



Global Conference on Multidisciplinary Research and Innovation

Hosted Online from Berlin, Germany

Date: 2nd September, 2026

Website: <https://econferencia.com>

IMPROVING LENDING PRACTICES FOR SMALL BUSINESSES AND PRIVATE ENTREPRENEURSHIP

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Abstract:

This paper examines lending practices for small businesses and private entrepreneurship across the stages of product selection, application review, financing, monitoring, and restructuring. Based on official statistical data from Uzbekistan, it substantiates the need to assess not only the volume of lending but also outreach and effectiveness. Practical recommendations are developed by integrating revolving working-capital credit lines, supply-chain finance, factoring, leasing, green lending, and portfolio monitoring.

Keywords: Small business, private entrepreneurship, lending practice, working capital, factoring, leasing, monitoring, restructuring.

Introduction

Small businesses and private entrepreneurship contribute to employment, regional income generation, and market competition in the economy. According to national statistics, the share of small entrepreneurship in total employment was 73.9 percent in 2024 and 74.9 percent in 2025 [3]. Its share in gross domestic product was 53.5 percent in 2024 and 52.2 percent in 2025. Therefore, access to credit in this sector is not merely an individual concern of entrepreneurs, but also a factor affecting the sustainability of production, services, and employment.



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In lending practice, a bank's objective is not simply to issue more loans, but to provide financing with a maturity and repayment schedule aligned with the borrower's needs and with a clearly identifiable source of repayment. A one-off loan may be unsuitable for an enterprise whose working capital must be continuously renewed, while financing long-term equipment with short-term resources may create liquidity pressure. Therefore, the credit product should be aligned with the business cash-flow cycle and the investment horizon.

Research Methodology

The study employed statistical grouping, functional comparison of credit products, analysis by customer segments, and evaluation of the credit life cycle. The analysis covered the Central Bank's statistical bulletins on lending, small business indicators published by the National Statistics Committee, support programs in Uzbekistan, and recommendations of the IFC and OECD. Practical proposals were formulated based on the criteria of bank profitability, borrower solvency, and economic outcomes.

Analysis and Results

The allocation of UZS 92.4 trillion in loans to small and medium-sized enterprises and to individuals for entrepreneurial purposes in 2024 demonstrates the scale of the credit market [2]. However, the fact that the number of loans exceeded 538 thousand may also reflect repeat borrowing by the same customers. Therefore, banks and government programs should disclose outreach by unique borrowers, first-time borrowers, women- and youth-led businesses, regions, and types of economic activity. This would help identify the segments that remain underserved by credit resources.



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For working-capital financing, a revolving credit line is more effective than a one-off loan. The limit is determined based on the enterprise's revenue turnover and seasonal needs; interest is charged only on the utilized amount, and the outstanding balance decreases automatically as revenue is received. The risk of such a product is monitored daily through account turnover and compliance with limit usage. Instead of re-documenting the limit each time, annual reassessment and clearly defined covenants can reduce costs for both the customer and the bank.

Supply-chain finance uses the credit quality of a large buyer to provide lower-cost financing to its small suppliers. An approved invoice serves as a claim right for the bank and enables the small enterprise to receive funds before the payment due date. Electronic data exchange among the buyer, supplier, and bank reduces the risk of fraudulent documentation. This product is particularly effective in easing liquidity constraints in trade and production chains characterized by long payment terms.

In financing fixed assets and equipment, leasing uses the financed asset itself as collateral. If the repayment schedule is aligned with the period when the equipment begins to generate income, pressure at the initial stage of the project can be reduced. For imported equipment, foreign-exchange risk, delivery time, and commissioning periods should be assessed separately. A bank or leasing company may also include supplier due diligence, insurance, and maintenance terms in the financing package.

Credit monitoring should not end with a one-time verification that the loan has been used for its intended purpose. Account turnover, revenue, tax payments, accounts receivable and payable, inventory, key contracts, and repayment-schedule dynamics should be monitored through a unified dashboard. Seasonal declines in otherwise healthy enterprises should be distinguished from persistent deterioration in the business model. Monitoring staff should receive warning signals not only after payment delays occur, but as soon as cash flow begins to weaken.



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Green and digital modernization loans can help improve the productivity of small businesses. For loans financing energy-efficient equipment, solar energy, water-saving technologies, and the digitalization of accounting and sales processes, the economic effect should be measured through reduced energy costs, increased sales turnover, or higher labor productivity. The IFC Sustainable MSME Finance Reference Guide recommends that banks define eligible expenditure categories, assessment procedures, and reporting indicators in advance [9].

Financing Instruments Aligned with Small Business Needs

Need	Suitable Instrument	Key Control
Seasonal working capital	Revolving credit line	Revenue turnover and limit discipline
Approved receivables	Factoring	Buyer quality and invoice verification
Supplier liquidity	Supply-chain finance	Large buyer confirmation
Equipment purchase	Leasing or investment loan	Asset value and commissioning
Energy efficiency	Green loan	Resource savings and cash flow
Temporary financial difficulty	Restructuring	Business viability and recovery plan



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Conclusion and Recommendations

The effectiveness of lending to small businesses and private entrepreneurship depends on the alignment of the product, process, and monitoring system. If the loan maturity does not correspond to the life of the financed asset or the business cash-flow cycle, even a rapidly disbursed loan may become problematic for both the borrower and the bank.

The following measures are recommended: 1) expand revolving credit lines for working capital; 2) develop supply-chain finance and factoring based on approved invoices; 3) offer leasing and credit as comparable alternatives for equipment purchases; 4) measure decision-making time by individual process stages; 5) automate portfolio monitoring using transaction and tax-related signals; 6) standardize restructuring based on business viability; 7) link staff incentives not only to lending volume but also to portfolio quality and customer outcomes; and 8) establish measurable performance indicators for green and digital loans.

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