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Research paper

Role of Microfinance in Improving The State Policy of Social Protection of The Population

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Abstract

The study aims to provide an in-depth analysis of the impact of microfinance on improving the effectiveness of state social protection policy mechanisms. The research methodology is based on a combination of qualitative and quantitative approaches, which provides a more complete picture of the state of microfinance institutions in Kazakhstan, Armenia, and Kyrgyzstan. The study analysed data on microfinance institutions and examined successful practices and examples of microfinance implementation in these countries. The findings demonstrate that microfinance is effective in promoting small business development and enabling people to overcome financial difficulties, thereby improving their standard of living. The impact of government support and social contracts on the accessibility of microfinance services for vulnerable groups was analysed on the examples of the countries studied. The study determined that in the context of economic instability, government support programmes are becoming substantial in helping these groups, providing necessary financial resources, as well as developing business management skills and improving financial literacy. The study results highlight that microfinance, especially as part of social policy, has significant potential to make a positive difference in people's lives. However, to achieve maximum effectiveness, microfinance institutions need to be carefully regulated and monitored to prevent excessive debt burdens and inefficient use of funds. The study also called for a wider application of the successful practices identified in the analysis and the development of comprehensive approaches to support the micro-finance sector as an important element of the social protection system.

***Keywords**: Economic Sustainability; Financial Resources; Investors; Monitoring; Social Microfinance; Social Policy; Vulnerable Groups.*

1. Introduction

Microfinance refers to the provision of financial services, such as small loans, savings, and insurance, to individuals and small businesses who lack access to conventional banking systems. It primarily targets low-income populations, aiming to promote financial inclusion, economic empowerment, and poverty reduction. Microfinance services are typically offered by microfinance institutions (MFIs), which include non-governmental organizations, credit unions, cooperatives, and specialized banks (Gerasymchuk et al. 2023). These services can be categorized into microcredit, microsavings, microinsurance, and financial education, each addressing distinct needs within vulnerable populations. The primary motivation behind microfinance is to enable economically disadvantaged individuals to engage in income-generating activities, improve household welfare, and increase financial resilience. By offering financial tools tailored to the needs of the poor, microfinance can empower people to start or expand small businesses, manage emergencies, and invest in health, education, or housing. At the same time, microfinance aligns with broader development goals by fostering entrepreneurship, reducing dependency on state aid, and encouraging self-sufficiency (Mukhammedov et al. 2024).

Despite its potential, microfinance is not without limitations. While it offers crucial financial access, it can also lead to over-indebtedness if not properly regulated. Some recipients may use loans for consumption rather than productive purposes, undermining long-term benefits. Furthermore, high interest rates, weak institutional oversight, and insufficient financial literacy can diminish the effectiveness of microfinance interventions. These issues highlight the need for an integrated and carefully monitored approach that combines financial services with education and support systems. In the context of social protection policy, microfinance can serve as a valuable instrument for supporting low-income and vulnerable groups (Baranova et al. 2025). It can complement traditional welfare programs by promoting sustainable livelihoods and reducing reliance on state transfers. However, for microfinance to contribute meaningfully to public policy objectives, it must be embedded within a broader strategy of inclusive economic development, supported by clear regulations, targeted government programs, and ongoing assessment of outcomes. This study explores the role of microfinance in improving state mechanisms of social protection, focusing on the cases of Kazakhstan, Armenia, and Kyrgyzstan.

In Kazakhstan, Armenia, and Kyrgyzstan, over-indebtedness and multiple borrowing are growing concerns in the microfinance sector. To address this, governments and regulators have introduced credit bureaus that allow microfinance institutions to check clients' credit histories before issuing new loans. Some institutions apply stricter lending criteria and cap loan amounts based on income. Financial literacy programs are also used to help clients understand the risks of taking multiple loans. In Armenia and Kazakhstan, regulatory authorities have introduced limits on the total debt-to-income ratio. These measures aim to reduce default rates and ensure responsible lending practices.

The results of studies by various authors confirm the importance of microfinance in strengthening social protection and reveal its diverse aspects. Ezeanyeji et al. (2020) emphasised that microfinance not only helps to reduce poverty but also stimulates economic activity among the poor. In continuation of this idea, Milana & Ashta (2020) investigated the expansion of financial inclusion through microfinance. Their research showed that access to financial services improves the economic situation of disadvantaged groups. García-Pérez et al. (2020) addressed the importance of government support for the sustainability of microfinance institutions. They argued that without explicit public intervention, microfinance may not achieve its goals of supporting those most in need, reducing its potential as a tool for poverty alleviation. Analysing rural regions, Atahau et al. (2020) noted that microfinance in these areas is particularly important as it can contribute to the development of the agricultural sector and job creation. Abebe & Kegne (2023) examined the role of microfinance from a gender perspective, showing that women-focused programmes help improve women's economic independence. However, in their view, for a sustainable effect, more active protection of borrowers' rights is required to prevent possible abuse.

In turn, Murzaibraim et al. (2024) studied the impact of microfinance in times of economic instability, emphasising its important role in mitigating the effects of crises. They argued that while microfinance can be an effective tool in such periods, without comprehensive government support, its impact remains limited. N. Zainal et al. (2021) highlighted regulatory issues, showing that weak legislation can increase risks for microfinance clients. In their view, effective regulation is necessary to maintain trust in the microfinance sector and ensure its stable operation. Bakar et al. (2020) demonstrated the importance of microfinance institutions' interaction with other social protection institutions, pointing out that the coordination of efforts of various government agencies can increase the effectiveness of these programmes and their integration into overall social support strategies. Bala et al. (2020) revealed the importance of microfinance for young people. They concluded that such programmes can be an important factor in building entrepreneurship and financial literacy skills among young people. Soni & Sharma (2020) emphasised the long-term prospects of microfinance. They argued that sustainable socio-economic development through microfinance is only possible with a comprehensive approach.

The research of these authors shows that microfinance can be effective in social protection, but it requires not only affordable financial resources but also balanced government measures to protect the rights and support the development of borrowers. In the studies conducted, many authors have paid attention to various aspects of microfinance, but several topics remain insufficiently explored. In particular, the Long-term effects of microfinance programmes on the economic sustainability of recipients, especially in times of instability and crises, remain understudied. There is also a lack of in-depth analysis of the interaction of microfinance with other social protection institutions in the context of public policy. In addition, the regulation of microfinance organisations to protect borrowers from debt burden requires a more detailed study, especially in the context of the growing popularity of microcredit.

This study aims to analyse the impact of microfinance on improving the effectiveness of state social protection mechanisms in Kazakhstan, Armenia, and Kyrgyzstan. The objectives include examining successful microfinance practices, analysing the role of government support, and assessing the long-term impact of microfinance programs on vulnerable populations. These countries also represent diverse approaches to microfinance regulation and implementation, allowing for comparative analysis. The study uses documents up to 2023 because they reflect the most complete and verified data available at the time of research. Sources were chosen based on their relevance, official status, and ability to provide insight into national policies, programs, and outcomes in microfinance and social protection.

2. Materials and Methods

The methodological basis of the study includes the collection and analysis of data on MFIs in these countries (Current State of the... 2024, Central Bank of the Republic of Armenia 2024, Main Directions of... 2023). Data was collected on the number of MFIs, their assets, net profit, equity, and the specifics of their activities aimed at supporting small and medium-sized businesses, helping vulnerable populations, and ensuring access to financial resources.

Quantitative data were obtained from national and international databases, including central banks, which identified the dynamics of changes in the microeconomy of each country. In Kazakhstan, special attention was paid to the analysis of the Business Roadmap 2025 programme (Department of Entrepreneurship... 2021) and the Damu Fund and their impact on the development of the microfinance sector. In Armenia, the "Infrastructure and Rural Finance Support Programme" (Project Infrastructure and Rural..., 2014) aimed at assisting farmers was studied. In Kyrgyzstan, attention is focused on the microcredit programme through Aiyl Bank (OJSC Aiyl Bank... 2020) and its contribution to the development of agriculture and women's entrepreneurship, Youth Business Kyrgyzstan (2024), Programme for the Support and Development of Women's Entrepreneurship in the Kyrgyz Republic for 2022-2026 (2021) were studied.

The qualitative approach in the study was based on the study of examples of microfinance projects and social initiatives implemented in these countries. The study analysed the peculiarities of the implementation of social contracts, which involve the active participation of the state in supporting the population through educational and advisory programmes aimed at improving financial literacy and developing entrepreneurial skills. This analysis determined how government policy in the field of microfinance contributes to improving living conditions and reducing poverty.

The methods of comparative research and document analysis were used for the qualitative analysis. The study was based on the theoretical foundations of microfinance and social microfinance proposed by leading global scholars, including the concepts of Muhammad Yunus. The historical aspect of microfinance development was also considered to determine how the ideas were adapted in different countries and how they contributed to the development of the sector.

A key element of the research methodology was the consideration of the role of the state in ensuring the sustainability of microfinance programmes. An analysis of the legislation regulating the activities of MFIs in Kazakhstan – Law of the Kazakhstan Republic No. 56-V "On Microfinance Activities" (2012), Armenia – Law of the Armenian Republic "On Credit Organisations" (2002) and Kyrgyzstan – Law of the Kyrgyz Republic No. 124 "On Microfinance Organisations in the Kyrgyz Republic" (2002) identified important aspects of government support, including interest rate subsidies, grants for start-ups and the integration of microfinance programmes with other social support

measures. To this end, the study examined government programmes and their impact on the availability of financial resources to vulnerable groups.
Overall, the study was based on a comprehensive approach that included an analysis of the interaction of various factors: economic, social, and political. The use of a mixed methodology demonstrated the role of microfinance in improving social protection and developing effective government support measures.

3. Results

Microfinance originated as a response to the need to provide financial services to those on the margins of the economic system. Its main mission is to provide access to credit, savings, and insurance for the poor and socially vulnerable who are unable to use traditional banking products. The idea of microfinance is based on the principle that even small financial injections can make a significant difference in people's lives by increasing their economic resilience and promoting small business development (Cai et al. 2023).
The history of microfinance dates to the 1970s, when Professor Muhammad Yunus of Bangladesh first proposed the concept of making small loans to poor people. Yunus founded Grameen Bank in 1983 to provide access to finance for those who had no guarantees or collateral. The idea was revolutionary: the bank was not to operate for profit but to improve the lives of its clients. The main goal was not to maximise profits but to create the conditions for people to get out of poverty by developing small farms and entrepreneurship. In 2006, Yunus and the bank were awarded the Nobel Peace Prize for the fight against poverty (Zainuddin & Yasin, 2020).
Since then, microfinance has spread around the world, adapting to different cultural and economic contexts. In Latin America, microfinance institutions have helped millions of people start businesses in rural and urban areas. In Africa, microfinance has become a tool for improving the lives of farmers by providing them with the means to buy equipment and seeds, which increases yields and reduces dependence on weather conditions. In Asia, microcredit has become widespread as a way to support small entrepreneurs and fight poverty.
Over the past decades, microfinance programmes have also faced challenges. Some of them are related to the fact that microfinance institutions (MFIs) have started to move away from their original mission, becoming more commercial and focusing on profit, which has led to higher interest rates and debt problems for borrowers (Dahal & Fiala, 2020). In other cases, microfinance programmes have struggled to be sustainable without sufficient government support.
Nevertheless, despite the challenges, microfinance remains an important tool for overcoming poverty and economic marginalisation. Successful programmes demonstrate that socially oriented finance can transform the lives of millions of people. Countries such as India and Bangladesh demonstrate that microfinance can be a powerful driver of economic growth in vulnerable communities. In more developed countries, microfinance programmes are being adapted to support social entrepreneurs and small businesses, highlighting their versatility and flexibility (Alnaimat et al. 2023; Khan et al. 2025).
Social microfinance, as part of a broader system of microfinance services, has as its main goal the improvement of the lives of socially vulnerable groups (Chaithaweep et al. 2024). Unlike commercial microfinance programmes, its main objective is not so much to make a profit as to address acute social problems: poverty, unemployment, social exclusion, and limited access to financial resources. Social microfinance is aimed at helping those below the poverty line, including low-income families, the unemployed, people with disabilities, orphans, and other vulnerable groups (Beisland et al. 2021). It is based on the desire to provide these groups with access to financial instruments that will help them improve their economic situation and raise their living standards.
The goals of social microfinance often reach beyond short-term financial needs. It aims to bring about long-term social change by supporting sustainable development and economic self-sufficiency (Karkalakos 2024). One of the key goals is to create conditions for people to earn a living on their own, to develop their small businesses or farms. This helps not only to improve the financial situation of borrowers but also to increase their social significance and role in the community. Access to microloans makes it possible to improve housing conditions, invest in children's education, obtain medical services, and build a basis for further economic growth (Karimli et al. 2024; Pētersone et al. 2020).
The content of social microfinance is complex and diverse. It includes not only microloans, but also services such as microinsurance, savings programmes, and educational initiatives aimed at improving financial literacy and entrepreneurial skills. Unlike traditional financial institutions, social microfinance organisations often provide support to borrowers in the form of training and counselling (Lam et al., 2020). This helps to minimise the risks associated with inefficient use of credit funds and ensures more sustainable development of small businesses and self-employment. Another feature of social microfinance is its flexibility in approaching borrowers. Unlike banks, which impose strict requirements for credit history, collateral, and income, social MFIs often use methods of collective responsibility or community guarantees. This reduces barriers to obtaining loans and makes microfinance accessible to those who cannot provide traditional guarantees.
Social microfinance is central to protecting the rights of borrowers. Governments and international organisations are developing regulatory mechanisms to prevent abuse and reduce debt burden risks (Toktosunova et al. 2024). Given the social mission of these programmes, it is necessary to ensure that interest rates remain affordable and do not lead to debt dependency, and that support programmes help people use the funds effectively.
An important aspect of social microfinance is its focus on social contracts (Sych et al. 2024). This is an agreement between the state and a citizen that provides not only loans, but also conditions for their effective use with long-term social results. Under such a contract, the state supports borrowers through training, business support, and follow-up, which increases the chances of successful use of funds and exit from poverty.
One of the main functions of the state is to create a regulatory framework that supports and protects the interests of both borrowers and MFIs (Angjeli et al. 2025). Proper regulation helps to avoid problems such as excessive interest rates, unfair practices, and debt bondage. Social justice-oriented states are developing standards for microfinance institutions to prevent excessive risks for borrowers and ensure transparency of their operations (Nayak & da Silva, 2019). An example of such efforts is the limitation of maximum interest rates on microloans in different countries, which makes microfinance services accessible to the poor without creating excessive debt burdens.
Another important aspect is the government's coordination of microfinance programmes with other social support measures. Many vulnerable groups, such as the unemployed, low-income families, and people with disabilities, need comprehensive support (Okutayeva et al. 2025; Frączkiewicz-Wronka et al. 2019). The government can integrate microfinance programmes with other social services, such as employment programmes, medical care, or housing subsidies, creating a more holistic and effective support system for those in need. This approach helps increase the effectiveness of microfinance and contributes to the long-term economic stability of borrowers.
The role of the state is particularly important in times of economic instability and crisis (Kuzmin et al. 2014). In times of economic downturns or natural disasters, the state can act as a guarantor of microfinance programmes by supporting their financing and providing additional subsidies. This allows microfinance organisations to continue operating even in difficult economic conditions and help people cope

with crises (Green, 2020). For instance, during global crises such as the COVID-19 pandemic, government support helped prevent the collapse of microfinance institutions and provided financial assistance to those particularly affected by the economic turmoil.
Government support programmes for microfinance in countries are an important element of policies aimed at fighting poverty, supporting small and medium-sized enterprises, and increasing financial inclusion (Antonenko et al. 2019; Mishchenko et al. 2016). In Kazakhstan, government support for microfinance is actively developing and is aimed at increasing the availability of financial services for small and medium-sized businesses and low-income households. The main instrument of state support is the Business Roadmap 2025 Programme (Department of Entrepreneurship... 2021), which was developed to stimulate economic growth and job creation. This programme provides subsidies for microloan interest rates, which allows small and medium-sized enterprises to obtain financing on more favourable terms. The Damu Foundation, established to support entrepreneurship, plays an important role in the development of the microfinance sector. It offers various programmes aimed at financing and training microfinance organisations, as well as supporting start-ups and small businesses. The Damoux Foundation also provides loan guarantees, which reduce the risks for microfinance institutions and help them expand their loan portfolio.
An important aspect of the government's microfinance policy is the development of financial literacy among the population. The government conducts training seminars and programmes for potential borrowers, improving awareness of financial products and using borrowed funds effectively. Kazakhstan is also seeking to improve the regulatory environment for MFIs to ensure that borrowers' rights are protected and to prevent unfair practices in the sector. Figure 1 shows the main indicators of the microfinance sector in the country.

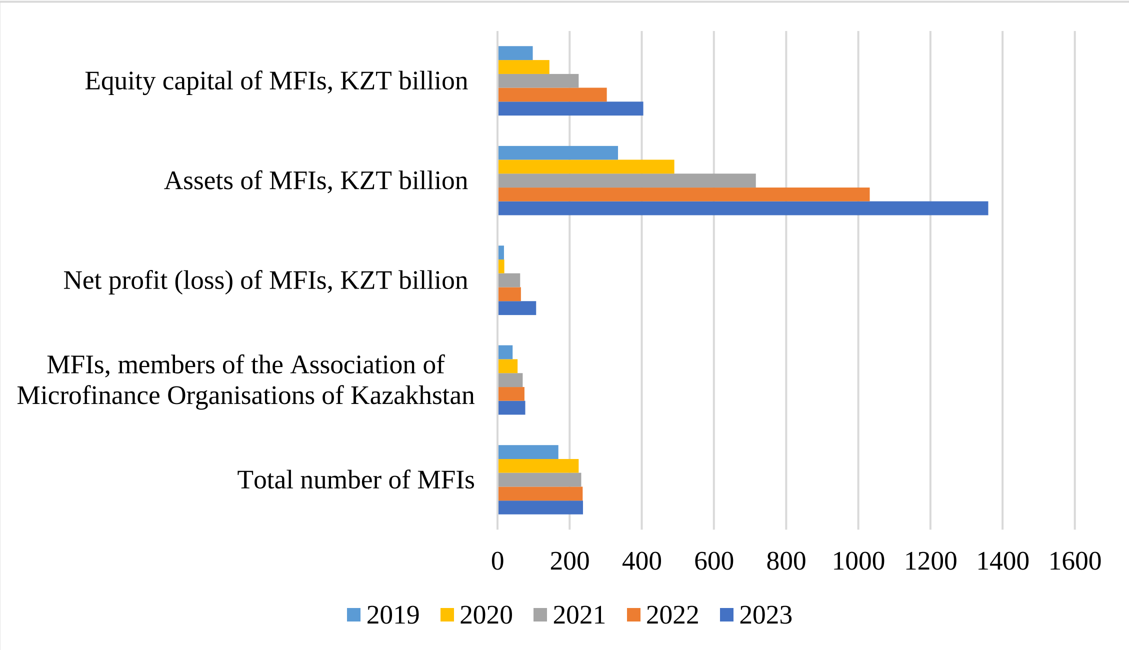

Fig. 1: Key indicators of the microfinance sector in Kazakhstan for 2019-2023

Source: compiled by the authors based on Current State of the Microfinance Sector in Kazakhstan: 149 Organisations are Operating (2024).

All key indicators demonstrate the dynamic growth of the microfinance sector in Kazakhstan. This indicates a strengthening of the role of microfinance institutions in the country's economy and growing confidence in them on the part of businesses and the population. Despite the successful initiatives, the microfinance sector in Kazakhstan faces challenges, such as competition from traditional banks and the need to increase financial inclusion in remote areas.
In Armenia, government support for microfinance aims to support vulnerable and developing small businesses. One of the key initiatives is the Infrastructure and Rural Finance Support Programme (OJSC Aiyl Bank Continues... 2020), which provides microloans to small farmers and entrepreneurs in rural areas. This programme is implemented via cooperation with local microfinance organisations for developing the agricultural sector and improving living conditions in the regions.
The Armenian government is also introducing government grants and subsidies to support start-ups and micro businesses. These grants can be used alongside microloans, enabling start-up entrepreneurs to significantly reduce financial risks and ensure the launch of the business. Business support programmes include both financial instruments and training initiatives that help borrowers develop management and business skills.
In addition, Armenia is improving financial literacy. The government and microfinance organisations conduct educational activities aimed at teaching citizens the basics of financial planning and debt management. This is relevant for those new to lending and need to learn how to use borrowed funds to achieve their goals. Table 1 shows the main indicators of the microfinance sector.

Table 1: Key indicators of the microfinance sector in Armenia for 2019-2023

-	2019	2020	2021	2022	2023
Total number of MFIs	32	37	37	38	42
Net profit (loss) of MFIs, AMD billion	50	89	114	108	120
Assets of MFIs, AMD billion	711	650	676	652	719
Equity capital of MFIs, AMD billion	327	357	376	365	382

Source: compiled by the authors based on Central Bank of the Republic of Armenia (2024).

The total number of microfinance organisations has increased, indicating a steady increase in interest in microfinance and the expansion of the sector. At the same time, despite slight fluctuations, the net profit of MFIs showed positive dynamics, indicating an improvement in the financial performance and profitability of organisations. At the same time, assets fluctuated slightly, which may indicate the impact of economic factors and changes in the financial market. Equity has also been gradually increasing, which underscores the strengthening of the financial stability of microfinance institutions. Overall, the indicators reflect positive developments and the growing potential of the microfinance sector in Armenia.

In Kyrgyzstan, microfinance is a substantial aspect of government policy aimed at developing small and medium-sized businesses, fighting poverty, and increasing access to financial services for vulnerable groups. Government programmes to support microfinance substantially improve socio-economic conditions, especially in rural areas where access to traditional banking services is limited (Kozak 2022).

One of the significant programmes is the micro-credit initiative through OJSC Aiyl Bank (OJSC Aiyl Bank... 2020), which actively supports enterprises by providing them with loans for business development (annual Agricultural Financing Programmes (AFP), a Programme to support small and medium-sized enterprises (SMEs) during the recovery period after the COVID-19 pandemic through interest-free financing, etc.).

The COVID-19 pandemic had a profound impact on the microfinance sector across Kazakhstan, Armenia, and Kyrgyzstan. During the initial months of the crisis, lockdowns and economic restrictions significantly reduced the income-generating capacity of microfinance clients, leading to an increase in loan defaults and a decline in repayment discipline. Microfinance institutions faced liquidity challenges due to a combination of deferred payments, increased demand for emergency loans, and heightened operational risks. In response, governments in all three countries introduced various support measures to stabilize the sector. In Kyrgyzstan, programs such as interest-free loans for SMEs and extended grace periods for repayments were implemented through institutions like OJSC Aiyl Bank. In Kazakhstan, the government launched a credit guarantee mechanism and subsidized interest rates for loans issued to small businesses affected by the pandemic. Armenia's Central Bank provided regulatory relief to microfinance institutions, allowing them to restructure loans and temporarily ease credit conditions. These measures collectively aimed to maintain access to finance for vulnerable groups and prevent long-term damage to the microfinance infrastructure. The crisis also accelerated digital transformation, prompting many MFIs to expand mobile banking services and adopt remote lending practices, which improved accessibility but also highlighted the need for enhanced digital literacy among clients.

The programme offers favourable lending terms targeted at small and medium-sized enterprises, which contribute to the development of economic sectors. By providing microloans with relatively low interest rates, entrepreneurs can expand operations, improve production processes, and create new jobs.

Supporting women through the Women's Entrepreneurship Development Programme (Youth Business Kyrgyzstan 2024) is also emphasised. This project, implemented jointly with international organisations, provides women, especially in rural areas, with access to concessional microloans for business development. The programme aims not only to support women's economic activity but also to reduce the gender gap in access to finance. Thanks to this initiative, thousands of women have been able to start their businesses, improving the economic situation of their families and local communities.

Youth is also an important target group under the government's microfinance policy. The Programme for the Support and Development of Women's Entrepreneurship in the Kyrgyz Republic for 2022-2026 (2021) aims to support young people willing to develop their business ideas but who face difficulties in obtaining credit. The programme offers preferential financing terms for young people aged 18 to 35 to help them start their businesses and create new jobs. In 2023, more than 1,500 young entrepreneurs received financial support, which helped reduce youth unemployment and stimulated the development of small businesses in various sectors of the economy.

The microfinance sector of the Kyrgyz Republic is represented by microfinance organisations in the form of microfinance companies, microcredit companies, microcredit agencies, and credit unions. Table 2 presents the main indicators of the microfinance sector in the country.

Table 2: Key indicators of the microfinance sector in Kyrgyzstan for 2019-2023

KGS million	2019	2020	2021	2022	2023
Assets					
Microfinance organisations	25,131.7	27,097.6	31,630.6	35,497.4	44,956.6
Credit unions	1,267.6	1,262.2	1,244.6	1,311.7	1,304.4
Commitments					
Microfinance organisations	11,630.8	11,928.3	14,177.9	16,163.5	21,930.7
Credit unions	415.0	373.8	355.1	336.4	345.8
Share capital					
Microfinance organisations	4,779.9	4,727.6	4,856.9	5,147.3	6,895.4
Credit unions	156.3	166.2	153.8	187.1	147.4
Retained earnings					
Microfinance organisations	7,685.9	9,543.7	11,660.8	13,020.3	14,865.7
Credit unions	64.2	37.1	18.8	54.3	34.1

Source: compiled by the authors.

The net profit of microfinance organisations showed steady growth throughout the period. This indicates improved financial performance and increased efficiency of MFIs. The sector gradually increased its profitability, which indicates its stability and attractiveness to investors. Assets of microfinance organisations also showed steady growth. This translates into more lending opportunities as well as more services provided. Growing assets allow MFIs to reach more clients and offer them a variety of products and solutions (Kamchybekov & Sansyzbayeva, 2022). Microfinance institutions' equity capital has also increased steadily, indicating that their financial position has strengthened. This contributes to the sector's greater resilience and readiness to cope with economic challenges, supporting further growth and development.

Government programmes for the protection of vulnerable groups, such as social assistance, employment, and education programmes, are key to creating a comprehensive support system aimed at improving the quality of life of the neediest segments of society (Sydorchuk & Sydorchuk, 2024). These programmes are often integrated with microfinance, providing target groups with access to small loans that enable them to start or develop their businesses, increase financial independence, and escape poverty. Microfinance, in turn, becomes instrumental to government initiatives, as it not only promotes economic activity but also complements social protection measures by offering vulnerable groups additional opportunities for self-development and integration into the economy (Aliyev 2014; Boiko et al. 2025). Thus, the relationship between government programmes and microfinance provides a synergistic effect that enhances the effectiveness of social interventions and contributes to the sustainable development of society.

A social contract is one of the key instruments of social policy aimed at overcoming poverty and reducing unemployment. It is an agreement between the state and a citizen under which the state provides financial support or other resources in exchange for fulfillment of specific obligations by the citizen. Such contracts can improve the financial situation of vulnerable people, encourage them to become self-employed, and facilitate their integration into the economic system (Besle 2020).

World practice offers many examples of successful implementation of the social contract as an instrument of poverty alleviation. One of the countries where this mechanism is actively used is Kyrgyzstan. State programmes to support social microfinance in the country, such as the Social Contract programme, are aimed at overcoming poverty in the Kyrgyz Republic and are aimed at assisting low-income families, pensioners, and the disabled (Resolution of the Cabinet of… 2022).

The “Enbek” programme in Kazakhstan, for example, includes measures to train unemployed people in entrepreneurship and help them obtain soft loans for start-ups. The social contract is not only a support method but also a mechanism for creating new jobs and increasing household incomes.

A social contract is effective as it covers more than short-term financial assistance to create conditions for long-term improvements. Social contract-based programmes focus on teaching people to be self-reliant and giving them the tools to create a sustainable source of income. This significantly reduces the risk of falling back into poverty and improves the socio-economic situation in the country.

The prospects for social microfinance are directly related to the availability and sufficiency of financial resources required for the successful development of the sector. With limited public and private funds, the key factor is the search for stable and long-term sources of funding. For many countries, especially developing ones, international organisations, donor funds, and private investors play an important role in supporting microfinance programmes. The involvement of international financial institutions, such as the World Bank and the International Monetary Fund, can provide access to more resources needed to expand microcredit opportunities (Remer and Kattilakoski 2021). Importantly, these funds are not only directed to short-term needs but also to infrastructure development, training, and support for entrepreneurs, which will ensure the sustainability of the sector in the long term.

Improving government support for social microfinance in Kyrgyzstan requires a comprehensive approach that encompasses several key elements. Firstly, a defined government strategy and regulatory framework that integrates social microfinance into the national social policy should be developed. This strategy should define target groups – low-income, unemployed, disabled, and other vulnerable groups – and establish legal norms to regulate the activities of microfinance institutions. An important aspect is the introduction of standards for MFIs in the areas of transparency, accountability, and social responsibility, which will create conditions for the long-term development of the sector and for monitoring the effectiveness of programmes.

Financial support is central to the successful implementation of microfinance in Kyrgyzstan. The government should ensure access to favourable microcredit for target groups through interest rate subsidies or the creation of risk compensation funds. It is also important to develop grant support for start-up entrepreneurs, especially in rural areas, and to create social investment funds to finance projects with high social impact. These measures will help increase access to financial resources and support economic activity among socially vulnerable groups.

Infrastructure support and training programmes are also important components of the improvement model. In addition to providing financial resources, the government should develop training and counselling programmes to enable entrepreneurs to use the resources effectively. Establishing regional business support centres will help provide legal, accounting, and marketing assistance, which will minimise risks and increase the success of start-ups (Kalambet et al. 2016). It is also necessary to develop digital infrastructure by creating online platforms for applying for microloans and receiving advice, as well as developing mobile payment systems, which will significantly improve the accessibility of microfinance services, especially in rural and remote areas.

Cultural factors play an important role in shaping the perception and use of microfinance services in Kazakhstan, Armenia, and Kyrgyzstan. In many communities, there is a strong reliance on informal borrowing from family or friends, which may reduce trust in formal financial institutions. Social norms can also discourage women from independently managing finances or starting businesses, limiting the reach of microfinance programs aimed at female empowerment. In rural areas, limited financial literacy and skepticism toward digital tools further hinder adoption. These cultural attitudes influence how people assess risk, value debt, and interact with lenders, making it essential for microfinance institutions to adapt their strategies to local contexts and promote trust-building and financial education.

In recent years, the microfinance sectors of Kazakhstan, Armenia, and Kyrgyzstan have increasingly adopted digital solutions to expand financial inclusion and improve service delivery. In Kazakhstan, several microfinance institutions have developed mobile applications that allow clients to apply for loans, make repayments, and access financial information remotely. The use of biometric identification and e-wallets has also grown, particularly in rural areas where physical banking infrastructure is limited (Kredina et al. 2022; Mishchenko et al. 2025). Armenia has promoted the development of digital platforms for micro-lending, supported by government-backed fintech initiatives that encourage interoperability between microfinance institutions and commercial banks. Many Armenian MFIs now offer fully online loan application processes, credit scoring algorithms based on alternative data, and real-time customer support via chatbots. In Kyrgyzstan, mobile money services such as Elsom and Mbank have facilitated faster loan disbursement and repayment, especially among the unbanked population. Digital kiosks and agent banking systems have been introduced to serve remote communities. Despite these innovations, challenges remain in terms of digital literacy, cybersecurity, and the regulatory environment. Nevertheless, the integration of digital technologies has significantly increased the outreach, efficiency, and responsiveness of microfinance services, particularly during periods of crisis such as the COVID-19 pandemic.

A system of monitoring and performance evaluation is needed to ensure the sustainability of programmes. The government should regularly collect data on the results of microfinance programmes and assess their socio-economic impact, allowing for policy adjustments and improved support mechanisms. The involvement of international financial institutions and donors, such as the World Bank or the Asian Development Bank, can empower the sector. International cooperation and the adoption of global best practices can help adapt programmes to local conditions and improve their effectiveness. Figure 2 presents a model for improving government support for social microfinance.

State strategies and regulatory framework
- Target groups
- Legal framework for regulating MFIs
- Mandatory standards for MFIs
- Monitoring mechanisms

Financial support and grant programmes
- Concessional microfinance
- Grant support
- Social investment funds

Infrastructure support and training programmes
- Vocational training and counselling programmes
- Business support centres

Technology and digital support
- Digital microfinance platforms
- Mobile payment systems

Efficiency monitoring and evaluation
- Data collection and analysis
- Impact assessment

International co-operation and investment attraction
- Cooperation with international financial institutions
- International exchange of experience

Fig. 2: A model for improving state support for social microfinance in Kyrgyzstan

Source: compiled by the authors.

A model for improving government support for social microfinance should include strategic planning, financial and infrastructure support, digital technology development, and a monitoring system. Such a comprehensive approach will create sustainable conditions for the growth of the microfinance sector, which in turn will help reduce poverty, increase employment, and improve the socio-economic situation of vulnerable groups.

4. Discussion

The results of the study emphasise the importance of microfinance to improve the financial situation of vulnerable groups. Microfinance undeniably provides access to finance for those who have traditionally been excluded from the banking system. However, an analysis of the historical context of microfinance shows that its development is fraught with challenges that need to be addressed to improve its effectiveness. Dzingirai & Baporikar (2023) emphasised the positive impact of microfinance on entrepreneurs in their study. The authors argued that access to microfinance services promotes entrepreneurship and helps to reduce gender inequality. While the results of the current study also indicate the importance of microfinance for vulnerable groups, the focus was more on the overall improvement in the financial situation of the poor rather than on gender. Thus, the results of the authors and the current study overlap in the context of improving living standards through microfinance but differ in focus.

One of the significant aspects identified by the research is the transformation of microfinance organisations from a social to a commercial focus. This transformation, while leading to an increase in the number of loans provided, posed questions on the long-term sustainability and social responsibility of these organisations. The shift to high interest rates may undermine the core mission of microfinance – poverty alleviation. MFIs, therefore, need to strike a balance between making profits and fulfilling their social role. Kasoga & Tegambwage (2021) argued that microfinance organisations do more to increase the debt burden among the poor than to improve their financial stability. According to their view, high interest rates often lead borrowers into debt traps, which defeats the purpose of microfinance. Kumari & Kumari (2024), on the other hand, investigated the dynamics of microloan repayment and found that high default rates are directly related to a lack of regular monitoring of borrowers and poor risk management by microfinance institutions. The current findings recognise these problems but emphasise the importance of regulation and government support to prevent this situation. Thus, the studies concur in recognising the risks of high interest rates, but the current results are more optimistic about the potential of microfinance if properly regulated.

The study highlights the need for government support and regulation of microfinance. Programmes such as Business Roadmap 2025 (Department of Entrepreneurship... 2021) demonstrate how government initiatives can improve access to microfinance. However, there is a need to integrate these programmes more actively with other social initiatives. The interaction of different programmes can create synergies and improve the effectiveness of microfinance, ensuring its long-term sustainability. Chikwira et al (2022) emphasised that microfinance cannot address the problem of poverty without the support of the government and other institutions. The study highlighted that only when combined with other social interventions, such as subsidies and infrastructure programmes, can microfinance have a lasting effect. The current results also confirm the need for an integrated approach, which makes the author's conclusions close to the current findings.

Financial literacy education programmes are also central to the successful implementation of microfinance initiatives. The survey results indicate that many borrowers do not have sufficient knowledge of financial products and the consequences of their use. Improving financial literacy can significantly reduce the risks associated with borrowing money and increase the financial stability of clients. Education is an important tool that can change attitudes towards finance and improve lending decisions. S.T. Baidoo et al. (2020) addressed the impact of microfinance on borrowers' financial literacy. The study argued that microfinance programmes that include educational components significantly improve borrowers' financial behaviour, in particular, their ability to plan a budget, manage debt, and make informed financial decisions. Kuchena & Makoni (2023), in turn, noted that such programmes not only improve financial literacy but also reduce the risk of default, as more informed borrowers have a better understanding of their obligations and options. These findings are consistent with the current study's conclusions about the importance of financial education, although the authors give this aspect a higher priority than in the current study. It is possible to argue that education programmes should be an integral part of microfinance.

However, even with support and education, microfinance is not a universal solution to all problems of poverty. The results of the study highlight the need for an integrated approach to social issues. For instance, it is important to consider microfinance in the context of other social interventions such as job creation, infrastructure development, and access to educational services. These factors are interrelated and require a harmonised approach to achieve sustainable results. Ferdous et al (2020) investigated the long-term impact of microfinance on social mobility. They concluded that in regions with low economic development, microfinance has a limited impact on improving the social status of borrowers. A study by E. Ofori and K. Kashiwagi (2022), in addition, stressed the need for job creation and infrastructure improvement for microfinance programmes to be effective. The current study also mentions the importance of additional measures such as job creation, but places more emphasis on the role of microfinance institutions as a tool for solving financial problems than on infrastructure constraints. Overall, the authors' results and the current study overlap partially, as their findings are more sceptical about the role of microfinance in underdeveloped regions.

Tahmasebi & Askaribezayeh (2021) investigated the impact of microfinance on social cohesion in rural communities. They argued that microfinance programmes contribute to the strengthening of social capital, as they often create conditions for group responsibility among borrowers. The current findings only indirectly address social cohesion through the improved economic status of borrowers, but do not address the aspect of social networking or group responsibility. Thus, the authors' findings complement the current study. In addition, there is a need for more thorough monitoring and evaluation of the effectiveness of microfinance programmes. The study showed that the results can vary considerably from region to region. This suggests that universal solutions are not appropriate for all situations. Instead, programmes need to be tailored to the specific needs and conditions of each region.

Benami & Carter (2021) studied the role of digital technologies in improving access to microfinance services. In their opinion, the introduction of digital platforms and mobile applications significantly reduces transaction costs and increases access to microcredit in remote areas. The current study did not address the topic of digitalisation, although it is possible to note that such technologies can contribute to increasing the accessibility of services. The results of the authors' and the current study complement each other: the work shows the potential of technological innovation, while this study focuses on the social and institutional side of microfinance.

In general, the research findings confirm that microfinance is substantial in improving people's lives, but its effectiveness depends on many factors, including government policy, financial literacy, and integration with other social programmes. Despite the differences in emphasis, it is possible to agree on the key points made by all the authors. These studies, together with the results of the current study, create a holistic picture where microfinance is an important but multifaceted tool for fighting poverty and improving the well-being of different population groups.

5. Conclusions

This study confirms that microfinance plays a crucial role in improving access to financial services for vulnerable groups in Kazakhstan, Armenia, and Kyrgyzstan. It supports poverty reduction, small business development, and social integration by offering credit, savings, and insurance to those excluded from traditional banking. Government programs, such as Kazakhstan's Business Roadmap 2025, Armenia's grant support for start-ups, and Kyrgyzstan's Social Contract initiative, demonstrate how public policy can amplify the positive effects of microfinance. Across all three countries, improving financial literacy is vital for ensuring responsible borrowing and efficient use of funds.

However, challenges persist, particularly the risk of over-indebtedness, insufficient regulation, and commercialization of services. To address these, policymakers should strengthen oversight mechanisms, promote transparent interest rate policies, and require MFIs to use national credit registries. Financial literacy campaigns should be scaled, targeting rural and low-income populations with accessible, practical training. Institutions should also be encouraged to develop inclusive digital platforms to broaden outreach.

Practitioners are advised to align microfinance programs with local cultural and economic conditions, integrate social objectives into lending models, and adopt client-protection standards. Researchers should further explore the impact of digitalization on microfinance accessibility and examine long-term effects on social mobility, especially in rural and underserved areas. Future studies may also investigate how climate risks and digital inequalities influence the resilience of microfinance systems. By addressing these areas, microfinance can more effectively contribute to sustainable development and inclusive growth.

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