



## **FEATURES OF LENDING FAMILY ENTREPRENEURSHIP IN THE REPUBLIC OF UZBEKISTAN**

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<b>Received:</b> 11 <sup>th</sup> October 2021 <b>Accepted:</b> 14 <sup>th</sup> November 2021 <b>Published:</b> 28 <sup>th</sup> December 2021	This article discusses the concept of a family enterprise, programs for the development of family entrepreneurship in the Republic of Uzbekistan, the mechanism for financing this type of entrepreneurship, the conditions for financing family enterprises.
<b>Keywords:</b> Family Enterprise, Lending Mechanism, Lending Conditions, Banking Services For Family Business.	

Family entrepreneurship is an initiative activity carried out by family members in order to generate income (profit) at their own risk and under their own property responsibility. Family entrepreneurship is based on the voluntary nature of its participants. Family entrepreneurship can be carried out with or without the formation of a legal entity.

The organizational and legal form of family entrepreneurship carried out with the formation of a legal entity is a family enterprise. Family entrepreneurship without the formation of a legal entity is carried out in accordance with the procedure established by law. At the same time, family business entities without the formation of a legal entity have the right to hire up to three permanent employees with the conclusion of an employment contract with them, as well as to attract other close relatives who have reached working age, including spouses of children and grandchildren, brothers and sisters, their spouses and children, as participants in a family business entity without the formation of a legal entity. A family enterprise is a small business entity created by its participants on a voluntary basis on the basis of common property owned jointly or jointly by the participants of the family enterprise, as well as the property of each of the participants of the family enterprise for the production and sale of goods (works, services). The activity of a family enterprise is based on the personal work of its participants. A family enterprise is one of the organizational and legal forms of business entities.

A family business can only operate with the formation of a legal entity. A family enterprise can own separate property, acquire and exercise property and personal non-property rights on its own behalf, bear certain obligations, be a plaintiff and defendant in court. The family business is liable for its obligations with all property belonging to it, which may be foreclosed in accordance with the law. In accordance with the legislation, participants in a family enterprise bear subsidiary liability for the property they own for the obligations of the family enterprise if the property of the enterprise is insufficient. The total number of members of a family business and its employees cannot exceed the average annual number of employees of small businesses established by law. In this case, the minimum number of participants in a family business must be at least two people.

From July 1, 2020, a simplified mechanism for allocating loans for the development of family entrepreneurship will be introduced:

- \* The practice of approving the list of suppliers of products (services) is canceled, with the exception of the list of suppliers of breeding cattle (cattle, sheep, goats), which is formed based on their availability of sufficient capabilities;

- \* The heads of the district sector consider the entrepreneurial initiatives of persons who have expressed a desire to receive loans and give recommendations on their financing;

- When allocating a loan with an amount up to 1000 times the size of the basic calculation, the conclusion of the regional Centers for the support of family entrepreneurship is not required, it is enough to provide only the conclusion of the district (city) Centers approved in accordance with the established procedure by the first deputy khokim of the district (city) and the branch manager of the relevant bank;

- \* Credit funds will be transferred to the account of the supplier of goods (services) and equipment on the basis of contracts freely concluded by borrowers.

A simplified mechanism for allocating credit funds to entrepreneurs under the "Every family is an entrepreneur" program is shown in Figure 1.

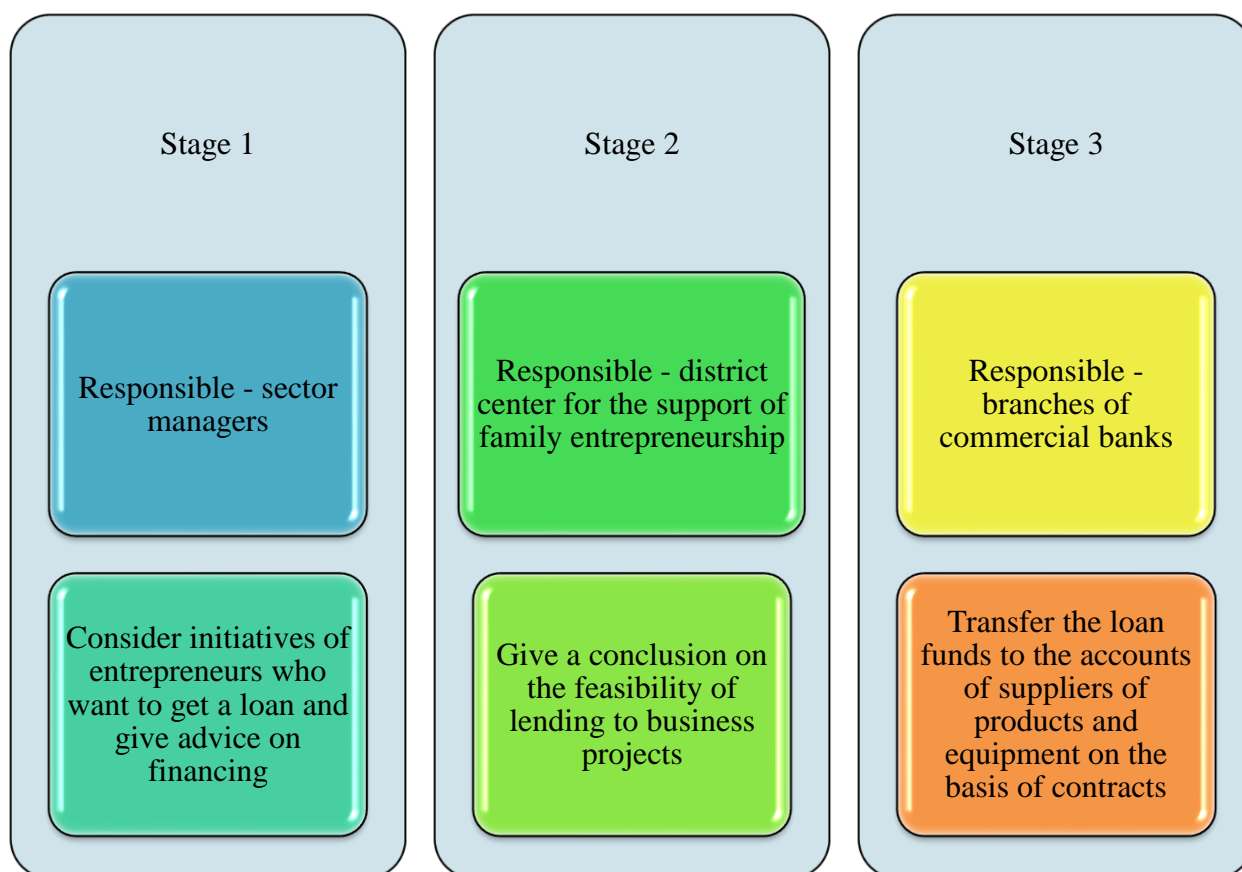


Figure 1 - The mechanism of lending to family businesses

Banking services of a family business are carried out on the basis of contracts concluded with the bank, in accordance with the legislation. Banks, in accordance with the established procedure, open and maintain accounts of the family enterprise in national and foreign currency.

Lending to a family business is carried out on the basis of a loan agreement concluded with a bank or other credit institution. When issuing loans to a family enterprise, the guarantors may be banks, other credit or insurance organizations. The guarantors may be solvent legal entities and individuals, as well as self-government bodies of citizens in accordance with the procedure established by law.

Presidential Decree No. PD-5041 dated 27.03.2021 "On additional measures implemented within the framework of family entrepreneurship development programs" approved:

- Target parameters of financing in 2021 of projects within the framework of Programs in the context of sources.
- Target parameters of lending in 2021 to projects within the framework of Programs in the context of regions.

Programs aimed at the development of family entrepreneurship, ensuring the employment of young people and women with income-generating labor include the following Programs:

- a) "Every family is an entrepreneur";
- b) support of farmers, dehqan farms and owners of household lands, as well as women's and youth entrepreneurship;
- c) for the development of handicrafts;
- e) Employment promotion

From April 1, 2021, applications from citizens and business entities for loans are accepted through the Unified Electronic Platform for Family Entrepreneurship Development Programs. Applicants, upon receiving a loan, are given the opportunity to voluntarily choose and apply to one of the banks among JSC "Agrobank", JSC "Xalq bank" and JSC "Mikrokreditbank" for obtaining a soft loan under all Programs. After the delivery of products (performance of work) by the organization - the supplier of products (performer of work), selected by the borrower, the loan funds are allocated to the supplier. Self-employed citizens, in order to carry out certain types of activities (the purchase of the necessary raw materials, spare parts and construction goods for home work, handicrafts, construction of greenhouses, etc.), credit funds can be allocated in cash in the amount of up to 5 million sums. The heads of district (city) departments for support of makhallas and families, district (city) departments of the Agency for Youth Affairs, sectors, as well as chairmen of assemblies of citizens of makhallas, along with commercial banks, are responsible for monitoring the targeted use of loans allocated to citizens included in "Women's Notebook", "Youth Notebook" and "Iron Notebook".

The dynamics of changes in loans allocated within the framework of family entrepreneurship development programs in 2021 are shown in Figure 2.



Figure 2 - Loans to family businesses

Within the framework of family entrepreneurship development programs for the past period of 2021, a total of 3.6 trillion sums of preferential loans was allocated for the implementation of more than 148 thousand projects. Of the allocated loans, 648 billion sums (18%) were sent to legal entities and individual entrepreneurs, 2 trillion 931 billion sums (82%) were allocated to self-employed individuals. The main attention is paid to the financing of projects of business entities providing additional sources of income for the population, as well as the creation of guaranteed new jobs.

The share of the program "Every family is an entrepreneur" accounts for 84% (3.0 trillion. sums), the remaining 16% (576.2 billion sums) - for other programs. 1 trillion 568 billion sums of these funds are directed to the development of women's entrepreneurship, 1 trillion 577 billion sums for the development of youth entrepreneurship.

The distribution of credit funds allocated under the programs by region is shown in Figure 3.

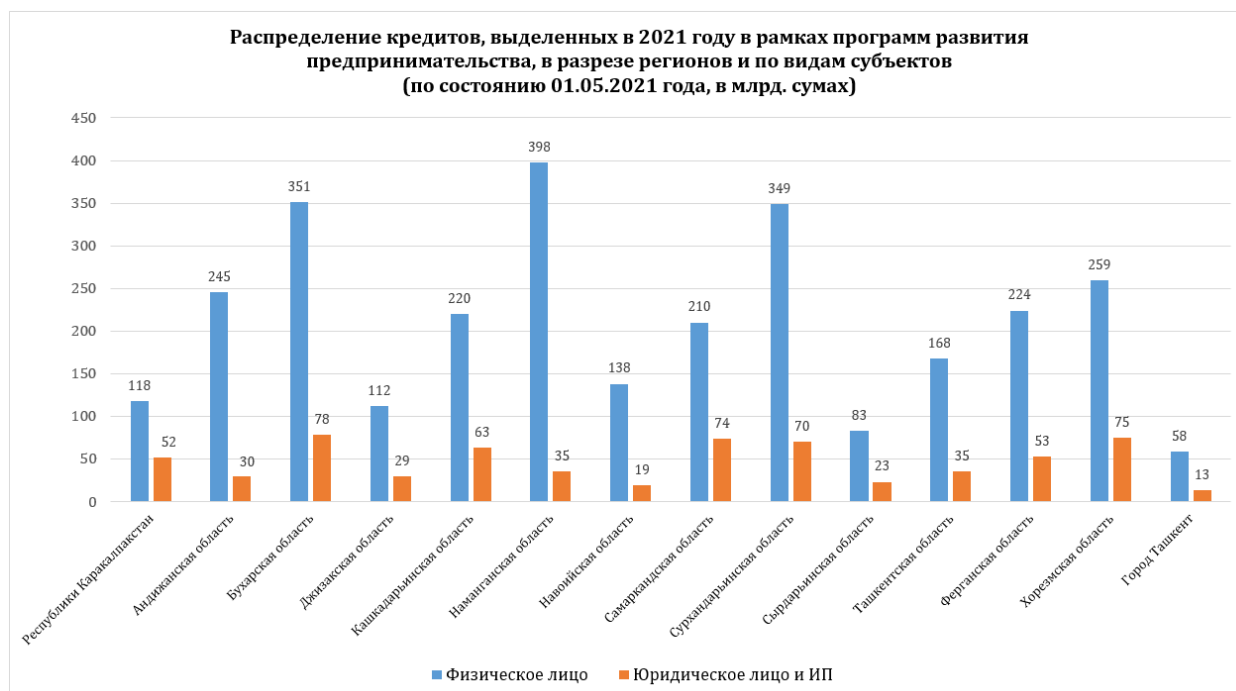


Figure 3 - Distribution of loans by region

The diagram shows that the largest amount of credit funds was allocated to individuals in the Bukhara, Namangan and Surkhandarya regions. And for legal entities - in the Khorezm, Samarkand and Bukhara regions, since there is a wide development of seed enterprises engaged in national handicrafts.

Figure 4 shows a diagram of the volume of loan funds allocated in the context of the areas of activity of family entrepreneurship as of May 1, 2021.

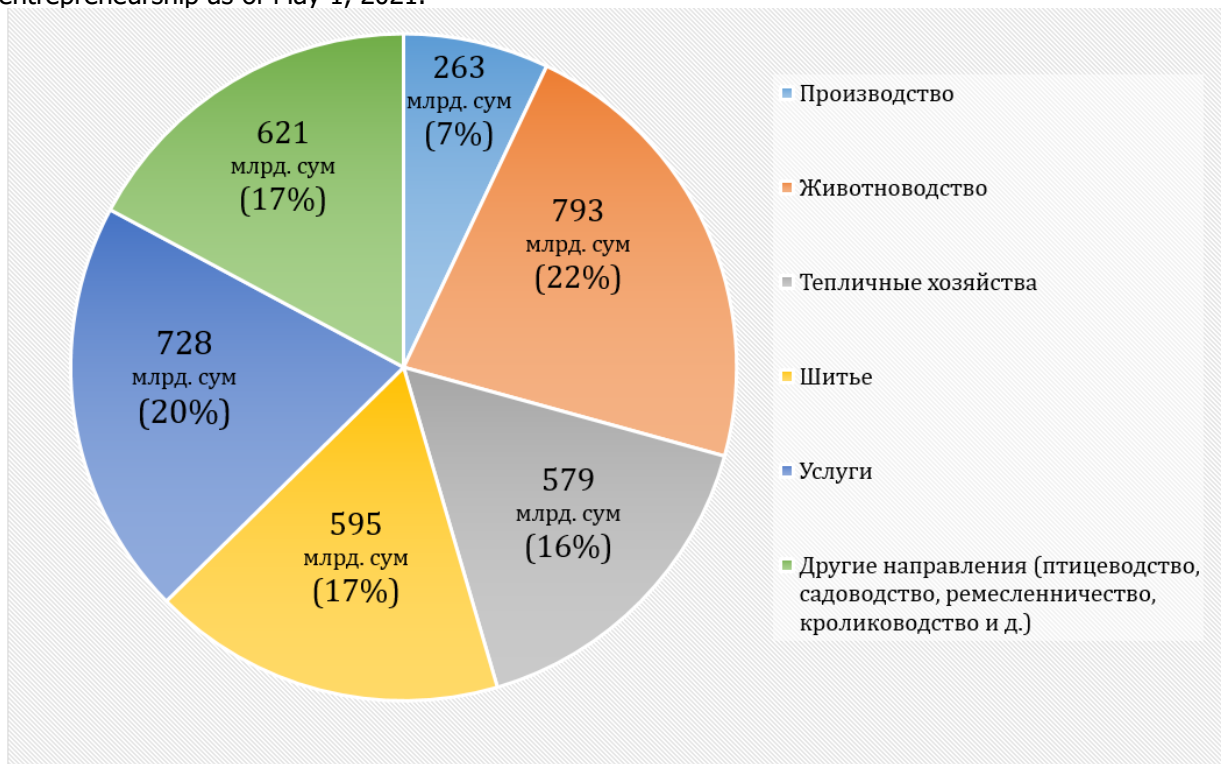


Figure 4 - Loans allocated by industry

In order to finance projects for the development of family entrepreneurship:

a) The Ministry of Finance will send funds in the amount of 1.3 trillion. sums to increase the authorized capital of authorized banks, including JSCB "Agrobank" - 700 billion sums, JSCB "Microcreditbank" - 400 billion sums and JSC "Xalq Bank" - 200 billion sums.

b) The Fund for Reconstruction and Development will allocate for a period of 7 years, including a three-year grace period:

- authorized banks credit resources in the amount of 1.6 trillion. sums;
- JSC "Alokabank" - funds in the equivalent of \$ 5 million for the development of beekeeping, JSCB "Turonbank" - funds in the equivalent of \$ 8 million to finance projects of business entities to organize lemon growing on areas of at least 10 acres.

Interest rates on loans issued by commercial banks for a period up to January 1, 2022, as an exception, are set within the basic rate of the Central Bank. Credit resources are allocated to commercial banks by 4 percentage points below the main rate of the Central Bank.

The key problem that banks face when issuing loans to small businesses is the problem of the information vacuum that arises due to the bank's lack of information about a potential borrower in sufficient volume. For a bank employee, it is difficult to analyze the effectiveness of a company or an individual entrepreneur, and it is also not always possible to reliably say what exactly the borrower intends to send the loan to. The main purpose of lending is to reduce risk and reduce the formation of problem debts at the monitoring stage. When issuing loans, it is necessary to have the ability to identify factors that can cause problems or even overdue debts. The initial stage when concluding a loan agreement is key for the client manager and the credit inspector, who communicate directly with the borrower. They find out as much information about the borrower as possible. The result of extensive analytical work aimed at studying the borrower's business should be a decision on the possibility of lending. It should be understood that the availability of collateral for the bank will strengthen the position on the risks of non-repayment. Some commercial banks interpret collateral as the main criterion for making a decision on the issue of granting a loan. Of course, collateral is important, due to the fact that it allows the bank to ensure repayment of the loan if the borrower refuses to pay, however, we believe that collateral should not be interpreted as a determining criterion when issuing a loan. The main purpose of lending is the voluntary and timely return of credit funds by the borrower with accrued interest. To achieve this goal, in addition to the previously described measures, it is necessary to carry out comprehensive work in the following areas:

- I. Implementation of business risk assessment.

II. Development of an algorithm for identifying financial risks based on the principles of financial data analysis. The assessment begins with an assessment of the readiness of the balance sheet documents of potential borrowers.

Such a product is offered for regular customers of the bank who do not have current accounts with other banks. Overdraft loan agreements can be signed once when opening a checking account. At the same time, in order to minimize risks for banks, it is possible to set a minimum amount of credit turnover on a current account opened with a bank. Summing up, we note that for the above products we would like to see the liberalization of the package of documents for lending.

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