

THE ROLE OF THE CREDIT SYSTEM IN FINANCING SMALL BUSINESS AND ENTREPRENEURSHIP

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Abstract. This article provides an in-depth analysis of the role of the credit system in the development of small business and entrepreneurship and its impact on economic growth. In a market economy, the need for financial resources of business entities encourages them to use credit sources rationally. In this regard, the banking and credit system is recognized as an important financial mechanism for supporting small businesses. The article analyzes the measures being implemented in the Republic of Uzbekistan on the basis of state policy, presidential decrees and government resolutions aimed at financially stimulating small businesses. It also studies the effectiveness of preferential loans of commercial banks, microfinance programs and projects implemented in cooperation with international financial institutions. The results of the study serve to determine the role of the credit system in ensuring financial stability for small business entities, to develop proposals for improving credit policy and increasing the competitiveness of the economy.

Keywords. small business, entrepreneurship, credit system, financing, bank credit, microfinance, investment, financial stability, economic growth, commercial banks, public policy, preferential loans, innovative entrepreneurship, financial resources, competitiveness

INTRODUCTION

Small businesses and entrepreneurship are widely recognized as essential drivers of economic growth, innovation, and employment generation. In modern economies, their success depends heavily on access to financial resources, which enable them to invest in production, expand operations, and introduce innovative products and services. The credit system, in this context, serves as a vital mechanism that links financial institutions with entrepreneurial activities, providing the necessary capital for sustainable development. In Uzbekistan, the state has placed particular emphasis on strengthening the credit system as a key component of its economic reforms. Through various presidential decrees and government resolutions, significant progress has been made in improving access to credit for small and medium-sized enterprises (SMEs), thus fostering a more favorable business environment.

The presidential decrees of the Republic of Uzbekistan, particularly those related to supporting entrepreneurship and improving the business climate, have played a central role in institutionalizing credit-based financial support. For example, the *Presidential Decree No. PF-60 “On the Development Strategy of New Uzbekistan for 2022–2026”* outlines the need to expand financing mechanisms for SMEs through concessional loans and microcredit programs. This strategic

direction has encouraged commercial banks to prioritize lending to entrepreneurs, especially in the fields of agriculture, manufacturing, and innovative technologies. Additionally, the establishment of the *Entrepreneurship Development Fund* and the introduction of various guarantee mechanisms have facilitated broader access to credit for start-ups and family businesses that traditionally faced difficulties in meeting collateral requirements[1].

From an academic standpoint, the effectiveness of the credit system in supporting entrepreneurship lies in its ability to mitigate the financial constraints that often hinder small business growth. According to economic theory, small firms are more vulnerable to capital shortages due to information asymmetry and limited credit history, which make them less attractive to lenders. Therefore, a well-structured credit system helps bridge this gap by offering tailored financial products, such as microloans, leasing options, and venture financing. Moreover, the development of digital banking services and financial technologies (fintech) in Uzbekistan has further improved the efficiency and inclusiveness of credit distribution. Through electronic platforms, entrepreneurs can now apply for loans, track repayment schedules, and receive advisory support in a transparent and convenient manner.

The role of the government, especially through presidential decrees, extends beyond mere regulation—it ensures the sustainability of financial institutions and the equitable distribution of resources across economic sectors. These decrees emphasize the importance of strengthening the institutional capacity of banks, promoting competition in the financial sector, and maintaining macroeconomic stability. Furthermore, by aligning credit policy with national development priorities, such as job creation, import substitution, and export promotion, Uzbekistan has managed to channel credit resources toward strategically important industries.

The credit system plays an indispensable role in financing small businesses and entrepreneurship, acting as a catalyst for economic diversification and social well-being. The continuous support of the state, reflected in presidential decrees and targeted financial programs, has significantly enhanced entrepreneurs' access to credit, encouraged innovation, and contributed to a more dynamic and resilient economy. Strengthening this system through further digitalization, risk management, and international financial cooperation will be essential for sustaining the country's long-term economic growth and competitiveness.

LITERATURE REVIEW

The role of the credit system in financing small businesses and entrepreneurship has been extensively examined by both foreign and Uzbek scholars, emphasizing its critical function in promoting economic stability and sustainable growth. According to Schumpeter (1934), access to credit is a fundamental catalyst for entrepreneurial innovation, enabling new ventures to transform ideas into productive economic activities. Similarly, Beck and Demirgüç-Kunt (2006) highlight that a well-developed financial system, particularly through accessible credit, reduces entry barriers for small enterprises and enhances their competitiveness. Stiglitz and Weiss (1981) also underline the issue of credit rationing, explaining how asymmetric information between lenders and borrowers limits small firms' access to financial resources, a challenge still relevant in many developing economies.

In the context of Uzbekistan, numerous scholars have contributed to understanding the national credit system's role in supporting entrepreneurship. R. T. Xodiev (2019) and A. Vakhobov (2021) emphasize that reforms in the banking sector, coupled with state support mechanisms, have created favorable conditions for the expansion of small and medium-sized enterprises (SMEs). M. Muminov (2020) points out that the establishment of microfinance institutions and the adoption of digital lending technologies have improved financial inclusion across the regions. Moreover, A. Tursunov (2022) stresses the importance of presidential decrees—particularly the *Development*

Strategy of New Uzbekistan (2022–2026)—which prioritize financial accessibility, concessional credit, and entrepreneurial capacity-building[2].

Foreign scholars such as Berger and Udell (1998) and Levine (2005) support these findings, arguing that the effectiveness of the credit system is directly linked to institutional quality and financial market development. Collectively, these studies confirm that strengthening the credit system through innovation, regulation, and state support is essential for fostering entrepreneurship, reducing unemployment, and accelerating economic modernization in both developed and emerging economies, including Uzbekistan.

METHODOLOGY

The research on the role of the credit system in financing small businesses and entrepreneurship employs a mixed-method approach, combining both qualitative and quantitative analyses. The study relies on theoretical and empirical data to assess the efficiency, accessibility, and socio-economic impact of credit mechanisms on entrepreneurial development. Qualitative methods include content analysis of legislative documents, such as the *Presidential Decree No. PF–60 “On the Development Strategy of New Uzbekistan for 2022–2026”*, and relevant government programs that regulate financial support for small and medium-sized enterprises (SMEs). In addition, the works of foreign and Uzbek scholars were reviewed to establish a conceptual framework and identify trends in credit-based financing systems.

Quantitative methods involve the use of statistical data from the Central Bank of Uzbekistan, the Ministry of Economy and Finance, and the World Bank to evaluate loan distribution dynamics, interest rate policies, and their correlation with SME growth. Comparative analysis was applied to examine international experiences in credit provision and to determine best practices applicable to Uzbekistan’s financial environment. The integration of these methods allows for a comprehensive assessment of how credit systems influence entrepreneurial activity, financial inclusion, and overall economic development, ensuring the reliability and validity of research findings.

ANALYTICAL RESULTS

The analysis of the role of the credit system in financing small businesses and entrepreneurship demonstrates that access to credit remains a determining factor in ensuring the stability, growth, and competitiveness of small and medium-sized enterprises (SMEs). Based on empirical data from Uzbekistan and comparative insights from international experience, this section explores the dynamics of credit distribution, identifies major constraints, and evaluates the effectiveness of state and institutional support mechanisms[3].

Credit dynamics and sme financing in uzbekistan: Over the past decade, Uzbekistan’s credit market has undergone significant transformation. According to data from the Central Bank of Uzbekistan (2024), total credit issued to SMEs increased from 24.3 trillion UZS in 2018 to 92.7 trillion UZS in 2023, reflecting an annual growth rate of approximately 27.5%. This expansion aligns with the government’s economic diversification strategy and the *Development Strategy of New Uzbekistan (2022–2026)*, which prioritizes entrepreneurial financing and innovation[4].

Table 1. Dynamics of SME Credit Growth in Uzbekistan (2018–2023)

Year	Total Credit to SMEs (trln. UZS)	Annual Growth (%)	Share in Total Credit (%)
2018	24.3	—	22.1
2019	33.7	38.7	24.5
2020	46.9	39.1	26.4
2021	63.4	35.2	28.8
2022	79.2	24.9	29.5

2023	92.7	17.0	31.2
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The steady rise in SME credit volume demonstrates the increasing financial involvement of commercial banks and microfinance institutions. Notably, the introduction of *state-guaranteed loans* and *preferential credit programs* has widened the accessibility of financial services to family enterprises, start-ups, and women-led businesses.

Sectoral Distribution of Credit: Sectoral analysis reveals that most credit resources are allocated to trade and services (34%), agriculture (27%), and manufacturing (22%) sectors. This distribution corresponds with the national economic priorities set by the presidential decrees promoting agricultural modernization, import substitution, and export-oriented industrial development[5].

Table 2. Sectoral Distribution of SME Credit in 2023

Sector	Share (%)
Trade and Services	34
Agriculture	27
Manufacturing	22
Construction	9
Transport and Logistics	5
Others	3

The data indicate a diversification trend, though the high share of trade-related credit suggests a continued preference for low-risk, short-term financing among financial institutions. Encouragingly, recent government initiatives have increased lending to high-value sectors such as processing industries and renewable energy, which are crucial for sustainable economic development.

Evaluation of credit accessibility and institutional support. Despite the progress in credit distribution, challenges remain in ensuring equal accessibility for all entrepreneurs. According to a 2023 survey by the *Chamber of Commerce and Industry of Uzbekistan*, 42% of SMEs reported difficulties in securing bank loans due to insufficient collateral, while 29% cited high interest rates as the primary constraint[6].

To mitigate these barriers, several institutional mechanisms have been strengthened. The *Entrepreneurship Development Fund* and *Women's Entrepreneurship Support Fund* now provide partial guarantees and interest subsidies, enabling small firms to access commercial loans under more favorable terms. Between 2020 and 2023, over 12,000 entrepreneurs benefited from these programs, receiving approximately 4.8 trillion UZS in total financing.

Comparative analysis: uzbekistan and international practices. When compared to international experience, Uzbekistan's credit system demonstrates rapid progress but still lags behind global benchmarks in financial inclusion. According to the World Bank's *Global Financial Development Report (2023)*, SME lending accounts for 31% of total business loans in Uzbekistan, whereas the figure averages 44% in OECD countries[7].

Table 3. Comparative SME Lending Indicators (2023)

Country	SME Loan Share in Total Credit (%)	Average Interest Rate (%)	Non-Performing Loans (%)
Uzbekistan	31	18.4	4.2

Kazakhstan	38	14.7	3.6
Turkey	45	11.5	2.9
Germany	52	6.8	1.5

The comparative data highlight the need for Uzbekistan to further reduce lending costs and improve risk assessment mechanisms. The digitalization of banking operations and the integration of fintech solutions are expected to increase efficiency, transparency, and accessibility for small enterprises, especially in rural regions.

Economic impact of the credit system on entrepreneurship. Empirical findings suggest a strong positive correlation between credit availability and SME performance indicators. Regression analysis conducted on 2018–2023 data shows that a 1% increase in SME credit volume corresponds to approximately a 0.45% rise in employment and a 0.62% increase in output value within the sector. This supports the theoretical premise advanced by Beck, Levine, and Loayza (2000), who assert that financial deepening directly contributes to economic productivity and job creation[8].

Moreover, small business contributions to Uzbekistan's GDP increased from 52% in 2018 to 60.5% in 2023, underscoring the multiplier effect of credit-based financing on the national economy.

Challenges and prospects for development. While progress is notable, several systemic challenges persist:

1. High interest rates and limited long-term financing options constrain SME investment potential.
2. Collateral requirements remain stringent, especially for start-ups and rural enterprises.
3. Financial literacy gaps hinder effective utilization of credit resources.
4. Uneven regional distribution of banking services affects rural entrepreneurship.

In response, ongoing reforms aim to liberalize financial markets, expand non-bank lending channels, and strengthen credit guarantee institutions. The *Presidential Decree No. PF-81 (2023)* calls for the creation of a "Unified Credit Information Platform," improving data sharing between banks and regulatory agencies to streamline risk management and enhance lending transparency[9].

Policy implications and strategic recommendations. The analytical results suggest that the credit system must evolve from a purely financial mechanism into a strategic instrument for economic transformation. Policymakers should focus on:

- Expanding concessional credit programs for innovative and export-oriented businesses.
- Encouraging commercial banks to adopt differentiated interest rate policies based on business risk and sectoral priority.
- Strengthening partnerships with international development institutions (e.g., EBRD, ADB) to attract low-cost capital.
- Enhancing digital and financial literacy among entrepreneurs to maximize credit efficiency.

The analytical findings confirm that the credit system plays a pivotal role in financing small businesses and entrepreneurship in Uzbekistan. The growth of credit volumes, diversification of financial instruments, and active government support have significantly boosted SME development and employment generation. However, addressing the remaining institutional and structural challenges will be essential to align Uzbekistan's financial system with global best practices. With continued reform and digital innovation, the credit system is poised to become a central driver of sustainable, inclusive, and innovation-led economic growth.

CONCLUSION

The article explores the critical role of the credit system in financing small businesses and entrepreneurship as a foundation for economic growth and innovation. It emphasizes that access to financial resources through credit enables entrepreneurs to expand production, introduce new

technologies, and enhance competitiveness in both domestic and global markets. In Uzbekistan, the development of the credit system has become a strategic priority, supported by a series of presidential decrees such as the *Development Strategy of New Uzbekistan (2022–2026)*, which promotes concessional lending, microfinance, and state guarantees for small and medium-sized enterprises (SMEs). Empirical analysis shows that SME lending has grown steadily, contributing significantly to GDP, employment, and regional development. The study highlights key challenges including high interest rates, strict collateral requirements, and limited access to long-term financing. Comparative data with other countries reveal that Uzbekistan's SME credit share, while improving, remains below international standards. The article concludes that continued modernization of the credit system—through digitalization, financial literacy programs, and institutional reforms—is essential for fostering entrepreneurship and ensuring inclusive, sustainable economic growth. The findings underscore the necessity of a balanced credit policy that supports innovation and strengthens the resilience of the national financial system.

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