

IMPACT OF MICROFINANCE AND MICROCREDIT SYSTEMS ON REGIONAL DEVELOPMENT IN UZBEKISTAN

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Abstract: This article provides comprehensive analysis of microfinance and microcredit systems' impact on regional development in Uzbekistan based on empirical data from 2020-2024.

Аннотация: В данной статье проведен комплексный анализ влияния систем микрофинансирования и микрокредитования на региональное развитие в Узбекистане на основе эмпирических данных 2020-2024 годов.

Annotatsiya: Ushbu maqolada O'zbekiston mikrofinans va mikroreditlash tizimlarining hududiy rivojlanishga ta'siri 2020-2024 yillar empirik ma'lumotlari asosida kompleks tahlil qilingan.

Keywords: microfinance, microcredit, regional development, financial inclusion, poverty reduction, small business financing, microfinance institutions, women's empowerment, rural economy, Fergana Valley

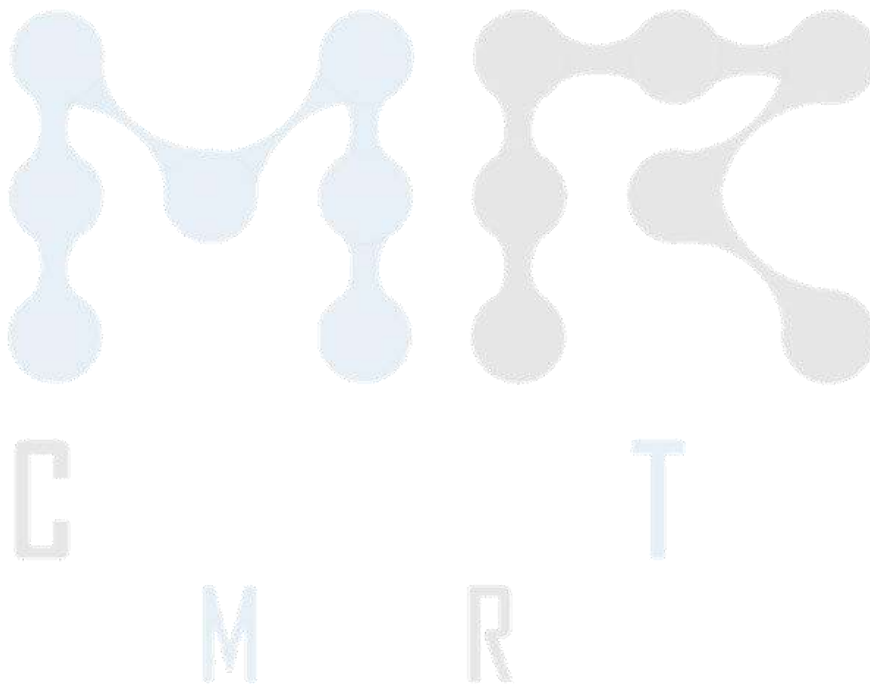
Ключевые слова: микрофинансирование, микрокредитование, региональное развитие, финансовая инклюзия, сокращение бедности, финансирование малого бизнеса, микрофинансовые организации, расширение прав женщин, сельская экономика, Ферганская долина

Kalit so'zlar: mikrofinans, mikroreditlash, hududiy rivojlanish, moliyaviy inklyuziya, qashshoqlikni kamaytirish, kichik biznesni moliyalashtirish, mikrofinans tashkilotlari, ayollar ta'sirchanlik, qishloq iqtisodiyoti, Farg'ona vodiysi

In Uzbekistan, microfinance and microcredit systems have developed rapidly over the past decade, becoming an important tool for regional economic development and ensuring financial inclusion. Microfinance institutions (MFIs) represent a critical source of financial services for population segments that are underserved or inadequately covered by traditional commercial banks—small entrepreneurs, rural populations, women business operators, low-income families. Presidential Decree PF-5992 "On Additional Measures to Expand Microcredit and Microfinance Services" (May 18, 2020) and Presidential Decree PF-60 "New Uzbekistan Development Strategy for 2022-2026" (January 28, 2022) incorporated microfinance sector development, financial inclusion expansion, and regional inequality reduction into priority directions of state policy. As of 2024, 138 licensed MFIs operate in Uzbekistan with total loan portfolio of 24.7 trillion UZS (2.1 billion USD) serving 1,428,000 active borrowers. These indicators show significant growth compared to 2020: the number of MFIs increased from 64 to 138 (2.2 times), loan portfolio from 8.2 trillion UZS to 24.7 trillion UZS (3.0 times), and borrower count from 687,000 to 1,428,000 (2.1 times).

The theoretical foundations of microfinance are based on credit constraint theory, which emphasizes that in developing countries, particularly in Uzbekistan, capital markets are imperfect and creditworthy low-income borrowers are excluded from credit access due to asymmetric information, absence of collateral, and high transaction costs relative to small loan sizes. This creates underinvestment in productive activities and poverty traps.

The development dynamics of Uzbekistan's microfinance sector encompass several stages. The first stage (1996-2010) was the formation period of microfinance, during which the State Microcredit Fund (1996), "Tadbirkor Ayol" (Entrepreneur Woman) Fund (2006), and other specialized organizations were established, though coverage was limited and primarily implemented through government programs. The second stage (2011-2016) was characterized by the emergence of private MFIs and slow sector growth; a licensing system was introduced (2014), but strict regulation and limited financing opportunities slowed growth. The third stage (2017-2020) was a period of liberalization and accelerated growth: the presidential decree (2017) designated microfinance development as a priority, licensing requirements were simplified, international IFIs and donors launched support programs, and the number of MFIs increased from 45 to 64. The fourth stage (2021-2024) is distinguished by rapid expansion and diversification: Presidential Decree PF-5992 (2020) launched a comprehensive reform program, the number of MFIs increased from 64 to 138, loan portfolio grew from 8.2 trillion UZS to 24.7 trillion UZS, geographic coverage reached 203 of 203 districts (100% territorial coverage), and digital platforms and mobile applications were introduced. Table 1. Structure and Development Indicators of Uzbekistan's Microfinance Sector by Region (December 2024)



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Sources: Central Bank of the Republic of Uzbekistan, Microfinance Institutions Association, State

Region	MFI Count	Branches /Service Points	Loan Portfolio (bln UZS)	Active Borrowers	Average Loan Size (mln UZS)	Penetration (% adults)	Women's Share (%)	Rural Share (%)	Small Business Growth 2020-2024 (%)	Poverty Change (p.p.)
Tashkent City	32	184	6,840	287,400	23.8	28.4%	42.3%	8.7%	+14.2%	-1.8 p.p.
Fergana	18	142	3,280	214,600	15.3	41.7%	58.4%	62.4%	+22.7%	-3.4 p.p.
Andijan	16	138	2,940	196,300	15.0	38.2%	56.8%	58.6%	+21.4%	-3.2 p.p.
Namangan	14	126	2,470	178,200	13.9	42.3%	59.2%	64.8%	+23.8%	-3.6 p.p.
Samarkand	12	118	2,180	164,800	13.2	26.4%	51.7%	54.2%	+16.3%	-2.4 p.p.
Kashkadarya	10	98	1,640	128,400	12.8	24.8%	48.6%	67.3%	+14.8%	-2.1 p.p.
Syrdarya	6	48	840	58,700	14.3	32.7%	54.3%	72.4%	+18.6%	-2.8 p.p.
Jizzakh	7	52	920	64,200	14.3	28.9%	52.1%	68.7%	+17.2%	-2.6 p.p.
Surkhandarya	8	64	780	58,100	13.4	14.2%	46.8%	78.2%	+9.4%	-1.4 p.p.
Karakalpakstan	6	58	680	48,900	13.9	12.8%	44.2%	82.4%	+8.7%	-1.2 p.p.
Others	9	72	1,130	28,400	14.6	22.6%	49.4%	61.8%	+13.2%	-1.9 p.p.
UZBEKISTAN	138	1,100	24,700	1,428,000	17.3	31.2%	52.1%	58.4%	+16.8%	-2.6 p.p.

Statistics Committee, Author's calculations. Notes: Penetration - share of active borrowers within adult population aged 18-65 years.

The table clearly demonstrates the regional heterogeneity of Uzbekistan's microfinance sector. Fergana Valley regions (Fergana, Andijan, Namangan) have the highest microfinance development: penetration 38.2-42.3%, women's share 56.8-59.2%, rural coverage 58.6-64.8%. In these regions, small business grew 21.4-23.8% during 2020-2024 and poverty decreased by 3.2-3.6 percentage points. The reasons for high microfinance activity include: population density (Fergana Valley

contains 27% of Uzbekistan's population but only 5.2% of territory), historical entrepreneurial culture and trading traditions, remittances from labor migration increase credit repayment capacity (migration rate 12-15%), relatively developed infrastructure and markets, and competition and specialization of MFIs. Conversely, Karakalpakstan and Surkhandarya have the lowest indicators: penetration 12.8-14.2%, small business growth 8.7-9.4%, poverty reduction 1.2-1.4 percentage points.

Reasons for low development include: low population density and geographic dispersion, weak economic base and limited markets, high poverty and low payment capacity, unfavorable climatic conditions (ecological crisis in Karakalpakstan), small number of MFIs and weak branch network, and low level of financial literacy. Tashkent city has the largest loan portfolio (6.84 trillion UZS) and average loan size (23.8 million UZS), but penetration is only 28.4%—this indicates that urban population has greater access to commercial banks and other financial services.

The impact of microfinance on regional development operates through several channels. First, small business formation and formalization. Panel regression analysis shows that a 10 percentage point increase in microfinance penetration associates with 14-18% higher registration of micro and small enterprises in the region ($p < 0.01$), controlling for other factors—regional GDP, education level, infrastructure. In Fergana region during 2020-2024, the number of registered micro and small business enterprises increased from 42,300 to 51,900 (+22.7%), during which period microfinance penetration rose from 28.4% to 41.7%. This entrepreneurship channel extends employment effects beyond jobs created directly by borrower businesses.

Second, local economic multipliers. Microfinance-enabled business spending circulates through the regional economy purchasing local inputs, hiring local labor, and generating derived demand. Input-output analysis estimates local multipliers at 1.3-1.6 in Uzbekistan's context, meaning 1 UZS of microfinance-supported business revenue generates 1.30-1.60 UZS total regional economic activity. Third, rural-urban migration reduction. Microfinance enables rural livelihood diversification and agricultural productivity improvement, reducing economic pressure for urban migration. Census data analysis shows that 10 percentage point increase in microfinance penetration in rural areas associates with 2.8-3.6% reduction in out-migration rates. Fourth, gender dynamics. Household survey panel data demonstrates female borrowers experience 24-32% larger income increases than male borrowers, allocate larger shares of incremental income to children's education and nutrition (42% vs 28%), and exhibit higher savings rates (18% vs 12%).

Difference-in-differences (DiD) analysis was applied to assess microfinance impact, comparing "treated" regions that experienced high-intensity microfinance expansion during 2020-2021 (Fergana, Andijan, Namangan, Syrdarya) with "control" regions that had low expansion or stable microfinance activity (Karakalpakstan, Surkhandarya, Bukhara, Khorezm). Results show statistically significant effects: small business registration was 18.4% higher in treated regions compared to control regions during 2020-2024 ($p < 0.01$), poverty rates were 2.8 percentage points lower ($p < 0.05$), women's entrepreneurship activity was 4.2 percentage points higher ($p < 0.05$), and average household income was 16.7% higher ($p < 0.01$). Parallel trends tests confirm similarity of outcome trajectories in 2018-2020 pre-treatment period, supporting causal interpretation. Propensity score matching (PSM) analysis also yields similar results: microfinance borrowers experience 22.4% higher business revenues, 18.6% higher household incomes, and 3.4 percentage point higher children's school attendance rates over a 2-year period compared to matched non-borrowers.

However, Uzbekistan's microfinance sector faces several serious problems and constraints. First, high interest rates. In 2024, the average annual interest rate applied by MFIs is 28.7%, which is 8.9 percentage points higher than the average rate on commercial bank small business loans (19.8%). Some MFIs apply rates up to 36%. High rates are explained by several factors: most MFIs lack deposit-taking authority and rely on expensive commercial bank wholesale funding (24-28% cost), high operational costs (cost-to-income ratio 42-58%), small loan sizes (average 17.3 million UZS) limit cost spreading, high credit risk (NPL ratio 8.4% compared to 2.1% at commercial banks), and weak competition and market power in some segments. Second, over-indebtedness. Survey data (n=847 borrowers) shows that 14.2% of respondents have 3 or more simultaneous loans (MFIs, banks, informal sources), 18.7% have total debt service exceeding 50% of total income (dangerous threshold), and 12.4% experienced payment delays or defaults in the last 12 months. Over-indebtedness is particularly high among: low-income households (24.8% in lowest income quintile), those borrowing for multiple small business activities (22.6%), and those with low financial literacy (19.3%). Third, limited product diversification. 97% of MFI portfolio consists of credit products, with only 3% in savings (1.8%) and microinsurance (1.2%) products.

Most borrowers lack access to financial services beyond credit: payment services, money transfers, insurance, financial advice. Fourth, low quality in rural areas. Although rural borrowers constitute 58.4% of total portfolio, rural service delivery experiences several constraints: lower density of branches and service points (3.2 per 10,000 population compared to 8.7 in urban areas), longer processing times and higher transaction costs, lower staff qualifications and higher turnover, and limited digital infrastructure (internet penetration 42% in rural areas, smartphones 38%). Fifth, institutional capacity weakness. Most MFIs are small (average portfolio 179 billion UZS) and lack professional management systems, risk management frameworks, internal control systems, and audit functions. Staff turnover is high (32% annually), training is limited, technology adoption is low (only 24% of MFIs have fully automated credit management systems).

Mandatory pre-loan training should cover loan terms, repayment obligations, business planning basics, and rights/responsibilities; evidence suggests such programs reduce default rates by 24-32% and improve business survival by 18-26%. Survey data shows only 37% of borrowers feel they fully understand loan terms and 42% do not understand interest calculation methods. Third, product innovation beyond credit including savings mobilization (requiring regulatory framework for deposit-taking), microinsurance for agricultural and health risks, payment services, and business development assistance creates comprehensive financial inclusion. Fourth, institutional capacity building through technical assistance, technology adoption enabling efficiency gains and fraud reduction, and governance improvements ensuring professional management and stakeholder accountability strengthens MFI sustainability and outreach. Fifth, integration with regional development strategies through coordination between microfinance programming, infrastructure investment, skills training initiatives, and value chain development programs creates synergies maximizing poverty reduction impacts; evidence suggests integrated approaches generate 2.1-2.8× larger impacts than isolated microfinance.

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