



Legal Framework For The Regulation Of Microfinance Banks In Uzbekistan And Their Development Prospects

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ABSTRACT

This article examines the legal framework governing the activities of microfinance banks in Uzbekistan, the economic rationale for their establishment, and their future development prospects. It also highlights the role of microfinance banks in promoting financial inclusion and financing small businesses and private entrepreneurship. Based on the findings of the study, the author proposes several scientific recommendations aimed at improving the operations of microfinance banks

Keywords:

Microfinance bank, microfinance, financial inclusion, commercial bank, Central Bank, lending, banking system, digital banking services.

Introduction

Globally, microfinance is recognized as one of the most effective mechanisms for expanding access to financial services for individuals and business entities. In particular, microfinance institutions play a significant role in developing countries by financing small businesses, creating new employment opportunities, and contributing to poverty reduction.

At the same time, under the conditions of a developing market economy, there is a growing need to introduce new and alternative financial instruments for supporting business entities. Particular attention should be given to expanding guarantee schemes for entrepreneurs and improving alternative financing mechanisms, such as factoring, which enables businesses to obtain financing through the assignment of receivables instead of relying solely on traditional bank loans.

In recent years, Uzbekistan has implemented comprehensive reforms aimed at modernizing the banking and financial system, strengthening competition in the financial services market, and enhancing financial inclusion. One of the

key directions of these reforms has been the development of microfinance institutions and the establishment of a new type of credit institution—**microfinance banks**.

The legal framework governing the activities of microfinance banks in Uzbekistan has been significantly strengthened through recently adopted laws and regulatory acts. In particular, the legislative reforms introduced in 2025 incorporated the concept of a "**microfinance bank**" into the national banking system and established the legal mechanisms for transforming microfinance organizations into microfinance banks.

The primary objective of these reforms is to expand public access to banking services, promote financing for small businesses and family entrepreneurship, and create a healthy competitive environment in the financial services market. Currently, **Tayanch Microfinance Bank**, the country's first microfinance bank, actively participates in supporting small businesses and private entrepreneurship, serving as an important

institution in expanding financial inclusion and fostering sustainable economic development.

Main Part. Microfinance banks operate in accordance with the following key regulatory requirements:

- The amount of deposits accepted from a single individual shall not exceed the guaranteed deposit limit established under the legislation on the protection of bank deposits.
- The maximum exposure to a single borrower or a group of related borrowers shall not exceed **UZS 5 billion**.
- At least **70% of the total loan portfolio** must consist of loans provided to business entities and self-employed individuals for income-generating activities.
- Opening correspondent and other accounts with foreign banks, providing guarantees for the obligations of foreign individuals and legal entities, and servicing customers' foreign trade transactions are prohibited.
- Investments in debt securities may only be made in highly liquid debt securities recognized by the **Central Bank** for the purpose of liquidity management.

In accordance with the current legislation, the following institutional transformations are permitted:

- a microfinance organization may be transformed into a microfinance bank;
- a microfinance bank may be transformed into a commercial bank;
- a commercial bank may be transformed into a microfinance bank;
- a microfinance bank may be reorganized into a microfinance organization.

However, the transformation of a microfinance bank into a microfinance organization is permitted only after all customer deposits have been fully repaid or the obligations related to those deposits have been transferred to another bank.

The **Central Bank of the Republic of Uzbekistan** is the authorized regulatory authority responsible for licensing microfinance banks, supervising their financial stability, ensuring compliance with prudential requirements, and protecting consumers' rights.

Microfinance banks are specialized financial institutions primarily serving low-income population groups and small business entities with limited access to conventional financial services. Their principal functions include:

- providing microcredits;
- offering microloans and microleasing services;
- accepting deposits;
- providing payment services;
- developing digital banking services;
- promoting financial inclusion.

The activities of microfinance banks play a particularly important role in stimulating entrepreneurship in the regions, creating new employment opportunities, and increasing household incomes.

Procedure for Transforming a Microfinance Organization into a Microfinance Bank

According to the current legislation, a microfinance organization must complete three consecutive stages to obtain the status of a microfinance bank:

- obtaining preliminary authorization from the Central Bank for the establishment of a microfinance bank;
- obtaining a banking license authorizing it to conduct banking operations;
- completing state registration as a microfinance bank and commencing banking activities.

To obtain preliminary authorization, the applicant submits an application together with the required supporting documents to the Central Bank. The Central Bank reviews the application and the submitted documents within the period established by law.

Within **six months** after receiving the preliminary authorization, the applicant must submit the following documents to the Central Bank:

- documentary evidence confirming that the authorized capital has been fully paid;
- information on the bank's management and personnel;
- a compliance report confirming that the bank's premises and information security systems meet the established regulatory requirements;
- a list of shareholders;

- other documents required for obtaining a banking license.

Once all regulatory requirements have been fulfilled, the microfinance bank is officially registered by the state and is granted the legal right to conduct banking activities.

Microfinance banks play an important role in meeting the financial needs of individuals and business entities by providing microcredits, microloans, and other financial services. They are particularly valuable for low-income population groups, serving as an effective financial instrument for establishing and expanding private businesses. These financial services are generally provided through simplified procedures, within a short period of time, and without requiring substantial collateral or guarantees.

In addition, microfinance banks contribute to improving financial literacy among the population, promoting financial inclusion, and encouraging greater participation in formal economic activities.

Microfinance banks offer small business entities fast, simplified, and convenient financial solutions. Since many small entrepreneurs are unable to fully satisfy the lending requirements imposed by traditional commercial banks, microfinance banks have become an important source of financing for this sector.

In particular, entrepreneurs operating in agriculture, handicrafts, trade, and service industries have expanded their business activities through access to microcredit. As a result, new employment opportunities are created, household incomes increase, and the sustainable development of local economies is strengthened.

Furthermore, microfinance banks represent one of the key financial institutions supporting poverty reduction policies in the country. By

providing financial resources to low-income households, they expand income-generating opportunities, encourage entrepreneurial initiatives, and enhance economic participation. International experience demonstrates that countries such as **Bangladesh, Vietnam, and Singapore** have successfully utilized microfinance services to improve financial inclusion, promote the growth of small businesses, and achieve significant progress in reducing poverty. These experiences provide valuable practical guidance for further improving the operations of microfinance banks in Uzbekistan.

Analytical Section

Until recently, microfinance services in Uzbekistan were primarily provided by **non-bank credit institutions**, including microfinance organizations and pawnshops. In the coming years, it is expected that the population's access to financial services through microfinance banks will increase significantly.

Nevertheless, several challenges continue to hinder the effective development of microfinance banks and limit their operational capacity. The major constraints include:

- insufficient capitalization of microfinance banks;
- high levels of credit risk;
- a shortage of long-term financial resources;
- uneven development of digital infrastructure across different regions of the country.

It should also be noted that the statutory limitations on deposit mobilization and the mandatory requirement that a substantial share of the loan portfolio be allocated to private entrepreneurship may restrict the operational flexibility of microfinance banks and complicate efforts to overcome these challenges.

Table 1.

Comparison of the Main Characteristics of Microfinance Banks and Commercial Banks

Criteria	Microfinance Banks	Commercial Banks
Primary objective	Financing small businesses and promoting financial inclusion	Providing a comprehensive range of banking services
Authorized capital	Subject to an upper regulatory limit	No upper regulatory limit

Criteria	Microfinance Banks	Commercial Banks
Primary customers	Small businesses and self-employed individuals	All categories of customers
Loan products	Microcredits and microloans	Loans of various types and amounts
Lending procedures	Simplified and expedited	Based on comprehensive credit assessment
Collateral requirements	Simplified or less stringent	Generally require full collateral
Deposit acceptance	Subject to statutory limits	Accepted in accordance with banking legislation
Single borrower risk limit	Does not exceed UZS 5 billion	Regulated under prudential requirements
Loan portfolio structure	At least 70% allocated to entrepreneurial activities	Diversified across various lending segments
Foreign operations	Not permitted	Permitted in accordance with applicable banking regulations

Future Development Prospects

In our opinion, the further development of microfinance banks in Uzbekistan should focus on the following priority areas:

- expanding digital microfinance services;
- introducing artificial intelligence (AI)-based credit scoring systems;
- strengthening cooperation with fintech companies;
- enhancing collaboration with international financial institutions;
- improving risk-based supervisory and regulatory frameworks;
- increasing the level of financial literacy among the population.

Based on the findings of this study, the following recommendations are proposed:

1. To improve prudential regulatory requirements specifically designed for microfinance banks.
2. To expand state guarantee mechanisms for financing small businesses.
3. To promote the development of digital lending platforms.
4. To introduce artificial intelligence-based systems for assessing credit risk.
5. To accelerate the full implementation of the **International**

Financial Reporting Standards (IFRS) and the **Basel Principles** in the operations of microfinance banks.

6.

Conclusion

The establishment of microfinance banks in Uzbekistan represents one of the most significant institutional reforms aimed at diversifying the national banking system and expanding financial inclusion. By providing financial services to small businesses, family enterprises, and self-employed individuals, these institutions contribute to sustainable economic growth and entrepreneurial development.

At the same time, ensuring the long-term sustainability of microfinance banks requires the continuous improvement of the legal and regulatory framework, the implementation of modern risk management systems, and the wider adoption of digital financial technologies. These measures will strengthen the stability, competitiveness, and efficiency of microfinance banks while supporting the country's broader socio-economic development objectives.

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