

PROBLEMS IN THE ACTIVITY OF NON-BANK CREDIT ORGANIZATIONS IN UZBEKISTAN AND THEIR SOLUTIONS

Dusboev Utkir Khidirovich

Senior Lecturer of Tashkent State University of Economics, PhD.

Abstract

This article describes the economic and legal framework of microfinance organizations and their stages of activity development, the specifics of their activities, the ongoing reforms in the development of microfinance organizations in our country. Also, practical recommendations have been developed to address the problems in the development of the market of microfinance services in our country.

Introduction

Today, the role of non-bank credit organizations in materially supporting the population of our country and ensuring their well-being is gaining importance. According to the World Bank, "while economic growth is expected to be 5.9 percent in 2023 in the world's low-income countries, due to their weak economies and various levels of conflict, 50 percent of the population's per capita income is projected to be below the pre-pandemic level [\[1\]](#). " These processes require the provision of popular microfinance services to low-income population groups at the global level, the development of the digital ecosystem of microfinance infrastructure, the diversification of funding sources of microfinance organizations, and effective risk management. In Uzbekistan, attention is being paid to ensuring the effectiveness of reforms in the banking and financial system, reducing poverty and raising the standard of living of the population, increasing the coverage of needy segments of the population with microfinance services, expanding the forms and types of microfinance services, and improving prudential control by introducing international standards and norms. "...increasing the opportunities of poor people to use financial resources through the introduction of new financial instruments, including improving the system of providing them with preferential loans and subsidies, establishing a digital microfinance organization to support business initiatives of needy people under more favorable conditions".

Ensuring the implementation of these tasks determines the need to develop scientifically based proposals for the development of activities of microfinance organizations, expanding the scope of digital microfinance services, and increasing the popularity of microfinance products. It is known from world experience that non-bank credit organizations, as an alternative to commercial banks, are of great importance in meeting the needs of small businesses and private enterprises in the early stages of their activity. Measures implemented by the Central Bank of the Republic of Uzbekistan to regulate and control the

activities of non-bank credit organizations, in particular, microcredit organizations, as well as the further improvement of the regulatory and legal framework of their activities, create a solid foundation for expanding the financial stability and scope of activities of microcredit organizations.

PF-158 of the President of the Republic of Uzbekistan dated September 11, 2023 "On the strategy of Uzbekistan-2030", dated January 28, 2022, PF-60 "On the development strategy of New Uzbekistan for 2022-2026", dated January 28, 2022, No. PF-58 "On further improvement of the system of material support for categories of the population in need of social protection" No. PF-6241 of June 4, 2021 "On additional measures aimed at further improvement of the system of social support of the population", 2020 Decree No. PF-5992 dated May 12, 2017 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025", as well as Decree No. PF-5992 dated March 17, 2017 "On measures to further simplify the system of allocating microcredits to business entities and the general population" Decision No. PQ-2844 and regulatory legal documents related to this field are of great importance in the development of the activities of non-bank credit organizations in our country.

Analysis and results

As a result of the studies and analyses carried out within the framework of the organization of non-bank credit organizations, their practical activity, and their situation in the financial and credit market of the country, there are several problems, we will get acquainted with their main ones and formulate appropriate proposals for their solutions.

1. The problem related to the weakness of the ability of non-bank credit organizations to attract financial resources. It is worth noting that non-bank credit organizations operating in our country can attract financial resources mainly from their funds. As their sources, the funds of the founders, the funds allocated from the organization's profit at the end of the reporting period, as well as local and foreign loans and financial assistance make up the financial resources of non-bank credit organizations. The analysis shows that the financial resources of non-bank credit organizations operating in our country mainly consist of two sources: the first is membership fees (shares) of the founders and funds formed at the end of the reporting period. low level and non-availability of the opportunity to attract more in case of need does not allow non-bank credit organizations to continuously increase their funds. As a result, the interest rates of microcredits and microloans offered by non-bank credit organizations are significantly higher. In our opinion, it is very important to allow the establishment of credit unions as non-bank credit organizations in our country. The majority of the country's population suffers from the high percentage of loans they receive from non-bank credit organizations, and most of them live in rural areas and do not have the opportunity to use these services. If it is allowed to organize the activities of credit unions, firstly, the interest rates of loans will decrease due to the attraction of deposits from citizens and legal entities, secondly, as a result of their activities being organized in remote areas of our country, a large part of the population will

have the opportunity to use these services, thirdly, the creation of added value in the country will accelerate and new jobs will appear, fourthly, the amount of taxes falling into the state budget will increase, and several socio-economic issues will be resolved.

2. The problem of inconsistency between the existence of a high difference between the interest rates of microloans provided by non-bank credit organizations and the ability of borrowers to repay loans. Today the interest rates of loans given by microcredit organizations and pawnshops differ significantly from each other. In particular, loans from pawnshops are given for a very short period and at high interest rates. At the same time, the percentage of loans given by credit unions was very high at the time, and currently, there are no credit unions in our country, their activity was stopped in 2012 due to various reasons. These associations entered the financial and credit market of the country as a real competitor to commercial banks. In our opinion, several factors affect the high interest rates among the loans of microfinance organizations, one of the most important of which is the demand for these services by the population in our country, and secondly, the limited financial resources of these organizations are the reason for the high interest rates of the loans.

In addition to the above, the following factors cause high interest rates on loans from non-bank credit organizations:

- lack of state financial support for the activities of non-bank credit organizations;
- non-introduction of instruments of influence of the country's mega-regulator on the interest rates of microcredits of microfinance organizations and pawnshops;

Absence of influence practice by the Central Bank;

- attraction of financial resources by non-bank credit organizations at the expense of expensive sources;

the insufficient formation of the competitive environment between microfinance organizations and pawnshops, especially the fact that credit unions, which are considered an important link of non-bank credit organizations in our country, have not been organized; high demand for loans and services of microfinance organizations and pawnshops.

3. The problem of non-bank credit organizations' location in the regions of the country and insufficient demand for their services. When we analyze this issue in detail, in most regions of our country, only one non-bank credit organization is established. In the Republic of Karakalpakstan, there are almost no credit unions. The existence of this problem means that poor families living in different regions of our country and private businessmen who have started their businesses will not have the opportunity to attract the necessary financial resources. However, in the conditions of the market economy, a sufficient amount of financial resources is necessary to start any commercial activity. Of course, today more than 836 bank branches of 33 commercial banks operating in our country are operating in different regions and districts of our country, but entrepreneurs who are interested in doing business and have started their activities suffer greatly due to the sparse location of microfinance organizations in the regions, and the fact that they do not exist at all in some regions. As a result, their demands for financial resources remain

unmet and several socio-economic problems arise in rural areas. In particular, young people living in the regions go to large urban centers and abroad in search of work, the unemployment rate increases due to the lack of additional jobs, the number of people who are underprivileged and poor, family separations, etc.

It is known that the majority of the population of our republic lives in rural areas, and their access to credit is very limited. Most of the villagers want to earn income through entrepreneurship, that is, farming and animal husbandry. But they need a certain amount of funds before they start their business. When applying to commercial banks for a loan, they often refuse to provide funds to clients who do not have a good credit history, as they require high liquidity collateral from the borrower. In addition, most commercial banks are not interested in providing small loans. Therefore, even though most business entities have just started their activities and have potential opportunities, commercial banks do not want to provide loans to such entrepreneurs because they do not have sufficient credit supply and credit history. This situation, in turn, leads to non-bank credit institutions.

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