



**IMPROVING MICROLOAN PRACTICES IN THE PROVISION OF
RETAIL BANKING SERVICES**

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ABSTRACT	KEYWORDS
<p>The article analyzes the current state and trends in the development of the microcredit system in Uzbekistan. The study examines the interest rates, terms, and methods of providing microloans to the population by commercial banks, as well as the dynamics of the volume of microloans issued to individuals during the period 2020–2024. The research findings indicate that in recent years, the volume of microloans has increased by 7–8 times, which is closely associated with the growth of financial inclusion, the expansion of retail and digital banking services, and the government’s policy of supporting small businesses. The article also highlights the role of the digital lending system in promoting microfinance services and the importance of a risk-oriented approach for commercial banks.</p>	<p>Microloan, microcredit, commercial banks, retail banking services, microfinance, financial inclusion, interest rate, credit policy, public welfare, financial stability</p>

Introduction

Today, the diversification of Uzbekistan’s economy, the improvement of the population’s living standards, and the enhancement of their purchasing power are regarded as key factors in ensuring sustainable economic growth in the country. In this context, the role of the banking and financial system in providing the population, including self-employed individuals, with access to financial resources is steadily increasing.

One of the main directions of retail banking services — the practice of providing microloans — serves as an effective instrument of financial support for the population. Through microloans, individuals are given the opportunity to start or expand entrepreneurial activities, increase employment, and contribute to ensuring socio-economic stability.

Microloans provide citizens with the opportunity to start or expand entrepreneurial activities, create additional sources of income, and improve household welfare. Furthermore, this type of service enables banks to establish long-term and mutually beneficial relationships with their clients.

In recent years, a series of reforms have been implemented in the country’s banking system aimed at introducing digital technologies, developing remote service platforms, and improving the credit risk management framework. At the same time, the intensification of competition in the microcredit market,

the changing needs of clients, and the growing scale of economic risks require banks to adopt new approaches.

From this perspective, improving the practice of microcredit provision in the delivery of retail banking services is of critical importance not only for enhancing the efficiency of banking operations, but also for ensuring sustainable economic growth and improving the welfare of the population.

Thus, improving the practice of microcredit provision in retail banking services is of significant relevance in terms of ensuring the sustainable development of the national economy, enhancing the welfare of the population, and increasing the efficiency of the financial market.

Literature Review

The most effective way for commercial banks to ensure competitiveness is to gain the trust of their clients, create maximum convenience for them, and continuously improve the range, quality, and speed of services. To maintain competitiveness, banks increasingly need to introduce modern banking services and make greater use of new technologies.

Globally, the founder of the concept of providing small-scale loans or microfinance to the population is recognized as Muhammad Yunus, a Nobel Prize laureate from Bangladesh.

Upon returning to his homeland, Muhammad Yunus witnessed the real living conditions of the rural population—severe poverty and difficult livelihoods. He observed that despite their hard work, people were unable to escape poverty due to the exploitation of local moneylenders, who provided short-term loans at excessively high interest rates. As a result, farmers were often forced to sell their products to these same moneylenders at very low prices, even before bringing them to the market (Yunus, 2011).

In response to this situation, Muhammad Yunus emphasized the necessity of providing the poor—who lacked access to credit—with the financial means to start entrepreneurial activities. He obtained a loan from a local bank to repay the debts of impoverished villagers and then began issuing loans himself—small, collateral-free, and guarantor-free loans at very low interest rates, intended not for personal consumption but for the development of agricultural and business activities. He firmly believed that if given the opportunity, the poor would undoubtedly repay their loans on time (Yunus, 2008).

Subsequently, he established the “Grameen Bank” (derived from the English term Grameen Bank, meaning “Rural Bank” in Sanskrit) and initiated the provision of loans to low-income individuals at an annual interest rate of about 15 percent. The average loan amount was approximately 100 USD. The very low rate of non-performing loans (0.5–3%) enabled the bank to become profitable within a short period and to expand lending to the poor segments of the population traditionally underserved by conventional banks. The repayment rate of loans reached about 98%, while delayed repayments accounted for roughly 20% (Bogatova and Zotova, 2017). Women constituted the overwhelming majority—around 97%—of the bank’s clients.

It is evident from this that providing the population with small-scale loan funds has contributed to improving their living standards and has created opportunities for engaging in entrepreneurial activities.

Currently, the term “microfinance” is generally used to refer to a broad range of formal financial services aimed at low-income and poor segments of the population, as well as individuals excluded from traditional financial systems (Meki and Quinn, 2024).

At present, the improvement in the population’s living standards and the acquisition of modern knowledge have led to an increased demand for new financial services. The speed, quality, accuracy,

security, and reliability of services provided by commercial banks are among the key requirements of their clients (Umarov, 2020). Among such services are microloans, overdrafts, and microcredits. These types of loans are considered profitable in terms of income generation but are also characterized by a higher level of risk and dependence on the bank's liquidity.

Individuals can meet their short-term financial needs not only through microloans but also by using overdraft or microcredit facilities. These types of credit provide the opportunity to obtain relatively small amounts of funds within a short period, thereby serving as convenient instruments for addressing immediate personal financial requirements.

In 2018, the level of microloan offerings in Uzbekistan was relatively low. It was noted that the absence of opportunities for commercial banks to allocate microloans hindered the expansion of access to such financing (Resolution, 2018). The adoption of Presidential Decree No. 3620 of the Republic of Uzbekistan on March 23, 2018, titled "On Additional Measures to Increase the Accessibility of Banking Services," identified existing problems in the provision of banking services and outlined the actions to be taken by banks to address these challenges.

Commercial banks, while providing banking services under favorable conditions for clients, must also pay special attention to their profitability, risk exposure, and liquidity. Every individual faces financial difficulties at certain stages of life, during which they may need to borrow money or seek financial assistance. In such circumstances, the role of microloans in providing financial support becomes particularly significant.

According to the law, "a microloan is defined as the provision of funds to an individual borrower, not exceeding one hundred million soums, on the principles of repayment, maturity, and payment" (Law, 2022). In Uzbekistan, the maximum amount of microloans issued by commercial banks and microcredit organizations is currently set at 100 million soums. Initially, the amount of a microloan was limited to no more than one hundred times the minimum wage, later revised to no more than one hundred times the base calculation value, equivalent to 50 million soums. In the early stages, microloans were issued exclusively by microcredit organizations.

The availability of microloans may also give rise to certain problems. Such issues are primarily associated with the activities of illegal lenders, the low level of financial literacy among borrowers, and their insufficient understanding of the terms and consequences of taking microloans (Shchurina, 2021).

In the Russian Federation, microloans are primarily provided by microfinance organizations—up to 5.0 million rubles for legal entities and up to 1.0 million rubles for individuals (Fincult, 2024). This indicates that microloans are extended not only to individuals but also to legal entities.

In the United States, the maximum amount of a microloan is also regulated and is provided to individuals and small business entities. It is generally regarded as a small business loan of up to 50,000 USD (Fan and Anne, 2021). Such small business loans are intended for entrepreneurs who lack access to traditional sources of financing, including startup founders and individuals with unsatisfactory credit histories.

Analysis and Results

At present, microloans are becoming increasingly popular among the population and are being widely offered by commercial banks. Microloans are provided either in cash or through non-cash transfers. The experience of the pandemic period demonstrated the growing importance of microloans for the

population. When household incomes decreased and short-term financial needs arose, the demand for microloans increased accordingly.

Table 1 Information on Microloans Issued by Commercial Banks¹ as of October 2025

Bank Name	Interest Rate	Term (months)	Maximum Amount (million soums)	Method of Microloan Issuance
JSC “Uzmilliybank”	26%	1-36	100,0	online, to the bank card issued for salary payments
	27%	1-36	100,0	online, to the bank card of employees of budgetary organizations
	29%	1-24	100,0	offline, in cash or to the bank card
	25-27%	1-36	100,0	offline, within a payroll project, in cash or to the bank card
JSCB “Uzsanoatqurilishbank”	29%	24	100,0	in cash or to the bank card
	29%	24	100,0	online service temporarily suspended
JSCMB “Ipoteka-Bank”	24-41%	36-60	100,0	to participants of payroll projects, online, to the bank card issued for salary payments
	24-45%	36-60	100,0	for individuals with permanent employment, online, to the bank card
JSCB “Agrobank”	32%	24	100,0	online, to the bank card issued for salary payments
	25-27%	24,36,48	100,0	within a payroll project for employees of budgetary organizations, in cash or to the bank card
	32-34%	24,36,48	100,0	for individuals with stable income, in cash or to the bank card
JSC “Aloqabank”	26-30%	2-48	100,0	for individuals with stable income, online, to the bank card
	26-29%	2-48	100,0	within a payroll project, online, to the bank card
	26-28%	2-48	100,0	for VIP clients and employees, online, to the bank card
	28%	3-60	100,0	for self-employed individuals, in cash or to the bank card
PJSCIB “Ipak Yuli Bank”	30,9-40,9%	12-36	100,0	online, to the bank card
	24,9-27,9%	12-60	100,0	offline, to the bank card or by transfer under a contract
	24,9-27,9%	12-60	100,0	offline, to the bank card
	31,9%	12	10,0	online, to the bank card or by transfer under a contract

As of October 2025, commercial banks in Uzbekistan have established an active competitive environment in the microloan market aimed at the population. The data presented in the table show that each bank offers different interest rates and conditions tailored to its client segments and service delivery methods.

In the banks under analysis, interest rates on microloans range from 24% to 45%. The lowest rate is observed at JSCMB “Ipoteka-Bank” (24%), while the highest rate, also at this bank, reaches 45%, indicating that rates are differentiated based on risk levels and client types. The average interest rate is approximately 28–32%, reflecting the prevailing level in the market.

The term of microloans ranges from 1 month to 60 months. Most banks offer loans with a term of 24–36 months, which provides convenience for borrowers in repayment and reflects a strategy aimed at reducing risk.

¹ Compiled by the author based on information from the official websites of commercial banks

The maximum amount offered by all banks is 100 million soums, representing a standardized limit. Only PJSCIB “Ipak Yuli Bank” has also offered a short-term online microloan of 10 million soums. Most banks have implemented online lending systems, indicating the development of digital banking services. “Uzmilliybank,” “Agrobank,” and “Aloqabank” offer preferential online loans to clients participating in payroll projects. Some banks, such as “Uzsanoatqurilishbank,” have temporarily suspended online services but continue to provide services offline.

Banks primarily offer special conditions for participants in payroll projects, employees of budgetary organizations, and individuals with stable sources of income.

PJSCIB “Ipak Yuli Bank” and JSC “Aloqabank” offer special tariffs for self-employed individuals and VIP clients, indicating that customer segmentation and personalized lending strategies are increasingly developing in the market.

The digital lending system is becoming a key driver in popularizing microfinance services. Banks set interest rates based on the client’s risk level and source of income (risk-oriented approach). Microloans continue to serve as an important financial instrument in the real sector of the economy, particularly in supporting self-employed individuals and household incomes.

Among commercial banks, competition is primarily driven by the quality of online services and the flexibility of interest rates. As of October 2025, commercial banks in Uzbekistan maintain active competition in the market by diversifying microloan services, developing digital lending, and offering terms tailored to clients’ needs. In addition, microloans are also provided to individuals based on third-party guarantees or the pledge of liquid assets, either in cash or via money transfer.

Microloans are repaid based on a contract between the bank and the client, following the agreed repayment schedule. At the client’s discretion, the microloan can be repaid either in cash or in a non-cash form.

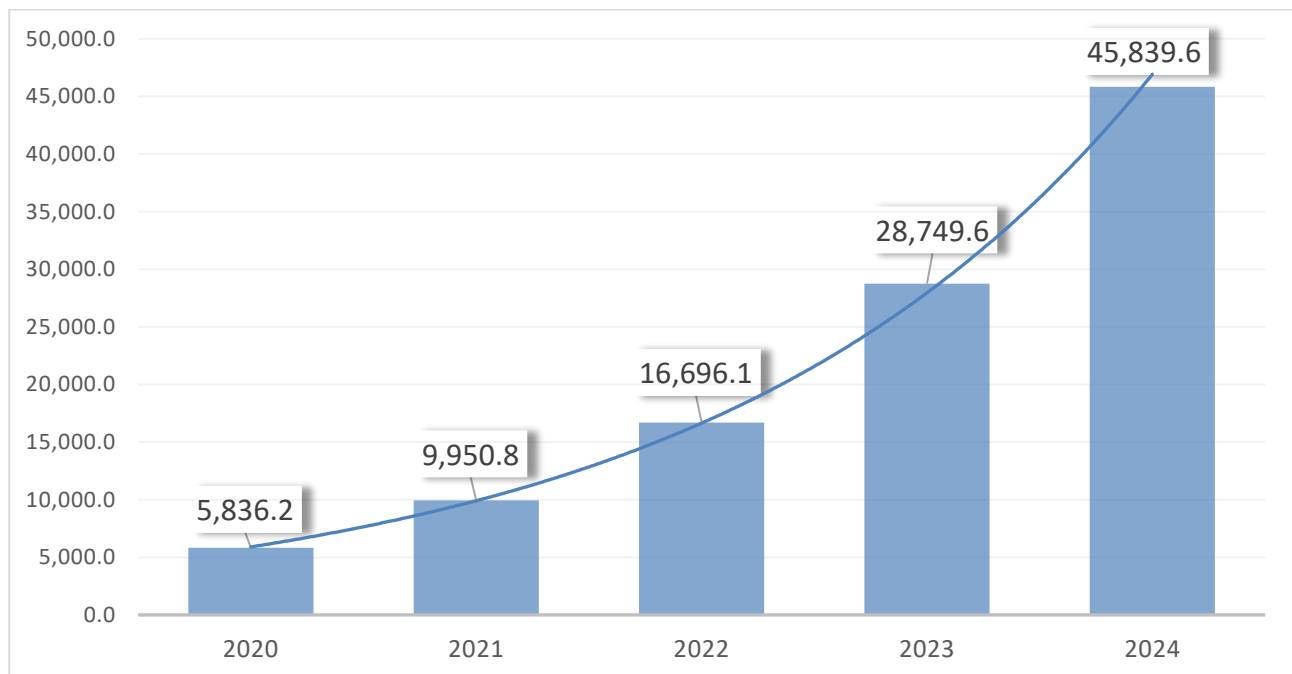


Figure 1. The volume of microloans issued to the population in Uzbekistan², billion soums

² A technical report based on the data from the official website of the Central Bank of the Republic of Uzbekistan (cbu.uz)

According to the data presented in this figure, the volume of microloans issued to the population in Uzbekistan grew steadily and rapidly between 2020 and 2024. This trend indicates a significant increase in financial inclusion (the population's access to financial services) in the country. In 2020, the volume of microloans reached 5,836.2 billion soums, rising to 45,839.6 billion soums by 2024. During this period, the volume of microloans increased nearly eightfold (7.9 times) over four years. The average annual growth rate was approximately 55–60%, indicating high activity in the financial market. One of the main reasons for this growth is the expansion of credit products aimed at the population by commercial banks and microfinance organizations, particularly through the implementation of online lending systems.

The government's policy of supporting small businesses, entrepreneurship, and self-employment has had a positive impact on the microloan market. The development of digital banking services has made it possible to provide microloans quickly and transparently.

Microloans are proving to be an important financial instrument for enhancing the population's economic activity, supporting small businesses, and creating new jobs. Through this channel, the banking system contributes to ensuring financial stability and social welfare while covering a wide segment of the population.

Between 2020 and 2024, the microloan market in Uzbekistan exhibited an exponential growth trend. This growth reflects the liberalization of the financial market, the development of digital infrastructure, and the increasing financial literacy of the population. This trend is expected to continue in the future, as demand for microcredits remains high and banks plan to further expand their digital products.

Between 2020 and 2024, the volume of microloans issued to the population in Uzbekistan grew rapidly, reflecting the expansion of financial inclusion, the development of digital lending systems, and the increasing role of microloans in ensuring the social efficiency of the economy.

Conclusion and Recommendations

In conclusion, microloans play an important role for the population in covering daily expenses, and their proper management strengthens the relationship between the bank and its clients.

In the development of retail banking services at commercial banks, diversifying microloan offerings is essential—creating specialized microloan products for various segments of the population, including the self-employed. At the same time, it is necessary to expand the digital lending system, ensuring compliance with cybersecurity requirements, and to simplify and automate the provision of microloans through online platforms in order to improve service quality.

Implementing programs to improve the financial literacy of microloan users can help reduce instances of delayed repayments. This can be achieved by educating borrowers on the effective use of microloans, explaining the consequences of non-repayment, and enhancing their overall financial knowledge.

It is advisable for banks to implement advanced risk management methods, including strengthening client assessment mechanisms based on credit scoring systems, big data, and artificial intelligence.

At the same time, in order to ensure the sustainable development of the microloan market in the future, it is important to enhance financial literacy, improve risk management systems, and further expand the online lending infrastructure.

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