



Article

Improving Payment Practices for External Economic Activities of Small Business Entities

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Abstract: Ensuring the timely receipt of export proceeds and the timely execution of import payments by small businesses depends directly on the improvement of payment practices related to their foreign economic activities. In particular, documentary letters of credit issued by commercial banks for import payments enable small businesses to receive export proceeds in a timely manner. The article analyzes the current state of payment practices in foreign economic activities and proposes ways to improve these practices.

Keywords: small business, commercial bank, export, import, payment order, documentary letter of credit, bank guarantee.

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1. Introduction

The development strategy of the new Uzbekistan for 2022-2026 sets the following tasks: to increase the country's export volume to 30 billion US dollars by the end of 2026, including increasing the share of the private sector in exports to 60 percent, to make the digital economy the main driver, to increase financial resources in the economy, to increase the stock market turnover from 200 million US dollars to 7 billion US dollars in the next 5 years, and to reduce the tax burden on business entities from 27.5 percent of gross domestic product to 25 percent by 2026 [1], which requires the development of foreign economic activities of small businesses. In turn, the development of foreign economic activities of small businesses requires the improvement of payment practices for this activity.

In the context of globalization and the rapid expansion of international trade, small business entities have become increasingly active participants in external economic activities. Their role in national economic development is significant, as they contribute to employment generation, export diversification, and the stimulation of innovation. However, despite their growing importance, small businesses often face numerous challenges when engaging in cross-border transactions, particularly in the area of payment practices. Efficient and reliable payment mechanisms are crucial for ensuring the sustainability and competitiveness of small enterprises in international markets.

The complexity of international payment systems, including differences in regulatory frameworks, currency risks, and banking procedures, creates barriers for small business entities. Unlike large corporations, small firms typically have limited financial resources, insufficient experience in foreign trade operations, and restricted access to advanced banking instruments such as documentary credits, guarantees, and trade finance tools.

These constraints can lead to increased transaction costs, delays in payments, and heightened exposure to financial risks.

Moreover, the digital transformation of the global economy has introduced new opportunities and challenges in payment practices. The emergence of financial technologies (fintech), digital banking, and electronic payment systems has the potential to simplify international transactions, reduce costs, and improve transparency. However, the adoption of these innovations by small business entities remains uneven due to technological, institutional, and knowledge-related limitations. Therefore, improving payment practices requires not only the modernization of financial infrastructure but also the enhancement of institutional support and financial literacy among entrepreneurs.

In many countries, including Uzbekistan, reforms aimed at liberalizing currency regulations, supporting small businesses, and promoting export activities have created a favorable environment for the development of external economic operations. Nevertheless, there is still a need to optimize payment mechanisms, strengthen cooperation between businesses and financial institutions, and align national practices with international standards.

This study aims to explore the theoretical and practical aspects of improving payment practices for external economic activities of small business entities. It focuses on identifying existing problems, analyzing modern financial instruments, and proposing effective solutions to enhance the efficiency, security, and accessibility of international payment systems for small enterprises.

2. Methodology

According to A. Kosoy, the type of payment sequence used to ensure the continuity of payments in the economy is important, since the targeted sequence of payments violates the rights of property owners, while the calendar sequence of payments provides for the equality of all types of payments [2].

According to A. Gloriov and D. Mikhailov, commercial banks in most cases, in order to avoid secured letters of credit, provide a confirmed reimbursable obligation instead of collateral. If collateral is used in such conditions, it is necessary to take into account various aspects of political risk, and it is also necessary to consider the issue of transferring the reimbursement amount to a bank with a bad reputation. Because in a documentary letter of credit, the responsibility lies with the issuing bank [3].

According to A. Zhukova, one of the most pressing problems for small and medium-sized businesses is their lack of financial resources to carry out their economic activities, including foreign economic activities. In this case, there is a need to attract additional funds, some of which are loans from commercial banks [4].

According to K. Skinner, the widespread use of simple schemes for making small payments leads to a narrowing of the scope of using non-cash forms of settlement, and the following play a key role in this:

- telecommunications companies offering mobile payment schemes;
- online companies such as Pay Pal, which cover a large part of Internet payments;
- payment service providers in the transport system [5].

According to F. Akhmedov, the features that allow the widespread use of unsecured documentary letters of credit and documentary collection in the banking practice of developed countries, namely the full guarantee of payment in letters of credit and the procedure for issuing commodity documents after payment in documentary collection, will allow the practice of Uzbek commercial banks to improve their foreign trade services [6].

According to I. Alimardonov, "in order to improve the practice of lending foreign trade activities of small business entities, it is necessary to introduce the payment of their payments made through documentary letters of credit at the expense of term and overdraft loans of commercial banks" [7].

This proposal by I. Alimardonov is of great practical importance in terms of improving the financing of exports of resident companies. This is explained by the fact that the payment of documentary letters of credit opened by banks for small business entities at the expense of term and overdraft loans has not been introduced.

3. Result and Discussion

In international practice, 4 forms of international settlement are used to finance the foreign trade activities of economic entities:

- *bank transfer;
- *check;
- *collection;
- *documentary letter of credit.

Of these international settlement forms, the most widely used is the documentary letter of credit, and the least used is the payment order.

According to the International General Rules for Documentary Letters of Credit (UCP 500), there are 6 forms of documentary letters of credit

, revocable letters of credit can be canceled at any time by the bank that opened it (the issuing bank); irrevocable letters of credit cannot be canceled by the bank that opened it (the issuing bank) without the consent of the parties (beneficiary, advising bank, applicant); confirmed letters of credit are letters of credit confirmed by a third-country bank (letters of credit are usually confirmed in order to avoid political risk); In covered letters of credit, the amount of the letter of credit is withdrawn from the payer's current currency account and deposited in a separate account [8].

The use of guarantees from commercial banks is an important aspect of commercial banks' financing of foreign economic activities of small business entities.

The use of bank guarantees in financing the foreign economic activities of small business entities is regulated by two international documents developed by the International Chamber of Commerce and approved by the United Nations Commission, namely the International General Rules for Demand Guarantees (URDG-458) and the International General Rules for Demand Guarantees (URDG-758).

According to the Table 1. International General Rules for Demand Guarantees (URDG-458), the types of bank guarantees (revocable, irrevocable, conditional, unconditional guarantees) and the details of the bank guarantee are clearly indicated [9].

Table 1. The amount and level of outstanding letters of credit related to imports with payment of drafts to the bearer opened by the National Bank of Uzbekistan[10].

Indicators	Years				
	2020	2021	2022	2023	2024
Amount of unpaid letters of credit related to imports with payment of bills of exchange to the presenter, trillion soums	4692	3057	2284	1534	991
Share of unpaid letters of credit related to imports with payment of bills of exchange to the presenter in the total volume of documentary letters of credit opened for import payments by customers, %	99,9	99,6	99,5	98,4	94,9

The data in Table 1 shows that:

- The amount of unpaid letters of credit related to imports with the payment of drafts to the bearer opened by the National Bank of Uzbekistan had a decreasing trend in 2020-2024. Moreover, the amount of these letters of credit decreased sharply in 2024 compared to 2018;[11]

- The share of unpaid letters of credit related to imports with the payment of drafts to the bearer opened by the National Bank of Uzbekistan in the total volume of documentary letters of credit opened for import payments by customers was relatively high in 2018-2024. Moreover, the share of these letters of credit in the total volume of documentary letters of credit opened for import payments by customers increased at a high rate in 2024 compared to 2018.[12]

Figure 1. Documented letters of credit and bank guarantees guarantee the payment of the amount of imported goods, and in this respect they play an important role in the technical and technological rearmament of resident enterprises. Therefore, documented letters of credit and bank guarantees are an important factor in ensuring the reputation of commercial banks in front of customers.[13]

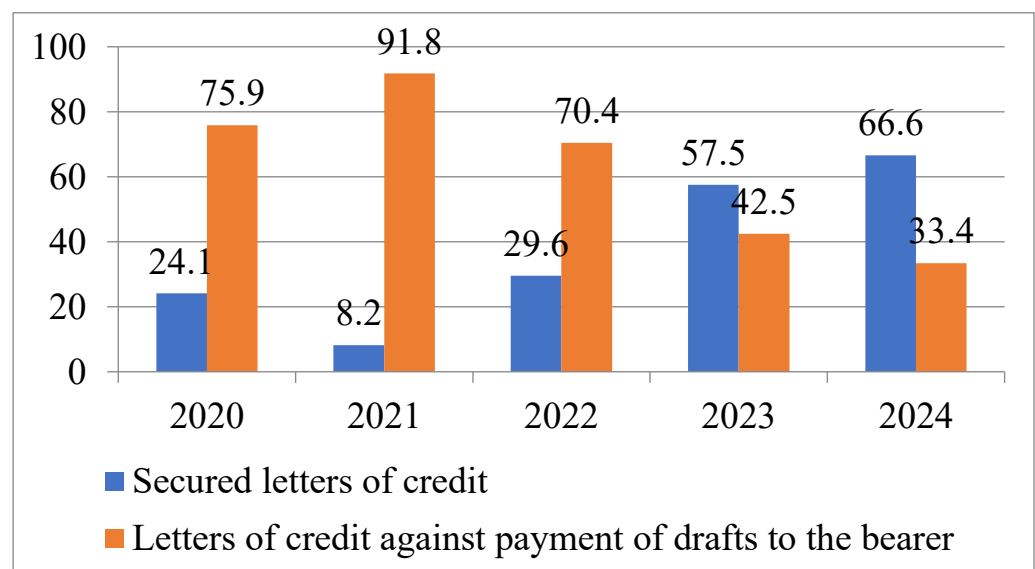


Figure 1. Share of unpaid letters of credit and covered letters of credit related to imports with payment of bills of exchange opened by Sanoatstilishbank for imports of small businesses in the total volume of documentary letters of credit, in percent.

The data in Figure 1 shows that:

- Documentary letters of credit opened by the Industrial Construction Bank for import payments of small and medium-sized business entities consist of unpaid letters of credit related to imports with the payment of drafts to the issuer and covered letters of credit;
- The share of unpaid letters of credit related to imports with the payment of drafts to the issuer opened by the Industrial Construction Bank in total letters of credit had a decreasing trend in 2021-2024 and decreased at a higher rate in 2024 compared to 2020;[14]
- The share of covered letters of credit opened by the Industrial Construction Bank for import payments of small and medium-sized business entities in total letters of credit had a decreasing trend in 2021-2024 and increased at a higher rate in 2024 compared to 2020. This is a negative situation from the point of view of improving the practice of providing settlement services for the foreign economic activities of Sanoatkurilishbank of small and medium business entities.[15]

In the process of writing the scientific article, we have formed the following conclusions regarding the payment practices of small business entities in foreign economic activities:

1. The study of scientific and theoretical views on the payment practices of small business entities in foreign economic activities has shown that:

- the type of payment sequence used to ensure the continuity of payments in the economy is important, and the targeted sequence of payments violates the rights of property owners, while the calendar sequence of payments provides for the equality of all types of payments;
- commercial banks in most cases provide a confirmed reimbursable obligation instead of collateral in order to avoid secured letters of credit. If collateral is used in such conditions, then various aspects of political risk will have to be taken into account;
- one of the most pressing problems for small and medium-sized businesses is their lack of financial resources to carry out their economic activities, including foreign economic activities;
- in order to improve the practice of lending foreign trade activities of small businesses, it is necessary to introduce the payment of their payments made through documentary letters of credit at the expense of term and overdraft loans of commercial banks.

2. An analysis of the practice of payments for foreign economic activities of small businesses showed that:

- according to the international generalized rules for documentary letters of credit (UCP 500), there are 6 types of documentary letters of credit, revocable letters of credit can be canceled at any time by the bank that opened it (the issuing bank); irrevocable letters of credit cannot be canceled by the bank that opened it (the issuing bank) without the consent of the parties (beneficiary, notifying bank, applicant); confirmed letters of credit are letters of credit confirmed by a bank of a third country (letters of credit are usually confirmed in order to avoid political risk); in covered letters of credit, the amount of the letter of credit is withdrawn from the payer's current currency account and deposited in a separate account;
- The amount of unpaid letters of credit related to imports with the payment of drafts to the bearer opened by the National Bank of Uzbekistan had a decreasing trend in 2020-2024. Moreover, the amount of these letters of credit decreased sharply in 2024 compared to 2018;

- The share of unpaid letters of credit related to imports with the payment of drafts to the bearer opened by the National Bank of Uzbekistan in the total volume of documentary letters of credit opened for import payments by customers was relatively high in 2018-2024;

- Documentary letters of credit opened by the Industrial Construction Bank for import payments by small and medium-sized businesses consist of unpaid letters of credit related to imports with the payment of drafts to the bearer and covered letters of credit;

- The share of unpaid letters of credit related to imports with payment of drafts to the bearer opened by the Industrial Construction Bank in total letters of credit had a decreasing trend in 2021-2024 and decreased at a higher rate in 2024 compared to 2020;

- The share of covered letters of credit opened by the Industrial Construction Bank for import payments of small and medium-sized businesses in total letters of credit had a decreasing trend in 2021-2024 and increased at a higher rate in 2024 compared to 2020.

In our opinion, in order to improve the payment practices of small business entities in foreign economic activities, it is necessary, firstly, to ensure the continuity of production in small business entities by increasing the volume of bank guarantees issued on payment obligations of small business entities belonging to the first and second categories of solvency in terms of the level of total cash flow in relation to debt obligations; secondly, in order to ensure the continuity of payment practices of small business entities, it is necessary to increase the share of unsecured letters of credit in the total number of documented letters of credit provided by commercial banks.

4. Conclusion

The study has demonstrated that improving payment practices in the external economic activities of small business entities is a critical factor for enhancing their competitiveness, financial sustainability, and integration into global markets. Efficient payment mechanisms reduce transaction costs, minimize financial risks, and ensure the timely fulfillment of contractual obligations, which are essential in international trade operations.

The analysis confirms that the existing challenges—such as limited access to modern financial instruments, currency risks, regulatory constraints, and insufficient digitalization—continue to hinder the effectiveness of cross-border payments for small businesses. Addressing these issues requires a комплексный подход that combines institutional reforms, technological innovation, and capacity building.

Particular importance should be given to the expansion of digital payment systems, the adoption of international standards such as documentary credits and guarantees, and the strengthening of cooperation between commercial banks and small enterprises. The integration of fintech solutions and automated platforms can significantly improve transparency, speed, and reliability in payment processes. Moreover, enhancing financial literacy and professional competence among entrepreneurs will enable them to better utilize available financial tools.

At the policy level, it is essential to further develop legal and regulatory frameworks that facilitate international settlements, reduce administrative barriers, and support export-oriented activities of small businesses. Government initiatives aimed at валютная либерализация, risk mitigation, and access to affordable financing play a key role in this process.

In conclusion, the modernization of payment practices in external economic activities should be viewed as a strategic priority for the development of small business entities. The implementation of advanced financial instruments, digital technologies, and supportive institutional mechanisms will contribute to sustainable economic growth and stronger participation of small businesses in the global economy.

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