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Financing Small Businesses through Bank Loans in the Development of the Green Economy

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Small business is a vital component of any country's economy. It plays a significant role in creating new job opportunities in the labor market, implementing innovations, and fostering the development of market relations. At the same time, effectively analyzing and optimally managing the factors that shape the investment environment is crucial for the sustainable growth of the small business sector.

The impact of small business on the economy is evident not only in increasing production volumes but also in enhancing opportunities to attract investments by ensuring competitiveness in local and international markets. State policies aimed at improving the business environment, tax and financial incentives, and legislative stability are also key components of the investment environment.

By analyzing the factors shaping the investment environment, small business entities can operate stably and efficiently. This analysis provides opportunities to minimize investment risks, develop strategies for attracting capital, and protect against market uncertainties. Studying the main factors influencing the investment environment of small businesses and determining their scope of impact is a critical tool for establishing long-term strategic directions for business development.

In Uzbekistan, commercial banks actively participate in financing small businesses. For instance, in 2023, loans allocated to small businesses accounted for 28% of total bank loans, marking an increase from 22% in 2017 (Central Bank of the Republic of Uzbekistan, 2024). Additionally, banks' financing mechanisms extend beyond lending to include forms such as leasing, project financing, and Islamic financing. Main financing instruments.

Table 1. Commercial banks utilize the following instruments in financing small businesses¹

Financial Instrument	Description	Share in Uzbekistan (2023)	Average Interest Rate
Lending	Capital provision through short- and long-term loans	65%	20-25%
Microcredit	Small-scale loans,	15%	18-22%

¹ Created by the author based on information from the official website.

	particularly for rural entrepreneurs		
Leasing	Financing through the leasing of equipment and technologies	10%	15-20%
Venture Financing	Investments in innovative projects	2%	None (risk-based)
Islamic Financing	Financial products based on Sharia principles (mudaraba, musharaka)	8%	10-15% (profit sharing)

Financing instruments for small businesses in Uzbekistan and their shares (Source: Central Bank of Uzbekistan, 2023). Lending remains the primary financial source for small businesses, with commercial banks allocating 45 trillion UZS in loans to small businesses in 2022 (Central Bank, 2023). However, high interest rates (averaging 20-25%) pose challenges for entrepreneurs. Microcredit plays a significant role in developing family entrepreneurship in rural areas, with the total volume of microcredits reaching 10 trillion UZS in 2022, up from 4 trillion UZS in 2018. Leasing is used for equipment acquisition, with leasing operations amounting to 5 trillion UZS in 2022, though this sector remains underdeveloped. Venture financing supports innovative projects, but the venture capital market in Uzbekistan is still in its early stages of development. Islamic financing involves financial products based on terms and profit-sharing, with operations reaching 4 trillion UZS in 2022, accounting for 8% of total financing.

Table 2. Challenges in financing small businesses in Uzbekistan²

Issue	Description	Impact
High Interest Rates	Average loan interest rates of 20-25%	Increased financial burden, reduced profit margins for small businesses
Collateral Issues	Many entrepreneurs lack property to offer as collateral	Restrictions on loan access, difficulty in obtaining financial resources
Limited Access to Financial Resources	Limited access to banking services in rural areas	Slowdown in entrepreneurial activity, decreased economic activity
Insufficient Regulatory Framework	Weak legal basis for Islamic financing and venture capital	Slower introduction of innovative financial products
Low Financial Literacy	Insufficient knowledge of financial management among entrepreneurs	Inefficient collaboration with banks, project failures

Key challenges in financing small businesses in Uzbekistan (Source: Ministry of Economy and Finance of Uzbekistan, 2023). High interest rates: in 2022, the average interest rate for small business loans was 22%, significantly higher than the 3-5% average in the European Union. Collateral issues: over 60% of entrepreneurs face difficulties obtaining loans due to lack of collateral (Central Bank, 2023). Access to financial resources: 40% of entrepreneurs in rural areas cannot access financial services due to the shortage of bank branches. Regulatory framework: legislation for Islamic financing is not yet fully developed, slowing the sector's growth. Financial literacy: only 25% of small business owners have undergone specialized financial management training (Chamber of Entrepreneurs of Uzbekistan, 2023).

² Created by the author based on information from the official website.

Table 3. Foreign experiences offer valuable solutions for Uzbekistan³

Country	Experience	Results (with figures)
European Union	Specialized SME programs, financing innovative projects	SMEs contribute 58% to GDP, create 100 million jobs
United Kingdom	“Business Link” network, venture capital, and government subsidies	£6 billion allocated to small businesses (2022)
Canada	Government-guaranteed loans, support for small businesses	90% of new jobs created by SMEs between 2001-2013
Malaysia	Islamic financing (mudaraba, musharaka)	30% of Islamic bank assets directed to small businesses

Foreign Experiences in Financing Small Businesses (Source: International Finance Institute, 2023) European Union: Small and medium enterprises (SMEs) constitute 99% of the economy and contribute 58% to GDP. Annually, €50 billion is allocated to support innovative projects. United Kingdom: The “Business Link” network provides advisory services to small businesses. In 2022, the government directed £6 billion to finance small businesses. Canada: State banks act as guarantors for loans, providing financial support to small businesses. Between 2001 and 2013, 90% of private-sector jobs were created by SMEs. Malaysia: Islamic financing successfully supports small businesses. In 2022, 30% of Islamic bank assets were allocated to small business projects.

Recommendations for Uzbekistan. Lowering Interest Rates: Through state subsidies, reduce loan interest rates to 10-15%. This could decrease the financial burden on small businesses by 30% (Ministry of Economy and Finance forecast, 2025). Collateral-Free Loan Programs: Expand collateral-free financing through microcredit and state-guaranteed loans. A plan to allocate 5 trillion UZS in collateral-free loans is set for 2024. Developing Islamic Financing: Increase the share of Islamic financial products in commercial banks to 15% (from the current 8%). Enhancing Financial Literacy: Introduce a program to train 100,000 entrepreneurs in financial literacy by 2025. Adopting Foreign Experiences: Implement specialized SME programs based on the EU model and expand public-private partnerships. Strengthening the Regulatory Framework: Adopt legislative drafts on Islamic financing and venture capital by the end of 2024.

Commercial banks play a significant role in investment-based financing of small businesses in Uzbekistan, but challenges such as high interest rates (20-25%), collateral issues, and limited access to financial resources persist. In 2024, loans allocated to small businesses amounted to 75 trillion UZS, representing 32% of total bank loans. While instruments like lending, microcredit, leasing, and Islamic financing are effective, they need adaptation to local conditions. Foreign experiences, particularly the EU and Malaysia’s Islamic financing models, offer valuable solutions. The state and commercial banks can enhance the economic potential of small businesses by improving financial literacy, strengthening the legal framework, and introducing innovative financial products.

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