



MICROFINANCING PROBLEMS IN THE REPUBLIC OF UZBEKISTAN AND THEIR SOLUTIONS

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Annotation: Microfinance plays a key role in supporting small and medium-sized businesses (SMEs) in Uzbekistan. In 2023-2024, the sector has experienced significant growth, with the issuance of microloans and microcredits more than doubling, and the revenue and profit margins of microfinance organizations (MFOs) reaching record levels. However, new risks have emerged, including an increase in non-performing loans, financial stress among borrowers, and challenges in the regulatory and infrastructure environment. The article analyzes the main problems of microfinance, assesses the state of the industry based on statistics, and suggests solutions, including strengthening supervision, expanding limits, improving access to financing, and developing Islamic and digital financing.

Keywords: Microfinance, MFIs, small and medium-sized businesses, microloans, microcredits, NPLs (problematic loans), regulation, financial stability, financial inclusion, Uzbekistan, Islamic financing, digitalization.

As you know, microfinance is the provision of small loans (usually up to \$5,000–\$10,000) to small businesses, individual entrepreneurs and startups, especially those who cannot get a bank loan due to lack of collateral, credit history or formal income.

The goals of microfinance are: support small and family businesses, increase financial inclusion (involvement in the financial system), reduce poverty and unemployment, develop women and youth entrepreneurship, stimulate economic activity in rural areas.

Microfinance for business entities is provided by microfinance organizations (MFOs), credit unions, non-bank financial institutions, pawnshops, PPP projects, and government programs (such as the First Step to Business in Uzbekistan).

Microloans in the Republic of Uzbekistan have certain characteristics, presented in Table 1.

Tabl.1 - Main characteristics of microloans

Parameter	Description
Amount From	From 1 to 300 million soums (in Uzbekistan)
Term Usually	Usually up to 24 months
Security	Often optional or simplified
Loan interest rate	Rate Higher than in banks
Purpose	Purchase of equipment, raw materials, rent, etc.

Small and medium-sized businesses are considered the backbone of Uzbekistan's economy, but they face limited access to financing, high levels of bureaucracy, insufficient collateral, and other obstacles. Microfinance organizations (MFOs) and pawnshops have emerged as alternatives to traditional bank loans, particularly for entrepreneurs without access to collateral or formal income.

In 2024, MFIs and pawnshops issued loans worth 16 trillion soums, which is 85% higher than in 2023; of these, 14.4 trillion were issued through MFIs (an increase of 2.04 times compared to 2023).

In 2024, the sector's (MFIs and pawnshops) total revenue amounted to 3.4 trillion soums, and the net profit exceeded 1 trillion for the first time. Soums — MFIs received 833 billion soums, pawnshops — about 170 billion. The volume of microloans in 2024 amounted to 45.83 trillion soums (+59.4%), micro-loans — 17.4 trillion soums (+52.9 %).

The share of non-performing loans (NPL) increased from 2.2-2.4% (beginning of 2024) to 2.6 - 2.9 % (beginning of 2025).

As of September 2024, the share of NPL (overdue for more than 90 days) was around 3% with a portfolio of 6.3 trillion UZS.

In 2024, about 70% of MFI customers were located in rural areas, and access to formal financial services increased to 45% (from 30% in 2020).

The main problems of microfinance business in Uzbekistan are as follows:

1. High cost of loans and transaction costs. For the client, the loan includes additional expenses for travel, insurance, notary, commissions, etc.
2. Limited limits and conditions. In 2023, the maximum microloan was only 50 million soums, which covered the needs of about 9% of entrepreneurs.
3. The quality of the loan portfolio and the growth of NPL. The increase in the share of problem loans indicates the risk of deterioration in the quality of assets and an increase in non-payments.
4. Financial stability. The IMF warns that rapid growth in microcredit without sufficient supervision could threaten financial stability.
5. Bureaucracy and infrastructure barriers. Small businesses suffer from a lack of collateral, high fees, and difficulties in accessing resources.
6. Lack of capital and institutional support. Sometimes, entrepreneurs are unable to obtain loans due to a lack of collateral or developed business models.

To support the process of microfinance for businesses, the country has developed and implemented the following support measures:

- Expansion of limits and financial resources
 - From January 1, 2024, the microloan limit has been increased to 100 million soums, and from August 2024, to 300 million soums; loans up to 100 million are now issued without collateral. The total amount of support under the First Step to Business program is 10 trillion soums.
 - In 2024, banks and microfinance institutions allocated 3 trillion. soums against previously allocated family business programs.
- Regulatory measures and Islamic financing
 - Introduced a "cooling period" for online lending, mandatory biometrics, the creation of Islamic financial units in microfinance organizations, and the development of a regulatory framework.
- Strengthening financial supervision
 - The IMF recommends that the Central Bank strengthen risk-oriented supervision, introduce macroprudential capital requirements, and regulate foreign exchange lending and lending to questionable segments.
- Removing infrastructure barriers
 - Creation of a Business Bank, regional branches of a business development company, a guarantee mechanism and support for business services (marketing, logistics, incubators).
- Improved access and digitalization
 - The growing share of online loans and digital solutions (Uzum, Shaffof-moliya, Tezcoin) — provided about half of all online loans worth 7 trillion soums.
 - The development of financial inclusion in rural areas and digital platforms will expand coverage and reduce transaction costs.

A comparison of the 2023-2024 indicators demonstrates the impressive growth of the microfinance sector: a doubling of disbursements, record revenues, and profits. However, challenges have emerged, including an increase in NPLs, a strain on financial stability, and infrastructure limitations.

To improve the microfinance process for businesses in the Republic of Uzbekistan, the following recommendations can be made:

- ✓ Continue expanding limits, especially for novice entrepreneurs;
- ✓ In parallel, strengthen supervision and risk policy to avoid overheating of this process;
- ✓ Actively develop Islamic and digital products, especially for rural regions;
- ✓ Strengthen infrastructure and institutional support for business (guarantees, business services, marketing channels);
- ✓ Increase financial literacy and accessibility of services, especially through online platforms.

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