



THE ROLE OF MICROFINANCE IN ENSURING THE DEVELOPMENT OF SMALL BUSINESSES

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Abstract:

Small business and private entrepreneurship are crucial for Uzbekistan's economy, impacting various socio-economic aspects. Lending serves as a significant catalyst for their development. Therefore, Uzbekistan is implementing economic reforms to create favorable conditions for entrepreneurs. This includes prioritizing the accelerated development, stimulation, and support of small businesses, which contribute to economic growth, job creation, and improved living standards.

Keywords: Small business, financial services, microfinance activities, macroeconomic development, economic problems.

Currently, the development of small business and private entrepreneurship is one of the foundations of the economy of Uzbekistan. Small business and private entrepreneurship affect all socio-economic spheres of society. And lending can serve as a special incentive for the development of small businesses and private entrepreneurship. Therefore, Uzbekistan is implementing new economic reforms to create favorable conditions for entrepreneurs and businessmen.

Special attention is paid to the accelerated development, stimulation and support of small businesses and private entrepreneurship, which play an increasingly important role in ensuring economic growth, creating new jobs, solving employment problems, increasing incomes and welfare of the population.

The main place in the development of the economy of Uzbekistan is occupied by organizations providing financial services. In exchange for their financial support,





small enterprises and private businesses, as well as the economically active part of the population who want to start an entrepreneurial activity, open their own enterprises, since the importance of credit in the development of the country's economy is great. Lending is carried out mainly under the roof of organizations providing financial services. Organizations providing financial services are usually formed from commercial banks, pawnshops, micro-credit organizations and other credit organizations.

After the adoption of the Law of the Republic of Uzbekistan on April 20, 2022 "On non-bank credit organizations and microfinance activities"[1], it will further strengthen macroeconomic stability and strengthen high rates of economic growth, including ensuring the stability of the price level in the domestic market.

And in the new development strategy of Uzbekistan for 2022-2026, the Ministry of Finance, together with the State Tax Committee, was instructed to submit to the Cabinet of Ministers, by October 1, 2022, a draft law on the introduction by January 1, 2025 in areas with "difficult" conditions of the system of payment by new business entities of turnover tax at the rate of 1 percent, land tax on legal entities and property tax on legal entities — at the rate of 1 percent of the accrued amount[2]. And also, to introduce from 2022 the procedure for the gradual inclusion of all mandatory requirements in the field of entrepreneurship in the unified electronic register with the revision of duplicate and obsolete mandatory requirements, launching the unified register in full from July 1, 2025[3].

These measures, which provide for further deepening of institutional reforms in order to create a favorable business climate for the development of small business and private entrepreneurship, will lead to the formation of a class of owners, that is, the middle class, which is a reliable support for the renewal of our country.

The successful development of a small business largely depends on the extent to which private entrepreneurs are provided with the financial resources necessary in the long and relatively short term of its activities. Currently, the credit market of our country is characterized by the fact that it is at the stage of institutional development, limited in the types of financial instruments and services that can be offered. Given the underdevelopment of non-banking institutions engaged in the provision of financial services, this circumstance ultimately prevents adequate financing of sectors of the real economy.[4]

It is possible to list the following problems that exist at the present stage of financing small business and private entrepreneurship in our republic:

- insufficient effectiveness of lending mechanisms for small businesses;
- insufficiently developed risk insurance mechanisms for small businesses;





- weak development of self-financing mechanisms (this can also be seen in the fact that credit unions do not work, collective investment funds and other similar organizations are not developed);
- inconvenience of the terms of use of credit resources for small businesses;
- limited mechanisms for reducing credit risk in the lending process;
- lack of access to investment, including bank credit resources in most small businesses due to lack of property that can be mortgaged, etc.

The main reasons for the insufficient development of services provided by the banking system in the financial markets, in particular in the market for providing credit services, experts call the presence of a high level of risk, as well as the lack of borrowers' ability to foreclose.

The impact of the growth of macroeconomic indicators and the number of small businesses in 2017-2021, as well as the volume of loans allocated to them, was studied. Taking into account the mathematical and economic indicators and the characteristics of the selected indicators, econometric modeling was carried out using the ARDL (Autoregressive distributed lag model) method using complex auxiliary tests.

The Decree of the President of the Republic of Uzbekistan "On additional measures to raise the support of business initiatives of the population to a new stage within the framework of family entrepreneurship development programs" dated 31.01.2023 No. PP-39 was adopted.

In 2023, at least 13 trillion soums will be allocated to finance projects within the framework of family entrepreneurship development programs. The target parameters of these resources in the context of regions have been approved. At the same time, within the framework of the programs, 2.8 trillion soums of credit funds are allocated from the own resources of AKB "Xalq Banki", AKB "Agrobank" and AKB "Mikrokreditbank".

From February 1, 2023:

- loans are allocated as a priority to the population and business entities that have not previously used loans under the programs;
- dehqan farms and small businesses that have taken out agricultural land for long-term lease are provided with unsecured loans of up to 50 million soums;
- the amount of loans allocated to projects of business entities aimed at expanding production, services and handicrafts, as well as home-based work in mahallas, including established microcenters, increases from 225 to 300 million soums. At the same time, the initiator must participate in the project with a share of at least 30%;



- small business entities that have established their business by effectively using previously received credit funds and making timely credit payments are allowed to reuse these loans for further expansion of activities;
- up to 10 million soums of the loan amount (for artisans - up to 20 million soums) is transferred to bank cards;
- citizens and business entities who have not repaid the allocated loans on time, the issuance of new loans under the programs is not allowed.

Within the framework of the programs, the procedure for allocating loans at a rate of 14% per annum will remain. Part of the interest expenses on commercial loans of authorized banks is covered by the State Fund for Business Support.

The amount of microcredits in the direction of the effective use of household lands of the population at the expense of the Fund for the Support of farmers, Dehkan farms and owners of household lands increases to 3 million soums. These micro-loans are allocated through a Single electronic platform of family entrepreneurship development programs.

The most important factor for achieving stable macroeconomic development in recent decades is to reduce the tax burden on small businesses and private entrepreneurship. An important way to improve the efficiency of the small business lending system in Uzbekistan is the development of the information infrastructure of the credit market. The credit market, like any other market, is a communicative system, and therefore the effectiveness of its mechanism depends crucially on the quality, quantity, and speed of information dissemination.

However, the information accumulated in the Interbank Credit Bureau is accessible to a limited list of persons, in which it does not correspond to a perfect information space. In our opinion, information about tariffs and rates on the credit market should be publicly available. Such transparency of relations between the bank and its clients contributes to strengthening confidence in the banking system and, accordingly, to improving the efficiency of bank lending.

To solve the above problems, economic proposals are being developed and applied in our banking practice and in the future will give the effectiveness of lending to small businesses and strengthen the stability of internal and external sources of lending. Comprehensive support for small businesses and private entrepreneurship, elimination of obstacles to their development, ensuring freedom of activity and simplification of the order of their organization are one of the priority areas for solving social and economic problems of Uzbekistan.

Lending awakens economic growth and an increase in the commodity mass in the country's market. Simplification of the process of lending to small businesses can





serve as a significant impetus for the development of small entrepreneurship in Uzbekistan.

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