

## INTERNAL AND EXTERNAL SOURCES OF FINANCING THE ACTIVITIES OF SMALL BUSINESS ENTITIES AND THEIR BASIC PRINCIPLES

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### ABSTRACT

There is considered in the article some issues of small business and private entrepreneurship financing in the current stage, as well as ways of improving the mechanism of the present condition of small business financial support.

**Keywords:** loans, credit risk, guarantee fund, credit history, interest rate.

Today, the structure of the modern economy is made up of many types of transnational corporations, national corporations, large companies and firms, as well as small enterprises and micro-enterprises. Small business enterprises are now showing high efficiency and competitiveness across many types of activities, despite their relatively small scale.

Financing is one of the most important and fundamental processes by which small business enterprises ensure the stability, high efficiency and competitiveness of their activities. The correct and effective financing of economic activities determines the current and promising results of the enterprise.

The following distinctive features of financing small business enterprises are distinguished in economic sources:

- 1) that it is multilevel and multi-source;
- 2) state funding under special programs;
- 3) non-payment financial assistance from budgetary sources in the form of subsidies, subventions and grants;
- 4) the use of paid financial assistance from non-budgetary sources such as bank credit, leasing, franchising;
- 5) the consideration of financial resources formed in the process of economic activity of the enterprise.

V.A.Chernenko, D.O.Omarova distinguishes the following principles of small business financing in the current conditions (Table 1.1).

**1.1- Table Basic principles of small business financing <sup>1</sup>**

Self-financing	Fully reimburse the costs of production and sale of products, invest in the development of production at the expense of own funds and, if necessary, bank loans. The total volume of funds of small business enterprises is not enough for the implementation of significant investment programs. At present, not all small enterprises have the opportunity to fully implement this principle. The competitiveness of small businesses is ensured at the expense of the consistent implementation of this principle in the future.
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<sup>1</sup> Черненко В.А., Омарова Д.О. Финансирование малого бизнеса в Российской Федерации: монография / В.А. Черненко, Д.О. Омарова. – СПб.: Астерион, 2016. – 173 с. – С.44.

Interest	Demonstrates the objective need for interest in the results of activities. The main goal is determined by obtaining a result. This principle is implemented as a result of maintaining optimal policies for small businesses aimed at state support for this sector of the economy. The interests of the state are ensured through the profitable activities of the relevant enterprises.
Location	Describing the purposeful expenditure of budgetary funds, it indicates that budgetary funds are allocated to the financing of certain intended goals. Financing of small businesses should be targeted, and the state's funds should be directed to clearly planned measures.
Effectiveness of the use of financial resources	It consists in ensuring the achievement of a result using a small amount of resources or achieving the highest result using the budget-defined fund. The main result of small business activities, taking into account financing from the budget, should be an increase in the socio-economic level of the territories and the entire country. Accordingly, small business should pay the most with the least spending in the prospect.
Planning and economic responsibility	In the future, the development of certain financial policies, as well as the implementation of financial discipline, demonstrates the definition of important directions and proportions for the development of states and organizations. The current financial planning of small enterprises should be in harmony with promising planning based primarily on the scientific conditions of the holistic development of the economy at all state levels.
Taking into account the level of Risk	Provides for an analysis of the size of the risk, the assessment of the risk of a separate event, specific forms of financing, as well as factors affecting the development of measures to reduce the risk.
Legal liability	Provides for the implementation of civil, tax and budget legislation by small business entities.
Accounting for small business advantages	Provides for the establishment of priorities for financing small businesses, taking into account the sharpness and unevenness of problems in the development of different regions of the country.
Ижтимоий жавобгарликнинг давлат томонидан таъминланиши	Represents the need to finance the implementation of social functions of small businesses by the state. The state should encourage the performance of social development tasks by small businesses.

Currently, the task of further development of small business and private entrepreneurship is established in our country, the implementation of this goal is inextricably linked with improving the financing of the activities of this sector. In this case, it is advisable to clarify the characteristic aspects of financing the activities of small business enterprises.

Financing the activities of small business enterprises is the provision of financial funds necessary for the organization, implementation and development of activities of the enterprise. Sources of financing are those that ensure the involvement of permanent or temporary cash flows in the activities of the enterprise.

As you know, " the possibilities of effective economic management of small businesses, including small enterprises, micro-enterprises and individual entrepreneurs are limited in comparison with large enterprises. A large enterprise, based on its economic and financial capacity, has the

opportunity to independently provide many economic conditions and solve existing problems in this regard. Including:

- providing a material technical base (building, structures, transmission devices, equipment, etc.) for the effective organization and implementation of economic activities and technological processes of production;
- supply of raw materials and materials, electricity, water, natural gas and other resources;
- use of highways, railways, warehouses and other production infrastructure facilities;
- use of internal and external sources in meeting the need for financial resources;
- the organization of its own separate advisory services on economic, financial, legal and other issues or the use of the services of special organizations in this regard, etc.”

"There are many obstacles and problems in the use of such organizational and economic, financial, legal and other conditions and services of small business entities. First of all, representatives of this field are faced with the problem of lack of financial resources in most cases when organizing their activities. Often without their own private funds, other financial institutions do not always express goodwill to lend them. Secondly, the independent establishment of the activities of production infrastructure facilities will receive significant funds. Thirdly, small business entities will not even have the need to regularly use these services, etc.”<sup>2</sup>

L.Purijova and S.Klochko pays special attention to the importance of optimal sources of financing for small and medium-sized businesses. In their opinion, "financing small and medium-sized businesses is a problem that assumes an integrated approach. The search for optimal sources of financing is considered important for all enterprises, without exception.

The importance of optimal sources of financing directly for small and medium-sized enterprises is explained through their following characteristics:

- 1) stability in relation to external changes manifested through the ability of small and medium-sized businesses to successfully adapt to the changing conditions of the market economy;
- 2) socio-economic significance manifested through an increase in the standard of living;
- 3) the development of free competition as well as business diversification, which makes it possible to squeeze inefficient productions out of the market;
- 4) focus on the science-capacity high-tech direction of production" .

As you know, there are two main sources of financing the activities of small business enterprises, namely internal and external. Internal sources are usually the equity (private) funds of the enterprise, which is mainly net profit,

depreciation deductions will consist of income from property, etc.

External sources are borrowed funds of the enterprise, which can include in its composition: bank credit, leasing, investments, government subsidies, securities emissions, etc.

Despite the fact that there are many sources of financing the activities of small business enterprises, external sources occupy an important place among them. At the same time, among external sources, an effective and most common source is commercial bank credit. "However, it should be noted in its place that commercial banks are not so interested in lending to small business entities in comparison with large enterprises." "According to many researchers, in

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<sup>2</sup> Теоретические аспекты эффективного применения льгот при поддержке субъектов малого бизнеса. - <http://elibrary.ru>

small enterprises, working capital, above all financial resources, will be limited. Private working capital is often not enough to replenish material reserves, while the possibility of attracting borrowed funds is not always available. Because, in small enterprises, liquid collateral property, a positive credit history may not exist, in addition, the not so large volume of lending is considered to be high-cost for banks.

In our opinion, "the main reasons why commercial banks are not interested in lending to small business entities can be explained by:

- high risk of non-return of credit as a result of instability of economic activity of small business entities;
- high costs per unit of credit resource provided by commercial banks, due to the fact that the volume of lending is often not large;
- in small business entities, in most cases, liquid collateral property, the absence of a positive credit history, etc..

The consideration of the above aspects in financing the activities of small business enterprises ultimately makes it possible for the further expansion of the activities of this sector and its growth in the economy.

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