



## **THEORETICAL AND METHODOLOGICAL APPROACHES TO CREDITATION OF SMALL BUSINESSES BY COMMERCIAL BANKS**

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<b>A B S T R A C T</b>	<b>KEY WORDS</b>
Theoretical and methodological approaches to lending to small businesses by commercial banks are considered. Also, the classification of employees of small businesses and private entrepreneurs in the country is analyzed and conclusions are given.	Commercial bank, small business, private entrepreneur, consumer goods, credit.

### **Introduction**

One of the main factors in the development of the economy in the conditions of market relations is the development of the activities of small business entities. So, what is the meaning and significance of the concept of "small business"? Although a separate analysis of the system of small business activity first began in the West, the above-mentioned evidence indicates that the narrow-minded knowledge of its essence and development was formed in the East and then advanced in the West. In particular, they were formed in this direction and found their expression in teachings that had their place in life.

One of the important factors in the development of the economy in the conditions of market relations is the development of the activities of small business entities. Enterprises engaged in small business activities, being independent of the state, that is, without large capital investments, can create jobs, reduce the temporary shortage of goods, and even completely eliminate this shortage. In our current society, it is necessary to direct the activities of small businesses to meet the needs of individual people. This is especially evident in the areas of providing household services and manufacturing consumer goods. Small businesses also play a significant role in introducing technological innovations.

### **ANALYSIS AND DISCUSSION OF RESULTS**

The scientific research of M.K.Elmuradov, a local scientist who has been conducting scientific activities in this area, grouped the factors influencing the country in order to liberalize the economy and activate it based on credit provision, and through its analysis gave recommendations on improving the attraction of credit funds.

FK Kholmamatov's scientific research included proposals to prevent the increase in reserves intended to cover losses incurred from loans in commercial banks above the standard level, to increase the level of diversification of commercial banks' loan portfolios, and to introduce the "debt coverage ratio" as a criterion for assessing the creditworthiness of individuals using the scoring analysis method.

In her scientific research, G.O. Turdieva proposed that in order to ensure the timely repayment of loans and interest on them, the accounting policy should clearly indicate information on the part of long-term payables transferred to current payables, the amount of principal and interest expenses on the loan. He also proposed to systematically organize credit monitoring to ensure the effective use of loans and their timely repayment with interest, and to determine the level of bank risk in a timely manner.

In our opinion, the scientific proposals of our above-mentioned scientists are aimed only at ensuring the timely repayment of allocated loans and minimizing the losses incurred, but we believe that these proposals will create difficulties for clients, that is, small businesses, in developing their activities.

In his research, MS Rustamov proposed coordinating the powers of commercial bank branches to make independent decisions on granting loans to small businesses without additional agreements with the main banks, and forming a database of client credit histories to ensure the timely repayment of loans granted by banks to small businesses, as well as to encourage this client to obtain further loans in the future.

In his scientific research, Prof. J.Ya. Isakov substantiated the feasibility of including the additional interest charged for leasing services provided by credit organizations to the service sector in the cost of the leasing object and distributing interest income evenly over the entire period of use, as well as deducting the share of interest income received by banks from leasing services from the lessee's standard profit.

Small businesses are gradually taking their place in the transition of leading industries to new technologies in the conditions of scientific and technological progress. They demonstrate the quality of an important link in the entire system, ensuring the work process with the introduction of new ideas and improvements in production, new information technologies.

To date, small businesses are active in all areas of our country's economy, in the production of mechanical engineering products, consumer goods, agricultural and food products, and other sectors. The quality of products produced by small businesses is comparable to, and in some cases even superior to, those produced by state-owned enterprises. 60-70 percent of the activities of small businesses and private entrepreneurs in our republic are directly related to production; they are farmers, peasants, industrialists, processors of agricultural products, etc.

On the basis of the rapid development of private entrepreneurship and small business, favorable conditions have been created for the formation of a class of owners, the organization of a system of relevant institutions, the widespread attraction of credit resources and the entry of foreign investment into the sphere of activity of small business and private entrepreneurship.

Compared to large companies, small businesses adapt quickly to market conditions and have a number of advantages in ensuring the successful market penetration of their products. Because small businesses quickly adapt to the development of their activities, advanced technologies, the production of products that require a low level of knowledge, and quickly master the fundamentals of the market.

Bank loans are an important and integral part of the modern economy. In a developed economy, a stable economy is unthinkable without bank loans. Bank loans directly affect economic development, and achieving a high level of economic development requires the establishment of a developed credit system.

This is also true for the current state of small business lending. Of course, any lending practice should be based primarily on scientific grounds. With this in mind, we will consider the following problems and unresolved aspects of the theoretical foundations of small business lending.

According to the data in Table 1, small businesses include “individual entrepreneurs, micro-firms, and small businesses.” In accordance with the Resolution of the Cabinet of Ministers of the Republic of Uzbekistan No. 275 dated August 24, 2016 “On measures to transition to the international classification system of types of economic activity”, the “Classification of small business and private business entities” is regulated and includes only one criterion: “Number of employees”. There is no “medium business” segment in Uzbekistan.

Table 1 Classification of employees of small businesses and private entrepreneurs in the country

N	Naming	Employees average annual number	
		Microfirms	Small businesses
1.	Village farm, forestry and fishing farms	1-20	21-50
2.	Mountain and careers with work industry	1-20	21-50
3.	Raw a shy o ni come back work industry	1-20	21-200
4.	Electricity supply , gas distribution , steam and air to cool down systems with worker enterprises	1-20	21-50
5.	Water security , sewerage , waste to be and disposal with practitioner enterprises	1-20	21-50
6.	Construction enterprises	1-20	21-200
7.	Wholesale and a small s a v d o organizations	1-5	6-25
8.	Type local and general the event companies	1-10	11-25
9.	Contact services enterprises	1-10	11-100
10.	Finance and insurance services indicator enterprises	1-20	21-100
11.	K o' ch m a s property with employee companies	1-10	11-25
12.	Scientific check institutions	1-20	21-50
13.	Management and support to show organizations	1-20	21-50
14.	Education	1-20	21-50
15.	Health conservation and social services	1-10	11-25
16.	Art and volunteering oh my god d a m to get masks	1-20	21-100
17.	Services other types indicative companies	1-10	11-25

International experience shows that "small businesses and entrepreneurs can adapt to market demands in a shorter period of time than enterprises, medium-sized and large enterprises. Organization of labor, introduction of new equipment and technologies into production, creation of new production capacities and their effective use are achieved faster in small businesses than in others."

Small businesses and private entrepreneurs play a significant role in the economic development of the country. Today, "more than 55 percent of Uzbekistan's gross domestic product is accounted for by small businesses and private entrepreneurs." In developed foreign countries, including "in countries such as Germany, Finland, Norway, and Sweden, about 70 percent of existing jobs are accounted for by small businesses." In developing countries, its share in GDP exceeds 50 percent, providing an opportunity for rapid economic development.

Table 2 Small business in Uzbekistan's macroeconomic indicators Share of entities, in percent

Years	GDP	Industry	Construction	Banditry	Export	Import
2000	31.0	12.9	38.4	49.7	10.2	22.8
2001	33.8	12.5	40.4	51.8	9.3	26.7
2002	34.6	15.4	42.0	53.5	7.5	24.9
2003	35.0	10.8	39.9	56.7	7.3	33.7
2004	35.6	11.0	49.6	60.3	7.3	32.7
2005	38.2	10.0	50.9	64.8	6.0	33.7
2006	42.1	10.9	52.1	69.1	11.2	34.2
2007	45.7	13.2	55.4	72.1	14.8	32.0
2008	48.2	14.6	58.4	73.1	12.4	35.7
2009	50.1	17.9	42.4	73.9	14.6	42.5
2010	52.5	26.6	52.5	74.3	13.7	35.8
2011	54.0	28.6	67.6	75.1	18.8	34.3
2012	54.6	29.7	70.0	75.6	14.0	38.6
2013	55.8	33.0	70.6	76.7	26.2	42.4
2014	56.1	36.8	69.5	77.6	27.0	45.4
2015	62.9	40.6	66.7	77.9	27.0	44.5
2016	64.9	45.3	66.9	78.2	26.0	46.8
2017	63.4	41.2	64.8	78.0	22.0	53.6
2018	60.4	37.4	73.2	76.3	27.2	56.2
2019	54.2	25.8	75.8	76.2	27.0	61.6
2020	55.7	27.5	72.5	73.8	20.5	51.8
2021	54.9	27.0	72.4	73.8	22.3	48.7
2022	55.1	27.3	73.3	74.6	21.1	49.8
2023	56.2	28.4	73.6	74.8	22.3	51.4

Analysis of the data in Table 2 shows that the share of small businesses in macroeconomic indicators has increased. In particular, if in 2000 the share of small businesses in GDP was 31 percent, then by 2023 this indicator reached 56.2 percent, or an increase of 25.2 percent. Another important indicator is that the population density, which was 49.7 percent in 2000, will increase to 74.8 percent or 25.1 units in 2023, which is a very significant result.

How important are small and medium-sized businesses to the economy? Although each enterprise is relatively small, their contribution is significant. Small and medium-sized businesses contribute more than 55 percent of GDP in OECD countries and 60 to 70 percent of GDP in middle-income and low-income countries. In Iran, China, and South Korea, their share in GDP ranges from 47 percent to 70 percent. In India, small and medium businesses account for 80 percent of the industrial sector.

It is worth noting that there are some problems in lending to borrowers in Malaysia today. In particular, there is an insufficient level of collateral to secure loans, the lack of access to credit, the lack of business, and the insufficient level of knowledge of borrowers. For this reason, the Malaysian government has been implementing several initiatives to facilitate the process of obtaining credit for small businesses.

In addition, Malaysia has introduced a diagnostic rating system (SORE) to indicate the level of performance of small and medium-sized businesses based on 7 assessment criteria, including financial capabilities of borrowers, business efficiency, human resources, technology acquisition and adoption, certification, and market availability.

Table 3 Loans issued by banks in Germany, billion euros

No.	Loan term	2017 is	2018 is	2019 is	2020 is	2021 is	2022 is.
1	Total amount of loans granted by German banks	1,347.5	1,403.1	1,476.9	1,532.5	1,606.3	1,680.2
Of these,							
2	Short-term loans	12.9%	12.9%	13.6%	14.8%	15.1%	15.4%
3	Medium-term loans	13.8%	13.8%	13.5%	13.9%	14.2%	15.1%
4	Long-term loans	73.3%	73.3%	72.9%	71.3%	70.7%	70.1

Moreover, if we observe the lending practices of one of the developed countries, Germany , over the last 6 years, we can see that the main part of the loans, more than 70 percent , is long-term loans. While in 2017, long-term loans amounted to 983.6 billion euros, in 2022 they increased by 333 billion euros compared to 2017. If we look at short-term and medium-term loans by household, we can see that they have an increasing trend, both in terms of interest rates and in terms of volume (see Table 3).

## CONCLUSION AND SUGGESTIONS

1. The conclusions expressed in the research conducted by economists were thoroughly studied, analyzed and summarized. Based on them, we believe that entrepreneurship is an important element of business, and its development serves to organize business. Entrepreneurial activity is manifested as a form of business and is implemented in its various areas. However, business is understood in a broader sense. If business means running and expanding, entrepreneurship is the creation and expansion of income through creative and collaborative economic activity. Entrepreneurship and creativity are interconnected and form a single whole;
2. More than 55 percent of the GDP of our republic is accounted for by small businesses. If we compare it with developed foreign countries, this indicator is slightly higher. In developing countries, its share in GDP exceeds 50 percent, which allows for rapid economic development;

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