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## PROBLEMS AND PROSPECTS FOR THE DEVELOPMENT OF MICROFINANCE FOR SMALL AND MEDIUM-SIZED BUSINESSES

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### ABSTRACT

*This scientific article provides research and analysis of existing practices of bank lending to small businesses and private entrepreneurship. The paper considers the main problems associated with obtaining loans, as well as the factors influencing the bank's decision-making on granting a loan.*

**KEYWORDS:** *Bank Lending, Small Business, Private Entrepreneurship, Creditworthiness, Customer Service, Efficiency, Availability Of Credit Resources, Economic Development.*

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### 1. INTRODUCTION

The development of the economy of any country requires an optimal ratio of large and small enterprises. As one of the key elements of the market mechanism, small business plays a significant role in ensuring the sustainable development of the economy of Uzbekistan. Small and private enterprises provide a significant contribution to the country's economy, participating in the creation of the gross national product. It should be noted that they perform several important social functions. In this connection, simplifying access to financial resources, developing lending and insurance are considered one of the main objectives of state policy in the field of small and medium-sized businesses.

Competition in the microloan market is growing rapidly, as new microfinance organizations continuously appear and new microloans are issued in the banking system. In this regard, the relevance of analytical studies of micro-credit business and micro-products is growing, allowing the interests of the lender to be adapted to the needs and demand of borrowers; the increased importance of financing problems in general, and microcredit in particular, as well as the insufficient development of this problem determined the choice of topic, purpose and objectives of the study, which determined the relevance of the study.

Small enterprises are the core of the country's socio-economic development, as they provide people with work, wages and normal working conditions. This means that the importance of creating a favorable climate for enterprises in this sector, including through the development of a microcredit system for small businesses, is recognized not only by the state, but also by ordinary citizens.

In this regard, President of Uzbekistan Sh.M. Mirziyoyev noted: "Of course, we all understand that the successful implementation of economic reforms and social transformations, first of all, is determined by the effectiveness of the activities of economic and financial bodies".<sup>1</sup>

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<sup>1</sup> Report of the President of the Republic of Uzbekistan at an expanded meeting of the Cabinet of Ministers

The creditworthiness of small businesses and private entrepreneurs is often assessed by banks as high-risk, which leads to loan refusals or high interest rates. This complicates business development and reduces the efficiency of enterprises.

Increasing the potential of employees will be the basis for improving the quality of service and increasing the level of cross-sales, including through the active use of the experience of foreign banks. “There is a need for accelerated adoption of measures for the widespread introduction of information technologies in the banking system based on modern service solutions, financial technologies, ensuring an adequate level of information security, as well as reducing the influence of the human factor in the provision of financial services”.<sup>2</sup>

## 2. Literature review.

The first studies on the development of the scientific foundations of microfinance, in particular group lending with joint liability, dynamic incentives, frequent payments, focus on female borrowers, were studied in the works of D. Karlan , T. Besley , S. Coat , M. Gatak , T. Gwinen . The scientific works of S. De Mel, D. Mackenzie, K. Woodroof , R. Deheji , J. Morduch , D. Karlan are devoted to criticism of microfinance (high interest rate in microcredit, deterioration in the welfare of borrowers, increase in debt, etc.) , M. El Gamal et al.

The role of small but regular cash deposits from borrowers in ensuring loan repayment in microfinance was studied in the works of D. Karlan , F. Aportela , R. Burges , R. Pande, J. Flory, R. Levin, A. Demirguç-Kunt , etc. Microinsurance services in rural areas, its types, specifics and conditions were studied in the works of R. Townsend, S. Gaurav , Sh. Kole, H. Ginet, etc. The development of microfinance, especially in rural areas and hard-to-reach areas is associated with the availability of the Internet and digitalization of services. Important works in this direction are worth highlighting: J. Aker, B. Rashid, R. Levin, T. Beck, A. Banerjee and others.

Alimuhamedova , D. Murodova , N. Urmanova, I. Rakhmonov and others made a great contribution to the scientific substantiation of the development of microfinance in Uzbekistan .

## 3. Research methodology.

During the research process, a “comparative analysis” is carried out or the formation of certain logical, theoretical conclusions by comparing data on models for identifying and assessing financial risks of several developed countries.

Comparative analysis does not consist in identifying certain characteristics or differences; it is important for the conclusion, opinion, postulate that can be drawn from comparison. If there is no such conclusion, it will remain a simple observation, far from scientific research.

Comparative analysis acquires a scientific character only when it is based on rationality and objectivity.

In comparative analysis, concepts are used that represent two, antinomic sides of phenomena, such as large and small, long and short, infinite and limited, new and old, fast and slow, conscious (smart) and unconscious (stupid), positive and negative. For comparison, it is important to find differences in appearance or differences in internal qualities, and, comparing them, draw a certain conclusion.

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<sup>2</sup>Decree of the President of the Republic of Uzbekistan dated May 12, 2020 No. UP-5992 “On the strategy for reforming the banking system of the Republic of Uzbekistan for 2020 - 2025”

#### 4. Analysis and results.

From international experiments it follows that small businesses, medium and large enterprises can adapt to market demand in a short time compared to the organization of labor, the introduction of new technologies into production, their effective use by creating new production capacities will be realized faster in small enterprises than at other enterprises.

Small businesses occupy a large place in the economic development of the state. Today, more than 55% of Uzbekistan's domestic product comes from small businesses. "In developed countries, including countries such as Germany, Finland, Norway, Sweden, 70% of available jobs are created through the contribution of small businesses. In many countries, the share of small businesses in gross domestic product, amounting to more than 50 percent, allows the economy to grow at a rapid pace".<sup>3</sup>

**Table 1 Share of small businesses in macroeconomic indicators of Uzbekistan, in percent <sup>4</sup>**

Years	GDP	Industry	Construction	Employment	Export	Import
2000	31.0	12.9	38.4	49.7	10.2	22.8
2001	33.8	12.5	40.4	51.8	9.3	26.7
2002	34.6	15.4	42.0	53.5	7.5	24.9
2003	35.0	10.8	39.9	56.7	7.3	33.7
2004	35.6	11.0	49.6	60.3	7.3	32.7
2005	38.2	10.0	50.9	64.8	6.0	33.7
2006	42.1	10.9	52.1	69.1	11.2	34.2
2007	45.7	13.2	55.4	72.1	14.8	32.0
2008	48.2	14.6	58.4	73.1	12.4	35.7
2009	50.1	17.9	42.4	73.9	14.6	42.5
2010	52.5	26.6	52.5	74.3	13.7	35.8
2011	54.0	28.6	67.6	75.1	18.8	34.3
2012	56.4	29.7	70.0	75.6	14.0	38.6
2013	55.8	33.0	70.6	76.7	26.2	42.4
2014	56.1	36.8	69.5	77.6	27.0	45.4
2015	62.9	40.6	66.7	77.9	27.0	44.5
2016	64.9	45.3	66.9	78.2	26.0	46.8
2017	63.4	41.2	64.8	78.0	22.0	53.6
2018	60.4	37.4	73.2	76.3	27.2	56.2
2019	54.2	25.8	75.8	76.2	27.0	61.6
2020	55.7	27.5	72.5	73.8	20.5	51.8
2021	54.9	27.0	72.4	73.8	22.3	48.7

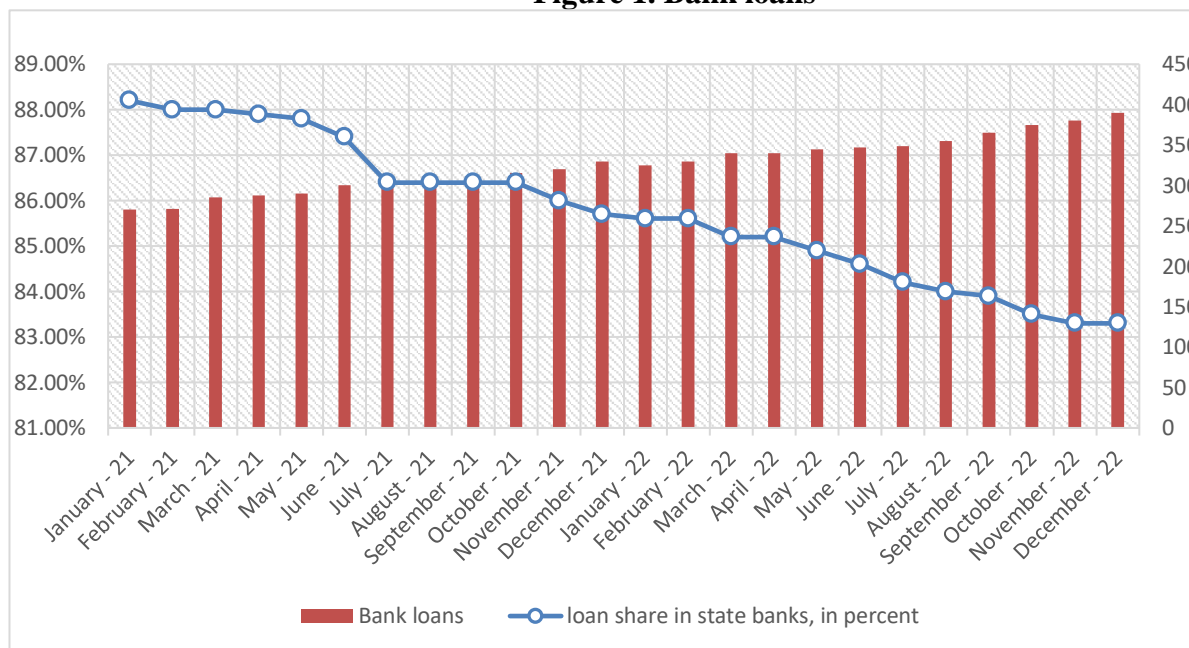
The table data shows that we can observe an increase in the share of small businesses in macroeconomic indicators. In particular, if the share of small businesses in GDP in 2000 was 31%, then by 2021 this figure reached 54.6% or increased by 23.9%. Another of the most basic indicators is that the employment rate was 49.7% in 2000, while the increase to 73.8% or 24.1 units in 2021 is a very large result.

<sup>3</sup> www.stat.uz

<sup>4</sup> www.stat.uz

In 2022, the loan portfolio of commercial banks increased by 19.5% compared to last year (17.8% in 2021) and amounted to 390 trillion soums or \$35.3 billion. The share of the loan portfolio in the structure of assets of the banking sector decreased from 73.4% in 2021 to 70.1% in 2022 (67.2% as of October 1, 2022).

Figure 1. Bank loans<sup>5</sup>



The share of the loan portfolio of banks with state participation also decreased from 85.8% in 2021 to 83.2% in 2022, however, the dynamics of portfolio growth accelerated to 15.9% y/y (+7.1% q/q) over the same period. The volume of the loan portfolio of banks without state participation increased by 41.1% y/y (+42.5% y/y in 2021) to 65.4 trillion soums (+9.3% q/q), and their share in the total portfolio of commercial banks of the republic increased from 14.2% to 16.8% (16.5% as of October 1, 2022). The ratio of the loan portfolio of Uzbek banks to the republic's GDP decreased over the year from 44.2% to 43.9%.

In 2022, the size of loans in national currency increased by 25.2%, and their share in the structure of banks' loan portfolio increased to 52.5%. At the same time, the share of loans in foreign currency decreased to 47.5%, but in nominal terms increased by 13.8% to \$18.5 billion.

The structure of loans in national currency is dominated by loans to individuals, the percentage of which has increased to 49.3%. The share of loans to legal entities decreased to 48.9%, and the share of loans to individual entrepreneurs decreased to 1.9%.

## 5. CONCLUSION.

An analytical review of small business lending in Uzbekistan shows that the availability of credit resources for small businesses and private entrepreneurs in regions with a low level of economic development remains low. Despite the government's efforts to increase the availability of credit for small businesses, many small businesses still face difficulties in obtaining loans.

<sup>5</sup>Compiled by the author

One of the main problems is the insufficient development of the banking system in the regions. Most banks are concentrated in large cities, which makes it difficult for small businesses in remote regions to access credit. In addition, many small businesses do not have a strong credit history, which also makes it difficult to obtain a loan.

Another problem is the high interest rate on small business loans. Banks often charge high interest rates to offset the risks associated with lending to small businesses. This makes lending unaffordable for many small businesses.

However, in recent years, the government of Uzbekistan has been taking steps to improve the availability of credit for small businesses. Special lending programs have been created for small businesses, which provide lower interest rates and simplified conditions for obtaining a loan. In addition, the government is working to develop the banking system in the regions.

Overall, the availability of credit resources for small businesses in Uzbekistan remains a problem, but the government is taking steps to solve it. The development of the banking system in the regions and the creation of special lending programs for small businesses can help improve the availability of credit and promote the development of small businesses in the country. Based on the above, it is proposed:

- providing small businesses with microfinancing opportunities at the expense of attracted funds from IFIs;
- increasing the share of social loans in the loan portfolio through the introduction of new innovative and profitable products in the long term;
- providing small businesses with a wide range of banking products and services;
- Diversification of the loan portfolio, since investment loans are associated with greater risks than microfinance.

In general, today a bank, in order to conquer the microfinance market, needs to establish partnerships with international financial institutions, attract funds, and develop value propositions for potential clients.

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