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| Research Article

Mechanisms for Evaluating Security in the Practice of Lending Technologies to Small Businesses

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Annotation: The article proposes approaches to assessing collateral in lending to small businesses by commercial banks in the field of equipment and technology, mechanisms for preventing credit risks in lending through collateral, and the introduction of collateral assessment practices.

Key words: small businesses, commercial bank, credit, collateral, valuation, credit risk, credit policy, diversification.

INTRODUCTION

As a result of structural changes in the agricultural sector of the economy and measures taken to develop equipment and technologies in the field of small businesses and strengthen the material and technical base of small businesses, the financial stability of their enterprises is ensured. The reforms being implemented in the banking system of our country and the further simplification of lending practices for equipment and technology in the field of small businesses, increasing their economic efficiency and optimizing interest rates, activating the role and participation of commercial banks in the socio-economic development of the country in accordance with the "Strategy for the Development of New Uzbekistan" eliminating problem loans, and in turn, will serve to improve the competitive environment in small businesses and comprehensively improve the quality and culture of financing. Production in the process of ongoing structural changes in small businesses. The implementation of measures to stimulate the financing of small businesses is a key factor in their financial stability and effective development.

Commercial bank loans play a key role in further improving the management of small business enterprises, increasing their efficiency and profitability, modernizing production in this direction, implementing a unified technical and technological policy aimed at organizing the production of modern, competitive machinery and equipment for the agro-industrial complex in the domestic and foreign markets, and financing them. In practice, commercial bank loans, as collateral, primarily assess real estate, real estate, financial assets, and intellectual property. Based on this, commercial bank loans are widely used in financing equipment and technologies in the field of small businesses, and in order to ensure these loans, valuation practices as collateral also have different mechanisms. Based on the above, we will focus on the mechanisms for evaluating small businesses as collateral for commercial bank loans.

LITERATURE REVIEW

In the practice of commercial banks, many economists have studied the issues of evaluating the practice of lending to small businesses with collateral for the lending of equipment and technologies.

In particular, the works of economist Alexey Vladimirovich Ilyin explore the process of providing land plots for small businesses as collateral and the factors influencing their use, as well as the main directions that will stimulate this direction in the future. In this process, the researcher believes that it is advisable to carry out the stages of pledging land plots in the field of small businesses, as well as the practice of mortgage lending, in the manner prescribed by law. [1].

The use of collateral has raised new concerns about the relationship between the lender and the borrower, the final impact of which on the risk of default is not clearly defined (Jose, 2018). If a business entity that receives a loan from commercial banks fails to repay the loan in time, it may lose the collateral it pledged, and in turn, the credit risk for commercial banks increases. [2].

To ensure a safe level of credit security risk allocated by commercial banks, business entities or legal entities receiving loans provide commercial banks with various forms of property as collateral. In general, three parties participate in the process of assessing collateral for a commercial bank loan: the bank, the appraisal organization, and the borrower (Abdikarimova, 2018). In this process, collateral is primarily considered during the initial loan process [3].

According to research by O. Yastrebova and A. Subbotin, the instability of the financial situation of small businesses and the low level of solvency prevent them from increasing the level of access to financial services of credit institutions, including microfinance services. [4].

In our opinion, the above conclusion has great practical significance for the practice of Uzbekistan. The instability of the financial situation of small businesses and private farms in our republic, as well as the low level of solvency, hinders them from increasing the level of access to banking financial and microfinance services.

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In our view, according to N. Figurovskaya, the limited access of small business producers to microfinance services makes government intervention in this process a necessary condition.

Due to the growing disparity between the products of small businesses and the growth of prices for material and technical resources supplied to the industry and services provided, low state procurement prices, production profitability in the agricultural sector and incomes of commodity producers are significantly lagging behind compared to other sectors of the economy [6].

In particular, based on relevant decisions of the Cabinet of Ministers of the Republic of Uzbekistan, the cluster method of growing products of small businesses is actively being implemented. Since these circumstances necessitate assessing the products of small businesses as collateral, this article focuses on problematic situations in this area and issues of their elimination.

RESEARCH METHODOLOGY

The study investigated the mechanisms for assessing collateral for commercial bank loans for projects implemented in the field of technical and technological financing of small businesses using the method of monographic research. Mechanisms for assessing products under collateral for commercial bank loans in the field of small businesses using the economic-statistical method have also been proposed, and methods for a cost approach have been developed.

ANALYSIS AND RESULTS

When financing equipment and technology in the field of small businesses, commercial banks should strive for the timely repayment of allocated loans and minimize problem loans. Because commercial banks provide loans not from their own funds, but at the expense of their creditors, that is, depositors and other interested parties. Therefore, the timely fulfillment of obligations by commercial banks to their creditors depends on how successfully they assess the expected risks.

Today, when lending equipment and technologies to small businesses by commercial banks, the origin of non-performing loans may not depend solely on credit risk. After all, the presence of currency risk, market risk, interest rate risk, and a number of other risks, as well as the inability to properly assess them, affects the emergence of problem loans. The role and influence of credit risks are the basis for studying the economic content of problem loans.

Despite the difficult conditions observed in the economy in 2021, the balance of credit investments allocated by commercial banks to economic entities increased by 34.3% compared to the beginning of the year, or 2.5 times higher than the nominal GDP growth of the country, reaching 280.4 trillion soums as of January 1, 2021. In particular, the balance of loans allocated to legal entities increased by 1.3 times or 56.7 trillion soums (total 222.5 trillion soums), while loans allocated to individuals increased by almost 1.4 times or 15 trillion soums (total 54.9 trillion soums) [10].

Increasing the efficiency of the banking system of the Republic of Uzbekistan is linked to the active participation of commercial banks in financing the real sector of the economy. However, commercial banks in our country face a number of difficulties and problems in carrying out lending activities. Especially today, among loans that make up the majority of commercial banks' income-generating assets, the share of problem loans is high.

According to the Resolution of the Central Bank of the Republic of Uzbekistan No. 2696 dated July 14, 2015 "On the procedure for classifying the quality of assets and forming reserves for covering potential losses on assets and their use in commercial banks," problem loans are considered to be "unsatisfactory," "doubtful" and "hopeless" loans of quality.

In the future, lending to economic entities by commercial banks will serve to maintain high growth rates and support the development of the agricultural sector, as well as create risks that negatively impact the stability of the banking system.

When collateral for loans issued by commercial banks is considered the last measure to cover a problem loan, it is used to collect the amount of interest accrued on a problem loan and a loan that has not been paid off on time. Today, commercial banks are applying to the court when turning the repayment of a non-performing loan towards a type of security. On the basis of a court decision, collateral is used. In order to satisfy the claims of the pledge holder (business entity), the debtor, in case of non-performance or improper performance of the obligation ensured by the pledge in the circumstances for which the debtor is responsible, may apply for the pledged property. If, based on a court decision, it is determined that the loan will be covered by collateral, then it will be sold at an open tender in the form of an electronic online auction.

The causes of problem loans can vary. According to the World Bank, internal factors in the emergence of bank problem loans lead to 67 percent losses. This figure for external factors is only 33 percent. Internal factors include insufficient provision of 22 percent, incorrect information assessment during the study of loan applications - 21 percent, weak operational control, as well as untimely detection of preliminary warning signs and failure to take appropriate measures in response to them - 18 percent, low quality of collateral - 5 percent, and lack of access to collateral specified in the contract - 1 percentExternal factors account for 12 percent of the company's bankruptcy, 11 percent for weak financial control, 6 percent for the company's loss of market presence and internal social problems, and 4 percent for theft and fraud, according to World Bank calculations [11].

As the primary security for a bank loan, collateral serves as the basis for reducing credit risk and lending to the bank. Of course, this in itself necessitates the assessment of the bank's collateral. It should be noted that foreign countries have developed sufficient experience, methods, and principles in this area over many years. For example, the practice of assessing collateral in Russian banks is carried out in two stages:

Stage 1. Determining the market value of the pledge object. The determination of the market value of collateral is carried out at the time of conclusion of the loan agreement.

Stage 2. Determining the value of collateral as collateral. Determining the value of collateral is carried out taking into account the influence of the liquidity of the collateral property, collateral discounts, risks and several other factors. Russian legislation does not clearly state the value of collateral; therefore, when determining the value of collateral in Russian banks, it is based on the internal procedures of banks and the instructions of independent appraisal companies. The main strategy here is risk avoidance and risk management.

In international practice, collateral for goods in circulation on bank loans is widely used. In this case, the company should not be subject to a restriction (sanction) on the sale of goods, and the company should have the right to sell and buy goods, raw materials, materials, and other assets independently. The company's mortgage on bank loans has its own characteristics. In particular, if the payment for the goods or assets sold by the company not received, they will be removed from the collateral list, and those purchased are considered as bank collateral from the moment the company gains ownership of these goods. In this process, it is necessary to maintain the condition that the goods at the company's disposal should not be less than the amount of collateral provided for in the loan agreement.

DISCUSSION OF RESEARCH RESULTS

Usually, they are not interested in covering the loan issued by banks at the expense of collateral. Therefore, it prefers to reimburse the loan and interest payments on it through cash receipts. To do this, we propose classifying the bank's loan by the main amount and the following classes in terms of its repayment upon the maturity of the accrued interest payments (Table 1).

For example, in small businesses: 70% of the funds are invested in fixed assets, while in trading enterprises, these assets make up only 10-15%. Therefore, the type of collateral and the procedure for their valuation for each individual enterprise are agreed between the bank and the borrower.

Research and studies show that commercial banks are more willing to accept raw materials, semi-finished products, and finished goods as collateral for short-term loans. It is not advisable to take real estate as collateral for short-term loans, real estate is primarily accepted as collateral for long-term loans.

Table 1 Classification of the main loan amount and accrued interest payments by class

Синф	**Шартлари**
1st Grade	In small businesses, all loan amounts and interest payments on them will be repaid within 6 months from receipts.
2nd Grade	In small businesses, it takes 9 months to repay all loans and interest.
3rd Grade	Small businesses will need to direct revenue for 1 year to make all credit-related payments.

Source: Developed by the author.

When commercial and manufacturing facilities, machinery, vehicles, inventory and other equipment are taken as collateral for loans, their value is determined by studying equipment sold in the secondary market. The primary focus is on the liquid cost of equipment. The liquid cost of equipment is the price at which these items can be sold in a short period of time. Usually, the liquid price of equipment is 10-30 percent lower than the market price. In addition, the price that may occur during the sale of collateral is determined by the direct cost method. Based on this, the price of collateral for a bank loan is determined, usually this price is 50-60% of the current price.

If the borrower falls within one of the above classes, the bank begins work on concluding a loan agreement. The type of collateral that a bank accepts on a loan is directly related to the direction of activity of the agricultural sector that receives the loan.

CONCLUSION AND SUGESSIONS

Based on the results of the research conducted on the mechanism for assessing collateral in lending to small businesses, the following scientific and theoretical proposals and practical recommendations have been developed:

- For representatives of the private sector, which produces products of small businesses, it is advisable to gradually implement the practice of lending by pledging the future harvest based on the periodicity associated with harvest cultivation.
- Based on this, we believe that it is necessary to gradually implement the practice of lending to small business entities - producers of products - by pledging the future harvest based on the periodicity associated with the cultivation of the harvest.

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