FINTECH: THE EFFECTIVE MEANS OF DIGITAL FINANCING OF SMALL BUSINESS AND ENTREPRENEURSHIP

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Abstract: FinTech has been one of the solutions in developing the small business in the developed countries. It has served to increase the financial inclusion in the distant areas. Although relatively new, this means of providing financial services has its beginnings in the last decades of the previous century. The current paper analyzes the global experience and current conditions of Uzbekistan regarding the employment of fintech. Based on the results the recommendations are drawn to increase the potential of fintech employment in financing the small businesses and entrepreneurship in Uzbekistan.

Key words: fintech, digital financing, P2P financing, crowdfunding, cryptocurrency.

Introduction

Technological development, especially the advancements in the areas of mobile technologies, availability of high-speed internet and computers, introduction of blockchain technologies and many others have already influenced the financial sector immensely. These novelties have led to higher levels of financial inclusion, and caused the people and companies to look at financing opportunities from a different perspective.

If the origin of this breakthrough is analyzed, one can observe the first steps of modernizing the financial sector were taken in early 1970s as a measure to ease the negative impacts of weakening of the control on capital movement and collapse of Bretton-Woods agreement [5]. The deregulation of the financial sector started in 1980s, and this has served to introduce significant number of innovations in financial services and technologies [8]. As a result, in the following decades new financial instruments represented by financial securities, properties and pools of credit [10].

The next phase of the development in financial technologies took place after the global crisis that happened in the end of the first decade of the second millennia. The level availability of financial services was very low, which was described with the rise of credit risks, and also with tightening of control of the bank activities. To remedy this situation and to answer the high demand for the financing the financial technologies were developed further, which in return made it possible for the majority get access to financial resources [6]. Thus, the rise in the financial technologies were caused by different conditions in the market, if the first phase was triggered by loosening of the financial sector controls, the second was a result of opposite movement.

Nevertheless, the financial technologies are becoming more and more popular not only among the companies that use the financial services more, but also the general public have used them as a means that provides financial services in the “palm of their hand”. The popularity of financial technologies and their importance has led to a creation of special term – “Fintech”, that was introduced by Citigroup in 1990s [9]. Currently wide range of services from payments to financing, asset management, insurance, and advice are among
the ones offered by fintech. Furthermore, it has served as a reason for surge in big data and its analysis, artificial intelligence (AI), machine learning, cryptography, computing power and internet accessibility. As a result of these advancements now fintech is seen as competitive alternative to traditional banks and other financial intermediaries and infrastructures [3]

**Literature review**

FinTech has been one of the solutions in developing the small business in the developed countries. Over the period of 5 years the adoption of FinTech services increased by 4 times, from 16% in 2015 to 64% in 2019 [2]. This increase can be explained by the ease of access to the technology which has provided new ways of making payments, money managing and acquiring financing to the personal or business use. Keary argues that 56% of the SMEs are using fintech services in their payments, while 46% of them obtain financing through fintech. [4]

FinTech has a several areas of operation. There are P2P – Peer to peer financing, crowdfunding, online banking, blockchain, cryptocurrencies and others. each one of them can be divided into further smaller constituents that are becoming popular in the financing of companies in particular small and medium enterprises (SMEs), as they require less time and documentation compared to traditional methods of financing.

P2P financing is the financing provided by other users of fintech, so they can provide loans to one another on a small or no cost. Special platforms have been developed that can make this take a form of investment. When one company is in need of some hefty sum of money instead of entering a bank loan acquiring process, that can be quite time and cost consuming; or issuing debt securities by employing a financial intermediary, who will take significant part of the collected capital as the commission, it can be more beneficial to acquire the capital using P2P financing. As it is happening directly between the peers – the person or a company that needs the capital and a person/s or company/ies that have extra capital the process can be much faster. The cost of the capital can be negotiated and it is not the same big amount usually, as the interest is much lower compared to that of banks. Although the P2P platform charges some commission for the services, yet it is minimal compared to bank or financial intermediary charges. Currently some money management applications such as PayMe, Click Evolution, Paynet, Upay and Oson are providing P2P like services, people can transfer their money online to one another at a cost of 0.05% or 1% from the amount of transfer. The commercial banks have developed their own applications that are providing similar services along with bank specific ones, some of which include transfers between the people, if both of them are clients of the same bank then the transfer can be provided free of charge at some banks or the cost is cheaper compared to the transfers to non-clients. Only shortcoming for this method of financing is connected to the limit in the amount of the transfer which can constitute 5,000,000 to 10,000,000 soums in some cases. Also, the transfer is usually between the debit card holders of the bank clients. If you do not have a card then the transferring can be impossible unless you ask someone to do it for you in return for a cash payment.

Another form of sourcing is called crowdfunding, which is becoming more and more popular. It also requires usage of a certain platform where people or companies with financial need can showcase their project to potential investors. If the project is attractive for them then the needed amount can be collected fairly quick and with smaller cost. There are several types of crowdfunding – 1. donations-based, 2. reward-based, 3. pre-purchase,
4. lending-based, and 5. equity-based crowdfunding [1]. While the first one is totally charity based, the other types can provide some benefit for the investors in forms of some limited items, extra shows or inclusion of them in the process of the production later on. However, the fourth and fifth types are more directed at providing financial return to the investors. As a result, this kind of campaigns are attracting the attention of investors who were willing to buy the securities of publicly listed companies (PLC). Of course, the risk level of those projects can be higher than the PLCs’, yet the investors trust the judgement of the platform in allowing the project to be enlisted there.

Recent developments have paved a way to cryptocurrencies to be used in financing of the businesses. As they are now not only investing in the digital securities to hold their extra capital, but also financing their needs by issuing their own cryptocurrencies which is addressed as ICO – Initial Coin Offering. Although, most of the cryptocurrencies market is based on Bitcoin and Ethereum, two of the most popular currencies, nowadays it has become popular to issue its own currency among some popular companies. For example, Facebook has been working on the process of issuing its own coin – Facebook Libra in the January of 2021, however in December of 2020, the name has been changed to “Diem”, and it is currently waiting the official approval of the Swiss Financial Market Supervisory Authority (FINMA) to be issued to general public. It is believed that the usage of this coin even by a tenth of Facebook’s 2.7 billion users would make Diem one of the world’s largest cryptocurrencies, if not the largest [7]. With more companies joining this initiative, the financing using the cryptocurrencies and blockchain technology can become of the important source of financing of current period.

There have been several attempts in introducing modern financial technologies in financing of various operations of Uzbek businesses. As it was told before several mobile payment platforms have been initiated, they have been acting as P2P platforms, yet most of the financial exchanges are happening among the usual people. Although, there has been an issue of Uzbek cryptocurrency – “Mangu”, it has not found its application widely yet. Most of the business financing is still sourced from traditional banks.

**Research Methodology**

This study is based on learning the global trends of the financial technologies’ usage and financing of businesses by employing the digital means of financing. For that purpose, secondary data have been collected and analysis and synthesis of them have been carried out. The current situation of Uzbekistan is also analyzed in order to provide the insights on improving and establishing the usage of fintech for financing of small businesses and enterprises.

**Analysis and results**

The development of the economy requires fast pace of the development of the business area. It is known that most of the economic growth is triggered by the increase in the number and quality of Small and Medium Enterprises (SMEs) or entrepreneurship. The recent reforms have been directed and improving the working conditions for the development of SMEs in Uzbekistan. According to the most recent statistics 54.2% of the national GDP was contributed by small business or entrepreneurship [11]. SMEs also act as the source of employment to the growing labor market of Uzbekistan, as the number of potential workers under 29 is increasing by about 800,000 people every year [12].
Given the importance of the entrepreneurship and SMEs in the development of our country, it is one of the essential requirements to accelerate and facilitate their creation, which has been on focus of the government in recent years. Albeit the efforts, it not an easy task to set up a business, especially if you find the financing of the business as a time-consuming and tedious process.

Currently, most of the financing is based on either debt financing – the loan taken from the banks, or the equity in the form of self-financing, which would require the owners search for the amount from the relatives or friends, if the needed amount is not owned personally. The prior one can require a long process of preparing documentation, after which a guarantee of payment must be provided in form of a collateral or a guarantor – a person who will cover the costs if the debtor defaults. Since the small business has limited liquidity and potentially insignificant collateral, the bank assesses them as a risky investment and thus charges a high rate of interest. Not an easy task for the start-up business. The difficulty can further arise in the event that the business is going to be opened in one of the distant parts of the republic, where the services of the banks could be scarce and potential businessmen would have to take long trips to the nearest bank that can provide the service to them.

The second method of financing is also not less complicated. Finding people who want to take a risk by investing into a start-up business is not an easy task. The lack of venture capitalist companies or angel investors can become evident soon. Thus, the difficulties can eliminate the chance of starting the business.

In order to create the needed infrastructure for the fintech employment, several stages of development can be required. Frank et al [13] have presented the structure of the ecosystem that is required to implement financial technologies to their maximum capacity. (Figure 1) The base technologies indicated in the figure include the usage of cloud computing, Internet of things (IoT), Big data and analytics. Without them the higher level, front-end technologies cannot be implemented.

![Figure 1. The infrastructure required to implement financial technologies](http://iqtisodiyot.tsue.uz)
The introduction of fintech in the form of P2P lending platforms, crowdfunding platforms and ICO’s for the businesses can serve as a boost of SMEs establishment in Uzbekistan. Of course, that will require the installment of blockchain ecosystem, motivating the traditional banks to convert to modern ones that can support the clients with new types of financial services, supporting the procedures of organizing the enlistment, regulation and control of the SMEs in the financing phases of their operations.

Currently Uzbekistan is working on creating the appropriate environment for that. This has found its reflection in Digital Uzbekistan – 2030 strategy, the first section of which is dedicated to the development of digital infrastructure in the country. However, it must not be neglected that the above-mentioned base technologies constitute the foundation of the required infrastructure for fintech, and thus the primary focus must be given to the implementation of base technologies in order to enable the full capacity digital ecosystem.

**Conclusion/Recommendations**

The current paper conducted an analysis of one of the promising novelties in the global financial industry – fintech. Although it has a long history of origins, the advancements in the technology such as availability of highspeed internet, super computers, fast mobile connections as well as powerful smartphones have made it possible to provide new types of financial services using the financial technologies. This trend has proven itself as being very beneficial to the businesses around the globe, as more and more firms could access cheaper finance thanks to fintech related digital financing. It has especially been useful to small businesses and entrepreneurs, as they could finance their operations with less paperwork and at quick pace.

Although Uzbekistan is paying much attention to supporting of small businesses and entrepreneurship, the financing of them is mostly dependent either on bank financing or personal financial resources of the owners. This has been creating obstacles for the SMEs for some time. It is proposed to further improve the blockchain ecosystem in Uzbekistan in order to create the conditions required for introducing fintech related digital financing, that can lead to increase in the number of start-ups and boost entrepreneurship in Uzbekistan.

**References**


