the country provides 36% of GDP and 65% of employment [ 9 ] . Therefore, these enterprises are the main source of employment in the country.

Currently, there are the following challenges in lending to small businesses in Malaysia:

insufficient collateral to secure loans; low borrowing capacity;

insufficient business and insufficient level of knowledge of borrowers.

For this reason, the Malaysian government has been implementing several ideas to facilitate the loan process for small and medium enterprises. One of these is Credit Guarantee Corporation. The Credit Guarantee Corporation has been working for 45 years on the basis of various programs to support small and medium enterprises. The terms and conditions of this program are accepted and approved by all banks in Malaysia.

been introduced to show the level of performance of small and medium enterprises based on seven evaluation criteria, such as financial capability, work efficiency, human resources, technology acquisition and adoption, certification and market presence . The fact that all banks provide loans at the same interest rate in support of small business in the state of Malaysia is an important basis for the development of small business.

One of the main problems for small and medium-sized businesses is the lack of financial resources at their disposal. Credit plays a key role in solving this problem. When studying foreign experiences, it is advisable to widely use the "Giving opportunity" method, in which the person who wants to start his activity should be given confidence to start work by providing a comprehensively thought-out business project that meets today's requirements without collateral, and this project will bear fruit in the future. firstly, if the bank increases its profit by timely return of its loans, secondly, it will increase the number of its customers, and thirdly, new jobs will be created in the country, it will help to increase the variety of goods and services in the market, fourthly, the social condition of the population will improve somewhat, and fifthly, the tax payer will increase in the country. .

The following urgent problems related to improving the practice of lending to small business entities in Uzbekistan based on advanced foreign experience were identified:

- banks and financial institutions do not want to expand the loan portfolio of small businesses and private enterprises, because they do not consider small businesses and private enterprises to be attractive and profitable economic entities;
- banks and financial institutions regard small business and private business entities as high debtors;
- small business and private business entities have low capital, lack of assets and cannot meet the collateral requirements of banks;
- small businesses and private entrepreneurs require close supervision by financial institutions, and because of the high cost of such work, banks consider it an excessive burden.

In lending to small businesses and private entrepreneurs, increasing the role of banks and financial institutions, two different problems are faced between the demand side (enterprise) and the supply side (banks and financial institutions):

The main problems of the demand side of small and medium-sized businesses:

- high interest rate;
- that the application and their content are not suitable;
- the existence of a long and complicated process for obtaining a loan;
- lack of information on financing of small business and private business entities;
- a large number of documents in the process of obtaining a loan;
- lack of business consulting services.

On the side of banks and financial institutions, there are the following problems:

- lack of enterprises that meet the demand among small business and private business entities;
- insufficient income from loans of small businesses and private entrepreneurs;
- lack of or limited funds for small business and private business entities;
- loan processing is difficult and control costs are high.

Based on the above, it can be thought that in order for banks and financial institutions to succeed, they should first of all consider small business entities as their most valuable "asset", that is, their

customers, and to qualitatively change the system of interaction with customers, to form a new ideological way of working with customers, it became clear that it is necessary to create a new work method based on standard technologies with an individual approach to each client, and we think that its application in the work experience of banking and financial institutions of Uzbekistan will have a good effect.

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