BANK LENDING TO SMALL AND MEDIUM SIZED ENTERPRISES IN UZBEKISTAN: EFFICIENCY AND SUITABILITY ANALYSIS

Maqsud Rustamov

Senior Lecturer, Tashkent Institute of Finance, Tashkent, Uzbekistan

rustamov.maksud@inbox.ru

Abstract

Small and medium sized enterprises (SMEs) have already become the most essential part of modern business structure. Despite their limited production and income capacity, governments lean on SMEs' power in ensuring output, jobs and income in the society. Therefore, business policymaking is getting more focused on supporting SMEs in tackling their key issues, especially access to funding. This paper studies the existing problems in ensuring lending instruments for SMEs and examines the effect of bank lending in SME sector growth in Uzbekistan. The OLS analysis showed that bank lending to SMEs stimulates the growth of SMEs' share in economy to significant extent.

Keywords: Bank lending, SMEs, credit gap, Uzbekistan

INTRODUCTION

SMEs play a major role in most economies, particularly in developing countries, as they contribute up to 60% of total employment and up to 40% gross domestic income in emerging economies (The World Bank Group, 2018). Recent trends in global business environment reflect the strengthening position of SMEs in overall growth of domestic economies in both developed and developing economies, rejecting the generally accepted and highly believed concept of large businesses' dominance in advanced economies. Until recent times multinational corporations were seen as a fulcrum of the developed countries due to their large share in overall output and earned income, added value and employment opportunities of whose were created out of the borders of home economies. Despite tremendous financial indicators of large enterprises, the core benefit of their activity and economic effect remain in

foreign economies, especially in resource-rich developing countries or low-tax-burden emerging markets. Instead, SMEs' added value, output and employment opportunities are created in the domestic economy.

Considering the strengthening position of SME's in economic growth, in many countries governments are taking steps towards the creation of high-growth and competitive SME's by surveying their needs and development factors. Results shown that a large proportion of SME's feel a need for external finance, especially bank lending or other alternative sources.

Bank lending is the most common source of external finance for many SMEs and entrepreneurs, which are often heavily reliant on traditional debt to fulfill their start-up, cash flow and investment needs (OECD, 2015). External funding is crucial for the smooth functioning and future expansion of SMEs in mid- and long-term perspectives.

Nowadays in developing economies, SME finance has already been of deeply rooted issue due to the lack of funding sources. According to the IFC analysis, over 510 million SMEs are operating in the world: 440 million or 86 percent of them are located in developing economies. Total demand of SMEs for funding is 8.9 trillion US dollars, as credit supply is just 3.7 trillion US dollars. Net credit gap is 5.2 trillion US dollars or 19 per cent of their cumulative GDP. IFC's survey proves the depth of the roots of financing problems in SMEs, as they provide 40 per cent of developing countries' total output on average, but their credit gap is a half of their share.

Uzbekistan is a progressively growing developing economy in Central Asia with the highest level of economic diversification and largest share of SME's in country's total output. Being the backbone of private sector, SMEs play central role in employment, value creation and income generation. Since two decades, the government has focused on SME comprehensive support schemes, which embraces SME support tools ranging from creation of business plan and registration of entity to privileged bank lending and investment and trade. Nowadays SMEs represent corporate relations in national business environment and is accepted as an etalon means for rural development through entrepreneurial activity. Some sectors related to the SME support policy offer tailored services for SMEs, e.g. preferred bank loans, trade finance tools, one-stop shop in firm registration, simplified and soft tax regimes. In this paper, effectiveness of Uzbekistan's SME lending system is investigated with wider coverage of impact channels, which directly influence on their growth.

Problem statement

After global financial crisis, world credit market structure totally changed its face by introducing more secured, less accessible and limited lending instruments and packages for business

sector. Although global financial downturn originated from mortgages and large investment lending schemes, credit institutions still carefully approach to corporate lending operations. Consequently, due to the inconsistencies in demand and available lending volumes in global credit market, obtaining bank lending has already become costly and unaffordable for businesses. Shortfalls in financing and costly lending packages call for chain effect in domestic economy through employment, value creation, fiscal stability and business environment channels. The existing gap in SMEs influence on expansion of SMEs and lead to systemic degradation of overall socio-economic condition in countries with SME-dominant business atmosphere.

METHODOLOGY

The analytical part of this article is focused on the empirical analysis of trends in key indicators of macroeconomic, corporate and firm-level indicators in 2006-2017, when domestic banks entered to the active phase of low-interest lending to SMEs in 2006. Considering the mathematical and economic attributes and properties of the selected indicators, econometric modelling is decided to built on OLS method with comprehensive auxiliary tests. In selecting the indicators, influencing on the SME development in domestic economy, all impact channels are included. The econometric model is specified as follows:

$$SSME_t = \alpha_0 + \beta_1 LSME_t + \beta_2 NSME_t + \beta_3 BENV_t + \beta_4 MEST_t + \varepsilon_t \qquad (1)$$

SSME – share of SMEs in GDP in t period. Importance of SMEs in the economy is estimated through their share in the gross domestic output. Therefore, share of SMEs in GDP formation is selected as the key measure in econometric model.

LSME – lending to SMEs in t period. As mentioned in problem statement, SME finance holds the central position in establishing SMEs and moving them forward due to the usually faced need in funding. Bank lending makes up the largest contribution in SME support schemes, as most enterprises lean on bank funding even in pre-establishment, establishment and recovery periods. Bank offers and lending volumes to SMEs directly influence on the overall SME development trends in economy.

NSME – number of SMEs. Change in the number of operating SMEs in economy illustrates their expansion and its growth shows supportive environment, decrease is the sign of negative condition for SME expansion.

BENV – business environment in domestic economy. General business environment in a particular economy depicts the entire picture of private sector, which presents an operational space for large, medium and small businesses. Share of private sector enterprises indicates the

wellbeing in business environment. Dominance of state owned/ governmental enterprises tightens the smooth functioning of

MEST – macroeconomic stability. Macroeconomic stability lays the solid foundation for overall socio-economic development in the economy. It ensures effective functioning of all economic tools, including income, labor, resources, markets, corporate relations etc. Macroeconomic stability is measured with economic growth indicators, namely, GDP growth. Following generally accepted theory, in this econometric model, macroeconomic stability is measured through dynamics of GDP volume in national currency.

ANALYSIS & RESULTS

Deriving from the essence and attributes of the data, the econometric model is estimated in ordinary least squares (OLS) method. In initial stage of the analysis, we decided to obtain basic characteristics of collected data sets, which enables us to make decision over model selection. (Table 1).

Table 1. Descriptive statistics

	SSME	LSME	NSME	BENV	MEST
Mean	52.15000	6685.187	183.7304	370.8177	104508.7
Median	53.65000	4693.500	188.5800	440.6343	87170.20
Maximum	56.90000	19600.00	229.6660	491.7986	249136.4
Minimum	42.10000	546.8380	100.8000	226.7064	21124.90
Std. Dev.	4.706765	6310.014	32.99208	115.2752	73457.21
Skewness	-0.939127	0.873934	-1.139547	-0.299592	0.631016
Kurtosis	2.734221	2.522623	4.502227	1.178102	2.242019
Jarque-Bera	1.799240	1.641465	3.725480	1.839166	1.083631
Probability	0.406724	0.440109	0.155247	0.398685	0.581691
Sum	625.8000	80222.24	2204.765	4449.812	1254104.
Sum Sq. Dev.	243.6900	4.38E+08	11973.25	146172.1	5.94E+10

The descriptive statistics illustrates that the data points are close to the mean in share of SMEs and number of SMEs, while those in lending to SMEs and macroeconomic stability is are spread out over a wider range of values. Share of SMEs, number of SMEs and business environments data are negatively skewed, since lending to SMEs and macroeconomic stability data sets are positively skewed: asymmetric data does not exist. Selected data sets have positive (leptokurtic) kurtosis, which indicates that data is heavily distributed.

After obtaining a positive descriptive statistics coefficients, the econometric model (1) is run in OLS method (Table 2).

Table 2. OLS test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	32.53329	7.154166	4.547461	0.0026
LSME	0.003242	0.001048	1.093048	0.0175
NSME	0.041521	0.036039	1.152119	0.0871
BENV	0.002847	0.010294	0.276544	0.0901
MEST	0.000312	9.78E-05	3.190052	0.0153
R-squared	0.843149	Mean dependent var		52.15000
Adjusted R-squared	0.753519	S.D. dependent var		4.706765
S.E. of regression	2.336759	Akaike info criterion		4.829744
Sum squared resid	38.22310	Schwarz criterion		5.031788
Log likelihood	-23.97846	Hannan-Quinn criter.		4.754940
F-statistic	9.407061	Durbin-Watson stat		2.172400
Prob(F-statistic)	0.006038			

OLS test results showed that all selected factors have positive effect in the dynamics of the share of SMEs in GDP. Moreover, all four variables are significant, as probability is less than 10 per cent. Number of SMEs (0.041521) adds the largest contribution to the strengthening position of SME's to economic growth in Uzbekistan. Bank lending to SMEs is the second major driving force, which stimulates the SME development in the domestic economy (0.003242). Business environment (0.002847) in Uzbekistan also supports SMEs' solid role in economic development. Among all four factors, macroeconomic stability (0.000312) influenced comparatively less on SMEs' share in GDP.

In consistent with OLS test results, we specify the mathematical expression of our econometric model as follows:

$$SSME_t =$$
$$32.53329 + 0.003242 * LSME_t + 0.041521 * NSME_t + 0.002847 * BENV_t + + 0.000312 * MEST_t + \varepsilon_t \qquad (2)$$

CONCLUSION

As discussed above, SME's play critical role in ensuring balanced and progressive socio-economic development in both developing and advanced economies. Therefore, SME support schemes, especially ensuring financial stimulation has been on the top of economic policymaking agenda of nearly all countries in the world. Nowadays SMEs in advanced economies enjoy effectively and prudently introduced lending schemes, where developing economies fail in delivering the needed financial support owing to systemic and structural problems. Therefore, developing economies are actively introducing new tools and services from the advanced experience of developed counterparts. In accordance with research findings and international best practices, following recommendations are drown and proposed in order to improve SME lending schemes in developing countries, which can be applied to Uzbekistan:

1. In many developing economies interest rates of loans for SMEs are not sufficiently flexible. Even they offer lending tools in preferential interest rates, they are solidly fixed at particular scale of interest rates, which changes depending on loan amount and maturity period. Introducing loyalty, credit history and portfolio bonuses.

2. Credit institutions mainly focus on timely and full payback of the issued loan to SME's. Considering the importance of SME's in the employment and value creation in the economy, it is recommended to consider the social contribution (investment, employment, output dynamics, gained through the bank loan) in presenting lending tools and to apply bank's own preferred interest rate or other form of stimulation for SME in future.

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