



## **The Role of Commercial Banks in Financing Small and Medium Businesses in Uzbekistan**

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### **Abstract**

Small and medium enterprises (SMEs) are recognized worldwide as cornerstones of economic development, fostering innovation, employment, and sustainable growth. In Uzbekistan, the SME sector's expansion has been constrained by various obstacles, most notably limited access to formal finance. Commercial banks, as primary financial intermediaries, have played a critical yet evolving role in addressing this gap. This article provides an in-depth analysis of the role of commercial banks in financing SMEs in Uzbekistan, examining historical context, sectoral reforms, lending trends, government and international support frameworks, and the challenges and opportunities inherent in current practice. Using comparative insights and relevant case studies, the article culminates with specific recommendations for policy-makers, banks, and the broader financial ecosystem to unlock the full potential of SMEs in Uzbekistan.

**Keywords:** SME finance, commercial banks, Uzbekistan, economic development, constraints, credit, government policy

### **Introduction**

Small and medium businesses globally are hailed as the engines of innovation and employment. According to the World Bank (2022), SMEs contribute more than half of all employment and GDP worldwide and are considered vital for achieving broad-based economic growth as well as social stability. In Uzbekistan, SMEs constitute more than 56% of the country's GDP and employ over 75% of the workforce (State Statistics Committee of Uzbekistan, 2021).

However, the SME sector in Uzbekistan faces multiple barriers to expansion, of which limited access to external finance is pivotal (ADB, 2020). Commercial banks are expected to be instrumental in bringing this gap, yet their engagement has only partially met the needs of this dynamic sector. This article seeks to analyze the landscape of commercial banks' engagement with SME financing in Uzbekistan, investigating how historical developments, institutional reforms, regulatory barriers, and recent innovations have shaped this landscape. It also explores comparative



experiences from other transition economies, and draws on original data, international literature, and case evidence.

This analysis is especially timely given the government's ongoing efforts to modernize the banking industry, liberalize financial markets, and foster a more conducive environment for entrepreneurship and private sector growth. The central research questions addressed are as follows:

How have commercial banks in Uzbekistan contributed to SME finance over the last decade?

What are the main obstacles faced by commercial banks in increasing SME lending?

How effective are government and international supports in overcoming financing gaps?

What policy and institutional recommendations can strengthen the SME finance ecosystem?

**Global Significance of SMEs:** SMEs are universally acknowledged as a backbone for growth, innovation, and employment. According to Ayyagari, Beck, and Demirgüç-Kunt (2007), SMEs represent over 90% of businesses worldwide, creating more than 50% of global employment. The Organisation for Economic Co-operation and Development (OECD) (2017) highlights SMEs as vital for stimulating competition and innovation, particularly in transitional and developing economies, where they often outperform larger firms in generating jobs and alleviating poverty.

**Theory and Evidence on SME Finance:** The literature on SME finance characterizes SMEs as particularly vulnerable to financing constraints due to "structural weaknesses" such as lack of collateral, opaque financial records, and higher perceived risk (Beck & Demirgüç-Kunt, 2006; Berger & Udell, 2006). Banks often perceive SME lending as less attractive compared to large corporations due to higher transactional costs and difficulties in assessing creditworthiness. These challenges are exacerbated in developing countries with weak legal systems or underdeveloped financial infrastructure (EBRD, 2021). Market failures associated with information asymmetry and credit rationing are further emphasized by Stiglitz and Weiss (1981), who demonstrated that banks might deny credit even when borrowers are willing to pay higher interest rates, given elevated risk.

**Commercial Banks' Role in Emerging Economies:** Commercial banks are central to financing small businesses and facilitating economic transformation (IFC, 2019). In transition economies, however, banks generally gravitate toward low-risk, collateralized lending, and thus often exclude smaller, younger, and innovative



enterprises from their portfolios (Beck & Cull, 2014). Successful policy interventions have included credit guarantees, targeted subsidies, and institutional reforms improving credit information systems (World Bank, 2022).

**SME Finance in Post-Soviet Countries:** Research shows that in post-Soviet economies, banking sectors inherited from centrally planned regimes have often been slow to adapt to the needs of private business (EBRD, 2021). In countries like Kazakhstan and Georgia, accelerated reforms—liberalization of interest rates, creation of credit registries, introduction of movable collateral registries—have meaningfully improved SME access to finance (Mikhelidze, 2020). Evidence from Uzbekistan shows a similar trajectory, albeit with unique features related to state dominance and recent reforms (ADB, 2020; Juraev, 2019).

#### Scholarship on Uzbekistan

While empirical research on Uzbekistan's SME sector is increasing, gaps remain. Juraev (2019) identified excessive bureaucracy, high interest rates, and limited product diversification as key drawbacks in commercial bank engagements with SMEs. Sattarov and Yusupov (2021) point to progress since 2017, with steps toward privatization of state-owned banks and improved access to credit lines provided by development institutions.

#### **Methodology**

A synthesis of secondary data from governmental agencies, the Central Bank of Uzbekistan, international organizations (ADB, World Bank, EBRD, IMF), and academic sources.

An analysis of relevant legal and regulatory reforms.

A comparative case study approach, reviewing experiences from Kazakhstan and Georgia.

Qualitative analysis through expert interviews and media analyses (where possible).

Recommendations are developed based on identified gaps, international benchmarks, and best practices.

**Evolution of Uzbekistan's Financial Sector:** Following independence in 1991, Uzbekistan began a gradual transition to a market economy, of which financial sector reform was a slow-moving but pivotal element (IMF, 2023). The banking sector was dominated by state-owned banks, with market reforms accelerating after 2017 as the government launched its "Strategy of Actions for Further Development," emphasizing economic liberalization and financial market development (ADB, 2020).



**Structure of the Banking Sector:** The sector comprises more than 30 commercial banks, of which 12 are state-owned. In 2021, state-owned banks controlled about 85% of total banking assets, although privatization initiatives are underway (Central Bank of Uzbekistan, 2022). Foreign-owned banks have a small but growing presence, often introducing new products and risk management techniques.

**SME Definitions and Importance:** According to national legislation, SMEs in Uzbekistan are defined according to sector and workforce size thresholds. For example, in manufacturing, firms with up to 100 employees are classified as SMEs; in services, the threshold is 25 employees. Their economic significance is substantial, producing 58.2% of GDP in 2022 and employing 78.5% of the workforce (State Statistics Committee, 2023).

**SME Demand for Finance:** World Bank Enterprise Surveys (2022) indicate that more than 55% of SMEs in Uzbekistan consider access to finance a “significant” or “severe” barrier. The financing gap is estimated to exceed US\$3 billion, encompassing start-up capital, working capital, and long-term investment needs (IFC, 2019).

**Survey Evidence:** Many SMEs report being unable to obtain loans at affordable rates or on suitable terms. Most cite high collateral requirements, short maturity periods, and bureaucratic application processes as primary reasons for unsuccessful loan applications (Juraev, 2019).

**Product Portfolio:** Banks offer a range of products: overdrafts, working capital loans, investment credits, leasing, and trade finance. However, products tailored specifically to SMEs are rare. A 2022 survey of six leading banks in Uzbekistan found that less than 15% of the total lending portfolio is directed at SMEs (Central Bank, 2022). **Lending Criteria:** Commercial banks typically require substantial collateral, with property or machinery representing the most accepted forms. Loan-to-value ratios are conservative, sometimes below 60%. Credit scoring systems are under development but not widely deployed for SME clients (EBRD, 2021). **Terms and Interest Rates:** Typical SME loans have maturities of 12–24 months and interest rates ranging between 17–28% per annum (World Bank, 2022). Such conditions are unattractive for long-term investment, resulting in a preference for short-term working capital loans.

**Demand-Side Challenges:**

**Lack of Collateral:** Over 60% of SMEs lack sufficient real asset collateral.



**Informality:** Many SMEs operate partially outside the formal sector, keeping incomplete records.

**Financial Literacy:** Weak understanding of financial products inhibits informed borrowing.

**Supply-Side Challenges**

**Risk Aversion:** Banks prioritize low-risk, collateral-based lending.

**Regulatory Environment:** Prudential requirements limit flexibility in loan origination and valuation.

**High Transaction Costs:** Processing SME loans requires significant time and human resources.

**Government Policy and Institutional Support:** The Entrepreneurship Support Fund and the State Fund for Support of Business Development offer credit guarantees covering 50–90% of loan value for select SME borrowers (Ministry of Economic Development, 2023). While this has improved access for targeted groups, coverage remains narrow.

**Subsidized Lending:** Interest rate subsidies for specific industries or regions aim to reduce borrowing costs for SMEs. For example, agricultural SMEs may access subsidized loans at rates as low as 14% (ADB, 2020). However, administrative obstacles often limit uptake.

**Legal and Regulatory Reforms:** Recent improvements have included the establishment of a new movable collateral registry (2019), enhancement of credit information bureaus, and simplification of business registration procedures (IFC, 2019). **International and Donor Support:** International organizations have supported Uzbekistan's SME sector through dedicated credit lines to banks, capacity-building initiatives, and support for innovation in lending practices (ADB, 2020; EBRD, 2021). For example, the World Bank's Private Sector Competitiveness Project (2018–2024) includes components dedicated to modernizing the credit registry and strengthening SME support mechanisms.

**Digitalization and Innovation:** Digital lending platforms, mobile banking, and alternative credit assessment models are at an early stage in Uzbekistan but expanding rapidly. For example, Anorbank and Aloqabank have piloted online SME lending solutions, reducing the average loan approval time from weeks to days (Central Bank, 2022). Fintech integration is constrained by regulatory legacy issues and digital infrastructure gaps, especially outside major cities.

**Case Studies and Comparative Perspective:** Kazakhstan



Kazakhstan, facing similar post-Soviet constraints, has made significant progress by establishing a robust Credit Bureau and launching the “Damu” Fund, providing subsidized credit and technical support. As a result, SME credit penetration rose from 16% of GDP in 2010 to over 28% in 2022 (EBRD, 2023). Key lessons include the importance of coordinated policy initiatives and digitalization.

Georgia: Georgia is a regional leader in SME finance reform, implementing major banking liberalizations since 2008. Movable collateral registries and efficient insolvency mechanisms have been critical. SME access to finance improved dramatically, contributing an additional 1% annual GDP growth over a decade (Mikhelidze, 2020).

Uzbekistan Case Example: “AgroPlus,” a medium-sized agribusiness in the Tashkent region, sought investment to expand production. Lacking real estate collateral, the company struggled to secure standard loans. With support from EBRD credit lines and a partial guarantee from the Entrepreneurship Fund, AgroPlus was granted a three-year investment loan by Ipak Yuli Bank in 2021. Beyond financial support, the program included capacity-building for business planning. The result was a 50% increase in annual turnover and the creation of 27 new jobs (EBRD, 2022).

Achievements and Shortcomings: Uzbekistan’s commercial banks have made progress in rolling out new products and increasing SME credit, aided by regulatory reforms and international support. Results, however, remain below potential, with credit to private business below regional averages (World Bank, 2022).

#### Factors Limiting Impact

**State Dominance:** Ongoing state control over banks restricts competition and innovation.

**Limited Product Diversification:** Most products are generic, not adapted to SME life cycles or sector needs.

**Weak Institutional Capacity:** Credit scoring, risk management, and SME-focused banking expertise need advancement.

**Slow Digitalization:** Rural-urban inequalities persist in digital access and service take-up.

**Underserved Segments:** Women-owned businesses, start-ups, and rural SMEs remain particularly disadvantaged, with less than 8% of formal SME loans directed at women-headed firms (ADB, 2020).

**Post-Covid Recovery:** The pandemic prompted emergency credit programs, loan restructuring, and temporary government guarantees. These mitigated



immediate shocks but strained bank balance sheets and revealed limitations in risk assessment and digital service delivery (IMF, 2023). Recommendations: Accelerate privatization of state-owned banks, enforce open competition, and promote foreign bank entry to enhance innovation and expand SME-focused offerings. Strengthen Credit Infrastructure:

1. Consolidate and deepen the coverage of credit information bureaus.
2. Expand the scope and legal framework of movable collateral registries.
3. Implement modern insolvency and bankruptcy procedures to reduce lender risk.

Scale Up Public Support:

- Expand government guarantee schemes to cover a higher proportion of SMEs, not just preferred sectors or firms.
- Increase support for financial literacy and business development services.
- Promote Inclusive Finance
- Ensure targeted support for women-led, youth-led, and rural enterprises via dedicated products, guarantees, and capacity-building components.
- Recommendations for Commercial Banks
- Institutionalize SME-Specific Banking Units

Develop internal structures dedicated to SME clients, equipped with tailored processes, agile decision-making, and risk models sensitive to SME realities.

Embrace Digital Transformation: Expand digital onboarding, loan origination, and transaction platforms. Use alternative data for credit scoring, lowering barriers for firms lacking traditional collateral.

Collaborate with International Partners: Leverage credit lines and technical assistance from international organizations to develop new products and train banking personnel in SME finance best practices. Broader Financial Ecosystem:

Foster the growth of non-bank financial institutions and fintechs, especially in rural and remote areas.

Encourage public-private partnerships to bridge the infrastructure and information gaps hampering SME finance.

## **Conclusion**

Uzbekistan stands at a critical juncture where deeper financial sector reforms can unleash the power of SMEs for inclusive growth, employment, and innovation. While commercial banks have made headway in supporting SMEs, much work remains—particularly in terms of product adaptation, risk management, and digital



transformation. Strategic and coordinated action by policy-makers, regulators, banks, and international partners will be pivotal in closing the SME financing gap and accelerating Uzbekistan's journey toward a diversified, competitive, and resilient economy. While commercial banks have made headway in supporting SMEs through increased lending and tailored credit products, much work remains—particularly in terms of product adaptation, risk management, and digital transformation. Many financial products are still designed with larger enterprises in mind, and limited collateral requirements or alternative credit assessment methods remain underdeveloped. Strengthening risk management frameworks within banks to better evaluate SME creditworthiness can reduce lending costs and improve access to capital. Additionally, accelerating the adoption of digital banking platforms and fintech solutions will significantly enhance financial inclusion by reaching underserved regions and reducing transaction costs. Strategic and coordinated action by policymakers, regulators, banks, and international partners will be pivotal in closing the SME financing gap. This includes establishing a robust legal and regulatory environment that protects creditors and borrowers, improving the credit information infrastructure, and promoting financial literacy among SME owners. Furthermore, expanding public-private partnerships and leveraging international development funds can provide the necessary technical assistance and guarantee mechanisms to stimulate SME financing. Such reforms will accelerate Uzbekistan's journey toward a diversified, competitive, and resilient economy, enabling SMEs to thrive as drivers of innovation and job creation. By fostering an ecosystem that supports SME development, Uzbekistan can harness the full potential of its entrepreneurial talent, build regional value chains, and enhance its integration into global markets.

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