



Prospects for Forming an Alternative Financial System

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ABSTRACT

Legal and financial relations in the conditions of a free market economy new by individuals voluntarily pooling their resources to the establishment of business entities and previously established ones leads to the expansion of the scope of activity through the financial market. Exactly in the financial market, which is distributed to various sectors of the national economy the main part of the income is formed, and these incomes are of economic development and serves as the main source of social development.

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Small and medium enterprises (SMEs), reducing their exposure to worthless debt and risk. Small firms lack access to debt and equity capital markets and are more likely to experience difficulties in obtaining

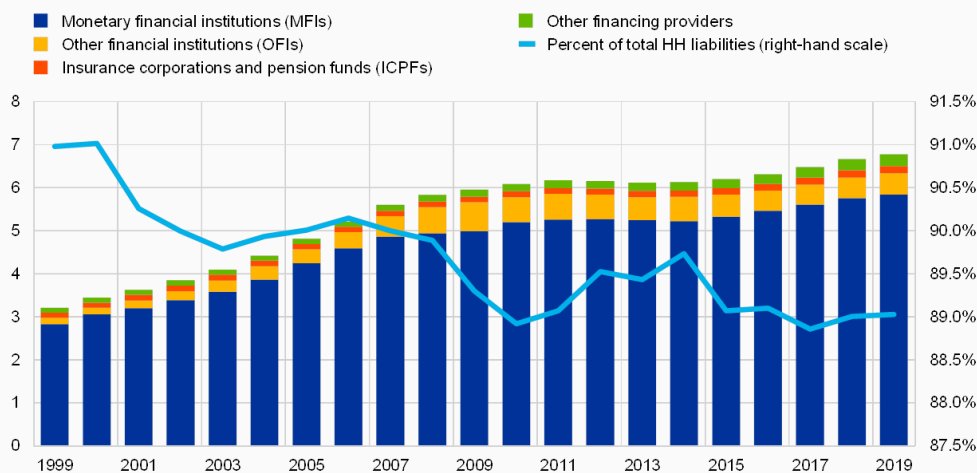
external funding in crisis periods. Banks pledge 40% of their resources to multinationals, 20% to derivatives, 13% to interbank loans, and only 17% to the local economy (Mortier 2013). Small enterprises in the USA were hit harder than large firms in terms of securing bank credit during the 2008 financial crisis (Mills, McCarthy 2014). European SMEs that generally struggle to access finance in normal times had a bigger challenge to deal with during the financial crisis (EUROPEAN CENTRAL BANK, 2014). Consequently, countries with a high prevalence of SMEs recovered more slowly (Klein, 2014).

For new entrepreneurs, banks preferred projects using known technologies (Gjelsvik, 2017). All this means that high-risk projects using new technologies by potential disruptors do not easily access finance. In the face of these banking and financial problems, people took the initiative to find new sources of funding. These alternative finance solutions link individuals who have extra funds to those who need them outside the conventional financial system (Baeck *et al.*, 2014; Zhang *et al.*, 2016). Alternative finance distinguishes itself with features such as an absence of lengthy application forms, low documentation, almost no collateral and/or minimum credit score requirements, high approval rates, and fast funding, even for cash flow and asset finance needs. Solidarity and cooperation are common to many types of alternative finance such as asset funding, cash flow funding, crowdfunding, crypto-currencies (Bitcoin), slow money, pension fund investments, social impact bond, etc. While these different types of alternative finance seem to address similar issues in a demanding market, they have not experienced the same performance.

The financial system includes various areas of financial relations, and each area is characterized by the characteristics of the formation of funds and their use. The financial system is considered, on the one hand, as a set of financial relations, and on the other hand, as a set of financial institutions. Based on the essence of finance, it is appropriate to approach it as a set of financial relations when studying the financial system. Financial relations are distributive in nature, while the distribution of value is carried out primarily by subjects. Based on their importance in social production, subjects form target money funds. It is the role of the subject in social production that is the primary objective indicator of the classification of financial relations. Based on this, three major areas can be distinguished in the sum of financial relations: finance of enterprises, organizations and institutions; insurance; public finance. Links are separated within each of the listed areas, while the grouping of financial relations is carried out based on the nature of the subject's activity, which has a decisive influence on the composition and direction of target funds. In the field of finance of enterprises, organizations and institutions, this symbol provides an opportunity to create links such as finance of enterprises operating on a commercial basis, finance of organizations and institutions engaged in non-commercial activity, finance of public associations.

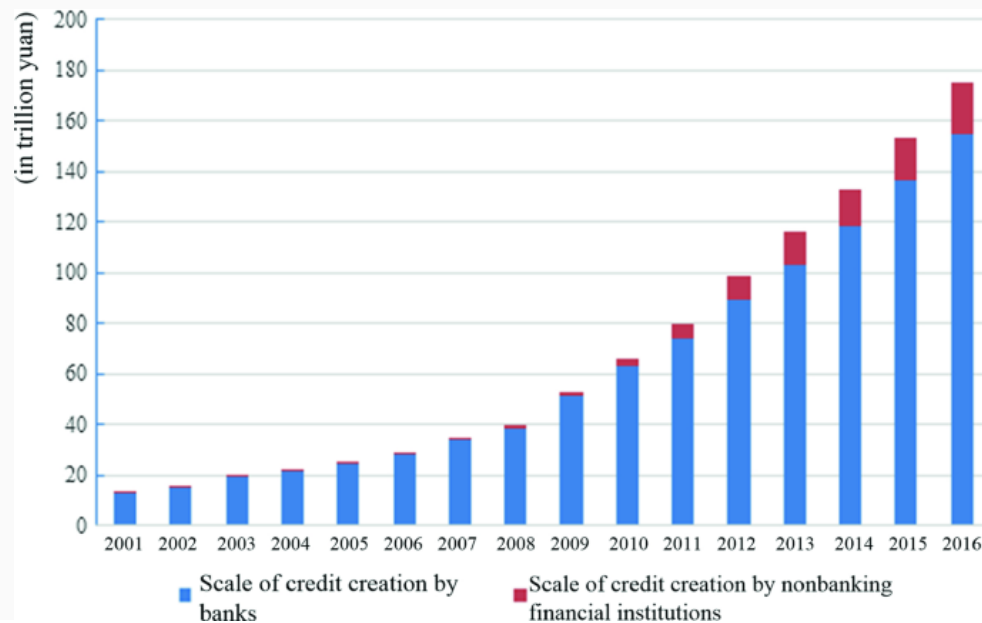


In the field of insurance, the nature of the subject's activity determines the nature of the insurance object, social insurance, personal insurance, property insurance, liability insurance, business risk insurance were considered as links. In the field of public finance - the state budget, extra-budgetary funds, state credit. Sectors and links of financial relations are interconnected, and their sum constitutes the financial system. The financial system is also used as a set of financial bodies and institutions. All links of the financial system, in turn, are divided into sub-links based on the structure of internal financial relations.



Therefore, in the structure of the finance of commercial enterprises, based on the direction of the industry, finance of industrial enterprises, finance of agricultural enterprises, finance of trade enterprises, finance of transport enterprises and other forms of ownership, finance of state enterprises, company enterprises can be divided into finance, finance of joint stock companies, finance of private enterprises and others. The network and economic characteristics of commercial enterprises have a significant impact on the organization of their financial relations, the composition of target funds, and the procedures for their formation and use. In the field of insurance relations, the links that make up

insurance networks are divided by types of insurance. The grouping of internal financial relations in the structure of state finance is carried out based on the level of state administration (republic, local). The division of the financial system into separate links is based on the difference in the tasks of each link and the difference in the methods of formation and use of centralized and decentralized monetary funds.



All-state centralized monetary funds are formed by distribution and redistribution of national income created in the spheres of material production. The important role of the state in economic and social development leads to the need to centralize a large part of the financial resources at its disposal. The forms of their use are manifested through the state budget and extrabudgetary funds. At the expense of these, the need to solve the economic, political and social tasks of the state is ensured. Forms and methods of organization and use of monetary funds are used through the credit and insurance links of the financial system. Decentralized monetary fund's establish enterprises at the expense of their monetary income and savings¹.

Financial system as "organization of financial relations it can be considered as a "form of doing" or "a set of organizational structures of financial relations". For example, Famous American expert J. Van Horn to the financial system - state, firms and financial institutions that provide various services to citizens and the complex of markets - gives the definition. L. Drobozina according to "Financial system - organization of funds fund and various areas of financial relations in the process of use "consists of a complex". According to G.Polyak, financial system - money of the state, economic entities and households distribution of funds in various ways and forms. Interpret it as a complex of various financial relations in the process will be done. The well-known economist V. Kovaleva is social to the financial system total between the subjects of the reproduction process money for the distribution and redistribution of social goods that it should be considered as a form of organization of relations emphasizes. In the above definitions of the financial system. There is a logical unity and the value of the social product. Funds of funds created in the process of distribution the process of formation and use

¹ A Tale of Three Musketeers of Alternative Finance: Stagnating Microcredit, Growing P2P Online Lending and Striving for Slow Money Djamchid Assadi, Arvind Ashta, Aymeric Jung Dans Journal of Innovation Economics & Management 2018.

of the financial system it is emphasized that it forms the central content.² So, the financial system is a variety of financial relations including the branches, the money funds of any branches characterized by the characteristics of their formation and use.

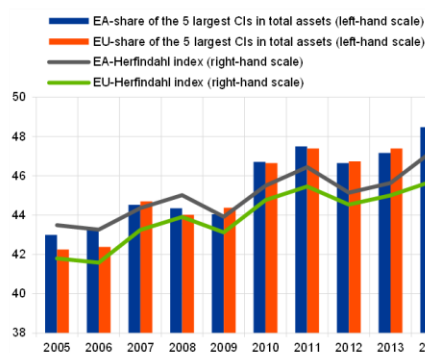
Methods of formation of income of economic subjects depending on the financial system centralized finance (public finance) and decentralized finance (economy dividing into main types such as subjects and household finance). The financial system is a form of organization of the system of monetary relations formation and use of financial resources

The provider is divided into three main interrelated systems: State and finance of local government bodies, different ownership and finance of economic entities engaged in activity, house household finance (household finance). These systems make up the integrated financial system establish a fund of specific funds of economic entities in turn, it is divided into separate sections, depending on what is done.

The market growth in the P2P segment will be significant over the forecast period. P2P lending is popular among individual borrowers and SMEs, as small- to medium-scale loans can be obtained easily. Many individuals opt for P2P loans for debt consolidation, which allows them to pay debts accrued from credit cards or loans from financial institutions. In addition, the market has several P2P platforms that provide loans for debt consolidation, home improvement, auto refinancing, and education. All these factors drive the growth of the segment³.

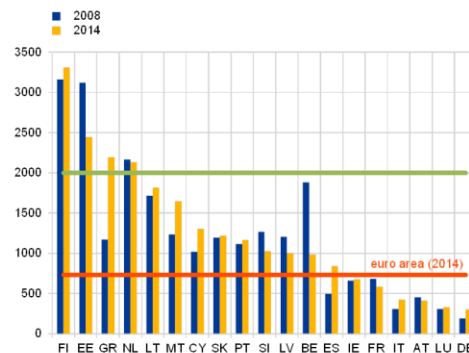
Chart 7: Market concentration has increased since the crisis but cross-country differences remain significant

Market concentration in the euro area/EU banking system (2005-2014; share of 5 largest CIs; Herfindahl index)



Source: EU structural financial indicators.

Market concentration in euro area countries (2008-2014; Herfindahl index)



Source: EU structural financial indicators.

Note: Horizontal line represents market concentration in the euro area in 2014.

The expanded role of capital markets and the market-based credit system with the resulting shrinkage of the banking sector are not *per se* negative developments. Diversification and competition contribute to

² B.SH.SAFAROV, I.I.AYUBOV FINANCE AND TAXES TASHKENT–2020

³ Alternative finance market size to grow by USD 63.35 billion between 2022 and 2027; North America to account for 72% of the market growth - Technavio

enhance efficiency and to lower transaction costs in the financing of the economy. Banks too have welcomed the embryonic initiatives of the EU Commission to develop a capital markets union in the future. As mentioned previously, banks also participate in the new forms of financing and the bigger ones are crucially involved in all the activities linked to capital markets, from the issuance to the distribution of securities and trading. On the other hand, existing Investment Funds are often part of banking groups. However, despite adjustments in business models, more traditional banks face accrued challenges⁴.

In conclusion, financial markets are the economy of any country is becoming more and more important in its development. They are stable operation and expansion of macroeconomic stability in the country and the solution of successful competitiveness in the processes of financial globalization is the determining factor.

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