IMPROVEMENT OF RELATIONS BETWEEN THE FINANCIAL AND CREDIT SYSTEM AND SMALL BUSINESS ENTITIES IN THE REPUBLIC OF UZBEKISTAN

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Abstract: This article describes the concept of small business and entrepreneurship, provides statistical data on the state of small business in the country, analyzes the dynamics of financial services to small businesses, identifies the causes of emerging problems in the business environment of small businesses and entrepreneurship, and suggests ways to improve the mechanism for lending to small businesses

Keywords:small business, financial services, credit, lending instruments, negative factors, financing instruments, lending mechanism, algorithm for financing small businesses
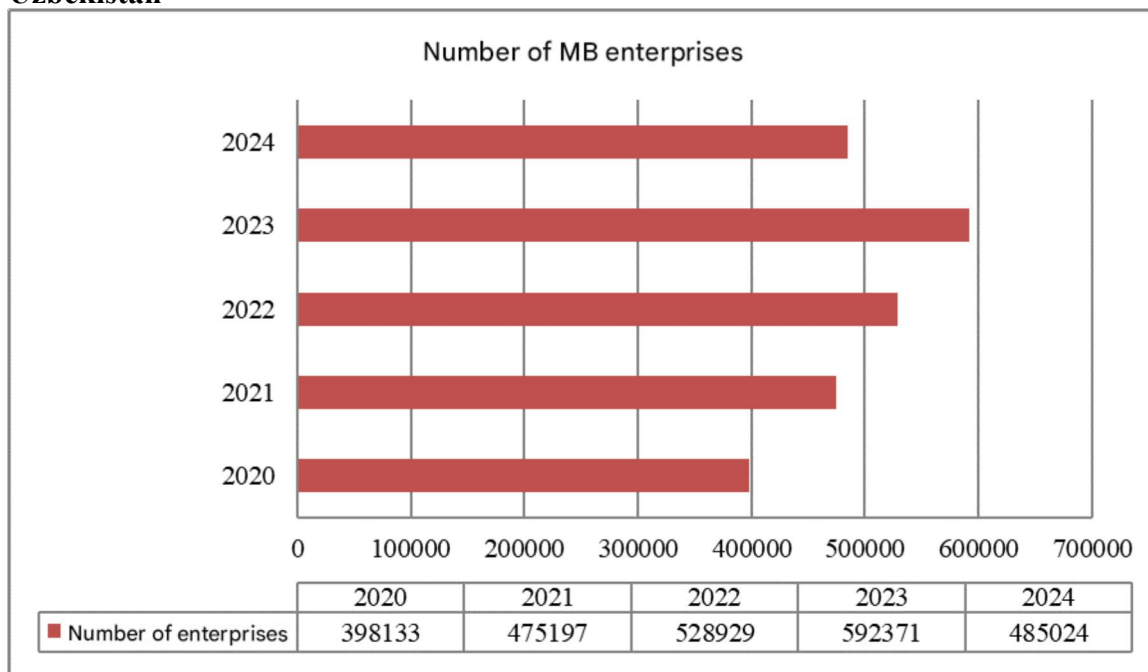
According to the new version of the law "On guarantees of freedom of entrepreneurial activity", business entities are legal entities and individuals who have undergone state registration in the established manner and are engaged in entrepreneurial activity.
Small business entities are:
1. Individual entrepreneurs.

2. Microfirms with an average annual number of employees employed in manufacturing industries - no more than 20 people, in the service sector and other non-manufacturing industries - no more than 10 people, in wholesale, retail trade and public catering - no more than 5 people.

3. Small enterprises with an average annual number of employees employed in the following industries:

• light, food and construction materials industries, as provided by law — no more than 200 people;

• metalworking and instrument making, woodworking, furniture industry, as well as other industrial and production spheres provided by law — no more than 100 people;

• mechanical engineering, metallurgy, fuel and energy and chemical industries, production and processing of agricultural products, construction and other industrial and production spheres provided by law — no more than 50 people;

• science, scientific services, transport, communications, services (except for insurance companies), trade and public catering and other non-production spheres — no more than 25 people.

The number of operating small businesses and entrepreneurship enterprises in the Republic of

Uzbekistan

Number of MB enterprises

|	2020	2021	2022	2023	2024
■ Number of enterprises	398133	475197	528929	592371	485024

According to the statistics agency, the largest number of small businesses and entrepreneurship entities is observed in 2023 over the past four years. If over the period from 2020 to 2023 there is a tendency for these enterprises to increase, then in 2024 there is a noticeable rate of their decline by 107,347 units or 18.1%. Moreover, such a decrease occurs in almost all regions of the republic. The decrease in the number of enterprises recorded in 2024 is due to the reorganization and updating of data in state registers. One of the main problems faced by entrepreneurs is the high cost of borrowed financing. Often, potential entrepreneurs who have a viable business plan, but do not have sufficient start-up capital, do not have collateral. Entrepreneurs often either do not have sufficient information about the available business support tools, or are faced with a bureaucratic system when preparing the necessary documentation. Also, commercial banks practically do not offer special products for SMEs.

Growth rates of financial services provided to small businesses and entrepreneurs, %
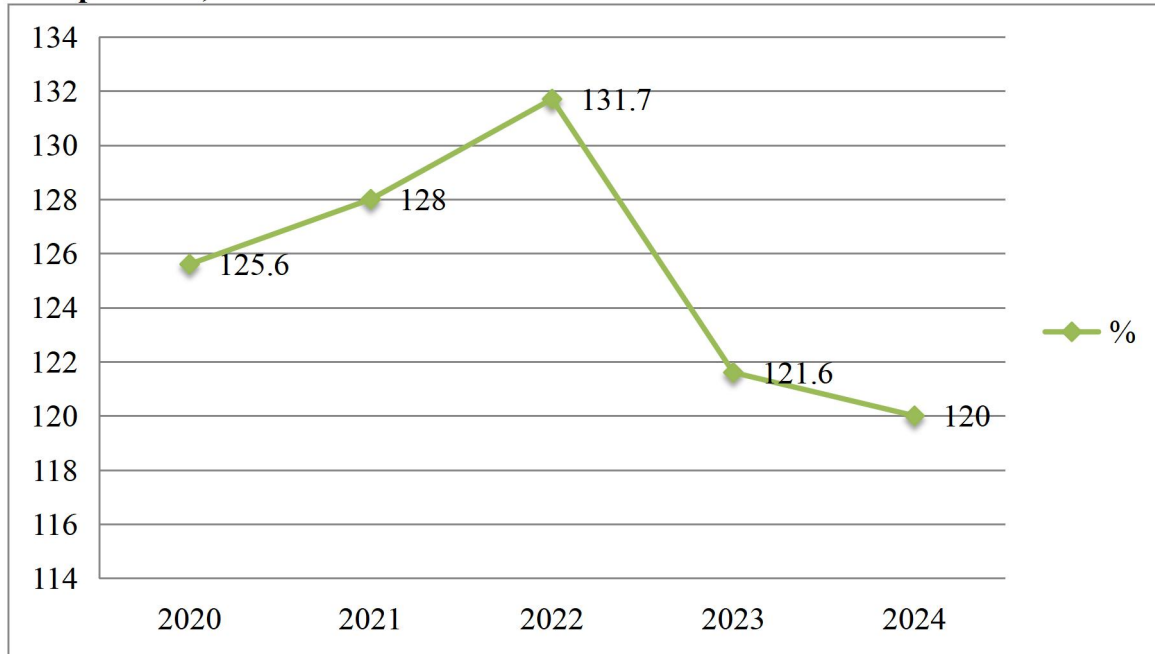
The highest growth rate of financial services provided to small businesses is observed in 2023, then there is a decrease in growth rates by about 10%. The main factors that negatively affect the development of entrepreneurship are the high cost of financing, high taxes, features of tender procedures, limited access to land and real estate, difficulties in obtaining architectural and construction documents and permits. According to a survey of entrepreneurs, the following key problems of the business environment for small businesses and entrepreneurship were identified.
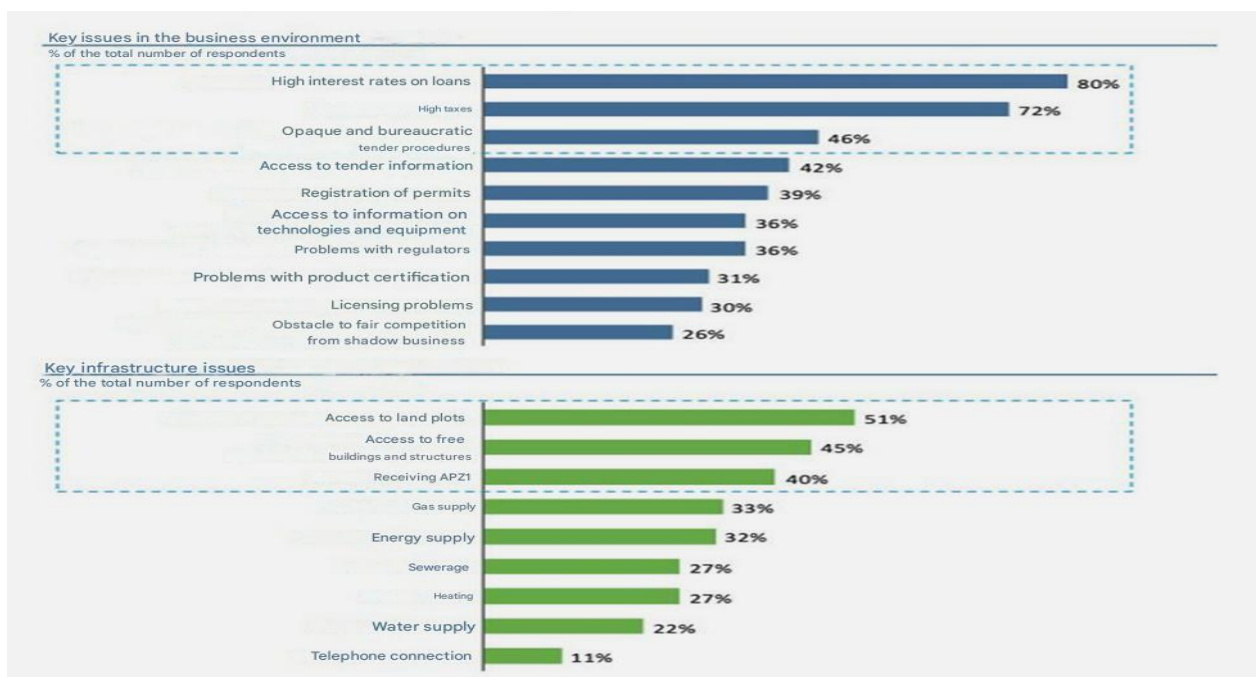
In 2024, 5 laws and 101 decrees and resolutions were adopted that are quite important for entrepreneurs. The volume of enterprises' funds in banks increased by 20 trillion soums, reaching 107 trillion soums. Population savings increased by 25 trillion soums and amounted to 105 trillion soums. These indicators indicate the stable development of the banking sector and the strengthening of trust on the part of the population and businesses. By the end of 2024, the total volume of loans issued will amount to 275 trillion soums. In 2025, this figure is projected to exceed 300 trillion soums. Particular attention will be paid to increasing the share of loans for small businesses: in 2024, it is 28%, and according to forecasts for 2025, it is planned to increase to 40%, which will amount to 120 trillion soums. In addition, to meet the needs of entrepreneurs in 2025, banks plan to attract 6 billion dollars from abroad without government guarantees.

In addition, there is another tool - bank loans with a subsidized rate, a guarantee from the State Fund for Support of Development of Entrepreneurial Activity to business entities in the amount of up to 50% of the amount of the received loan, the fund provides compensation for interest expenses on loans from commercial banks.

In order to improve the mechanism of lending to small businesses, ensure its compliance with the needs of borrowers and expand their access to credit resources, improve the quality and profitability of the loan portfolio, we consider it advisable:

firstly, to make changes to the algorithm of the mechanism of lending to small businesses,

secondly, to make wider use of marketing research in order to establish personalized interest rates, as well as to reduce the risk of non-repayment of loans by small businesses.

The proposed algorithm takes into account the experience of banks in the field of lending to small and medium-sized businesses of foreign countries. The central principle of the algorithm is the movement from the needs of the borrower to possible lending conditions. As a result, a competitive and high-quality credit product is created, intended for small and medium-sized enterprises. It is also necessary to adjust the mechanism for lending to borrowers in the small business segment: the central principle of the algorithm for the loan issuance process should be considered the movement from the borrower's needs to possible lending conditions, and to use marketing research more widely to optimize resource investment channels and establish personalized interest rates on the loan.

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