

POSSIBILITIES OF BANKS TO INCREASE LENDING EFFICIENCY OF TERRITORIES

Buribaev Erkinjon Narbay ugli
Gulistan State University Doctoral Student, Ph.D
E-mail: boribayeverkinjon@gmail.com
ORCID:0009-0003-9113-7423

ABSTRACT	KEYWORDS
The article analyzes the significance of commercial banks in regional lending and its impact on economic development. Loans provided by banks play a crucial role in supporting stable regional development and small and medium enterprises. The main challenges in the lending process, such as high interest rates, low financial literacy, and underdeveloped infrastructure, are examined. The article also provides recommendations based on advanced international practices to support regional development in Uzbekistan.	Regional lending, commercial banks, economic development, small and medium enterprises, financial literacy.

Introduction

Regional lending is an important tool for supporting economic development in developing countries. In Uzbekistan, the process of crediting regions has a special place in the state policy because bank loans play an important role in reducing economic differences between regions and developing small and medium-sized businesses. Decree No. 5789 of the President of the Republic of Uzbekistan, "On Measures to Support Regional Economic Development and Lending," is aimed at encouraging regional lending and encouraging commercial banks to allocate more finance to the agricultural and industrial sectors[2]. Also, the amount of loans directed by banks to small and medium business entities is increasing.

At the same time, there are a number of problems in the regional lending process, one of which is high interest rates and low financial literacy. The underdevelopment of infrastructure and limited access to bank loans, especially in rural areas, remain one of the important obstacles. In 2023, the volume of lending in Uzbekistan will reach 496 trillion soums, but economic activity in some remote areas is still at a low level[1].

It is important to strengthen the cooperation between commercial banks and the state, as well as to apply the experience of developed countries, in order to effectively establish regional lending and further develop it. The article analyzes the role of commercial banks in the process of crediting regions, its impact on economic development, and the possibilities of improving this process.

Material and method

In the preparation of this article, the sources that serve to increase the efficiency and lending of commercial banks to the regions and the data of the World Bank were analyzed. Based on the method of comparative analysis, the credit system in each country and their contribution to regional development were studied.

Results

Research into the role of commercial banks in regional lending shows that lending to small businesses and private entrepreneurs (SBEs) in rural areas has historically been low. However, government initiatives have helped increase lending in recent years. As noted by economist Shodmonov, although lending to small and medium-sized enterprises in rural areas was previously at a low level, state-sponsored programs played an important role in expanding credit opportunities in rural areas[4]. In particular, rural areas such as the Fergana Valley and Karakalpakstan are areas that cannot attract sufficient investment, Sodikova says[6]. According to him, the problems in these regions are often related to the conservative lending criteria of the banking sector, which often do not correspond to the economic needs of the regions.

In addition, the government introduced special credit programs for key sectors such as agriculture and industry in the Bukhara and Khorezm regions. These programs are supplemented by subsidies and tax breaks to encourage banks to invest more in regional projects. According to Karimov, state-supported initiatives have achieved some success, and between 2018 and 2020, loan portfolios in the regions increased by approximately 15%[3]. However, issues such as high interest rates and limited access to capital for small businesses still remain significant barriers.

Infrastructure development is another important factor affecting the efficiency of regional lending. Banks are generally more inclined to lend in areas with well-developed infrastructure. Weak infrastructure is a significant barrier to access to credit in many rural areas, increasing lending costs and reducing repayment rates. According to the research of Rahmonov and Ibragimov, the volume of lending in Tashkent and Samarkand regions, which have good infrastructure, was much higher than in Surkhandarya and Khorezm regions, which did not have developed infrastructure[4].

Nevertheless, despite the positive trends, a number of problems remain in the field of territorial lending in Uzbekistan. High interest rates, in particular, remain a major obstacle for borrowers in rural areas. In most cases, interest rates on regional loans are in the range of 15-20% per annum, which scares off many potential borrowers. In addition, in rural areas, the lack of sufficient collateral complicates obtaining credit. Another important issue is the low level of financial literacy in rural areas of Uzbekistan, which limits individuals and businesses from taking the right approach in the lending process. As Nasriddinov (2020) points out, high interest rates and these structural problems make borrowing difficult, and he believes that government guaranteed programs can help lower these rates[8].

The question of improving the efficiency of lending to regions is one of the important factors of economic development. Before answering this question, it is necessary to understand how regional lending affects economic development and why it is necessary to direct it effectively. Economic development of regions is one of the main means to ensure sustainable development of the whole country, because each region has different economic resources, opportunities and problems. Therefore, in the process of regional development, commercial banks and their lending activities play an important

role.

First of all, the loans provided by commercial banks in the regions are of decisive importance in supporting economic activity. Small and medium-sized enterprises will have the opportunity to expand their activities, modernize production and create new jobs through loans provided by banks. In this way, the economic activity in the regions will increase, the income of the population will increase and the standard of living will be improved. However, in order for this process to be carried out correctly and efficiently, it is necessary to improve the lending mechanisms.

Firstly, for the sustainable economic development of the regions, it is necessary to increase the volume and quality of loans provided by commercial banks. In many cases, due to the insufficient development of regional credit, economic growth slows down in some regions and entrepreneurial activity is limited. This deepens socio-economic problems in the regions. For example, the lack of credit resources in economically weak regions such as the Republic of Karakalpakstan, Khorezm, Syrdarya, and Surkhandarya regions, compared to developed regions such as the Tashkent region, reduces the possibility of expanding the activities of enterprises. This causes uneven development of economic activity and economic differences between regions. Therefore, by increasing the effectiveness of regional lending, it is possible to create the same economic conditions in all regions of the country, provide support to enterprises, and ensure the development of regions.

Second, it is possible to support small and medium-sized businesses by increasing the efficiency of regional lending. Small and medium-sized businesses are the engine of the economy in many developed countries. They play an important role in creating new jobs, introducing innovations, and ensuring economic stability. In most cases, the lack of financial resources is an obstacle to the development of small and medium-sized businesses in the regions. Through loans provided by commercial banks, small and medium-sized businesses can expand their activities and produce new products and services. Credit programs aimed at the agricultural, industrial, and service sectors in the regions play an important role in this. By increasing the efficiency of lending, banks can expand their scope of activity, support new business entities in the regions, and stimulate regional economic growth.

Debate

The results of the analyses and studies carried out during the research show that the ineffectiveness of regional loans in Uzbekistan is creating many obstacles and problems in the development of the country's economy. Regional lending is an important tool for developing cooperation between the public and private sectors, ensuring economic growth, and creating new jobs. However, the available analyses and statistics show that the effectiveness of regional loans is insufficient. The reasons for this and the ways to determine it depend on a number of factors.

First of all, it can be said that the loans allocated to the regions are related to the fact that financial resources are not being used effectively. In some regions of Uzbekistan, the impact of loans on economic activity remains low. For example, loans directed to farmers and agricultural entities in the agricultural regions of the country are not effective enough. This may be due to the low financial literacy of farmers and entrepreneurs and the lack of proper financial planning and management mechanisms in the lending process. As a result, allocated loans are not fully effective and do not provide an opportunity to achieve development goals.

Secondly, the ineffectiveness of regional lending is also reflected in the wrong direction of loans. In some cases, loans may be distributed under the influence of specific stakeholders rather than based on

regional economic needs and opportunities. This situation shows the high level of corruption and the underground economy. For example, loans that should be allocated to small and medium-sized business entities operating in the regions are in some cases directed to large companies or projects related to officials. This has a negative impact on the reduction of entrepreneurship and regional development.

The inefficiency of regional loans is also caused by the lack of economic infrastructure and favorable conditions. Although the allocated loans are expected to increase economic activity in rural areas and create new enterprises, the lack of infrastructure complicates this process. For example, in areas with inadequate roads, electricity supply, or water infrastructure, the allocated loans may not be used effectively. In addition, limited banking services or poor lending conditions have a negative impact on regional development. In the process of obtaining credit, entrepreneurs and farmers face difficulties in accessing financial resources, which causes ineffectiveness of loans.

Another important factor is that the amount of loans and interest rates do not correspond to the needs of economic development. In most cases, the volume of loans allocated to the regions will not be sufficient. For example, in 2021, the total volume of loans directed by banks to regions was 25% of GDP, while in developed countries this figure is 40% and higher[1]. The lack of targeted loans for small and medium-sized business entities limits their activity; the possibility of creating new jobs decreases. In addition, high interest rates on loans also reduce the demand for loans by entrepreneurs. In many cases, obtaining 16-17% interest loans for small enterprises can be an excessive financial burden, which leads to a decrease in economic activity.

Summary

As a result of the conducted studies and analysis, we formed the following general conclusions:

- By increasing the effectiveness of regional lending, small businesses and private enterprises will have the opportunity to expand their activities, develop infrastructure, and create new jobs. This process serves the stable development of the country's economy. Regional development helps to expand economic opportunities and ensure social stability in all regions of the country through effective lending;
- Support of small businesses and private enterprises is the locomotive of the country's economy, especially in developing regions, where their development is important. Through region-oriented loans, small and medium-sized businesses will have the opportunity to expand their products and services, enter new markets, and introduce innovations. Also, supporting small businesses and private enterprises will help create new jobs and increase the income of the population. This serves to reduce social problems in the regions and improve the living conditions of the population.
- Corruption and a lack of transparency in regional lending are two of the important obstacles. When allocated loans are misdirected, regional development slows down, and it becomes difficult for entrepreneurs to access financial resources. Corruption has a negative impact on the activity of commercial banks and leads to inefficient allocation of investments. The effectiveness of regional lending can be improved by increasing transparency and fighting corruption.
- The efficiency of loans directed to the regions largely depends on the development of the infrastructure. Lack of infrastructure such as roads, electricity, water, and telecommunications in rural areas hinders proper utilization of loans. Therefore, infrastructure development is an important factor in increasing regional lending efficiency.

In conclusion, infrastructure improvement is the main factor for increasing the effectiveness of regional development loans. Investments directed to infrastructure by the state and infrastructure projects implemented in cooperation with banks increase economic activity in the regions and ensure the return and efficient use of bank loans.

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