

SMALL BUSINESS LOANS: THEORY AND PRACTICE

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Abstract

The way of investigation makes analyses over small business enterprises and companies that are engaged in various fields of economy as whole. Moreover, the paper scrutinizes both practical and theoretical issues of business while showing the ways of development for the future studies. Analyses make understanding of current status quo in the market oriented policy of government in the existence of policy and structural studies at all. The paper offers scientific recommendations that advance the crediting activities of small businesses through commercial banks. Outcomes and shortcomings of the paper lead to better understanding with major explanations and possible recommendations.

Keywords: Deposit, group responsibility, small business, crediting, micro investment, non-banking crediting organizations, interest rates, financial securities

INTRODUCTION

The small business is considered as basic factors of Uzbekistan's economic development. On April 1, 2016, the small business included 56.7% of GDP of the country. More than 77% of employed people were belonged to the sector. In turn, in order to develop activities of small businesses and expanding their export potential creates a demand for improving their crediting activities through commercial banks (Abdulkarimov B.A, 2013). The current article offers scientific recommendations that advance the crediting activities of small businesses through commercial banks.

Commercial bank loans are considered as important sources of investing small business activities. Therefore, crediting of the small business activities is researched and created necessary scientific conclusion by several economic scientists.

The winner of Nobel Award, issued by Grameen Bank of Bangladesh, famous economist M. Yunus committed specific revolutionary changes in the sphere of crediting small businesses. Namely, Grameen Bank introduced crediting small business through group responsibility and offered loans without mortgages with initiation and offer of him (Abdullaev, 2003). M. Yunus concluded that the social efficiency should be considered while crediting small start-ups. Improving the financial capacity of small businesses, they will influence on increase of demand on loans given in market interest rates.

F. Allen and D. Gale mention that there are two systems of investing small and medium businesses – banking activities based system and financial markets based system and the first system is relatively important (Della Corte, del Gaudio, & Lavazzi, 2013). We believe, conclusion of F. Allen and D. Gale plays crucial role in countries with market economy countries. Firstly, particular countries commercial banks own enough reputation in small business crediting system. Secondly, there is no possible way to attract resources through the financial securities market (Associated, 2016).

According to conclusion of French economist scientists G. Chanel-Reynaud and E. Bloy setting a positive relation with giant companies gives an opportunity to use commercial bank loans for small and medium companies. Because of giant companies analyses the condition to respond market demand before making business relationship. Moreover, giant companies always control the condition of their small or medium partner (Ajwad et al., 2014).

THEORETICAL BACKGROUND

In writing the article used methodological approaches to lending to small businesses, grouping method, comparative and trend analysis.

Information base of the study of statistical data of the Central Bank of Uzbekistan, the data of the financial statements, "Bank of America" and the theoretical conclusions of famous scientists and economists.

M. V. Mamut concludes that Central Bank should not control the micro lending operations of banking and non-banking crediting organizations in order to improve microlending operations of small businesses. Operating in micro lending services and working in low-populated areas results huge costs and in such conditions, the control by Central Bank eliminates the profit of commercial banks from offering micro lendings (Ames, Brown, Devarajan, Izquierdo, & others, 2001).

D. Tadjibaeva and I. Muminov concluded that, partnership of commercial banks with microfinancing organizations is not beneficial only for commercial banks, but it is beneficial for themselves too. Firstly, it gives opportunity the diversification of investing sources. Conditions of

having economics limitations in some countries, such as legally prohibiting deposits attractions, financial securities releasing, and stock exchanges uploading, or less developed stock market, does not allow to diversify the investing sources for microfinancing organizations. We believe, the definition of microloans by D. Tadjibaeva and I. Muminov cannot fully define importance of microcredit and the definition is arguable. They mention the following "Micro lending is the system of economic relations, described as paying back the microloans, paying interests, and providing & receiving on long-term conditions as well as differs from traditional loans with possibility of using social and group (psychological) mortgage". In this definition, firstly, activeness of microloans amount is not mentioned; secondly, the mortgage is tangible and has amount, whereas the terms social and psychological mortgage does not exist in economy and practice. If it exists, the authors should prove it (Djanibekov & others, 2008).

Considering abovementioned ideas, it is obvious that there are different views about crediting small businesses. However, theoretical views, firstly, the importance of commercial banks in crediting the small business is mentioned; secondly, micro lending the small business through micro investing organizations is proved with partnership of commercial banks.

The US experience in the field of lending to small businesses has shown that the presence of negative factors affecting the ability to use subjects of commercial bank loans the cash flow volatility, their weak position in the competitive forces of the Government to develop and implement measures aimed at the financial support of the lending process small businesses. So, in 1993, it was created by the US Administration to support small businesses (Gürgen, 1999). This Administration has the following types of subjects of small business financial services:

- Assistance in drafting a business plan for the loan;
- Cash issue to form a striation of capital;
- Issuance of guarantees on loans of commercial banks;
- Consulting services.

At the end of 2015 US commercial banks issued loans to small businesses for a total amount of 726 billion. US dollars. At the same time, 13 percent of these loans were granted under the guarantee of Administration (Djanibekov & others, 2008). Also, in the US there are about 50 programs. Aimed at financial support for small businesses. Among them, three are the largest program - "504", "7a" and "7M". Per the program "504" costs to small businesses for expansion and modernization of the credits through investment funds. After analyzing the activities of a small business, it is a long-term loan for the term provided from 10 to 20 years for the purchase of property, equipment and technology. The amount of these loans cannot exceed \$ 1 million (Khalilov, 2014).

Per the program "7a" provided state guarantees on loans to commercial banks issued to novice small businesses. For a state guarantee to small businesses must meet the following requirements:

- Must have the status of a small business;
- The lack of domestic sources of financing;
- Activities must be of a commercial nature;
- The presence of a positive credit history.

State guarantee provided by the following criteria:

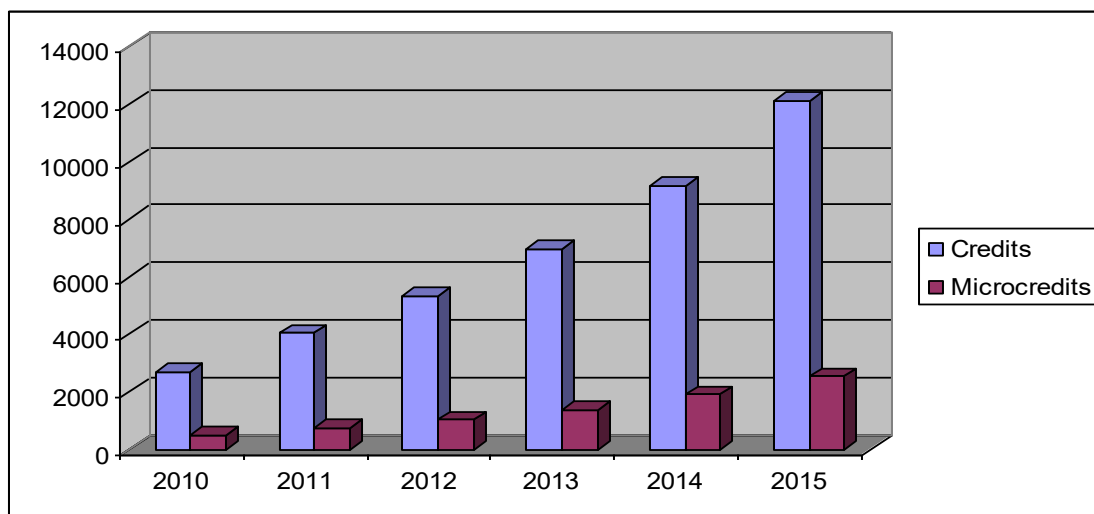
* Loan, the amount of which exceeds 750 thousand dollars - 75%;

* Loan worth up to 100 thousand dollars Ming - 80%.

State guarantees are provided: loans granted for working capital - for 10 years; Investment loans - for 25 years (Khalilov, 2014).

Now, the practical foundation of crediting small businesses is reviewed.

Figure1. The loans provided to small business given by commercial banks from all investing sources in Uzbekistan, billion sums



Considering the information from Figure 1, the amount of loans provided by commercial banks from different investing sources in Uzbekistan has tendency of increasing during period of 2010 – 2015. Therefore, it is considered as positive condition from the side of investing the small business activities(Djanibekov, Rudenko, Lamers, & Bobojonov, 2010; Kotz, 2003).

Worth to mention, according to PV – 1501 on March 11 in 2011 of the President of the Republic of Uzbekistan about “Additional measures to increase the amount of crediting small business and private entrepreneurship”, with stipulation of giving profit and released funds to the

improvement of “Providing Concessional Loan Special Fund”, the banks were free of taxes which profits are earned from legal entities. Thus, the interest of banks towards crediting small businesses has risen (Hodjaeva, 2014).

Table 1. Amount and dynamics of loans provided for food production and service development by commercial banks

	Years						The ratio of changes from 2010 2015, (times)
	2010	2011	2012	2013	2014	2015	
The loans provided for food production development, billion sums	519,5	712,4	978,2	1231,7	1592,5	2104,3	4,1
The loans provided for service development, billion sums	261,2	351,1	618,1	899,7	1245,1	1633,8	6,3

It is obvious from the information of Table-1 that the amount of loans provided for development of food production and service during the period of 2010 and 2015 has undergone a significant increase. Moreover, particular credit amounts have risen more in 2015 than in 2010.

The providing food safety in the country is one the important aspects of Economical Politics of Uzbekistan and has achieved considerable progress in improvement in the keeping of the safe food in the country. Uzbekistan was considered as one of the “Thousand years development goals achieved” country among 14 countries by Food and Agriculture Organization of United Nations (Corsi & Akhunov, 2000; Nyawata, 2013). We believe, it is expedient to make the following action in order to improve small business crediting actions by commercial banks (Fry, 1988; Tursunova, 2011). The small business which has issues in having high liquidity mortgages should be attracted towards financial leasing and operating leasing.

In order to reach this, firstly, the bank should be free from the tax from the profit of leasing loans to small businesses. Secondly, the leased object should be considered as the full amount of the leased loan (without requiring additional money). Thirdly, the real amount of amortization of leased object should not decrease.

Operating leasing gives opportunity to full-fill the circulating money with selling the leased objects to the commercial banks considering as current asset of small business. Nevertheless, the small businesses are not able to use this convenient type of leasing loans.

The stability of income from export of small businesses should be stabilized in order to pay their loans in foreign currencies back to commercial banks. In order to reach this, we believe, the

equality of customs tax rate of our country and exporting countries for majority of small business exporters should be provided.

Experiment in Bangladesh shows that the product exporting countries' customs tax rate has significant and direct influence on the stability and export amount of small businesses. The USA has huge amount of taxes for products exported from Bangladesh, and it is in fourth in a rating. The amount of export from Bangladesh to USA was 3.3 billion USD, and the paid tax for customs was 500 thousand USD. However, Great Britain paid the same amount of taxes, but the amount of export consisted of 54 billion USD (Akimov & Dollery, 2006; Vakhobov & Bobakulov, 2009).

The factoring provided by commercial banks should be important factor of providing stability in money flow in small businesses. The following issues should be clarified. In 2010-2015, the amount of loans to commercial banks of Uzbekistan granted to small businesses, had a growth trend. It is primarily due to the strengthening of banks' resource base and the presence of the system of state financial support to small businesses.

Currently, there is an opportunity to develop small businesses crediting activities by commercial banks. The increase in volume of finance leasing and operating leasing operations, the increasing the possibility of returning loans in a foreign currency, implementing factorings for small businesses are considered as the opportunities for development.

The commercial banks play crucial role in crediting activities of small businesses in the Republic of Uzbekistan. In turn, the increase in the amount of resource base of commercial banks creates an opportunity to increase the amount of loans to small businesses.

CONCLUSION

According to the above-mentioned features investigation concludes that the small businesses should be able to buy realized products documents both with and without regressing law. If commercial banks are not allowed to buy products' document with regressing law, similarly to current situation, then, the banks consider their factoring as risky actives, thus it will eliminate the interest of crediting small businesses via factoring. Moreover, debiting debts of bad debts and small businesses in loss should not be collected. Otherwise, factorings of banks increase the amount of doubtful debts in economy. Furthermore, the period of factorings provided to small businesses by commercial banks should be suitable with amount of payment collection for sold products and should not exceed 180 days. The factoring is short period type of loan. It is vivid that, the sale of objects which are considered as mortgage of factoring should be committed with basis of a contract conducted by two sides, the commercial bank and small business, and which is legalized by notary office, not by verdict of court.

The review showed that the reduction in credit investments, including loans granted to small businesses, is the result of deterioration in the quality of loan portfolio. In addition, the relatively low share of all loans granted to small businesses in the total volume of loans "Bank of America" is testified to that small business lending is not a priority lending activities "Bank of America". The late sale action of mortgaged object via court and its long period may damage the benefits of bank. The considering abovementioned factors and implementing factorings of banks in practice increases the loans received by factoring among small businesses.

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