

PARTNERSHIP BETWEEN BANKS AND MCCS: COMPETITION OR COOPERATION?

Umut Abdylidaeva
Elvira Satylganova¹
Gulmira Baiterekova

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ABSTRACT

This article examines the impact of the partnership between these structures on the financial market, studies key aspects of their cooperation, including the benefits and challenges facing both parties, and substantiates the importance of their interaction for the expansion of financial services and the availability of credit. In the modern financial sector, the interaction of banks and microcredit companies (MCCs) is the subject of active discussions. It was revealed that microcredit companies play an important role in financial inclusion, providing loans to small businesses and low-income individuals who often cannot obtain financing from traditional banks. At the same time, banks, having a more stable resource base and developed infrastructure, can use MCCs as partners in the high-risk lending segment. However, there are unresolved issues related to regulation, the level of competition and the sustainability of such partnerships in the long term. Based on the analysis, it can be concluded that the interaction between banks and microfinance organizations can be both cooperative and competitive in nature, depending on economic conditions, legislation and the strategies of the market participants themselves. This article substantiates that the optimal interaction model involves a balance between cooperation and competition. It also offers recommendations for the formation of an effective partnership model that promotes sustainable development of both structures.



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1. INTRODUCTION

In modern financial systems, the intertwining of interests between traditional banks and microcredit companies (MCCs) is becoming increasingly noticeable. Some see this union as a forced partnership dictated by market demands and customer needs, while others interpret it as a battlefield where established giants compete with young, but flexible and technologically advanced players. But are these organizations really doomed to constant rivalry, or is closer collaboration possible between them?

On the one hand, banks have extensive infrastructure, impressive capital and centuries-old traditions. They know how to manage risks, have a wide range of products

and enjoy the trust of a significant part of the population. On the other hand, microcredit companies, being relatively new market participants, are dynamic, have a higher risk tolerance and the ability to provide services in those segments that the classical banking system considers insufficiently profitable or too risky. It is no coincidence that the emergence of MCCs was accompanied by forecasts of an inevitable conflict with the "big" banks. However, reality points to a more nuanced and multifaceted picture.

A consumer perspective reveals that cooperation between banks and MCCs can significantly expand the population's access to financial services. Many clients, especially in remote regions or with insufficient credit

¹ Corresponding author: Elvira Satylganova
Email: elvirafk8@gmail.com

history, are unable to satisfy banks' requirements for collateral or proof of stable income. In this case, a microcredit organization becomes a kind of "ladder" to larger loans. It assesses the borrower's reliability, offering him small amounts at relatively high interest rates, but at the same time allows him to acquire a reputation as a responsible client and subsequently apply for bank loans on more favorable terms. Banks, in turn, can view MCCs as a filter that preliminarily "weeds out" unreliable borrowers, forming a base of payers with more predictable behavior.

Of course, there are also points of contact that directly affect economic efficiency. For credit institutions, cooperation with microcredit companies can become a source of additional income: banks provide MCCs with credit lines for issuing microloans, participate in joint startup financing programs, or even invest in microfinance products under their own brand. Meanwhile, microcredit companies themselves receive more stable and capacious access to financial resources, which helps them not only maintain turnover, but also reduce the risk of a sudden liquidity deficit (Abdyldaeva et al., 2022).

2. MATERIALS AND METHODS

The presented article is based on the methods of content analysis of scientific and practical publications on the topic of the study, includes methods of economic and statistical analysis regarding the object under consideration.

However, interactions are not always cloudless: in the context of strict regulatory requirements and constant checks by regulators, banks may not be ready to work with small and unverified counterparties, trying to avoid toxic assets. In addition, some representatives of the microfinance sector are accused of dishonest or aggressive methods of debt collection, which generates mistrust on the part of the banking community. The established standards of compliance and internal control often make it difficult to sign long-term agreements - banks are cautious and analyze partners in detail, fearing reputational losses (Krasota et al., 2020).

In addition, the technology factor is great. Today, finance is impossible to imagine without digital services. Banks have serious IT platforms, implement mobile applications for clients, and automate scoring models. Microcredit companies, in turn, are more inclined to experiment: they can test online application forms and masse, use machine learning to assess the borrower's solvency based on indirect signs, offer instant microloans via social networks or messengers. Mutually beneficial cooperation can combine the advantages of both parties: banks will provide reliable settlement systems and access to a wide range of clients, and MCCs will bring flexibility and innovation, quickly testing new methods of servicing borrowers in practice. At the macro level, such a partnership creates a more stable financial environment. Diversification of lending channels, when large

transactions remain under the wing of banks, and small loans are transferred to microcredit institutions, mitigates systemic risks. If a liquidity crisis or economic downturn suddenly occurs, losses will be more evenly distributed, not concentrated in one sector. Regulators in most countries no longer view microcredit institutions as a destabilizing element, increasingly transferring the concept of "financial inclusion" into the legislative field (Murzalieva et al., 2019). This is understood as the desire to provide access to basic financial services to all categories of the population, including low-income citizens and small businesses.

We should not forget about those points where competition inevitably arises between banks and MCCs. It is increasingly difficult for microcredit companies to maintain attractive rates if banks decide to focus on "retail" and launch their own fast lending products (Askarova et al., 2024). Sometimes banks create internal corporate structures reminiscent of a "microfinance wing": this allows them to work with risky segments separately from their main activities, while maintaining resource synergy. For independent microcredit organizations, this state of affairs is a challenge: they are forced to compete not just with bank offers, but in fact with "subsidiary" divisions that have all the potential of a major player.

Meanwhile, the cooperation format can bring additional benefits to the population. Let's imagine a situation where a bank and an MCC launch a joint program for agricultural producers, offering rural residents express loans for the purchase of seeds or fertilizers, but at the same time sharing the risks. The bank provides part of the financing and checks the legal compliance of borrowers with the requirements, and the microcredit company quickly organizes the issuance of funds and supports the project on the ground (Zhuang et al., 2022). As a result, farmers gain access to cheap and prompt loans without the risk of encountering traditional bureaucracy. This format illustrates the collaboration model, where each participant contributes their own expertise and receives their share of the profit, while simultaneously promoting the socio-economic development of remote regions.

Thus, the question "competition or cooperation?" does not have a clear answer. For some areas of activity - for example, when serving high-income clients or working on large-scale investment projects - microcredit companies are unlikely to pose a real threat to large banks. But in the area of urgent, small-value loans, especially when it comes to low-middle or low-income groups, MCCs have long occupied a significant niche and continue to expand their presence, creating a healthy incentive for banks to improve their products and technologies.

On the other hand, it is the cooperation between the banking sector and microfinance organizations that can develop into a full-fledged symbiosis, in which clients will benefit from a rich product line, fast service and transparent conditions, and the financiers themselves - due to penetration into previously inaccessible segments and additional portfolio diversification. There is no doubt

that as fintech continues to develop, regulatory standards change and customer preferences evolve, the balance between competition and collaboration will increasingly shift towards close and mutually beneficial partnerships. Ultimately, a healthy financial market is not just a competition for profit, but also jointly addressing issues related to economic growth and social justice. Banks and microcredit companies that operate in isolation and seek to suppress each other risk missing out on a significant portion of potential clients and development opportunities. On the contrary, partnerships based on an understanding of the strengths and weaknesses of each participant often turn competitors into allies working for the benefit of society and their own benefit. It is in this synergy, at the intersection of innovation and stability, that a new generation of financial environment is born.

3. RESULTS

In recent years, the financial services market has undergone significant changes under the influence of rapid digitalization and a shift in focus to more flexible lending instruments. The question increasingly arises in this environment: what place do microcredit companies (MCCs) occupy in the same row with traditional banks - are they competing for clients or are they turning into allies, mutually complementing each other's strengths?

On the one hand, banks historically have a large customer base, streamlined processes, and significant capital. They are subject to strict regulations and offer a wide range of products, from mortgages and savings deposits to corporate finance. On the other hand, microcredit organizations focus on issuing small loans for a short term. They are often more mobile and are able to work with clients who do not have formal guarantees of solvency.

Statistics confirm the growing importance of the microcredit sector in many developing countries. Thus, according to the Central Bank of Kenya, the volume of microloans issued increased by 27% between 2021 and 2023, with most of the clients being residents of rural areas who previously did not have access to banking services (Upadhyaya et al., 2025).

While in the past decade it seemed that banks and MFIs would inevitably face intense competition, the figures of recent years paint a more complex picture. According to the Reserve Bank of India (RBI) report for 2021-2023, large banks are increasingly collaborating with microfinance institutions, providing them with credit lines and jointly developing small business financing programs (Kundu, 2024).

At the same time, the volume of the microfinance portfolio in India increased by 32% over a three-year period, which is partly due to the expansion of online platforms and simplified borrower scoring mechanisms. Similar trends are observed in Eastern Europe. According to official data from the National Bank of the Republic of Kazakhstan for 2021–2023, the number of registered MCCs in the country increased by 19%, and the total

volume of microloans issued exceeded 200 billion tenge, a significant part of which was provided by funds from large commercial banks (Rakhimzhanova et al., 2022).

It is clear that the share of microcredit organizations in the overall loan portfolio is not yet that high, but it is growing steadily, attracting the attention of the banking sector.

The consumer's point of view shows that cooperation between banks and MCCs opens up access to a wider range of financial instruments. For clients with less than perfect credit history or unstable income, microloans become the "first step" to gaining a reputation as a reliable borrower. As small debts are repaid on time, a person can count on larger bank loans at a lower interest rate.

Banks themselves, cooperating with microfinance companies, receive:

- Risk filtration: MCCs "test" the borrower on small amounts, after which the bank decides whether it is appropriate to provide more substantial credit lines.

- Entering new segments: thanks to a flexible structure and digital platforms, microcredit firms cover remote regions where banking presence is minimal. According to the World Bank's estimate for 2022–2023, the level of financial inclusion (the share of the population with access to basic financial services) in developing countries increased by an average of 3–5%, with microfinance programs in partnership with large banks acting as the main driver (Brown et al., 2016; Cull & Hartarska, 2023; Milana & Ashta, 2020).

4. DISCUSSION

Modern realities dictate new requirements for services: rapid digitalization makes fintech companies and mobile applications critically important elements of the lending ecosystem. Banks, having large-scale resources and IT platforms, can integrate MCC solutions into their own products in order to:

- Provide clients with instant online approval;
- Use scoring algorithms based on machine learning;
- Promptly service applications from remote regions.

MCCs, on the other hand, not having such an impressive financial cushion and brand, but being flexible in developing innovative applications, gain access to large capital, banking infrastructure and well-established distribution channels from cooperation. Such synergy allows expanding and diversifying the client base. It is significant that according to data from the German Federal Bank (Deutsche Bundesbank) for 2021–2023, around 40% of fintech startups focused on microcredit have established partnerships with traditional banks and received co-financing to enter the European market.

Despite all the advantages, cooperation between banks and microcredit organizations is accompanied by a number of limitations. Firstly, high regulatory requirements in the banking sector sometimes make partnership difficult: it is necessary to comply with numerous anti-money laundering regulations, as well as

check credit and reputational risks. Secondly, the culture of microfinance business is sometimes criticized for aggressive debt collection methods or not entirely transparent terms of contracts, which causes mistrust on the part of conservative banks.

This indicates that established partnerships can be undermined by insufficient transparency and accountability on the part of individual market players.

At the macro level, cooperation between banks and MCCs provides a synergistic effect: it allows for a more even distribution of risks, increases the coverage of the population with financial services and ensures more responsible lending. At the same time, competition often acts as a catalyst for innovation: each party tries to improve customer service and introduce new products, attracting more and more borrowers. In the long term, ongoing digitalization and the emergence of new fintech solutions will strengthen the trend towards partnership. In today's reality, where mobile devices and Internet access are becoming almost universal, banking structures are unlikely to be able to independently cover all market segments - especially when it comes to fast lending without collateral and a detailed history. Here, MCCs, with their responsiveness and willingness to work "in the field", will remain an important link in the lending chain.

5. CONCLUSION

The question of whether banks and microcredit companies are competitors or allies does not have a clear answer. In some cases, MCCs do compete with banks, especially when the latter begin to actively develop their own express lending services. However, statistics for the past three years demonstrate a steady trend towards cooperation - joint financing, exchange of client bases and technological solutions. The result of such cooperation is a healthier and more flexible financial system, beneficial both for the institutions themselves and for consumers. In fact, the partnership between banks and MCCs is not just another trend, but a reflection of global changes in the economy and social demand. The development of fintech startups, the expansion of state support programs and the growing need for financial inclusion lead to the fact that mutual benefits outweigh potential risks. And if a balance is maintained between strict banking standards and the entrepreneurial spirit of microcredit, new opportunities for clients will inevitably lead to the strengthening and diversification of the entire credit and financial industry.

Analyzing the relationship between banks and microcredit companies, we can conclude that their interaction cannot be unambiguously classified as exclusively symbiosis or competition. In the current financial market conditions, there is a dynamic evolution of cooperation models based on a number of factors: legislative regulation, market trends, customer needs and the strategies of the organizations themselves.

5.1 Cooperation as a basis for sustainable development

Partnerships between banks and microcredit organizations can significantly increase financial inclusion. Microcredit companies are able to reach those clients who traditionally remain outside the scope of banking services, and banks, in turn, can offer more favorable refinancing terms for microfinance organizations, reducing their borrowing costs. Such cooperation leads to the formation of mutually beneficial strategies in which banks receive an additional source of income, and MCCs - access to cheaper resources.

5.2 Competition for clients and business marginality

Despite the obvious benefits of partnership, competition between banks and microcredit organizations also remains a significant factor. As banks expand their lending programs and create specialized products for small businesses and low-income populations, they inevitably begin to compete with MCCs. In turn, microfinance organizations, introducing new digital technologies, automated systems for assessing borrowers and more flexible lending terms, are winning over the audience that was previously served mainly by banks.

5.3 The impact of regulation on the interaction model

Legislation plays a huge role in the development of partnerships or competitive relationships. In countries with strict regulation of banking activities, MCCs occupy a niche that traditional financial institutions cannot fully master. In regions where legislative requirements are less stringent, microfinance organizations can develop rapidly, creating parallel financial ecosystems. Thus, the degree of cooperation or competition is largely determined by government control and regulation mechanisms.

5.4 Technology as a driver of partnership

Digitalization and the development of the fintech sector are significantly transforming the market. Banks and MCCs are increasingly using technologies that improve customer scoring, reduce operating costs and speed up the loan issuance process. In such conditions, partnerships between banks and microfinance organizations are becoming more organic: banks provide technological solutions, and MCCs provide access to a client base not covered by traditional banking structures.

5.5 Prospects for cooperation and the optimal model

Based on the analysis, we can conclude that the optimal model of interaction between banks and microcredit companies involves a balance between cooperation and healthy competition. This requires:

- Development of regulatory mechanisms that ensure transparency of the work of both parties.
- Introduction of joint digital platforms for data exchange and scoring models.
- Creation of specialized financial products aimed at various customer segments.

- Strengthening investment interaction, in which banks become strategic partners of microfinance organizations.

Partnership between banks and microfinance companies is a complex and multifaceted process that depends on

many factors. Despite the existing competition, with the right regulation and technological advances, it is possible to create an effective ecosystem in which both structures complement each other, ensuring the availability of financial services to different groups of the population.

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Umut Abdyldaeva

Kyrgyz State Technical University
named after I. Razzakov, 720000
Bishkek, Kyrgyz Republic
ORCID: 0000-0003-2149-2959

Elvira Satylganova

Kyrgyz National University named
after J. Balasagyn, 720000 Bishkek,
Kyrgyz Republic
elvirafk8@gmail.com
ORCID: 0009-0007-1854-6617

Gulmira Baiterekova

Kyrgyz Economic University named
M.Ryskyzbekov, 720000 Bishkek,
Kyrgyz Republic
bgs403@mail.ru
ORCID: 0000-0001-7670-9188
