

## **Foreign Experience in Increasing the Role and Importance of Commercial Banks in Developing the Activity of Business Subjects**

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### ***Abstract***

*The article analyzes a number of important tasks related to increasing the role and importance of the banking system in the development of the economy of the Republic of Uzbekistan, including transformation processes in commercial banks with a state share. The issue of increasing the role and importance of commercial banks operating in the country's banking system in the development of the national economy, including the development of small business and private entrepreneurship, which is the basis of the development of the national economy, creates the need to study as an object of scientific research.*

**Keywords:** *transformation, financing, inflation, payment instruments, electronic payments, risk, credit.*

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## Introduction

In the Development Strategy of New Uzbekistan for 2022-2026, a number of important tasks related to increasing the role and importance of the banking system in the development of the economy, including completing the transformation processes in commercial banks with a state share, and increasing the share of the private sector in bank assets to 60 percent by the end of 2026, in 2022 measures will be taken to reduce the annual inflation rate to 9% and 5% in 2023, and the fiscal deficit to 3%, and then the tasks of ensuring that inflation and the State budget deficit do not exceed this indicator<sup>1</sup>.

Also, in the strategy of reforming the banking system of the Republic of Uzbekistan, it is necessary to improve the quality of the credit portfolio and risk management, to follow the moderate growth of lending volumes, to conduct a balanced macroeconomic policy, to improve corporate governance and to attract managers with international practical experience, to implement technological solutions for assessing financial risks. Ensuring the financial stability of the banking system through reduction is defined as the priority directions of the reform of the country's banking system<sup>2</sup>.

The above-mentioned circumstances create the need to study the role and importance of commercial banks operating in the country's banking system in the development of the national economy, including the development of small business and private entrepreneurship, which is the basis of the development of the national economy, as an object of scientific research.

The issue of increasing the role and importance of commercial banks in the development of small business and entrepreneurial entities is reflected in the scientific research of foreign economists - A. Stakhnyuk, A. Joly, V. Safaryan, D. Savinova, D. Gale, J. Sinki, J. Chanel-Reynaud, Y. Schumpeter, M. Yunus, S. Fedorov, F. Allen, E. Blois<sup>3</sup>.

In the scientific works of Uzbek economists A. Baymuratov, I. Rakhmanov, D. Tadjibaeva, J. Isakov, L. Zoyirov, N. Urmanova and others, the scientific-theoretical and practical aspects of improving the provision of financial services by banks to small business entities were analyzed separately<sup>4</sup>.

<sup>1</sup> Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. PF-60. About the Development Strategy of New Uzbekistan for 2022-2026//[www.lex.uz](http://www.lex.uz).

<sup>2</sup> Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025"//KXMMБ:06/205992/0581-сон. 13.05.2020 y.

<sup>3</sup> Stakhnyuk A.V. Small business: the problem of credit availability//Money and Credit. – Moscow, 2010. – No. 3. – P. 23-26.; Safaryan V.R. Factoring as a source of financing for small enterprises//Money and Credit. – Moscow, 2013. – No. 2. – P. 71-73.; Savinova D.V. On the formation of a mechanism for attracting credit resources to small businesses // Money and Credit. – Moscow, 2009. – No. 5. – P. 59-63.; Sinky J.

Financial management in commercial banking and the financial services industry. Translation. from English – M.: Alpina Publisher, 2017. – 1018 p.; Muhammad Yunus, Alain Joly. Creating a world without poverty: social business and the future of capitalism. Translation. from English – M.: Alpina Publisher, 2010. – 307 p.; Fedorov S.L. Microcredit as a tool to support the economic activity of the rural population//Money and Credit. – Moscow, 2004. – No. 1. – P. 51-57.; Schumpeter J.A. Fundamentals of Entrepreneurship. Translation. from German. – M.: Case, 1974. – 274 c.; Allen F., Gale D. Comparing Financial Sestems. – Cambridge, Mass: MIT Press, 2000. – 519 p.; Chanel-Reynaud G., Bloy E. La Banque et le risqué PME. – Presses Universitaires de Lyon, 2001. – 190 p.

<sup>4</sup> Baymuratov A.D. Directions for improving the practice of lending agricultural production by banks. I.f.n. science narrow take three. destiny eat diss. autoref. - Tashkent, 2008.-16 p.; Rakhmanov I.Kh. Ways to improve microfinance services in the Republic of Uzbekistan. I.f.n. science narrow take three. destiny eat diss. autoref. - Tashkent, 2011. - 19 p.; Tadjibaeva D.A. Microfinance in Central Asia: theory, practice and perspective development. - Tashkent: KONSUDITINFORM-NASHR, 2011. – 256 p.

According to A. Stakhniuk, the main problems associated with increasing the level of use of commercial bank loans by business entities are as follows:

- insufficiently developed small business support mechanism;
- the fact that the quality of collateral objects is low;
- non-transparency of the client (high level of "secret" incomes; insufficient reliable sources necessary for an objective assessment of the client's financial situation, his creditworthiness; non-availability of turnover on current accounts; the fact that the main streams of income are in cash, etc.);
- insufficient economic (financial) knowledge (poor quality of business plans; lack of a clear understanding of the purposes of lending, the nature of banking products, lack of experience working with banks; incomplete bookkeeping, etc.);
- insufficient resources, especially cheap and long-term resources, needed for investments in the real sector of the economy for more than one year;
- the lack of improvement of the legislation on the protection of creditors' rights does not allow banks to finance high-risk transactions<sup>5</sup>.

V. According to Safaryan's conclusion, factoring is a promising form of lending for small enterprises that have real market potential - the opportunity to increase the volume of sales of goods, but lack working capital<sup>6</sup>.

In our opinion, This conclusion of V. Safaryan is of practical importance for Uzbekistan. Because, in the conditions where the targeted sequence of payments is used, the low level of financial resources of the economy prevents small business entities from replenishing their working capital and increasing the volume of sales of goods. In such circumstances, factoring loans can become an important means of meeting their working capital needs.

According to the conclusion of M.Yunus, the main attention should be paid to the social effect of lending when lending to small business entities that are starting to work. As the financial capabilities of business entities expand, they cause an increase in the demand for loans at market rates<sup>7</sup>.

According to D. Savinova, it is necessary to provide a separate credit service for each segment of the market when lending to small businesses<sup>8</sup>.

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Tadzhibaeva D.A. Muminov I.O. Microfinance: a guide for microfinance organizations. – Tashkent: Молия, 2009. – 256 с.; Isakov J.Ya. Improving the efficiency of credit in the development of the service sector. Dissertation abstract presented for obtaining scientific degrees of Candidate of Sciences - Tashkent, 2016. - 28 p.; Zoyrov L.S. Improvement of financing of activities of small business entities on the basis of leasing. Dissertation abstract submitted for obtaining scientific degrees of Candidate of Sciences. – Tashkent, 2011. – 20 p.; Urmanova N.R. Prospects for the development of microfinance in Uzbekistan. Abstract of the dissertation for a candidate for the academic degree Candidate of Economic Sciences – Tashkent, 2012. – 23 с.

<sup>5</sup> Stakhnyuk A.V. Small business: the problem of credit availability//Money and Credit. – Moscow, 2010. - No. 3. - pp. 25-26.

<sup>6</sup> Stakhnyuk A.V. Small business: the problem of credit availability//Money and Credit. – Moscow, 2010. - No. 3. - pp. 25-26.

<sup>7</sup> Muhammad Yunus, Alain Joly. Creating a world without poverty: social business and the future of capitalism. Translation from English – M.: Alpina Publishers, 2010. – 307 p.

<sup>8</sup> Savinova D.V. On the formation of a mechanism for attracting credit resources to small businesses // Money and

According to the American economist J. Sinki, commercial banks are leaders in the field of providing financial services to small businesses in the United States, and their financial services include providing term loans, leasing loans, and lending them by opening a line of credit<sup>9</sup>.

According to Y. Schumpeter, innovation is a new scientific and organizational combination of production factors mixed with entrepreneurial spirit, and innovative processes should be supported by the state.<sup>10</sup>

Y. Schumpeter's idea of state support for innovative processes is also of great practical importance for small business entities. This is due to the fact that small business entities, unlike large business entities, cannot spend large amounts of money on innovative developments. The results of scientific research by a group of well-known economists show that in developed countries, small business entities are very limited in their ability to finance investment costs, since more than 60 percent of their working capital is financed by retained earnings<sup>11</sup>.

F. Allen and D. Gale recognize the existence of two systems of financing the activity 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<sup>12</sup>.

According to the conclusion of J. Chanel-Reynaud and E. Blois, the good establishment of relations between small and medium-sized enterprises with large enterprises increases their possibility of using 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<sup>13</sup>.

The results of S. Fedorov's research show that the large operating costs and high inflation rate of small business entities prevent them from developing lending by commercial banks and microfinance organizations.

According to L. Zoyirov, the impossibility of calculating interest on leasing loans of commercial banks until the document of acceptance of the leasing object is issued in the Republic of Uzbekistan, and the fact that interest is not calculated on loans given for conversion to the currency exchange of the Republic until the conversion is carried out is one of the important factors to be taken into account in the process of using loan accounts, and small hinders the development of leasing financing of business entities<sup>14</sup>.

D. Tadjibaeva's scientific works have researched the theoretical and methodological foundations of microfinancing and formulated a number of scientific conclusions, developed proposals and recommendations.

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Credit. - Moscow, 2009. - No. 5. - P. 60-61.

<sup>9</sup> Sinkey J. Financial management in a commercial bank and in the financial services industry. Translation from English – M.: Alpina Publisher, 2017. – C. 590-591.

<sup>10</sup> Schumpeter J. Fundamentals of Entrepreneurship. Translation with him. – M.: Delo, 1974. – C. 132.

<sup>11</sup> Scott J.A., Dinkelberg W.C., Dennis W.J. Credit, Banks and Small Business – the New Century – Washington: NFIB Research Foundation, 2003. – 96 p.; Craig B.R., Jackson W.E., Thompson J.B. Small-Firm Credit markets, SBA – Guaranteed Lending, and Economic Performance in Low-Income Areas. – Federal Reserve Bank of Cleveland. – January 2006. – 40 p.

<sup>12</sup> Allen F., Gale D. Comparing Financial Sestems. – Cambridge, Mass: MIT Press, 2000. – P. 42.

<sup>13</sup> Chanel-Reynaud G., Bloy E. La Banque et le risqué PME. – Presses Universitaires de Lyon, 2001. – P. 39-40.

<sup>14</sup> Zoyrov L.S. Improvement of financing of activities of small business entities on the basis of leasing. Dissertation abstract submitted for obtaining scientific degrees of Candidate of Sciences. - Tashkent, 2011. – B. 14.

D. Tadjibaeva rightly admits that cooperation of microfinance organizations with commercial banks is beneficial not only for commercial banks, but also for these organizations themselves. First of all, this allows diversification of funding sources. In some countries, there are economic restrictions, such as the prohibition of attracting deposits, issuing securities and placing them on stock exchanges, and the insufficient development of the stock market, which does not allow microfinance organizations to diversify their sources of financing<sup>15</sup>.

According to the conclusion of J. Isakov, the volume of loans granted by the commercial banks of the Republic of Karakalpakstan to small business entities for the purpose of development of the service sector in 2015 compared to 2007 is explained by the following reasons:

- a) that in recent years, commercial banks of the Republic of Karakalpakstan have paid great attention to lending to small business entities;
- b) As a result of the non-improvement of lending practices in the service sector in several districts of the republic, the volume of loans granted by commercial banks to this sector is small.

It should be noted that during the analyzed period, the tendency of the increase in the amount of loans granted by the commercial banks of the Republic of Karakalpakstan to small business entities engaged in the service sector for the purposes of the development of the service sector remained. However, there is a sharp difference in the amount and level of loans given for the development of the service sector between districts and cities<sup>16</sup>.

According to the conclusion of A. Gloriov and D. Mikhaylov, in most cases, in order to avoid secured letters of credit, commercial banks present a confirmed reimbursement obligation instead of security. If collateral is used in such circumstances, various aspects of political risk must be taken into account, as well as the possibility of transferring the compensation amount to a bank with a bad reputation. Because, in a documented letter of credit, the responsibility lies with the issuing bank<sup>17</sup>.

This conclusion of these scientists is of great importance for the practice of Uzbekistan. Because, first of all, the main part (more than 90 percent) of the documented letters of credit opened by the banks of our republic for import payments corresponds to the contribution of secured documented letters of credit<sup>18</sup>; secondly, some of the foreign banks to which the letter of credit cover amount is transferred do not have a high reputation.

According to A. Kosoy's conclusion, the principle of the sequence of payments plays an important role in the organization of cashless settlements, and it is necessary to pay attention to the following:

- the right of property owners is violated in the targeted sequence of payments;
- the calendar sequence of payments assumes the equality of all types of payments<sup>19</sup>.

<sup>15</sup> Tadjibaeva. D.A. Muminov. AND ABOUT. Microfinance: a guide for microfinance organizations//Tashkent: Finance, 2009. – C. 203.

<sup>16</sup> Isakov J.Ya. Improving the efficiency of credit in the development of the service sector. Dissertation abstract presented for obtaining scientific degrees of Candidate of Sciences of Ikhtsodiet - Tashkent, 2016. – B. 19-20.

<sup>17</sup> Gloriov A.G., Mikhailov D.M. Foreign trade financing and guarantee business. Practical guide. – M.: Yurayt, 2011. – C. 325.

<sup>18</sup> Akhmedov F.Kh. Improving foreign trade services of commercial banks in Uzbekistan. Dissertation abstract presented for obtaining scientific degrees of Candidate of Sciences - Tashkent, 2018 - B.19 (48 p.)

<sup>19</sup> Kosoy A.M. Payment turnover: research and recommendations. Monograph. – M.: KNORUS, 2012. – C. 31-32.

This conclusion of A. Kosoy is of great importance for the practice of Uzbekistan. This is due to the fact that our republic uses a targeted sequence of payments, and when making payments on the debts of economic entities, priority is given to the payment of debts to the State budget. This, in turn, leads to the violation of the property rights of business partners and banks that have given them credit.

According to K. Skinner, the widespread use of simple schemes for making small payments leads to a narrowing of the scope of use of non-cash payment forms, and the following are the main factors in this:

- telecom companies offering mobile payment scheme;
- online companies such as PayPal cover the majority of internet payments;
- providers of payment services in the transport system<sup>20</sup>.

In fact, micropayment mechanisms are developing globally. For example, in developed countries, large amounts of micropayments are made through mobile phones and contactless cards. In particular, the payment of fares in transport by cards has been fully implemented.

The results of H. Allen's research show that the use of electronic payments can affect the frequency of transactions and lead to the exchange of one payment instrument for another. This may lead to a change in the relationship between monetary movements and economic activity<sup>21</sup>.

Practice shows that the development of debit and credit plastic cards has somewhat narrowed the range of use of traditional forms, i.e. payment orders and checks, which are traditional forms of non-cash payments. However, electronic money has not been able to displace traditional means of payment.

According to A. Gorokhov, payment instruments are divided into credit, debit and intermediate instruments according to the algorithm of the movement of funds, and in this case, a payment order and a payment request-order instruction are a credit instrument, a payment request and a check are a debit instrument, and a documented letter of credit is an intermediate instrument<sup>22</sup>

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<sup>22</sup>Gorokhov A.A. Forms of non-cash payments // Innovative economy: prospects for development and improvement. - Kursk, 2017. – №4. (22). – C. 69-75.

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