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Article

Improving the Lending of the Foreign Economic Activity of Small Business Subjects

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Abstract: Commercial bank loans are essential for the development of the foreign economic activities of small businesses. Credit lines, as well as overdraft, factoring, and forfaiting facilities provided by commercial banks, play a significant role in this process. This article analyzes the practice of commercial bank lending for the foreign economic activities of small businesses and proposes scientific recommendations aimed at improving this practice.

Keywords: Small Business, Commercial Bank, Export, Import, Loan, Interest Rate, Inflation, Devaluation.

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1. Introduction

In the context of globalization and the rapid transformation of international trade, the sustainable development of small business entities has become one of the key priorities of national economic policy. Small businesses contribute significantly to employment generation, innovation, and economic diversification. Their participation in foreign economic activity (FEA), particularly in export and import operations, strengthens the country's competitiveness in international markets and increases foreign exchange earnings. However, the expansion of small businesses into international markets largely depends on their ability to access sufficient and affordable financial resources.

The Development Strategy of New Uzbekistan for 2022-2026 identifies the enhancement of the country's export potential as one of its strategic priorities [1]. The Strategy sets ambitious goals of increasing the national export volume to USD 30 billion by 2026, improving the system of support for exporting enterprises, maximizing the export capacity of domestic industries, and increasing the share of the private sector in total exports to 60 percent. Achieving these objectives requires the creation of an effective financial support system that enables small business entities to actively participate in foreign economic activity and successfully integrate into global value chains.

Commercial bank lending plays a decisive role in financing the foreign economic activities of small businesses. Export-oriented enterprises require financial resources to purchase raw materials, modernize production facilities, implement international quality standards, finance working capital, and fulfill export contracts. Nevertheless, many small businesses continue to experience difficulties in obtaining export-related loans because of insufficient collateral, relatively high financing costs, limited access to long-term credit resources, and underdeveloped financial instruments designed specifically for foreign trade operations. These constraints reduce the competitiveness of small businesses in international markets and limit the realization of their export potential.

International experience demonstrates that effective lending mechanisms, export credit agencies, state guarantee schemes, trade finance instruments, and digital financial technologies significantly improve access to finance for export-oriented small and medium-sized enterprises. Therefore, adapting advanced international practices to the national banking system and improving the institutional and financial mechanisms of lending for foreign economic activity have become important areas of economic reform.

Considering these circumstances, improving the lending system for the foreign economic activity of small business subjects is of considerable scientific and practical importance. Developing efficient lending mechanisms, expanding export financing opportunities, strengthening risk management practices, and increasing the accessibility of financial services will contribute to enhancing the export capacity of small businesses and ensuring the sustainable growth of the national economy. Accordingly, this study aims to identify the existing challenges in financing the foreign economic activity of small business entities and to propose practical recommendations for improving commercial bank lending mechanisms in line with Uzbekistan's strategic development priorities.

2. Materials and Methods

This study is based on a mixed-methods research approach that combines both qualitative and quantitative techniques to examine and improve the lending mechanisms for the foreign economic activity of small business entities. The research is structured in several stages, including theoretical analysis, empirical investigation, and the development of practical recommendations.

At the initial stage, a comprehensive review of scientific literature, international reports, and regulatory documents is conducted to identify the key concepts, models, and trends in small business financing and export credit systems. Particular attention is given to global best practices in supporting small enterprises engaged in foreign trade, including credit guarantees, export insurance, and preferential lending programs.

The empirical part of the study is based on both primary and secondary data sources. Secondary data include official statistics from national financial institutions, central banks, and international organizations, as well as analytical reports related to small business development and foreign trade financing. Primary data are collected through surveys and semi-structured interviews with representatives of commercial banks, small business owners involved in export-import operations, and financial experts. The selection of respondents is carried out using purposive sampling to ensure that the data reflect the realities of enterprises actively engaged in foreign economic activity.

To analyze the collected data, a range of methods is applied. Descriptive and comparative analysis are used to assess the current state of lending practices and to compare them with international experiences. Statistical methods, including correlation and regression analysis, are employed to examine the relationship between access to credit and the performance of small businesses in foreign markets. In addition, a system analysis approach is used to identify structural problems in the existing lending framework and to determine key factors limiting access to financial resources.

Based on the results of the analysis, the study develops a set of recommendations aimed at improving lending mechanisms for small business entities engaged in foreign economic activity. These recommendations focus on enhancing financial accessibility, reducing credit risks, and strengthening institutional support systems in line with international standards.

According to A. Gavrilov, “the directions for improving export financing are as follows: export financing should be based on a system that combines state and private capital; strengthening cooperation with international financial and credit organizations; creating an institution to support exporters through information and consulting services; establishing an export credit insurance agency; subsidizing exporters’ transportation costs” [2].

A group of economists consider the bonusing of loans issued by commercial banks to finance the exports of small businesses at the expense of state funds to be one of the priority directions for improving export financing practices [3].

According to J. Cunio, state funds play an important role in the development of exports (according to calculations, in Argentina, 1 dollar of state funds spent on export development ensures 240 dollars of exports, while in the USA this figure is 432 dollars). The scientist also noted that small and medium-sized businesses are the basis for diversifying the country's exports [4].

According to J. Sinki, while commercial banks occupy a leading position in the provision of financial services to small businesses in the United States, the financial services they provide to small businesses include the allocation of term loans and leasing loans, as well as the opening of credit lines [5].

According to I. Alimardonov, "in order to improve the practice of lending to small businesses for foreign trade activities, it is necessary to introduce the payment of their payments made through documentary letters of credit at the expense of term and overdraft loans of commercial banks" [6].

This proposal by I. Alimardonov is of great practical importance from the point of view of improving the financing of exports by resident companies. This is explained by the fact that the payment of documentary letters of credit opened by banks for small businesses at the expense of term and overdraft loans has not been introduced.

According to D. Murodova, "problems associated with the export of agricultural products are having a negative impact on the practice of lending to agricultural producers in foreign currencies." Therefore, in order to increase the export potential of agricultural producers, the following conditions should be created:

- Preventing an increase in the exchange rate of the national currency (an increase in the exchange rate of the national currency against the national currencies of countries that are Uzbekistan's main foreign trade partners leads to an increase in the cost of goods exported from our republic to these countries);
- Preventing an increase in the cost of transporting exported products (the main part of agricultural products exported in our republic is transported by rail. Therefore, efforts to reduce the rates of transit fees charged by countries through which trains transit when exporting our agricultural products play an important role in increasing the competitiveness of products);
- Ensuring timely receipt of export proceeds for exported agricultural products” [7].

3. Results and Discussion

The Resolution of the President of the Republic of Uzbekistan No. PP-5268 dated October 27, 2021 “On measures to reduce the burden of business entities related to the fulfillment of credit obligations in foreign currency” was adopted. In accordance with this Resolution, when transferring loans received from commercial banks in foreign currency to the national currency, business entities that have valid agreements on the provision of compensation will be compensated by the State Fund for the Support of Entrepreneurship to cover interest costs on loans with an equivalent of more than 1 million US dollars and an interest rate not exceeding 1.75 times the key rate of the Central Bank, which exceed the key rate, but not more than 5 percentage points [8].

Also, in accordance with the Resolution of the President of the Republic of Uzbekistan dated September 14, 2023 No. PP-306 "On measures of financial and institutional support for the development of small businesses", from October 2023, small business entities participating in the comprehensive program of permanent support for small businesses will be provided with loans of up to 1.5 billion soums for the establishment or expansion of entrepreneurial activities for a period of up to 7 years, including a grace period of up to two years, on a revolving basis - for working capital up to 3 years, at an annual rate of 4 percentage points above the key rate of the Central Bank for the purchase of fixed assets and (or) leasing. At the same time, it is envisaged to provide loans of up to 100 million soums without collateral, and up to 150 million soums with a reduction in collateral requirements by up to 50 percent [9].

It is noteworthy that the Decree of the President of the Republic of Uzbekistan No. PF-5177 dated September 2, 2017 "On Priority Measures for Liberalizing Currency Policy" fully ensured the realization of the rights of legal entities and individuals to freely buy and sell foreign currency and freely dispose of their funds at their discretion [10]. It should be noted that in the practice of developed countries, the mechanism of financing the export of small business entities through term loans from banks is widely used (Figure 1).

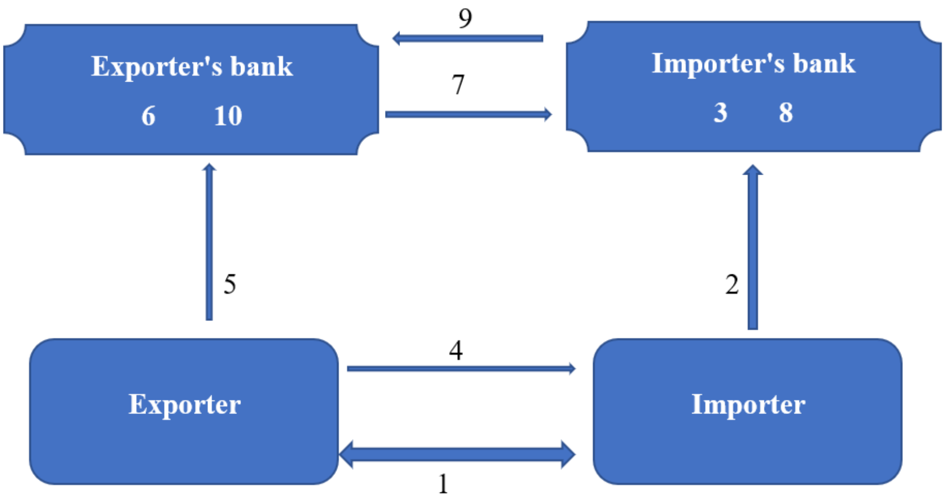

Figure 1. The procedure for financing the export of small business entities at the expense of term loans of commercial banks [11].

Here:

1. signing the export contract;
2. the importer applies for a loan to his bank;
3. a credit agreement is concluded between the importer and the bank;
4. The exporter sends the goods to the importer;
5. – The exporter transfers the goods documents to his bank;
6. – The bank receives the documents;
7. – The exporter's bank sends the documents to the importer's bank for payment;
8. – The importer's bank pays the amount of the goods on credit;
9. – The importer's bank informs the exporter's bank about the completion of the 8th operation.[12]

It can be clearly seen from the data presented in Table 1 that the average annual interest rate on short-term loans in foreign currency issued by Turonbank to small business entities, while remaining stable in 2021 and 2022, decreased significantly in 2024 compared to 2020. This is a positive situation from the point of view of improving lending practices to small business entities.[13]

Table 1. Average annual interest rates of loans granted by JSC "Turonbank" to small business entities in foreign currency, in percent.

Indicators	2020	2021	2022	2023	2024
Interest rate of short-term loans	23,0	19,0	19,0	24,0	20,0
Interest rate of long-term loans	6,9	7,0	8,0	9,0	8,0

It can be clearly seen from the data presented in Table 1 that the average annual interest rate on long-term loans in foreign currency issued by Turonbank to small business entities, while having an increasing trend in 2020-2023, increased significantly in 2024 compared to 2020. This is a negative situation from the point of view of improving lending practices to small business entities.[14]

The data in Figure 2 shows that the share of long-term loans in the total volume of loans issued by the National Bank of Uzbekistan to finance the foreign economic activities of small businesses was relatively high in 2020-2024. However, the share of long-term loans in the total volume of loans issued to finance the foreign economic activities of small businesses tended to decrease in 2022-2024. This is explained by the fact that the share of short-term loans in the volume of gross loans during this period tended to increase.

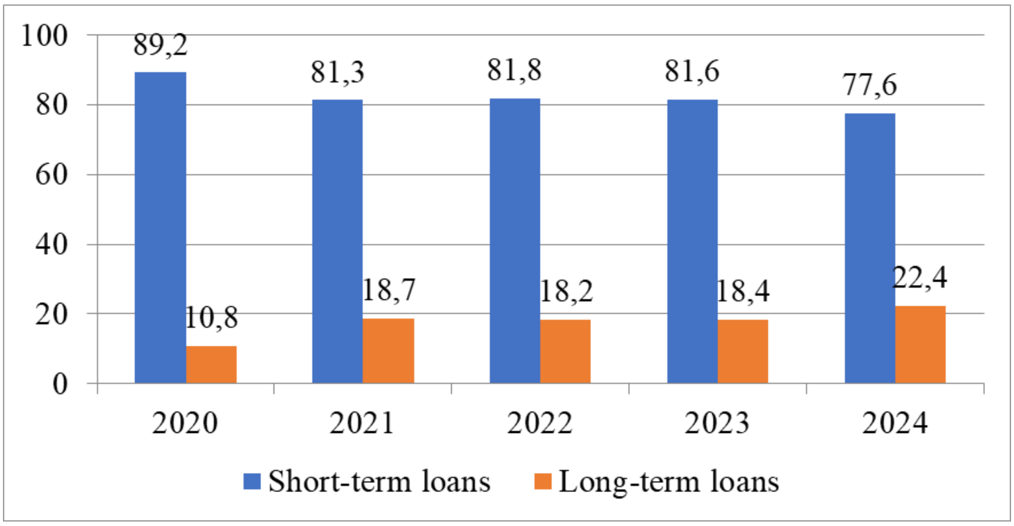

Figure 2. Composition of loans granted by the national bank for financing the foreign economic activities of small business entities by term, as a percentage of the total [15].

In the process of writing the scientific article, we have formed the following conclusion on the crediting of foreign economic activities of small business entities by banks:

1. The study of scientific and theoretical views on the crediting of foreign economic activities of small business entities has shown that:
   - The bonusing of loans issued by commercial banks to finance the export of small business entities at the expense of state funds is one of the priority areas for improving the practice of export financing;
   - Given that commercial banks occupy a leading position in the field of providing financial services to small businesses in the united states, the provision of term loans and leasing loans, as well as loans by opening a credit line, play an important role in the complex of financial services provided by them to small business entities;
   - In order to improve the practice of crediting foreign trade activities of small business entities, it is necessary to introduce the payment of their payments made through

documentary letters of credit at the expense of term and overdraft loans of commercial banks.

2. An analysis of the practice of lending to small business entities by banks for foreign economic activities showed that:
   - When transferring loans received from commercial banks in foreign currency to the national currency, business entities in our republic that have valid agreements on the provision of compensation will be compensated by the State Fund for the Support of Entrepreneurship to cover interest costs on loans with an equivalent of more than 1 million US dollars and an interest rate not exceeding 1.75 times the key rate of the Central Bank, exceeding the key rate, but not exceeding 5 percentage points;
   - The average annual interest rate on short-term loans issued by Turonbank to small business entities in foreign currency, while remaining stable in 2021 and 2022, decreased significantly in 2024 compared to 2020;
   - The average annual interest rate on long-term loans in foreign currency issued by Turonbank to small business entities increased significantly in 2024 compared to 2020, with an increasing trend in 2020-2023;
   - The share of long-term loans in the total volume of loans issued by the National Bank of Uzbekistan to finance the foreign economic activities of small business entities was relatively high in 2020-2024.

In our opinion, the following measures should be taken to improve the practice of lending to small business entities for foreign economic activities:

1. To increase the level of access to loans from commercial banks by small business entities by ensuring the stability of their cash flows, firstly, it is necessary to increase the share of investments in highly liquid short-term securities in the volume of current assets of small business entities; secondly, it is necessary to increase the share of cash in the volume of current assets by increasing the turnover rate of short-term receivables; thirdly, it is necessary to ensure a quantitative balance between the elements of cash income and elements of expenses in small business entities.
2. To improve the provision of loans to small business entities, reduce the cost of loans to small business entities by improving the assessment of their creditworthiness and credit risk management, firstly, it is necessary to increase the share of loans secured by first-class collateral in the volume of gross loans; secondly, it is necessary to improve the practice of using the financial ratio method to assess their creditworthiness; thirdly, it is necessary to pay special attention to insurance and hedging methods of credit risk management.

4. Conclusion

Improving the lending of the foreign economic activity of small business entities is a key prerequisite for strengthening their competitiveness, expanding export potential, and ensuring sustainable economic growth. The analysis shows that limited access to affordable financial resources, high collateral requirements, currency risks, and insufficient institutional support remain the main barriers preventing small businesses from actively participating in international trade.

To address these challenges, it is necessary to modernize lending mechanisms by introducing more flexible and diversified financial instruments tailored to the needs of small exporters and importers. The development of export credit agencies, wider use of trade finance tools such as letters of credit and guarantees, and the expansion of state-supported credit programs can significantly improve access to financing. At the same time, strengthening risk management systems—especially in relation to currency fluctuations and external market uncertainties—is essential for both financial institutions and borrowers.

Digitalization of banking services and the integration of financial technologies also play an important role in simplifying lending procedures, reducing transaction costs, and increasing transparency. In addition, enhancing financial literacy and advisory support for small business entities will enable them to more effectively utilize available financial instruments in foreign economic operations.

A comprehensive approach combining regulatory improvements, institutional support, financial innovation, and capacity building will ensure the effective development of lending for the foreign economic activity of small businesses. This, in turn, will contribute to increased export diversification, deeper integration into global markets, and long-term economic stability.

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