

THEORETICAL VIEWS ON MICROCREDIT AND TRENDS IN THEIR DEVELOPMENT

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| A B S T R A C T | KEY WORDS |
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| The article examines theoretical views on microcrediting and their development trends, practice and specific aspects of microcrediting. Based on the results of the study, the positive and negative aspects of microcrediting were identified, and appropriate developments were formed for its application in credit organizations in Uzbekistan. Also, the article analyzes the researches, scientific works and economic literature of foreign and local scientists on the topic. | |

Introduction

Global economic changes occurring in the world, sharp fluctuations in international financial and commodity markets, inflationary expectations and price instability, as a result of the growth of income of low-income segments of the population and the limitation of access to financial services, create the need to increase the popularity of microfinance services, reduce the cost of services, and expand the supply of inclusive microfinance products. According to the World Bank, “although global economic growth is expected to be 2.7 percent in 2025-2026, this growth rate is lower than the pre-pandemic period and is not sufficient for long-term sustainable development. Factors such as changes in trade policy, inflation, high debt, and low investment are limiting global economic growth. For developing countries, this growth rate is insufficient to reduce poverty and ensure sustainable development”¹.

Microfinance organizations are not considered credit organizations, that is, full-fledged banking institutions, but their activities have similarities with those of banks. If we pay attention to the stages of creation and development of microfinance organizations, the following can be cited as the main reasons that influenced these processes:

- meeting the needs of individuals who do not have the opportunity to directly apply to traditional banks to obtain small microloans;
- offering microfinance services to the population living in remote areas of the country;
- issuance of microloans to individuals who do not have a credit history;
- the process of processing loan documents and the limited number of documents in relation to commercial banks;

¹ Global Economic Prospects, January 2025 / The World Bank. Internet: www.worldbank.org

- such aspects as strengthening competition in the financial services market and expanding the range of services, improving quality and shortening the processing time of documents.

If we pay attention to the history and processes of development of microfinance organizations, we can see that this process does not have a very deep history. More specifically, microcredit organizations began to be formed in the last fourth stage of the 20th century. During this period, microfinance organizations first appeared in the practice of developing countries such as India, Bangladesh, Malaysia, Indonesia, and Brazil².

As a result of studies and conducted research, it became known that in almost all the work carried out on microfinance organizations, their activities and processes related to their functioning, the founder of the microfinance organization is recognized as the Bangladeshi economist and entrepreneur Muhammad Yunus. Muhammad Yunus' contribution to the development of microfinance organizations was that he provided a small amount of financial resources to the financially disadvantaged segment of the population for business development, where one of the main conditions for the provision of this amount was that the given amount was prohibited from being spent on consumption, and this amount was mandatory for business development.

As a result of the successful development of Muhammad Yunus's program in Bangladesh, which supported the financially poor segments of the population based on microfinancing, "Grameen Bank" (Grameen Bank of Bangladesh) was created in the future. This bank is the first in the world to provide microfinance services and continues to operate successfully to this day.

However, the fact that microcredit organizations were initially opened by Muhammad Yunus is not without some considerations. For example, the emergence of these financial institutions is facilitated by the fact that when poor entrepreneurs apply to the bank to establish production, the interest rate on the loan offered by the bank is almost half of the earned profit.

Then, after receiving a refusal from local banks to reduce the interest rate on the loan, he decided to finance this production process at the expense of familiar entrepreneurs and his own capital. In the future, this same female entrepreneur will provide short-term loans (credits) to several female entrepreneurs, contributing to the development of their activities. Women entrepreneurs who took out loans will repay the borrowed amount in full within a short period. Thus, the aforementioned Grameen Bank was established and began serving more than 3.5 million clients in a short period. However, this does not mean that the microfinance organization was first opened in Bangladesh.

Because financial institutions operating on the same principles were established in Europe much earlier, that is, in the 16th century. In particular, in the Netherlands, the "Bank of the Poor", which serves the poor, was founded in 1618. In the 18th century, some charitable associations were founded in Ireland, which later specialized in lending. Such credit unions also operated on the principle of collective repayment in cases where the borrower was unable to repay the debt.

These associations, which opened in Europe in the 19th century, later became known as Loan Funds, which collected interest on loans and attracted funds in deposits. Their number in the 1840s exceeded 300, of which more than 20 percent were established and operated at the initiative of Irish families. These funds were subsequently closed due to excessive interest rates.

Historical sources indicate that the first savings banks appeared in Hamburg in 1801 under the influence of the Irish, and these banks, along with microloans, also accepted savings. In Germany, between 1885

² Shahriar A. Z. M., Schwarz S., Newman A. Profit orientation of microfinance institutions and provision of financial capital to business start-ups. *International Small Business Journal*. 2016;34(4):532–552. DOI: 10.1177/0266242615570401

and 1914, the number of agricultural corporations established based on the principle of microcredit organizations increased from 245 to 15,000, operating as agricultural prototypes without changing the principles of their activities. According to some sources, microfinance organizations currently account for 50% of bank assets in Germany.

Analysis and studies show that microfinance organizations established in most European countries are created by women (female entrepreneurs), and in most cases, there is a view that this business is characteristic of women.

In the USA, savings institutions, credit unions, and financial companies providing financial services, reflecting the characteristics of commercial banks, began to emerge in the 1800s. Savings institutions, as financial institutions competing with commercial banks, are institutions that provide microfinance products to individuals on simple, short, and preferential terms.

Even today, these institutions practically perform a number of operations in the activities of commercial banks. Issues mortgage loans to the population and provides other financial services to households. In the USA, credit unions are organizations established by depositors as non-commercial deposit institutions and operating on the basis of mutual agreement. Historically, they mainly focused on placing funds formed by depositors in consumer loans. Savings institutions and credit unions are commonly collectively referred to as THRIFFS (economy). The main function of financial companies is to provide microloans to the population and entrepreneurs.

Financial companies provide these services in the form of consumer credit, production credit, and mortgage financing. Fund institutions, in turn, are divided into two groups. The first group includes savings associations, and the second group includes savings banks.

While microfinance organizations developed in the USA from 1800, their number exceeded 750 in the 1880s. In 1986-1992, as a result of the bankruptcy of most of them, about 100 remained, while they merged with each other and began new activities.

Analysis and Results

The results of the research show that microfinance organizations were formed and developed on the continents and in countries of the world under the influence of specific features and various factors.

Based on the conducted research and studies, we will try to express the process of their organization and development in the following basic principles.

Microloans provide an opportunity to reduce poverty in poor countries, and in developed and developing countries - to increase profits and create additional jobs. Indeed, in many countries of the world, the main segments of the population did not have sufficient opportunities to meet their demand for financial resources and free access to financial services, and this process was a powerful impetus for the creation and development of microfinance organizations. In developed countries, it can be recognized that it was created for the purpose of efficient use of financial resources, creation of additional jobs, and profit.

Reducing the country's population from poverty and increasing their solvency. It should be noted that the economic insolvency and weakness of the country's population's solvency lead to a number of problematic situations. In particular, the development of social problems in the country, such as crime, robbery, destruction, and the stable growth of the country's economy at the macroeconomic level create contradictions. In addition, low solvency of the population causes a problem associated with a decrease in aggregate demand and its vulnerability. This, in turn, leads to the balanced development of the

country's production and, ultimately, to problems with the state of infrastructure in the regions.

Microfinance organizations are an important financial mechanism for poverty reduction in the country. An important convenience and advantage of microfinance organizations increases the population's access to financial resources, which in itself allows them to comprehensively eliminate their problems related to financial issues. Persons who have received a loan from a microfinance organization in the form of a microloan, firstly, think about the issue of its repayment, and secondly, have the opportunity to improve their lifestyle and increase their financial responsibility.

Increasing and strengthening the stability of the local financial and credit system and ensuring the strength of the national currency. Certainly, microfinance organizations serve as an important financial link in increasing the stability of the country's financial and credit system by attracting temporarily unused funds in the economy on appropriate terms and providing them to persons in need of these funds. In addition, the placement of temporary funds of the population in production based on redistribution, firstly, increases the circulation of the national currency and the volume of local production, and secondly, increases public confidence in the country's financial and credit system, positively affects the strength of the national currency.

Microfinance organizations do not have the opportunity to implement solutions to large and multifaceted issues. Indeed, if we look closely at the purpose of creating microfinance organizations and their activities, they do not have the opportunity to provide large-scale loans for large-scale production and for all purposes. Therefore, these financial institutions actively participate in solving pressing socio-economic issues at the micro level.

Microfinance organizations offer clients relatively expensive microloans. The interest rates on short-term and short-term microloans issued by microfinance organizations are higher than the interest rates on large loans issued by commercial banks, and if they do not issue microloans at high rates, they will not be able to receive the expected profit, and at the same time, their interest rates will be relatively high so that the issued microloans and accrued payments do not incur losses even if they are not repaid.

Microcredit organizations are supported by the state indirectly, not directly. Since microfinance organizations are in most cases private from the point of view of ownership, they are not supported by cheap and long-term financial resources of the state. In cases where the state supports support and the development of their activities, microfinance organizations may mitigate the requirements for authorized capital and permits for their activities. It should be noted that in international practice, local (municipal) authorities are interested in the creation and development of microfinance organizations and in most cases support them by allocating buildings, creating an acceptable infrastructure, and improving the business environment.

Because microfinance organizations established in remote regions of the country are a very important financial link in business development, creating additional jobs, and offering local products to the consumer goods market.

Limited establishment of microfinance organizations. In practice, it can be observed that microfinance organizations are not developed in a balanced manner in all regions of the country, although there are a number of objective and subjective reasons for this. Firstly, there is a lack of sufficient infrastructure for the organization, insufficient support from local authorities, and secondly, there is a shortage of specialists with sufficient knowledge, skills, and experience who organize microfinance organizations. Transparency of the activities of microfinance organizations and accessibility of information. The transparent organization of the activities of these financial organizations in the market plays an

important role in attracting investors and depositors to them, as well as in the future decisions of the founders of these organizations.

In conclusion, the stages of development and the main principles of the activities of microfinance organizations have their own characteristics, and a number of objective and subjective factors have influenced their organization and operation, and at the same time, these financial institutions are an important financial link of the market economy.

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