

# Legal Framework for Microcredit Organizations in the Republic of Uzbekistan and Analysis of Their Current State

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**Abstract.** This article analyzes the concepts of non-bank credit organizations, their legal framework and information on the activities of microcredit organizations operating in the Republic of Uzbekistan.

**Keywords:** Non-bank, credit, microcredit, loan, microcredit organization, banking, services, microfinance, regulations, law, finance, activity.

## I. INTRODUCTION

A variety of measures are being implemented in our country to increase the popularity of financial services and meet the population's needs in basic financial services. Non-bank credit organizations, in addition to banks operating in the Republic of Uzbekistan, offer microfinance services. Non-bank credit institutions' financial services play an important role in the economy's steady development, providing microfinance services, as do banks, in supporting small businesses and private entrepreneurship, and the population.

The President's policy to reduce poverty in Uzbekistan aims to increase the financial popularity of credit institutions by reforming the banking and financial sector. Along with commercial banks, the issue of non-bank credit institution development is mentioned in the President's Address to the Oliy Majlis. Small loans, microloans, and short-term loans are not always available from commercial banks. As a result, non-bank credit institutions are naturally grateful in such cases. It is critical for microcredit organizations to provide quality public services, especially at a time when credit demand is increasing.

Microcredit organizations provide services in the fields of microcredit, microcredit, and microleasing. [3] Microcredit organizations not only provide loans to small businesses and private entrepreneurs, but also financial services to the general public in need of assistance. The need to improve the activities of non-bank credit institutions is driving further improvements in microfinance services in the country.

## II. LITERATURE REVIEW

Economists and experts on non-bank credit institutions have presented their research, textbooks, manuals, and presentations at various international conferences. They emphasized the role of non-bank credit institutions in the country's economy and their differences from banks, as well as the role of non-bank credit institutions in increasing population income.

Russian economist E.F.Jukov's investigated the activities of non-bank credit institutions in Russia and several other countries. data on various other financial services. [7]

According to Professor T.Karaliev financial and credit institutions are investment companies or trusts, financial (holding) companies, insurance companies, pension funds, savings banks, pawnshops, credit cooperatives (associations), mortgage companies, factoring companies, trust companies, data processing companies, leasing companies, microcredit organizations, savings, lending associations, et cetera. [5]

National economists and Russian economists created a textbook, which introduces banking system of Uzbekistan and Russia and various other countries, their liquidity, banking services, operations, activities of credit institutions and their theoretical and practical aspects. Banking textbook edited by O.I.Lavrushin, N.I.Valentseva, U.U.Azizov, T.M.Karaliev, and E.T.Kadirov highlights Basel agreements. [8]

Russian economists M.S.Maramygina and E.N.Prokofiev discussed non-bank credit organizations, their role and importance in the economy. In the field of supervision and financing of non-bank credit institutions in banking legislation, the focus is on the activities of microcredit organizations and pawnshops in providing services to the population. [10] Another Russian scientist A.E.Dvoret'skaya studied the financial aspects of non-bank credit institutions and their activities. [6]

N.R.Urmanova investigated country's further improvement of microfinance services, their development, and developed scientifically based proposals for the development of sectors of the economy through further improvement of services by improving microfinance quality. [12]

I.Kh.Rakhmanov expressed scientific views on microfinance services and their importance in the economy, as well as the role of non-bank credit institutions, such as banks, in active microfinance in his dissertation on "Ways to Improve Microfinance Services in the Republic of Uzbekistan". [11]

T.T.Madumarov's analyzed reorganization and liquidation of microcredit organizations, explanation of scientific views on their procedures, reorganization of legal entities, termination of activities in accordance with the law, and transfer of rights and obligations to another legal entity on the basis of universal legal succession. [9]

### **III. METHODOLOGY**

Methods for studying existing research on non-bank credit institutions, analysis of changes in the activities of microcredit organizations operating in the country, statistical data analysis, economic comparison and analysis, logical thinking, scientific abstraction, and data grouping are widely used.

### **IV. ANALYSES AND RESULTS**

A variety of measures are being implemented in our country to increase the popularity of financial services and meet the population's needs in basic financial services.

The Central Bank of the Republic of Uzbekistan assisted the World Bank in developing a national strategy to increase the popularity of financial services, increase financial literacy among the population and businesses, and protect the rights of financial service consumers, while taking into account international best practices in the field of financial popularity. A variety of policies are being developed in order to foster the growth of the microfinance sector. The adoption of the President of the Republic of Uzbekistan's Resolution "On Measures to Increase the Popularity of Microfinance Services" in order to create favorable conditions for further development of microfinance, in particular, is aimed at the development of non-bank credit institutions. According to this decision, the range of services offered by non-bank credit institutions has been expanded, as has the volume of microfinance services. [4]

If we look at the activities of microcredit organizations in the country today, we can see that they are very active. There are currently 72 microcredit organizations. [13]

Despite efforts to improve the legal framework for credit institutions and reorganized the involvement of commercial banks in the microfinance process, there are a number of issues and barriers to significantly expanding the scope of microfinance services in the country.

Currently, the activities of microcredit organizations are regulated in accordance with the laws "On the Central Bank of the Republic of Uzbekistan" and "On microcredit organizations" and the regulations of the Central Bank.

The Central Bank conducts inspections to maintain the stability of the financial and banking system, to protect the interests of borrowers and creditors, to regulate and supervise the activities of microcredit organizations.

As a result, it is necessary to improve microfinance legislation and implement the most effective and modern industry practices. The most pressing tasks in this regard are to broaden the range of remote services, simplify the process of providing services, take measures to prevent excessive debt growth, and consider the implementation of Islamic financial principles in increasing the financial popularity of non-bank credit institutions and microfinance.

To ensure the establishment and development of non-bank credit institutions, it is critical to simplify licensing procedures and introduce mechanisms to regulate risk areas while taking their capabilities into account. It is especially important to equalize the capacity of non-bank credit institutions in the use of relevant infrastructure to commercial banks, as well as to establish a favorable regulatory framework aimed at creating a level playing field. This will allow for the development of effective solutions for the introduction of Islamic financial services, such as product offerings, forms, and types of non-bank financial services.

The Law of the Republic of Uzbekistan "On non-bank credit institutions and microfinance activities" was considered at the 24th plenary session of the Oliy Majlis, and the draft law was approved on March 17, 2022. This law was created in response to the Presidential Decree "On the Banking Reform Strategy of the Republic of Uzbekistan for 2020-2025" and the state program "Year of Youth Support and Health."

On April 20, 2022, the President of the Republic of Uzbekistan signed the Law "On non-bank credit institutions and microfinance activities." In this Law:

- Increasing the opportunities for non-bank credit institutions to finance their activities;
- Increasing the popularity of financial services, including the development of a legal framework for the provision of Islamic finance services by microfinance institutions;
- Preventing excessive regulation of non-bank credit institutions as a result of proportional regulation;
- Standards aimed at improving the system of protecting the rights of service consumers [2].

The law systematizes the rules governing the activities of microcredit organizations, pawnshops and mortgage refinancing organizations, which have the right to carry out certain types of financial operations of banks. The central bank had also planned to adopt a law on non-bank credit institutions, which would include the concept of Islamic finance. According to him, non-bank organizations will be given the right to provide more services.

The law establishes a procedure for microcredit organizations to notify the Central Bank of the start of

operations, as well as a single registration procedure for microfinance institutions and mortgage refinancing organizations. Instead of licensing, this case introduces account registration, the list of documents required for account registration, the procedure for their consideration, and appropriate decision-making. The passage of the law will broaden the range of services offered by microfinance institutions, as well as meet the demand for financial resources among small businesses, including services related to Islamic finance. At the same time, measures to protect the rights of non-bank credit institution customers are being strengthened in accordance with the law. Non-bank credit institutions, in particular, are required by law not to disclose information about the services they provide, to prohibit unilateral changes or additions to contract terms, and to disclose information on consumer financial transactions. In general, the passage of this law will aid in the development of non-bank credit institutions as a supplement to the country's single financial system.

The assets of microcredit organizations totaled 1,652.2 billion UZS as of August 1, 2022. [13] When we examine the data on the assets of microcredit organizations operating in Uzbekistan, we can see that the change in assets of their assets has increased significantly compared to previous periods.

We will continue our analysis by looking at individual indicators of microcredit organization activity organized by asset size. The table below depicts data on the activities of microcredit organizations as of August 1, 2022.

Table 1<sup>1</sup>: Individual indicators of microcredit organizations grouped by assets (as of August 1, 2022)

Indicators	Total		Distribution of microcredit organizations grouped by amount of assets							
			Up to 1 billion UZS		1-5 billion UZS		5-10 billion UZS		More 10 billion UZS	
	number	summa	number	summa	number	summa	number	summa	number	summa
<b>Assets</b>										
Assets, total	75	1652,2	0	0,0	31	104,2	16	123,5	28	1 424,4
Credits and micro-leasings	75	1 440,2	0	0,0	31	77,4	16	102,4	28	1 260,4
<b>Capital</b>										
Capital, Total	75	860,0	0	0,0	31	82,7	16	80,0	28	697,2
Charter capital	75	457,1	0	0,0	31	71,9	16	54,8	28	330,5
<b>Liabilities</b>										
Liabilities, total	75	792,2	0	0,0	31	21,5	16	43,5	28	727,2
Loans and leases	75	441,6	0	0,0	31	5,3	16	24,1	28	412,2

The table analyzes the situation of microcredit organizations in the country on August 1, 2022, and separately analyzes the amount of distribution of microcredit organizations grouped by amount of assets. Microcredit organizations grouped by assets in the total distribution of 1,652.2 billion UZS from 5 billion UZS to 10 billion billion, the amount of assets owned to 123,5 billion UZS, and in the distribution of 10 billion dollars and above - 1,424.4 billion funds. formed.

Today, microcredit organizations operate in the country as non-bank credit institutions on the basis of licenses and pawnshops by notifying the Central Bank.

The Central Bank of the Republic of Uzbekistan and the authorized state body, the non-bank credit organization's internal audit service, and external auditors oversee the establishment of the internal control system and the elimination of errors and shortcomings in its operations. Because it is critical to ensure the transparency

<sup>1</sup> www.cbu.uz. Prepared by the author on the basis of the official website of the Central Bank.

of each piece of information, the legitimacy of the operations performed, and the accuracy of the calculations.

When we examine the consolidated balance sheet of microcredit organizations, we can see that the total assets of microcredit organizations have changed by nearly 59 percent from August 1, 2021 to August 1, 2022. We will go over this in greater detail in the table data below.

Table 2<sup>2</sup>: Consolidated balance sheet of microcredit organizations

Indicators	01/08/2021		01/08/2022		Changes in percentage
	Million UZS	Share in percentage	Million UZS	Share in percentage	
Assets					
Cash and other payment documents at the box office	8710	0,8%	19773	1,2%	127,0%
Funds in banks	25 679	2,5%	60012	3,6%	133,7%
Loans and microleasing, (net)	893180	86,1%	1 440 233	87,2%	61,2%
Basic tools, (net)	31 182	3,0%	40 316	2,4%	29,3%
Accrued interest	42750	4,1%	50999	3,1%	19,3%
Other assets	23 233	2,4%	36 461	2,4%	56,9%
<b>Total assets</b>	<b>1 037 114</b>	<b>100,0%</b>	<b>1 652 181</b>	<b>100,0%</b>	<b>59,3%</b>
Liabilities					
Loans and borrowings to be repaid	442575	93,0%	745 095	94,1%	68,4%
Accrued interest payable	17 636	3,7%	21 757	2,7%	23,4%
Accrued taxes payable	1 994	0,4%	2654	0,3%	33,1%
Other liabilities	13 429	2,8%	22 700	2,9%	69,0%
<b>Total liabilities</b>	<b>475 635</b>	<b>100,0%</b>	<b>792 205</b>	<b>100,0%</b>	<b>66,6%</b>

According to the table above, the change in assets of microcredit organizations in 2021 compared to 2022, for example, the change in cash and other payment documents was 127.0 percent, the share of loans and microleasing on August 1, 2021 was 86.1 percent, while it was 66.6 percent on August 1, 2022.

Overall, efforts are being made to improve the activities of non-bank credit institutions and, as a result, the quality of microfinance services in the country. The above-mentioned reforms will help to strengthen the activities of non-bank credit institutions.

It should be noted that the prohibition on the activities of non-bank credit institutions creates the basis for the legal operation of their activities. The legal framework's strength is important in any area's implementation, and this, of course, is dependent on the measures taken to adopt regulations.

## V. CONCLUSIONS

Generally, microcredit organizations' activities are generally successful today. Nonetheless, it is necessary to complete a number of tasks in order to improve their activities.

The measures announced today by the Central Bank of the Republic of Uzbekistan to regulate and control the activities of non-bank credit institutions, particularly microcredit organizations and pawnshops, as well as further improvements to their regulatory framework, will improve financial stability and non-bank credit institution activities. laying a solid foundation for the scale's expansion.

Despite recent reforms in the field of private property protection and legislation, there have been numerous cases of arbitrary violation of private property rights, unjust and unjustified interference of some officials in real

<sup>2</sup> www.cbu.uz. Prepared by the author on the basis of the official website of the Central Bank.

estate. This has resulted in numerous conflicts. The adoption of the bill, according to the deputies, will serve to protect the inviolability of private property and to prevent unjustified interference of some officials in real estate. We believe that the Law of the Republic of Uzbekistan "On Non-Bank Credit Institutions and Microfinance Activities" According to this Law, payment organizations engaged in microfinance activities must provide available credit information to credit bureaus and the State Register of Credit Information in accordance with credit information exchange legislation. However, the Law states that the revocation of a payment organization's license from a payment organization operating a microfinance organization is the basis for its exclusion from the register of microfinance organizations, unless the payment organization is re-registered as a microfinance organization. If the body decides to carry out activities as a microfinance organization, the organization must: notify the Central Bank within ten days of the license being revoked; re-register as a microfinance institution and submit information to the Central Bank within forty-five days of the license being revoked [2].

It should be noted that individuals and legal entities, including individuals and legal entities acting with their close relatives and related persons, as well as non-residents of the Republic of Uzbekistan who receive ten percent of the charter capital (authorized capital) as a result of one or more transactions must obtain the initial approval of the Central Bank until they have received, directly or indirectly, a share of more than one percent.

A non-bank credit organization's charter capital is formed in the Republic of Uzbekistan's national currency and consists solely of funds contributed by the non-bank credit organization's founders (participants, shareholders). The authorized capital of microcredit organizations is two billion UZS, according to the law.

One of the critical tasks in the continued development of small businesses and private entrepreneurship, which is critical to ensuring macroeconomic stability and high growth rates in our country, is to constantly improve the activities of non-bank credit institutions.

In order for non-bank credit institutions to operate effectively and in accordance with the law, the existing issues in their collaboration with banks must be thoroughly investigated. The most important thing is to ensure these organizations' viability, timely return of funds, profitability, and long-term operation. The establishment of such structures will result in the support of a large number of small businesses and the participation of a diverse population in income-generating activities.

In conclusion, the legal improvement of microcredit organizations requires the following steps: first, the formation of a single legal framework governing microfinance-related activities; second, further improving access to microfinance services; third, the creation and development of microfinance organizations specializing in providing microfinance services to a diverse population; and fourth, the improvement of the system of control over the activities of microcredit organizations.

In general, when delivering services, microfinance businesses should uphold the values of neutrality toward consumers (customers), honesty, transparency, and respect for one another. In accordance with the guidelines they set in response to the Law's obligations, microfinance organizations also offer services.

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