

**DIGITALIZATION OF MICROFINANCE SERVICES IN THE REPUBLIC OF
UZBEKISTAN**

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Abstract: This research article examines the characteristics, current trends, and long-term prospects of the digitalization of microfinance services in the Republic of Uzbekistan. The relevance of studying the digitalization of microfinance services in Uzbekistan stems from the need to overcome geographic and infrastructural barriers. The traditional model of microfinance organizations, based on the physical presence of branches and paper-based document management, is gradually losing its effectiveness.

Keywords: Digitalization, microfinance organizations, financial services, financial inclusion, artificial intelligence, economic development.

Introduction. In the Republic of Uzbekistan, reforming the financial sector and its digitalization have become priority areas of public policy. The microfinance sector, traditionally focused on supporting small businesses, individual entrepreneurship, and providing access to capital for vulnerable segments of the population, occupies a special place in this ecosystem. The introduction of modern digital technologies not only optimizes the internal business processes of financial institutions but also fundamentally changes the customer experience, making microfinance products available 24/7, anywhere in the country.

Digitalization of the microfinance sector is a process of qualitatively transforming organizations' operations through the integration of innovative technologies. These technologies include mobile applications, remote service platforms, automated scoring systems based on artificial intelligence, and big data technologies. Unlike traditional banking, microfinance operates with higher operating costs per unit of issued capital, as loan amounts are relatively small and the risks of default are high. Digital tools help mitigate this disadvantage by automating routine processes. Using machine learning algorithms to assess the creditworthiness of potential borrowers allows microfinance organizations to analyze non-traditional data sources, such as utility payment histories, debit card transactions, and mobile app user behavior. This opens access to financing for individuals without an official credit history or a stable source of income verified by traditional documents. Thus, the digital transformation of microfinance directly contributes to poverty reduction and the inclusion of the general public in the legitimate economy.

One of the main drivers of digitalization is the rapid growth of mobile internet and smartphone penetration among the country's population, especially among young people. The younger generation in Uzbekistan demonstrates a high level of digital literacy and is generating a strong demand for instant financial services without visiting a branch. Microfinance organizations, striving to meet market expectations, are actively transforming into technology companies.

Today, the Uzbek market is seeing the emergence of a new type of microfinance organization, operating exclusively in the digital space. These organizations have no physical cash desks or customer service offices, and all interactions are conducted through specialized mobile interfaces. The application process, document verification, decision-making, and transfer of funds to a bank card or e-wallet take just a few minutes. This ensures unprecedented speed and convenience for the end consumer.

Despite obvious successes and positive momentum, the digitalization of microfinance services in Uzbekistan faces a number of significant challenges. The first and most significant barrier is the uneven development of digital infrastructure across regions. While connection quality and high-speed internet access are excellent in the capital and major regional centers, network stability in remote rural areas often leaves much to be desired. This limits rural residents' ability to fully utilize the benefits of remote microfinancing.

A second important factor is the issue of cybersecurity and personal data protection. The transition of financial flows and confidential information into the virtual space inevitably attracts the attention of criminals. Microfinance organizations are forced to invest significant financial and human resources in creating reliable cybersecurity systems, preventing data leaks, and developing mechanisms to combat fraud (i.e., fraudulent remote identification).

A third barrier relates to the level of financial and digital literacy among a certain segment of the population, particularly older people and those living in rural areas. There is a psychological barrier of distrust toward digital financial instruments. Many citizens still prefer cash and in-person communication with a financial institution employee, fearing making a mistake when using a mobile app or falling victim to fraud.

First, it is necessary to continue modernizing telecommunications infrastructure in rural areas, ensuring widespread access to high-quality and affordable internet. Second, it would be advisable for the Central Bank of the Republic of Uzbekistan to develop the concept of regulatory sandboxes, allowing microfinance organizations to test innovative fintech products in a controlled environment without the risk of violating strict regulatory requirements.

Conclusion. The digitalization of microfinance services in the Republic of Uzbekistan is an irreversible and objective process that determines the future of the country's entire financial system. The transition to digital interaction models allows microfinance organizations to improve internal efficiency, reduce service costs, and expand their client base. For society and the state, this process serves as a powerful tool for increasing financial inclusion, supporting entrepreneurial initiative, and stimulating regional economic development.

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