THE IMPORTANCE OF LENDING MECHANISMS IN FINANCING SMALL BUSINESS

AND PRIVATE ENTREPRENEURSHIP IN UZBEKISTAN

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ABSTRACT. This article examines the role of lending mechanisms in financing small businesses and private entrepreneurship in Uzbekistan. It discusses the contribution of commercial bank loans to business start-up, working-capital management, investment and expansion, while identifying barriers such as insufficient collateral, limited credit histories, borrowing costs and mismatches between repayment schedules and business cash flows. Drawing on published research and reports by international institutions, the article outlines practical directions for improving access to finance, including cash-flow-based credit assessment, transparent guarantee schemes, digital credit scoring, tailored loan products and financial-literacy support. The article argues that effective lending policy should balance wider access to finance with responsible risk management and the productive use of borrowed funds.

Keywords: small business, private entrepreneurship, lending mechanisms, commercial banks, access to finance, collateral, credit risk, digital lending, financial inclusion.

INTRODUCTION

Small businesses and private entrepreneurship contribute to employment, local economic activity, innovation and the diversification of goods and services. Their ability to grow depends not only on entrepreneurial skills and market demand but also on access to timely and affordable finance. Internal funds are often insufficient to purchase equipment, maintain inventories, adopt new technologies or enter new markets. In these circumstances, bank lending can provide an important source of

working capital and investment finance.

Access to finance remains a significant policy issue for Uzbekistan. Ruziev and Midmore's study of 502 small and medium-sized enterprises in Uzbekistan examined how connectedness and institutional factors relate to access to formal finance. Their findings underline that improving credit access requires not only greater lending capacity but also transparent and efficient lending procedures [1]. This reinforces the need for mechanisms that broaden access to finance while ensuring that loans are used productively and repaid sustainably.

The purpose of this article is to examine the importance of lending mechanisms in financing small businesses and private entrepreneurship in Uzbekistan, identify major barriers to credit access, and propose measures to improve the effectiveness of business lending.

RESEARCH METHODOLOGY

The article uses a qualitative review of published academic studies and institutional reports, together with comparative analysis and synthesis. International research on SME finance is considered alongside publications addressing the Uzbek context. The article does not report a new survey or original econometric estimation; therefore, quantitative figures are attributed to their published sources, and the proposed measures are presented as analytical recommendations.

THE ECONOMIC IMPORTANCE OF LENDING MECHANISMS

A lending mechanism includes the procedures through which a borrower applies for finance, a bank assesses creditworthiness, loan terms are determined, funds are disbursed and repayment is monitored. When these processes are accessible, transparent and proportionate to risk, credit can help entrepreneurs launch activities, stabilize cash flow, purchase machinery, expand production and improve service quality.

The contribution of lending can be considered in several dimensions. First, working-capital loans can help firms purchase raw materials, maintain stock and meet short-term operating expenses. Second, investment loans can support equipment purchases, modernization and the adoption of more productive technologies. Third, appropriately structured credit can help businesses respond to seasonal demand and take advantage of new contracts. However, borrowing does not automatically produce growth: the expected cash flow must be sufficient to cover operating costs and debt service.

Beck, Demirgüç-Kunt and Martínez Pería show that SME financing conditions are shaped by the broader economic, institutional and legal environment, as well as by the characteristics of banks [2]. This suggests that improving lending is not simply a matter of increasing the volume of available funds. Reliable credit information, effective contract enforcement, sound financial reporting and proportionate risk assessment also influence whether small firms can obtain appropriate financing.

KEY BARRIERS TO SME LENDING IN UZBEKISTAN

Research on SME finance in Uzbekistan highlights the need to improve access to credit, strengthen financial infrastructure and develop instruments suited to smaller borrowers. Umarova discusses directions for improving lending mechanisms for small businesses, including the role of credit information, alternative approaches to collateral, digital finance and guarantees [3]. Other work on business finance emphasizes the importance of combining bank loans with microfinance, public support programmes and financing from international institutions [4].

One major barrier is insufficient collateral. Start-ups and service businesses may have viable business models but lack property that banks traditionally accept as security. A second barrier is the cost and structure of borrowing. If repayment schedules do not reflect a firm's cash-flow cycle, even a potentially profitable business

can experience repayment pressure. Seasonal enterprises, for example, may need schedules that better match their periods of revenue generation.

A third barrier is limited financial documentation and credit history. Incomplete accounting records make it difficult for lenders to distinguish viable firms from high-risk borrowers. A fourth issue is financial literacy: some entrepreneurs need support in preparing realistic business plans, forecasting cash flows and calculating the full cost of borrowing. Finally, access to credit should be distinguished from the productive use of credit. Funds may be available, but their impact depends on investment decisions, market conditions and business management.

The World Bank's 2025 report also indicates that access to credit remains limited for many small firms in Uzbekistan [1]. Such figures should be interpreted according to the definitions and coverage used in the original source rather than treated as a complete census of every business.

DIRECTIONS FOR IMPROVING LENDING MECHANISMS

First, banks could complement collateral-based decisions with a more systematic assessment of cash flow, sales turnover, payment history, tax records and the nature of the business. Digital credit scoring can reduce processing time and help evaluate smaller loans, provided that the underlying data are reliable and decisions remain transparent and subject to appropriate review.

Second, partial credit guarantees and risk-sharing schemes can help viable firms that lack sufficient collateral. Such schemes should use clear eligibility criteria, disclose their terms and monitor portfolio performance. A guarantee does not eliminate credit risk; rather, it distributes part of that risk and may encourage responsible lending to firms that would otherwise be excluded.

Third, loan products should reflect the purpose and revenue cycle of the business. Working-capital facilities, investment loans, microloans, leasing and factoring serve different needs. Loan maturity, grace periods and repayment schedules should be

aligned with the expected cash flow generated by the financed activity. This can reduce avoidable repayment pressure without weakening credit discipline.

Fourth, access to finance should be accompanied by practical financial guidance. Banks and business-support organizations can provide concise training on accounting, business planning, tax obligations and cash-flow management. Such support may improve both borrowers' decisions and lenders' ability to assess applications.

Fifth, bank credit should be part of a broader financing ecosystem. The OECD's 2024 scoreboard reviews the financing conditions of SMEs across participating economies and highlights the relevance of diverse financing instruments [5]. Developing awareness and availability of leasing, factoring, equity finance and other appropriate instruments can reduce excessive dependence on conventional loans and match funding to different stages of business development.

Table 1. Lending barriers and proposed responses

Main barrier	Proposed mechanism	Expected contribution
Insufficient collateral	Partial guarantees and assessment of alternative security	Wider access for viable businesses
Limited credit history and financial records	Better credit-information sharing and accounting support	More reliable credit assessment
Repayment schedules poorly matched to cash flow	Loan terms tailored to the business cycle	Improved debt-service management
Inefficient use of borrowed funds	Milestone monitoring and business advisory support	Stronger project performance and repayment discipline
Dependence on conventional bank loans	Development of leasing, factoring and equity finance	More diversified funding sources

CONCLUSION

Lending mechanisms are an important instrument for financing small businesses and private entrepreneurship in Uzbekistan. Properly structured loans can support working capital, investment, modernization and business expansion. Their effectiveness, however, depends not only on the amount of credit provided but also on the accessibility of loan products, the quality of risk assessment, borrowers' financial capacity and the productive use of funds.

The analysis suggests several priorities: assess repayment capacity alongside collateral, strengthen transparent guarantee and risk-sharing arrangements, use digital scoring responsibly, align repayment schedules with business cash flows, and improve entrepreneurs' financial literacy. Leasing, factoring and equity finance should also be developed as complementary options. Progress should be assessed not only by the number or volume of loans issued, but also by business survival, employment, investment outcomes and repayment quality.

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