

IMPROVING THE MICROFINANCE SYSTEM AND REDUCING POVERTY WITH IT

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Currently, all the countries of the world, even though they are developed, are taking various measures to prevent internal poverty. This does not normalize the standard of living of the population, no matter how stable the economy is. On the contrary, large sums of money lead to formation in the hands of only one stratum. According to the World Bank, about 9.2% of the world's population (more than 700 million people) suffer from poverty, and in Central Asia this figure is equal to 40%.

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Several issues prevalent within our country and their underpinnings can be delineated as follows:

- the proliferation of significant sums of capital alongside elevated interest rates extended to the populace by our bank has exacerbated the incidence of loan defaults among individuals lacking a stable income source, consequently augmenting the burden of Non-Performing Loans (NPLs).
- the ineffectual allocation of state-sponsored initiatives is evident, wherein subsidies are dispensed devoid of comprehensive scrutiny regarding the viability of proposed business ventures.
- there exists a disparity in income distribution among our populace, contributing to an upsurge in poverty levels.

Many developed countries of the world use the microfinance system in order to eliminate such negative indicators in the economy and for the equal distribution of income in different segments of the population. Microfinance, also known as

1 www.worldbank.com - The official website of World Bank

microcredit as a powerful enabler to enable break the vicious cycle of poverty at the very grassroots and thus generate a better hope for the future of country's economy. By improving microfinance, it is possible to achieve the development of small business and entrepreneurship, which in turn leads to an increase in GDP. At the same time, microfinancing improves the well-being of the population based on the realization of their ideas and innovations and the creation of sources of income, and the development of small business activities by bringing the population out of poverty, attracting the talented population to work. allows them to become socio-economically active subjects of society. The main difference between microfinancing and lending is that preferential financial offers are given to the poor. This is because providing loans at high interest rates to people who do not yet have a source of income has an equally negative impact on both sides and increases the burden of non-performing loans and has an inversely proportional effect on poverty. Therefore, by developing microfinance as an economic strategy, it is possible to improve small business and entrepreneurship and reduce the level of poverty. Furthermore, the impact of microfinance extends beyond economic empowerment, encompassing social and gender dimensions as well. By providing women with access to financial services and entrepreneurial opportunities, microfinance not only enhances their economic autonomy but also promotes gender equality and social inclusion within society at large.

Microfinancing of small business entities and its organization should be based on objective economic laws. Each element of the mechanism is interconnected and should represent an economic whole. Muhammad Yunus's approach to microfinance is a prerequisite for improving this type of service in transition economies and developing countries. The idea of giving preferential microcredits to low-income population groups until they get out of poverty and not requiring collateral is considered very appropriate and socially important. Today, "micro" concepts, i.e., financial operations such as microloans, microcredits, and microleasing, are widely used for small business entities to form initial capital, establish a family business, develop production, and expand their activities.

Analysis of statistical data on microfinancing of small business entities shows that in 2017-2021, loans allocated by commercial banks to support small business entities increased by 3 times, and microloans increased by 3.5 times. So, this shows that the demand for microcredits in our economy is increasing and has a positive growth trend. However, "as of September 1, 2022, the total assets of microcredit organizations amounted to 1.7 trillion soums and the total assets of pawnshops amounted to 247.8 billion soums."² The share of assets of microcredit organizations in bank credit deposits was only 0.52 percent. This shows that the activities of microcredit organizations are not well developed and the scale of microfinance services provided to small business entities is small, there are problems that need to be solved in this regard.

Based on the best practices of foreign countries in ensuring the financial stability of the economy, providing microcredit and unsecured loans on the basis of a group guarantee will improve the living standards of the population, increase the number of people engaged in small business in the neighborhoods, employ women and the working class.

² www.cbu.uz - The official website of Central Bank of Uzbekistan