

PRACTICE OF CREDITATION TO SMALL BUSINESSES BY COMMERCIAL BANKS OF THE REPUBLIC OF UZBEKISTAN

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A B S T R A C T	KEY WORDS
The practice of lending to small businesses by commercial banks of the Republic of Uzbekistan was analyzed. The structure of state support for lending to small businesses by banks in our country was considered.	Small business, banking sector, banking system, basic accounting, international standard.

Introduction

Developing the economy of the Republic of Uzbekistan and strengthening the activities in this direction and bringing them to the forefront is one of the priority tasks today. The role and place of commercial bank loans are very important in solving the main tasks aimed at increasing the development of the country and increasing the well-being of the population, as well as in increasing the financial capabilities of borrowers. We believe that in order to regulate the lending process by commercial banks, it is important to first regulate credit issuance.

Today, measures aimed at developing the banking sector are being implemented in our country, and as a result, tangible achievements have been achieved. In particular, the Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan" dated November 11, 2019, in a new edition in line with international standards, the Law of the Republic of Uzbekistan "On Banks and Banking Activities" dated November 5, 2019, the Law of the Republic of Uzbekistan "On Currency Regulation" dated October 22, 2019, and the Law of the Republic of Uzbekistan "On the Regulation of the Currency" dated October 1, 2019 The laws "On Taxes and Tax Systems" were adopted in November.

ANALYSIS AND DISCUSSION OF RESULTS

Also, in recent years, the government has adopted a number of resolutions, decrees, and state programs that directly affect the banking system and lending activities of small businesses.

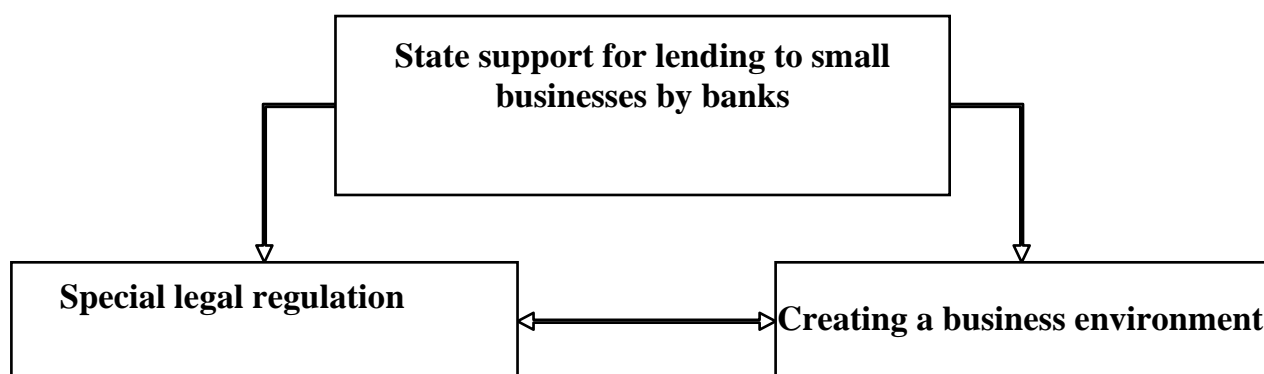


Figure 1. The structure of state support for lending to small businesses by banks in our country

Article 24 of the Civil Code of the Republic of Uzbekistan states that "a citizen has the right to engage in entrepreneurial activity as an individual entrepreneur, starting from the date of state registration." The Resolution of the President of the Republic of Uzbekistan No. RQ-3270 dated September 12, 2017 "On measures to further develop and increase the stability of the banking system of the Republic" states that "timely identification of bank risk and its occurrence, prevention, improvement of the structure of bank assets and the state of the credit portfolio, strict adherence to loan repayment periods and approved schedules, and the elimination of overdue loans" "Recommendations were made to take all necessary measures to prevent the formation of debts, to terminate the practice of lending to loss-making organizations, to increase the attractiveness of banking services and to rationalize the tariff policy, taking into account the reasonable profitability of the bank." Based on the Resolution of the President of the Republic of Uzbekistan dated December 21, 2018 No. RQ-4071 "On measures to ensure the financial stability of commercial banks, increase the efficiency of their activities and improve credit policy", "in order to ensure the continuity of the activities of economic entities, it is necessary to expand the use of "revolver" loans, open credit lines and other short-term loans, and "strictly implement the approved repayment schedules and take measures to prevent the emergence of overdue debts."

The adoption of the Decree of the President of the Republic of Uzbekistan No. RF-5992 dated May 12, 2020 "On the Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025" was another major step towards lending to small businesses. Based on the decree,

"The Strategy for Reforming the Banking System of the Republic of Uzbekistan for 2020-2025 has been developed taking into account the important conclusions and recommendations of the World Bank based on the results of a study of the current state of the country's banking system. The strategy defines the goals, objectives and priority areas of development of the banking system, directions of transformation and reform of the banking system in 2020-2025, ways to find possible solutions based on the experience of transforming the financial sector of foreign countries and taking into account global trends in the financial sector, and also stipulates the implementation of the following:

1. "Credit portfolio and improve the quality of risk management, achieve moderate growth in lending volumes;
2. Taking into account the advantages of the regional network of Agrobank JSC and Microcreditbank JSC, their activities are aimed at supporting small and medium-sized businesses and agricultural producers through state loans, providing services to individuals in regions, including remote districts

where it is difficult to provide financial services, and providing financial support to small businesses.

3. "Increasing the accessibility of financial services to the population and business entities, including underserved segments (low-income individuals, rural residents, micro-firms and small businesses) and expanding access to basic banking services (deposits, loans and mortgages)";
4. "The fact that the tasks of increasing the scope and quality of services provided to small and medium-sized businesses, including through the use of information and communication technologies, are set indicates the need for banks to study foreign experience in lending to small businesses and explore opportunities to apply it in their own."

The Decree of the President of the Republic of Uzbekistan No. RF-4848 dated October 5, 2016 "On additional measures to ensure the rapid development of entrepreneurial activity, comprehensive protection of private property, and qualitative improvement of the business environment" indicates that the legal protection of private property is a state policy that has reached a new level. It also strengthens "granting broad freedom to small business entities, radically reducing interference in their activities, ensuring timely prevention of violations, increasing the effectiveness of their prevention, and preventing violations" as the most important priority and the first task of state bodies.

The Decree of the President of the Republic of Uzbekistan No. RF-5466 dated June 27, 2018 "On the State Program "Youth - Our Future"" stipulates the implementation of the following:

- "Implementation of loans and leasing of property for a period of 5 years with a grace period of up to 12 months";
- "Implementation of loans and leasing of property through "Xalq Bank", "Microcreditbank" and "Agrobank";
- "financing of business initiatives, startups, ideas and projects of young people based on model business plans developed by the Chamber of Commerce and Industry of the Republic of Uzbekistan together with financing commercial banks";
- financing commercial banks make decisions on preferential loans and leasing of property based on the submitted address list in the established procedure. "The fact that the processing time for applications for preferential loans and property leasing by commercial banks for the implementation of young people's business initiatives, startups, ideas and projects is set to no more than 3 business days"100 creates great opportunities for young entrepreneurs.

The adoption of the Resolution of the President of the Republic of Uzbekistan No. RQ-3777 dated June 7, 2018 "On the implementation of the Every Family - Entrepreneur Program"101 has become a real help in providing entrepreneurs with credit funds.

The resolution also provides for loans from commercial banks:

- "recommendations of sector heads and local citizens' assemblies on the socio-economic development of regions for the development of family entrepreneurship in an amount equal to one hundred and fifty times the base settlement amount";
- "third-party guarantees, insurance policies, pledges of property purchased on credit, guarantees of the Fund and other types of collateral within the framework of legal acts for small business entities that have passed the state register in the amount of up to one thousand times the basic settlement amount";
- "When lending to investment projects of business entities in an amount exceeding one thousand times the base settlement amount, collateral is allocated based on the types of collateral established within the framework of legal acts. In this regard, loans will be provided through "Xalq Bank",

"Microcreditbank" and "Agrobank" at the key rate of the Central Bank of the Republic of Uzbekistan, and from January 1, 2022, at rates set independently by commercial banks based on market principles, which also plays an important role in the development of entrepreneurship.

The Resolution of the President of the Republic of Uzbekistan No. RQ-54 dated December 16, 2021 "On additional measures to increase the efficiency of land use, as well as financial support for entrepreneurial initiatives of the population" is significant in that it has brought entrepreneurship to a new level.

The head of our country also said, "...in the current era of global pandemic, we consider protecting the health of the population, including not leaving entrepreneurs in the middle of their own problems, as one of our important goals. Because behind each business structure are the jobs of many people, the income of their families, and the fate of today and tomorrow. The number of small and private businesses in the new Uzbekistan will double in the next decade, with more than 50 percent of enterprises in this sector having been established in the last three years alone. This is a great opportunity for the strengthening of an important social stratum in our country - the middle class, which is evidenced by the fact that great opportunities are being created for the development of business entities. The open meeting of our resident with entrepreneurs on August 20, 2021 is a practical result of the development of entrepreneurial activity. In order to ensure the implementation of the tasks set out in this open meeting and simplify the mechanism for allocating loans within the framework of family entrepreneurship development programs, increase the employment of the population, expand sources of income, and support labor activity: Decree of the President of the Republic of Uzbekistan No. PG-55 "On the development of family entrepreneurship and expanding sources of income of the population" dated December 20, 2021 "On additional measures" was adopted. The following are determined in order to ensure the implementation of the tasks set out in the resolution, which can be considered as one of the important points for the development of entrepreneurial activity.

Positive trends in the banking sector of the Republic of Uzbekistan were observed in 2016. However, in 2023, state-owned banks will remain the main source of negative results of the national banking system in Uzbekistan. The share of funds received from the government in commercial banks that own state assets is still considered high. The banking system of the Republic of Uzbekistan is characterized by the presence of high concentration. In particular, 84 percent of all bank assets still belong to state-owned banks, 64 percent belong to 5 large banks (Milliu Bank, Asaka Bank, Uzsanoatqurilishbank, Iroteka Bank and Agro Bank). The ratio of state-owned deposits to loans of existing banks is 32.9 percent. For comparison, this indicator in private banks is 96 percent.

Table 1 Distribution of credit agreements of commercial banks in the Republic of Uzbekistan by currency

	2014	2015	2016	2017	2018	2019	2020	2021	2022
By volume, trillion soms									
Allocated credits	34,5	42,7	53,4	110,6	167,4	210,1	275,3	326,4	390,1
Currency exchange rate, trillion soms									
In national currency	21,04	28,94	30,56	41,74	44,13	110,4	138,6	163,7	204,1
In foreign currency	13,46	13,76	22,84	68,86	55,87	99,7	136,7	162,7	186,0

If we analyze the credit policies issued by commercial banks in our country by currency, we can see that the increase in the volume of credits issued in the national currency, on the one hand, and the increase in the amount of preferential credits mainly due to funds under state programs, on the other hand, the level of income allocated to individuals can be observed in the form of an increase in the volume of consumer loans. In 2021, we can see that the balance of foreign currency loans in credit instruments increased by 17.8 percent compared to the previous year, and the balance of national currency loans increased by 18.1 percent (see Table 1). If we look at international experience, the amount of credit facilities of commercial banks in the country, compared to the UAM, constituted more than 190 percent in Australia, 279 percent in the Netherlands, 170 percent in Great Britain, and 150 percent in the USA. From this, the following conclusions can be drawn: while the loans allocated in our country are indeed wide-ranging and demand a lot of attention, an analysis of international experience shows that the level of credit provision today is not sufficient.

CONCLUSION AND SUGGESTIONS

Small and medium-sized enterprises (SMEs) make up the majority of businesses worldwide, creating new jobs and contributing significantly to global economic growth. They account for nearly 90 percent of businesses worldwide and employ more than 50 percent of workers. In addition, formal SMEs contribute up to 40 percent of national income in developing countries. According to World Bank estimates, by 2030, 600 million jobs are expected to be created by small and medium-sized enterprises, making the development of small and medium-sized enterprises a priority for developing countries around the world; Today, developed banks in the world are paying great attention to small businesses, implementing credit policies and service processes for them in a separate manner, and expanding their services to this type of client in full cooperation.

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