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PERSONAL INSOLVENCY IN UZBEKISTAN: ALIGNING LOCAL FRAMEWORKS WITH INTERNATIONAL STANDARDS

Jakhongir Alimbaev
PhD Student, Tashkent State University of Law, Tashkent, Uzbekistan
Correspondence: jakhongiralimbaev@gmail.com

Abstract:
This article explores the legal regulation of personal insolvency in the Republic of Uzbekistan, focusing on the recently enacted Law on Insolvency (2022). Drawing on international best practices and comparative analyses, it evaluates the socio-economic causes of insolvency, such as economic shocks, life events, and credit mismanagement, and highlights preventive measures, including financial literacy programs, debt counseling, and strengthened social safety nets. By analyzing global frameworks, such as those of France and the UK, and the principles outlined by UNCITRAL, the study underscores the importance of tailored approaches to balancing creditor-debtor dynamics and protecting essential assets. The findings suggest that Uzbekistan's reforms align with international standards but require further enhancements to address administrative delays, informal debt structures, and rehabilitation mechanisms. This comprehensive evaluation contributes to the understanding of personal insolvency and offers actionable insights for policymakers to foster economic resilience and reduce over-indebtedness.

Keywords: Personal insolvency, Uzbekistan, debt relief, consumer bankruptcy, legal frameworks, comparative insolvency systems.

Introduction

The issue of personal insolvency has gained global attention due to its widespread socio-economic impact. With rising household debt levels and financial instability triggered by economic shocks, individuals are increasingly at risk of insolvency. Addressing this issue requires a multidisciplinary approach, integrating financial education, policy reform, and robust legal frameworks.

Globally, countries have developed innovative systems to manage insolvency. The United Nations Commission on International Trade Law (UNCITRAL) highlights the importance of harmonized legal practices, emphasizing transparency and debtor rehabilitation. At the same time, localized strategies, like those in France and the UK, demonstrate the need for tailored approaches based on economic and cultural contexts (Azmi*, Razak and Ahmad, 2018). Similarly, Shylendra's critique (2024) of India's Insolvency and Bankruptcy Code (IBC) highlights the structural challenges faced by localized adaptations, reinforcing the importance of global best practices tailored to local contexts. Recent studies, such as Korol's analysis of predictive analytics in insolvency risk (2024), underscore the need for early warning systems to preempt financial distress.

Uzbekistan's Law on Insolvency (2022) serves as a case study in adapting global principles to domestic realities. By addressing the challenges faced by natural persons, this legislation aims to reduce over-indebtedness while fostering economic stability.

Economic instability is one of the most common triggers of personal insolvency. Global

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recessions, like the 2008 financial crisis, led to widespread unemployment and reduced consumer spending power, leaving individuals unable to meet their financial obligations. In Uzbekistan, reliance on specific industries, such as agriculture and remittance-based income, makes the population particularly vulnerable to external shocks like droughts or currency fluctuations.

Life-changing events such as divorce, serious illness, or the death of a family member often lead to financial difficulties. Bank of France (2016), found that nearly 41% of individuals facing over-indebtedness attributed their financial distress primarily to unexpected life events. In Uzbekistan, where extended family structures play a vital role, financial obligations linked to cultural ceremonies (e.g., weddings or funerals) can exacerbate debt. Mrowczynski (2024) highlights legal evolution in Poland aimed at improving equality before the law in debt relief, offering a framework for addressing these challenges.

A lack of financial literacy often results in unsustainable borrowing practices. Over-reliance on payday loans and credit cards is common in regions with limited access to regulated credit systems. In Uzbekistan, informal borrowing practices dominate rural areas, creating unregulated debt cycles.

Educational initiatives have proven effective in preventing over-indebtedness. Sweden and Finland integrate financial management into school curricula, promoting long-term financial discipline. In Uzbekistan, the Ministry of Finance collaborates with NGOs to enhance public awareness of budgeting and savings through workshops and digital campaigns. Korol (2024) suggests integrating behavioral economics into financial education to better equip individuals for managing credit risks.

Debt counseling provides individuals with tools to restructure their financial obligations before reaching insolvency. The UK's Individual Voluntary Arrangement (IVA) allows debtors to work with licensed insolvency practitioners to negotiate settlements with creditors. Uzbekistan's insolvency law includes mediation, where individuals can reach settlements outside court processes, reducing the stigma and complexity of formal bankruptcy. The success of France's Over-Indebtedness Commissions, as highlighted by Kilborn (2010), demonstrates the effectiveness of mediation and negotiation in reducing bankruptcy filings.

Robust welfare systems protect individuals from insolvency risks by covering essential expenses during financial downturns. The Nordic model provides universal healthcare, unemployment benefits, and subsidized housing, ensuring fewer households fall into insolvency due to unexpected expenses. Uzbekistan is gradually implementing targeted social assistance programs, such as microloans for rural entrepreneurs, which aim to bolster economic resilience.

Regulated lending practices reduce the risks of predatory loans. The Financial Conduct Authority (FCA) in the UK enforces strict caps on payday loan interest rates, protecting borrowers from exorbitant fees. Price caps offer several benefits. According to Ramsay (2010), they address consumers' behavioral errors in underestimating the risks associated with high-cost loans, reduce the complexity and expense of proving usury, and mitigate market competition failures that result in inflated prices. Additionally, price caps help prevent external costs, such as state intervention to support over-indebted individuals, and strive to promote fair pricing. Uzbekistan's banking sector is also moving toward better regulation by encouraging responsible credit issuance and improving transparency in loan agreements.

Uzbekistan's insolvency framework represents a significant legal milestone. It introduces

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provisions for individuals to declare insolvency when debts exceed 200 basic units (approximately $4,800). Economic courts oversee cases, appointing trustees to ensure fair asset liquidation and creditor repayments. The law emphasizes rehabilitation, allowing debtors to restructure their finances while protecting essential assets from liquidation. According to André and Demmou (2022), reducing administrative delays and optimizing creditor-debtor dynamics within insolvency frameworks are essential for fostering economic resilience and supporting recovery. Their research underscores the importance of efficient systems in minimizing financial distress and maintaining market stability.

The UNCITRAL Legislative Guide outlines key principles for modern insolvency laws. Simplified court processes for low-value insolvencies, mechanisms to detect and mitigate fraudulent financial activities, and cross-border insolvency cooperation are all emphasized. Korol (2024) stresses the integration of simplified mechanisms for vulnerable debtors, aligning with UNCITRAL's recommendations. Drawing on Heuer et al. (2014), Uzbekistan could enhance its framework by adopting best practices from countries with effective consumer insolvency systems, such as simplified procedures for low-income debtors and stronger safeguards for essential assets. Although still in its early stages, Uzbekistan's reforms are expected to enhance financial transparency in court-monitored insolvency processes and reduce informal debt reliance by providing legal pathways for debt resolution. Wang and Ward (2023) highlight the importance of safeguarding essential household assets within insolvency frameworks to maintain economic stability and individual resilience during financial crises.

Conclusion

Preventing personal insolvency requires a multifaceted strategy that integrates financial education, regulatory oversight, and robust legal systems. Uzbekistan's reforms align with international best practices, offering a framework that balances individual protections with economic stability. Comparative analysis shows that countries with proactive measures, such as predictive analytics and simplified mechanisms (UNCITRAL standards), reduce the long-term socio-economic impacts of insolvency, paving the way for sustainable economic growth.

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