



MICROFINANCING - A KEY FACTOR IN THE DEVELOPMENT OF SMALL BUSINESSES

Xalilova Gulnora Nabiyevna,
Assistant of the Department of "Finance and Accounting",
Fergana State Technical University,
e-mail: gulnorahalilova37@gmail.com

Abstract

In this article, we will look at the role of microfinance in the development of small businesses and private entrepreneurship, as well as its economic and social significance. Special attention will be paid to current problems in this area in the Uzbek economy, such as limited access of small businesses to bank loans, lack of sufficient guarantees and high interest rates. We will analyze how microfinance mechanisms can help solve these problems. In addition, we will propose measures to improve financial support for small businesses, simplify the lending process, and introduce a system of government guarantees. We argue that microfinance not only provides entrepreneurs with start-up capital, but also contributes to ensuring economic and social stability. This is achieved by reducing poverty, increasing employment, and increasing the economic activity of women and low-income groups.

Keywords: Microfinance, small business, entrepreneurship, financial integration, bank loans, guarantees, economy of Uzbekistan, economic development.

INTRODUCTION

Microfinance, which provides small amounts of capital for business development, plays a significant role in the growth of small businesses globally, particularly in developing countries. These countries are of strategic importance for economic planning, as small and medium-sized enterprises play a crucial role in driving economic growth, creating jobs, and maintaining social stability.



***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, **Issue** 09, **December**, 2025

Website: usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons
Attribution 4.0 International License.***

The microfinance system assists entrepreneurs in obtaining start-up capital, contributing to the creation of new employment opportunities and the development of local industries. Uzbekistan, in particular, is undergoing economic reforms to support small businesses and improve financial services, making microfinance an essential component of its development strategy.

Studies have shown that microfinance assists entrepreneurs in achieving financial stability, growing their businesses, and implementing innovative projects.

In addition, microfinance helps to achieve important social goals such as including the poor in the financial system, promoting gender equality and reducing economic inequalities between regions.

Small businesses and private entrepreneurs are becoming increasingly significant in our country. They contribute significantly to the production of export-oriented and import-substituting goods from local raw materials. They also help to saturate the market with high-quality products, create jobs for the population, and pay taxes and other mandatory fees for the benefit of society.

There has been a growing interest in promoting, stimulating, and supporting small businesses and entrepreneurship recently. These sectors play an important role in economic growth, job creation, solving employment issues, as well as improving people's income and well-being.

The Head of the Republic of Uzbekistan, Shavkat Mirziyoyev, has emphasized the importance of strengthening macroeconomic stability and maintaining high rates of economic growth. He stressed in a recent decree that "our main task is to ensure the stability of the national currency and price level in the domestic market" [1].

As part of Uzbekistan's new development strategy until 2026, the government has focused on the third priority area, titled "Accelerated Development of the National Economy and Ensuring High Growth Rates". One of the objectives for this area is to improve the investment climate and increase the attractiveness of the country for investors [2].

Over the next five years, the goal is to attract \$120 billion in foreign investment, with \$70 billion coming from abroad [3].



To achieve this goal, it is essential to continue with institutional and structural reforms aimed at reducing the role of the state in the economy, protecting private property rights, and strengthening its priority position. Additionally, it is crucial to stimulate the development of small businesses and private entrepreneurship.

In order to accomplish this, the following measures should be taken:

1. Ensuring the reliable protection of private property rights by removing all obstacles and restrictions to the development of small businesses and individual entrepreneurship. This includes ensuring that entrepreneurs have full independence, based on the principle that "if people prosper, the state will become rich and powerful".
2. Removing all forms of government regulation to provide entrepreneurs with complete freedom. This means providing tax and credit incentives, as well as other measures, to support small businesses and encourage entrepreneurship. These measures should contribute to further institutional transformations and create a favorable business environment for small businesses.

The significance of small businesses and individual entrepreneurship in shaping the middle class, which forms the foundation for the modernization and growth of our country, cannot be overstated. In this respect, the exploration of microfinance, as a crucial aspect of small business growth, is of interest not only theoretically, but also practically. It has a direct influence on economic stability, fosters job creation, and enhances business conditions.

LITERATURE ANALYSIS

In accordance with the Law of the Republic of Uzbekistan "On Guarantees of Freedom of Entrepreneurial Activity," "Entrepreneurial activity entities (business entities) are legal entities and individuals who have undergone state registration in the prescribed manner and are carrying out entrepreneurial activity" [4].

One of the main goals of building a socially oriented market economy in Uzbekistan is the priority development of forms of small business and private entrepreneurship in the country. To achieve this goal, economic reforms were carried out, and large institutional foundations were created to enhance its role. These are legal and regulatory documents that define and guarantee



***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, **Issue** 09, **December**, 2025

Website: usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons
Attribution 4.0 International License.***

entrepreneurial activity, non-governmental organizations, and enterprises that support entrepreneurs [4].

At this stage, we need to clarify who we mean by small business and private entrepreneurship, for example, according to the Russian scientist O. L. Vertushkina: "Small and medium-sized businesses are entrepreneurial activities carried out by market economy entities under certain conditions established by laws, state bodies, or other representative organizations" [5].

Among our local scholars, H. R. Hamroyev expressed the following opinion about entrepreneurship: "Entrepreneurship, according to some, is not a temporary phenomenon characteristic of the transition period to a market economy, but has a fundamental character. Because it is a phenomenon characteristic not only of the market economy system, but also of all socio-economic systems. Moreover, it is not only an integral part of the economy, but also its driving force. There are also those who understand entrepreneurship as business and say that both can be called by the same business term. However, the essence of the concept of entrepreneurship is broader and deeper than the concept of business. Business based solely on entrepreneurship can be called entrepreneurship. But not all businesses are like this. In addition, entrepreneurship exists outside the business sphere" [6].

Entrepreneurship, according to some, is not something transitory, characteristic of the transition period to a market economy, but has a fundamental character. Because this phenomenon is typical not only for the market economy system, but also for all socio-economic systems. Moreover, it is not only an integral part of the economy, but also its driving force. There are also those who understand entrepreneurship as a business and say that both can be called the same term business. However, the essence of the concept of entrepreneurship is broader and deeper than the concept of business. A business based solely on entrepreneurship can be called entrepreneurship. But not all businesses have this character. In addition, entrepreneurship exists outside the business sphere [7, 8]. Based on the study of various sources, it is possible to formulate a general concept of entrepreneurship. Entrepreneurship is a key socio-economic activity carried out by registered entities, whether organizations or individuals. The purpose of this activity is to create values, services, or added value.



The distinctive features of entrepreneurship are initiative, risk-taking and innovation. It is an integral part and driving force of the economy, characteristic not only of market, but also of other socio-economic systems. As a result of the analysis, it is possible to identify the key aspects of this definition:

1. Legal status. In order to carry out entrepreneurial activity, state registration is required, which must be carried out within the legal framework guaranteed by legislation (with reference to the law of the Republic of Uzbekistan) [9].
2. Role in the economy. Entrepreneurship is a key element of a socially oriented market economy, especially in the field of small business and private entrepreneurship.
3. Relation to the concept of "business" The concept of "entrepreneurship" is broader and deeper than "business" [10]. Any entrepreneurship is a business, but not every business in the narrow sense, as a commercial activity, has all the signs of entrepreneurship, such as innovation, initiative and risk. Entrepreneurship can manifest itself in other areas, not limited to commercial activities.
4. Fundamental. Entrepreneurship is not a temporary phenomenon, but a stable phenomenon inherent in various economic systems.
5. Key participants. In the context of economic development, special attention is paid to small and medium-sized enterprises, whose activities are regulated by certain rules.

So, entrepreneurship is a multifaceted phenomenon that includes legal registration, an economic entity that goes beyond business, and institutional significance, which is a key area of development.

RESEARCH METHODOLOGY

This article examines the laws of Uzbekistan and the information contained in presidential decisions, regulations, government programs and reports. A comparative analysis of the concepts of "entrepreneurship" and "business" was carried out, which revealed their distinctive features. The mechanisms for supporting small businesses in developed countries and in Uzbekistan were also studied. The article analyzed the international experience of microfinance and its practice in Uzbekistan in a comparative context.



RESULTS

Small businesses are the cornerstone of any dynamically developing economy. They make a significant contribution to stability and well-being by creating new jobs, stimulating innovation and contributing to economic growth. However, despite their importance, small entrepreneurs often face difficulties in finding seed capital and funds to expand their business, especially in regions with underdeveloped financial infrastructure.

In our country, great attention is paid not only to the support and development of small businesses, but also to increasing the share of private companies in its structure. According to the Agency under the President of the Republic of Uzbekistan, as of January 1, 2023, 523.6 thousand small enterprises and microfirms were operating in the country. This figure is 60.8 thousand, or 13.1% higher than the level of the previous year. Thus, there are 17.9 small business entities for every thousand inhabitants.

In the period from January to December 2022, 90,200 new small and microenterprises, including individual entrepreneurs, were registered in Uzbekistan. This is 8.8% less than in the same period of 2021. In recent years, the President of the Republic of Uzbekistan has taken a number of measures aimed at supporting small businesses and improving the business climate. As a result, 424,073 small enterprises and microfirms were created from 2018 to 2022.

An analysis of new enterprises and microfirms by industry showed that the largest number of registered companies accounted for the trade sector — 156,069 (36.8%). In second place is the service sector with 99,198 enterprises (23.4%). 84,830 enterprises (20.0%) were registered in industry, 51,752 (12.2%) in agriculture, forestry and fisheries, and 32,224 (7.6%) in construction [14].

The successful development of a small business largely depends on the availability of financial resources in both the long and short term. In our country, the lending market is in its infancy, and there is a certain set of financial instruments and services that can be offered to entrepreneurs. However, combined with an undeveloped system of non-bank financial institutions, this creates certain difficulties for the full-fledged financing of sectors of the real economy. The traditional banking system cannot always meet the needs of small



businesses due to the high risks involved in providing loans, the need for guarantors, and the complexity of paperwork.

In this situation, microfinance is of particular importance — the provision of small loans based on a group guarantee. This service is available to low-income citizens and microenterprises, which contributes to their economic growth and development.

However, in Uzbekistan there are a number of problems related to the financing of small businesses and private entrepreneurship:

1. Low efficiency of small business lending mechanisms.
2. Insufficient development of risk insurance tools for small entrepreneurs.
3. Low level of self-financing. For example, credit unions do not play an active role in financing, and collective investment funds and other similar organizations are not being developed properly.
4. Conditions that prevent the use of credit resources by small enterprises.
5. Difficulties in reducing credit risk in the lending process.

Most small businesses face the problem of accessing investment and bank loans because they do not have collateral, which makes it difficult to obtain financing. According to experts, one of the main reasons for the weak development of banking services in financial markets, especially in the field of lending, is the high level of risk for creditors and the difficulty in applying to the court to collect debts from borrowers.

This is due to the fact that it takes at least 5-10 years of work to create fixed assets that can be quickly used in production. In this regard, we propose to consider the possibility of developing methods to indirectly support the economic growth of small enterprises. In particular, the government could provide guarantees to small businesses when they receive investment loans from commercial banks.

If government agencies and the financial sector implement the necessary measures, the issue of insufficient financial resources for small businesses can be resolved.

To enhance credit relationships between commercial banks and small enterprises, it is crucial to establish a framework of government-backed guarantees. This will incentivize banks and lending institutions to extend credit



to small businesses. The government, acting as a guarantor, will create an environment that fosters the attraction of necessary investments into the operations of small enterprises and ensures the fulfillment of its obligations. The absence of adequate collateral for a loan from banks results in the inclusion of potential risk costs in the interest rate, which in turn leads to higher interest rates. This is due to the possibility of increased expenses associated with the legal process of loan repayment.

DISCUSSION

According to information provided by international organizations, the funds received from microfinance are often directed to projects that help improve the quality of life of families. Surveys conducted in different countries of the world have demonstrated the positive effect of microfinance.

For example, studies assessing the impact of microfinance in more than 24 countries have shown significant improvements in the quality of life of families. However, it is difficult to determine exactly how much microfinance has affected the improvement of the quality of life. Not all studies have been able to establish a clear and stable link between microfinance and improving the quality of life [11].

As a rule, the use of microfinance services empowers people and contributes to the creation of material and human capital.

In today's world, microfinance is aimed at solving several key tasks. It helps to reduce poverty and involve vulnerable segments of the population, such as women and low-income people, in the market economy. In addition, microfinance contributes to the creation of new jobs and business areas.

This leads to an increase in the number of able-bodied citizens employed in various sectors of the economy. This is of great importance for economic development [12]. Microfinance creates flexible and efficient lending systems for small businesses. This, in turn, contributes to an increase in the production and distribution of goods and services. Microfinance also gives entrepreneurs the opportunity to gain experience in making a profit and raising capital. This helps them become more independent and self-confident.



Microfinance organizations provide entrepreneurs with additional services that help strengthen the financial system as a whole. The conditions offered by commercial banks often turn out to be too strict for entrepreneurs, especially when it comes to obtaining a loan. Microfinance organizations are engaged in small financial transactions with low profits and low risk, which are not of interest to commercial banks.

Microfinance is a flexible form of a classic bank loan (see Figure 1), which allows you to start a business without initial capital and credit history. It solves at least three important tasks.

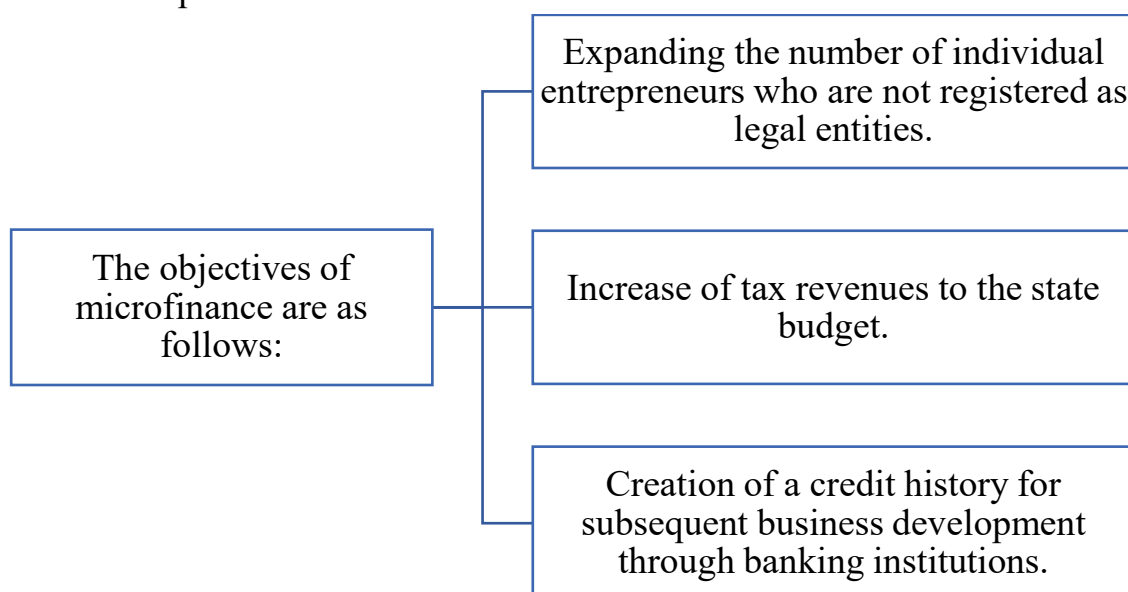


Figure 1. Microfinance objectives

Microfinance helps people start their own businesses. This not only reduces the burden on the budget, but also increases tax revenues from the private sector and financial market participants. Another significant result of the system's work is a reduction in the level of the shadow economy and a reduction in the share of usurious capital in the small business sector. This helps to increase the openness of the business and the formation of a credit history, which, in turn, simplifies access to financing on the stock market and obtaining long-term bank loans as the business develops.



***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, **Issue** 09, December, 2025

Website: usajournals.org

***This work is Licensed under CC BY 4.0 a Creative Commons
Attribution 4.0 International License.***

The establishment and development of microfinance institutions and programs plays an important role in shaping the middle class, as well as in supporting start-up entrepreneurs and stimulating the growth of existing microenterprises.

Microloans perform various functions that can be divided into economic and social ones. They not only redistribute resources and stimulate economic activity, but also contribute to social development and support for the population.

The World Bank estimates that more than 500 million people have benefited from microfinance-related operations, both directly and indirectly. According to the Advisory Group on Assistance to the Poor (CGAP), by 2021, more than 120 million people have directly benefited from microfinance-related operations. In addition, the International Finance Corporation (IFC) has contributed to the creation or improvement of credit reporting systems in 30 developing countries. The International Finance Corporation (IFC) promotes the development and implementation of the regulatory framework governing the financial sector in emerging economies [13].

The benefits of microfinance are not limited to providing access to financial resources for the public. Successful entrepreneurs create jobs, stimulate trade, and contribute to the economic development of society.

CONCLUSION

In modern conditions, the question of whether they have enough collateral to obtain a loan from commercial organizations remains relevant for small businesses. One of the main reasons why banks do not provide financing to small businesses is that they cannot guarantee timely repayment of the loan.

The lack of collateral and the inability to obtain loans from commercial organizations reduce the entrepreneurial activity of the population and do not contribute to the development of small manufacturing enterprises.

The problems of a small business in obtaining a loan can be divided into internal and external.



External issues:

- high interest rates on loans for small businesses from financial institutions;
- shortening the loan repayment period;
- the complexity of the loan process, including deadlines and other aspects.

Internal problems that make it difficult to obtain a loan:

In developed countries, the main source of financing for small business development is loans provided by credit institutions. Commercial banks play a significant role in financing small businesses and private entrepreneurship.

In developed countries, government policy actively promotes the formation and development of an effective financial infrastructure that provides small businesses with investment funds. International experience shows that effective support for small businesses requires a specialized organization with broad powers, financial resources and branches throughout the country.

In the modern world, countries with developed economies are increasingly using indirect ways to help small businesses, rather than direct financing. This is one of the most effective ways of government support for entrepreneurship and one of the tools that make bank loans more attractive to small businesses.

Guarantee funds are successfully operating in various countries, which provide small and medium-sized companies with the opportunity to obtain loans. This creates conditions for the active use of banking and other credit instruments.

This approach not only supports existing small businesses, but also promotes the emergence of new ones. Due to this, entrepreneurs can attract the necessary financial resources on favorable terms, and the probability of non-repayment of loans to commercial banks is reduced.

Further development of the financial market aimed at providing small businesses and private entrepreneurs with financial resources, as well as improving the infrastructure that serves them, will help to increase the level of financial security for small businesses.

Simplifying the procedures for issuing loans to small businesses will eventually help solve problems such as the lack of funds for investments and current assets.

We believe that the development of new credit products for small businesses, simplification of the process of obtaining loans, improvement of methods of assessing the creditworthiness of entrepreneurs, active participation of banks in



local government programs, as well as the creation of a mechanism for compensation and guarantees for small businesses at interest rates — all this together will create conditions for supporting small businesses.

Improving the financial and credit support system for small businesses will become a reliable foundation for stimulating its development. Microfinance is an essential component and effective instrument for the growth of small businesses within the economy of Uzbekistan. This sector plays a significant role in the socio-economic advancement of the nation, not only through the expansion of access to financial services but also through the creation of new revenue streams, increased employment, and stimulation of the local economy. To fully realize the potential of this system and maintain its stability, it is crucial to enhance the level of financial literacy among the population, implement innovative technologies, establish a favorable regulatory framework, and provide targeted government assistance. These initiatives will foster a supportive environment for entrepreneurship within the country, contributing to the dynamic growth of small enterprises.

References

1. President Shavkat Mirziyoyev was briefed on the work being carried out to curb inflation and ensure macroeconomic stability, as well as on the tasks planned for 2026. 12.11.2025. <https://president.uz/oz/lists/view/8649>
2. Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. UP-60 "On the Development Strategy of New Uzbekistan for 2022-2026."
3. Tohirovich, Q. N. (2024). THE ROLE OF RENTAL RELATIONS IN THE FORMATION OF ENTREPRENEURSHIP. *Gospodarka i Innowacje*, 47, 326-331.
4. Law of the Republic of Uzbekistan "On Guarantees of Freedom of Entrepreneurial Activity" (new edition),
5. Kuchkarov, B. K. (2022). THE ROLE OF MICROFINANCING IN ENSURING THE DEVELOPMENT OF SMALL BUSINESS. *CENTRAL ASIAN JOURNAL OF MATHEMATICAL THEORY AND COMPUTER SCIENCES*, 3 (10), 78-83.



6. Vertushina O.L. Lending to Individuals and Legal Entities: Textbook. - M.: Economics and Finance, 2017. - 119 p.
7. Fundamentals of Entrepreneurship: Textbook for students of vocational education (economics). Kh. R. Khamraev; Ministry of Higher and Secondary Specialized Education of the Republic of Uzbekistan -T.: New edition, 2010. 360 p.
8. Fundamentals of Entrepreneurship: Textbook for students of vocational education (economics). Khamraev Kh.R.; Ministry of Higher and Secondary Specialized Education of the Republic of Uzbekistan. New edition, 2010. - 360 p.
9. Khudaykulov, A. (2025). Regulatory System and Governance in Central Asia. In *The Transition Trap: Three Decades of Transition in Central Asia* (pp. 107-189). Singapore: Springer Nature Singapore.
10. Huefner, J. C., & Hunt, H. K. (1994). Broadening the concept of entrepreneurship: Comparing business and consumer entrepreneurs. *Entrepreneurship Theory and Practice*, 18(3), 61-75.
11. Rahman, M. W. (2025). A comprehensive review of microfinance impacts, sustainability and outreach. *Asian Journal of Agricultural Extension, Economics & Sociology*.
12. Qudbiyev, N. (2024). PRINCIPLES OF DEVELOPMENT OF THE FINANCIAL MANAGEMENT SYSTEM IN UZBEKISTAN. *Центральноазиатский журнал образования и инноваций*, 3(1 Part 3), 131-138.
13. Clemens, M. A., & Kremer, M. (2016). The new role for the World Bank. *Journal of Economic Perspectives*, 30(1), 53-76.
14. <https://stat.uz/> — Official website of the National Statistics Committee of the Republic of Uzbekistan.