

FOREIGN EXPERIENCE IN FINANCING THE ACTIVITIES OF SMALL BUSINESS ENTITIES

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Abstract:

This article examines the foreign experience of financing the activities of small business entities. The author conducts a comparative analysis of the role of small businesses in the economies of certain countries, highlighting their successes in developing and effectively managing the small business sector. Additionally, solutions to all issues related to the organization and operation of small business entities are discussed.

Keywords: Small business, entities, financing, country experience.

INTRODUCTION

International experience in the development of small businesses shows that promoting small business includes support measures such as:

- tax incentives;
- preferential loans and credit guarantees;
- facilitating access to training and information;
- protection of intellectual property;
- non-repayable subsidies for implementing scientific and technical programs (Japan);
- financing scientific research;
- protection of interests in government procurement¹.

Table The Role of Small Businesses in the Economies of Various Countries ²

Countries	Number of Small Business Entities (in thousands)	Number of Small Businesses per 1,000 People	Share of Employment in Small Businesses as a Percentage of Total Employment	Small Businesses' Share in GDP, %
United Kingdom	2930	46	56	50-53
Germany	2290	37	69.5	50-54
Italy	3920	68	71	57-60
France	1980	35	54	55-62
USA	19300	74	54	50-52
Japan	6450	50	78	52-55

Source: B.Yu. Khodiev, M.S. Qosimova, A.N. Samadov. Small Business and Private Entrepreneurship. Textbook. – Tashkent: TSEU, 2011.

¹ Ibragimov T.G. Trends and Prospects for the Development of Small Business in Russia Based on Foreign Experience / T.G. Ibragimov, M.G. Yakunina // Crimean Scientific Bulletin. – 2019. - No.1.

² B.Yu. Khodiev, M.S. Qosimova, A.N. Samadov. Small Business and Private Entrepreneurship. Textbook. – Tashkent: Tashkent State University of Economics, 2011.

LITERATURE REVIEW

Based on research conducted by our local scholars, it can be observed that in developed countries, the number of small business enterprises is significant, and this sector accounts for more than 50% of the country's GDP turnover. The United States leads in the number of small business enterprises per 1,000 people, with 74 businesses (Table).

During the course of our research, an analysis of the economies of foreign countries in recent years revealed that the infrastructure for supporting small and medium-sized businesses (SMEs) varies across nations. However, certain similarities can still be observed among them. Firstly, targeted and substantial support is provided to strategic sectors deemed important for the state, while the SME support system is typically decentralized. Support for small businesses is often implemented through indirect financial methods, primarily via commercial banks and leasing companies.

Efforts to improve state support include simplifying access to government procurement, increasing the targeted allocation of subsidies, and modernizing other aspects of state support measures. Additionally, active assistance is provided in the form of personnel development, technological advancement, and consulting services.

For most developing countries, a common trend is the replacement of direct financial aid in the form of non-repayable subsidies with indirect financial support measures.³

Thus, the experiences of countries such as the United States, China, and Germany in developing and effectively managing the small business sector can be of great interest to Uzbekistan's practices. In this regard, we will conduct a deeper analysis of the level of development of small business activities in these countries, their financing mechanisms, and the state support systems implemented.

In many countries, small and medium-sized businesses constitute the majority of all enterprises. According to the U.S. Small Business Administration (SBA), in 2018, 99.9% of businesses in the United States were classified as small businesses. Additionally, in 2014, small businesses accounted for nearly 44% of the U.S. Gross Domestic Product (GDP).

Since 1953, the United States has implemented the Small Business Support Act, which led to the establishment of the SBA. The SBA's primary responsibilities include providing consulting services, facilitating contracts, and offering loans. This organization has the authority to provide direct loans funded by the government, and loan programs backed by government guarantees are among the most popular and in-demand options in the United States.

Under the terms of these programs, borrowers are required to cover 10% of all expenses, while the remaining costs are covered by a bank or other financial institution under a 100% SBA guarantee. According to the provisions of the 1953 law, at least 23% of all government contracts must be implemented through small business entities. The SBA strictly monitors compliance with this ratio and oversees the government procurement program.

The SBA offers loan programs that include long-term repayment options and are supported or guaranteed by the SBA. Although the agency does not provide direct loans (except for disaster relief loans), it establishes guidelines for lenders to provide loans to small businesses.

- The SBA's financing mechanisms for small business entities include loan programs, venture capital, and disaster funding. The loan programs consist of the following:

³ Cheberko, E.F. Fundamentals of Entrepreneurial Activity. History of Entrepreneurship: Textbook and Workbook / E.F. Cheberko. - Lyubertsy: Yurayt, 2016.

- 504 Loan: Known as a development loan, this program provides financing of up to \$5.5 million for small businesses to acquire fixed assets, including real estate.
- 7(a) Loan: This is the SBA's primary loan program, with a maximum loan amount of \$5 million. It provides funding for various purposes, such as working capital, purchasing equipment, or acquiring a business.
- Disaster Loans: These loans are designed to help businesses and homeowners recover from declared natural disasters.
- Microloans: These loans, typically up to \$50,000 (with an average amount of approximately \$13,000), are intended to help small businesses and nonprofit childcare centers start or expand their operations.

The SBA's lending opportunities were further expanded by the American Recovery and Reinvestment Act (ARRA) of 2009 and the Small Business Jobs Act of 2010.

Venture capital includes the following:

- SBIC (Small Business Investment Companies): This is a specialized investment support program designed for small but growing companies. The SBA licenses venture funds, which in turn establish SBICs or Limited Liability Companies (LLCs). These companies receive loans from the SBA, which must then be invested in small businesses (in the form of securities, bonds, and other instruments). Entrepreneurs repay their loans, and the SBICs use these repayments to settle the borrowed amounts with the SBA. This type of financing mechanism can have a duration of up to ten years.

Providing Assistance to Businesses Affected by Emergencies:

- This is the primary government loan program for natural disasters, man-made disasters, and other force majeure events. Loans are provided, for example, to restore uninsured commercial property. The loan amount does not exceed \$200,000. At one point, the SBA paid approximately \$500 million to various entrepreneurs affected by the events of September 11.

Among the financing mechanisms, it is worth highlighting the support programs for small business entities.

SCORE, the largest network of volunteer and experienced business mentors in the country, was established in 1964 as a resource partner of the U.S. Small Business Administration. Since then, SCORE has provided training to over 10 million current and aspiring small business owners across the United States through free and low-cost workshops.

In 2016, more than 10,000 volunteer mentors from SCORE assisted 125,000 clients in creating 54,072 small businesses, contributing 78,691 owner jobs to the U.S. economy⁴.

The Small Business Development Center (SBDC) program, established in 1980, is supported by the U.S. government. These centers, located in educational institutions across the United States, serve as unique training facilities for aspiring entrepreneurs.

At these centers, volunteers, including college and university students as well as faculty members, provide guidance on management issues, technical assistance, and legal support to help individuals start and operate small businesses.

Approximately 900 SBDCs are funded through the SBA program in the form of government support and related grants. Typically, SBDCs are housed in local colleges, state universities, or other

⁴ https://ru.wikibrief.org/wiki/Small_Business_Administration

entrepreneurship centers. Cole Brown oversees the acquisition of new development center sites for the SBA.

Women's Business Centers (WBCs) form a national network of over 100 nonprofit educational centers across the United States and its territories, partially funded by the SBA. These centers are designed to assist women in starting and growing small businesses.

The SBA provides a maximum grant of \$150,000 annually to WBCs. Through this program, more than 100,000 women across the U.S. are provided with training, advice, business development, and financial support opportunities.

Women's Business Centers (WBCs) are aimed at serving socially and economically disadvantaged populations.

In 2020, the SBA issued loans totaling \$19.4 billion, which increased to \$31.4 billion in 2021, marking a 62% growth compared to the previous year and a 53% increase compared to 2019⁵.

ANALYSIS AND DISCUSSION OF RESULTS

One of the key characteristics of small businesses in the United States is the widespread use of franchising. This solution significantly simplifies the process of starting a private business⁶.

In Germany, small businesses are considered one of the most dynamic and steadily developing sectors of the economy. Their total contribution accounts for nearly half of the GDP (as of 2015).

Approximately 99% of all active enterprises fall under the category of small and medium-sized businesses (SMEs), which typically have up to 250 employees and an annual turnover of up to 50 million euros. Nearly 60% of the working population is employed in the SME sector.

Unlike other developed countries, Germany has a highly developed export-oriented small business sector. For example, small business entities with an annual turnover of 10 to 50 million euros are actively operating in more than 20 global markets.

While Germany is often associated with major automotive, chemical, or metallurgical corporations, small business entities play a crucial role in the country's economy.

From 2007 to 2017, the number of exporting SMEs (Small and Medium Enterprises) decreased slightly by 3.0%. Meanwhile, the number of large exporting companies increased from 8,800 to 10,200.

Additionally, the total exports of SMEs grew by 28.6 billion euros, reaching 214 billion euros in 2017, a 15% increase compared to 2016. SMEs accounted for approximately one-fifth (22.5%, or 1.03 billion euros) of all exports⁷.

There were no significant changes in the number of entrepreneurial entities in Germany over the ten-year period. The number of SMEs (Small and Medium Enterprises) decreased from 356 to 345. Correspondingly, the export potential of this sector declined by 0.8 percentage points.

Nevertheless, export turnover increased from €938 billion in 2007 to €1,030 billion in 2017, reflecting a growth of 9%.

According to research by the Bref Research Group, the main factor driving the development of small business entities in Germany is the active and, most importantly, effective support provided by official

⁵ <https://www.sba.gov>

⁶ Nurmukhametov, A.V. The Importance of Small and Medium-Sized Businesses in the Economy of a Country / A.V. Nurmukhametov. – In the collection: Current Issues of Economic Sciences. Materials of the III International Scientific Conference. – Kazan: Leto, 2014. – pp. 16-19.

⁷ Based on materials from IfM Bonn

A.K. Ivanova / TERRA ECONOMICUS, 2021, 19(3), pp. 78–92

institutions, nonprofit organizations, and chambers of commerce and industry. This support includes the following measures:

Various financial instruments (preferential lending, state guarantees, and others, as well as subsidies for part of business development costs)

Tax incentives

Comprehensive educational programs for entrepreneurs

Assistance in promoting companies

Legal and consulting services

Other support methods.

Another key factor driving development in Germany is the affordability of credit for small and medium-sized enterprises (SMEs). Loan interest rates for SMEs in Germany start at 4-4.5% per year. Additionally, various bonuses are provided within repayment and guarantee schemes for SME loans.

When compared to Uzbekistan, a significant difference can be observed in these figures. Currently, similar types of loans in Uzbekistan have average interest rates of 22-27%. The situation is similar in neighboring countries. For instance, in Kazakhstan, entrepreneurs not only struggle to find rates lower than 25-27% annually but also face significant challenges in convincing credit managers to grant approval.

Under such conditions, it is almost impossible to develop SMEs focused on production in Kazakhstan. The high interest rates hinder the feasibility of production projects and impede growth. As a result, the majority of SMEs in Uzbekistan are concentrated in the service sector (such as barber shops, catering, and small-scale retail), where the required initial investment is relatively low"⁸.

According to the Bref Research Group, the third factor contributing to the development of small businesses in Germany is the growth of the economy and consumer culture. "Germany consistently ranks among the top five largest economies in the world, accounting for approximately 7% of global GDP. As a result, aggregate demand and consumer spending in Germany are higher compared to other countries.

In a high-consumption culture, competitive advantages such as product quality and brand image take priority. Focusing on these aspects requires local companies to dedicate more time to functions like production, human resources, and brandin"⁹.

One of the advantages of Germany's small business financing mechanism is that any German citizen who decides to start a business can obtain a preferential government loan of up to €50,000 for a period of 20 years. Entrepreneurs can use the financial resources free of charge for the first two years, and over the next eight years, they only pay preferential interest rates to the bank. The principal amount of the loan is repaid starting from the eleventh year.

Additionally, in Germany, small business entities can receive compensation of up to €40,000 for research and development to support technological innovations. The country places great importance on the "Small Business Innovation Support Program," which fosters collaboration between small businesses and research institutions to advance scientific research and experimental design projects. Furthermore, Germany has a unique approach to small business development, emphasizing entrepreneurship training for middle school students and university students. Adopting such practices

⁸ <https://www.brif.kz/>

⁹ <https://www.brif.kz/blog/?p=2828>

in Uzbekistan, especially in light of 2024 being declared the "Year of Youth and Entrepreneurship Development" in the country, could be a strategic decision. Encouraging young people to engage in entrepreneurship could lead to positive changes on par with advanced countries.

One practical example worth highlighting is the program implemented by the German government in collaboration with the country's central bank to support and promote student entrepreneurship. In recent years, this program has yielded significant results, leading to the creation of over 350 new innovative enterprises in Germany"¹⁰.

Over nearly a century of economic development, China's progress has been based on strategic state plans. During this period, there has been a decrease in the share of agriculture and an increase in the share of industry and services. By the 2010s, the small and medium-sized business (SME) sector developed significantly due to the growing share of consulting services. Notably, the advancement of information technology has further expanded the types of consulting services within entrepreneurial activities.

By the end of 2009, there were 1,637 consulting firms in the small business sector in China, employing over 160,000 specialists. During this time, SMEs rapidly adopted new innovative technologies, becoming an integral part of China's economic growth and creating numerous job opportunities.

In 2011, there were 4.3 million SMEs operating in China, accounting for 99.6% of all enterprises and contributing 60% of the country's GDP. According to the State Administration for Industry and Commerce, by 2015, there were 15.76 million small and medium-sized trade and industrial enterprises (excluding individual farming operations).

According to China's national television channel CGTN, during a briefing on September 4, 2023, Vice Chairman of the National Development and Reform Commission (NDRC), Tsui Liang, spoke about the establishment of this commission, emphasizing its primary task of providing state support to private businesses.

Data from the Financial Regulation State Administration of China shows that in 2023, the volume of loans for small and micro-businesses increased by 23%, with loans totaling 29 trillion yuan (approximately \$4 trillion) provided to such enterprises. The interest rate for SME loans averaged 4.78%, which was reduced by 0.47 percentage points compared to the previous year.

As evident, China places the small business sector at the forefront of its long-term reform plans, recognizing it as a key driver of economic growth and a determinant of the country's strong potential.

In China, the standard criteria for classifying enterprises as small and medium-sized businesses (SMEs) include the number of employees, registered capital, the volume of assets, and turnover (profit or revenue). Firms in China are typically classified as SMEs or micro-enterprises based on these criteria.

The classification is determined by factors such as the number of employees, the revenue generated from goods, services, or activities, and the total value of assets. Additionally, the sector in which the organization operates is also taken into account. Below, the classification is systematically outlined based on these criteria:

1. In agriculture, forestry, and fisheries:

Micro-enterprises: Companies with an annual revenue of up to 500,000 yuan.

Small enterprises: Companies with an annual revenue between 500,000 and 5 million yuan.

¹⁰ <https://www.brif.kz/blog/?p=2828>

Medium enterprises: Companies with an annual revenue between 5 million and 200 million yuan¹¹.

2. In the industrial sector:

Micro-enterprises: Companies with up to 20 employees or an annual revenue of up to 3 million yuan.

Small enterprises: Companies with 20 to 300 employees and an annual revenue between 3 million and 20 million yuan¹².

Medium enterprises: Companies with 300 to 1,000 employees and an annual revenue between 20 million and 400 million yuan.

3. In wholesale trade:

Micro-enterprises: Companies with up to 5 employees or an annual revenue of up to 10 million yuan.

Small enterprises: Companies with 5 to 20 employees and an annual revenue between 10 million and 50 million yuan.

Medium enterprises: Companies with 20 to 400 employees and an annual revenue between 50 million and 400 million yuan.

CONCLUSION AND RECOMMENDATIONS

The main objectives of state policy in the development of small and medium-sized businesses (SMEs) are reflected in the People's Republic of China's 2003 "Law on Promoting the Development of Small and Medium Enterprises." China's modern system of state support for SMEs includes the following elements¹³:

- Establishing a special state fund to support small and medium enterprises (SMEs);
- Introducing a preferential tax regime for SMEs;
- Providing financial and credit assistance;
- Ensuring access for SMEs to government procurement opportunities;
- Implementing other incentive measures.

In China, state funds play an active role in the development and support of small and medium-sized enterprises (SMEs). Their primary function is to guarantee obligations and provide collateral for obtaining bank loans aimed at developing small business ventures.

The National Development and Reform Commission (NDRC) serves as the organization responsible for implementing state economic policy, with its main task being to create favorable conditions for the active growth of small businesses.

One of its subdivisions, the China Business Coordination and Cooperation Center (CCBCC), operates as a specialized agency serving SMEs. Its role is to ensure economic and technological cooperation between national and international organizations involved in supporting and developing entrepreneurship.

¹¹ Balashevich, M.I. Economics and Organization of Small Business: Textbook. Minsk: Publishing House of Belarusian State Economic University (BSEU), 2012. 335 pages

¹³ Политика в области развития малого и среднего предпринимательства в КНР. <http://www.chinairn.com/doc/70270/252682.html>
Гордеева О.В. Малое и среднее предпринимательство: особенности функционирования и налогового регулирования. Налоги - 2012. № 22. 7-14б.

Александрова Е.А. Управление развитием малого промышленного предпринимательства в условиях глобализации экономики: автореф. дис. ... канд. экон. наук: 08.00.05 / Александрова Елена Александровна. СПб., 2012. 30 б

Additionally, the CSMEO (State Information Service) plays a crucial role in the development of small businesses in China. Established in 2001, this service provides consulting support on all matters related to organizing and running the activities of small business entities. It operates an online platform that covers the entire territory of China.

The service keeps entrepreneurs informed about the latest legislative and technological developments, offering insights into growth directions, including information about financial-credit institutions, labor market demands, and other essential details. It also analyzes regional and global markets to forecast future development trends.

The organization develops training program projects and assists new entrepreneurs in starting their businesses. Furthermore, it coordinates the implementation of training courses and programs, ensuring their practical applicability. To minimize risks, the CSMEO also analyzes the operation of credit guarantee systems.

In China, small enterprises constitute the majority of all businesses, with nearly 60% of the employable population working in this sector. This highlights the critical role of small businesses as a key component of the country's economy.

Attracting foreign investment has also been a significant factor in the development of small businesses. It has contributed to rapid economic growth, the accumulation of substantial foreign currency reserves, and the adoption of Western technologies and management practices.

China's rapid economic growth and the opening of its banking and insurance sectors to foreign investors have further increased their interest in bringing investments into the country.

It is evident that China is consistently advancing efforts to develop small businesses, improving regulatory oversight and enhancing the service systems that support this sector.

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