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Transformation of the Business Model of a Microfinance Organization when Introducing Products Atypical for the Sector

Diusheeva Aizhan

Operations Manager and Board Member of the Salym Finance Microfinance Company , Bishkek, Kyrgyzstan

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Abstract: The article examines the deep restructuring of the business model of microfinance organizations (MFOs) that arises when expanding the product portfolio through the introduction of solutions atypical for the sector, primarily mortgage lending. The aim of the study is to identify the mechanisms, driving forces, and constraints of such a transition based on a comparative analysis of regulatory and market conditions in the USA, Europe, and Kyrgyzstan. The methodological basis includes a systematic literature review on business model innovation, comparative analysis, and an instrumental case study using the materials of one Kyrgyzstani MFO. The findings show that the launch of a mortgage line operates not as stepwise optimization but as a trigger for a radical shift affecting key elements of the model: the value proposition, the structure of customer segments, the configuration of critical resources, the contours of the risk management system, and funding sources. It is established that in developed jurisdictions (USA, Europe) regulatory requirements are the primary constraint, whereas in the context of emerging markets (Kyrgyzstan) technological readiness and access to long-term capital become decisive. The author's hypothesis regarding the transformation of MFOs into a hybrid banking architecture is supported by the case analysis. The results presented may be useful to managers of financial institutions, regulators, investors, and researchers focusing on the evolutionary trajectory of the microfinance sector.

Keywords: microfinance, business model transformation, atypical products, mortgage lending, innovations in MFOs, financial inclusion, regulatory environment, case study, Kyrgyzstan, fintech.

Introduction

The microfinance sector continues to demonstrate resilient expansion at the global level and acts as a system-shaping mechanism for deepening financial inclusion. According to the latest industry overviews, the aggregate size of the global microfinance market in 2024 is estimated in the range of USD 215–238 billion, and the projected compound annual growth rate exceeds 10% through 2032 [1]. The dynamics are driven not only by the increasing number of small and medium-sized enterprises and supportive government measures, but also by the qualitative transformation of microfinance institutions (MFIs) themselves, which are rethinking their product and operating models [1]. As traditional microcredit niches become saturated and competitive pressure intensifies, MFIs are increasingly moving beyond their historical mission by diversifying their service portfolios.

The beyond microcredit trend captures a shift in focus from short-term working capital loans to more complex financial solutions — savings products, microinsurance, and money transfer services [4]. The most disruptive element of this evolution is the introduction of long-term, capital-intensive, and higher-risk instruments, foremost mortgage lending. The emergence of such products creates for MFIs not cosmetic but fundamental strategic and operational challenges that go far beyond a simple expansion of the product range.

The research problem is that academic discourse often treats MFI diversification as a gradual, incremental broadening of the product set, underestimating the systemic effects of integrating solutions with radically different parameters — maturities, deal scale, risk profiles, and collateral requirements. As a result, a methodological gap arises in understanding how the inclusion of complex products such as mortgages triggers a deep overhaul of the organization's entire business model.

The purpose of this study is to identify the mechanisms, drivers, and barriers of MFI business model transformation in the implementation of mortgage lending, based on a comparative analysis of regulatory and market conditions in the United States, Europe, and Kyrgyzstan.

The scientific novelty lies in interpreting mortgages not as another step-in product diversification, but as a catalyst for a strategic and operational paradigmatic shift in MFI activities.

The author's hypothesis asserts that the integration of mortgage products leads to a comprehensive restructuring of the MFI business model across all key components — from the value proposition and configuration of customer segments to the set of critical resources, the architecture of risk management, and the funding structure — initiating a transition to a hybrid model that integrates elements of traditional banking.

Materials and methods

The present study draws on a qualitative, multi-component methodology designed for a holistic analysis of the phenomenon under examination. The methodological architecture comprises three complementary approaches.

First, a systematic literature review was conducted, focused on two key streams: theories of business model innovation (BMI) and research on financial innovation in the microfinance segment. The theoretical framework was set by the works of Amit and Zott, as well as Teece, which conceptualize the business model as a system of interrelated activities oriented toward value creation and capture. This provided the basis for the conceptualization and subsequent analysis of structural transformations in microfinance organizations (MFOs).

Second, a comparative analysis of regulatory and market conditions for the functioning of MFOs was applied. Three fundamentally different environments were selected for comparison: the United States as an example of a developed market with fragmented and stringent consumer regulation; Europe as a space with pronounced institutional support for financial inclusion at the supranational level; and Kyrgyzstan as a rapidly evolving market with active participation of international donors and a nascent fintech ecosystem.

Third, an instrumental case study was employed. The empirical basis was the practical experience of a client from Bishkek (Kyrgyzstan), encompassing the development and launch within an MFO of a mortgage product Ipoteka, the creation of in-house software credit conveyor, and the implementation of an automated system for assessing clients' solvency. The case is treated not as an illustration but as an analytical instrument for verifying and deepening theoretical propositions in the context of real-world practice in an emerging market.

This compositional research design ensures both theoretical depth and practical relevance, linking conceptual models with empirical data and validated examples from diverse economic contexts.

Results and discussion

Business model transformation is not a cosmetic adjustment of an individual link but a fundamental redesign of the logic of value creation, delivery, and capture within the organization [9]. Within the dominant approach in the scholarly literature, the business model is conceived as an integral configuration of interrelated and interdependent activities [7]. Innovations in such a configuration manifest along three vectors: change in content (the inclusion of new activities, for example, the launch of a different product offering), reconfiguration of the structure (re-wiring the links among activities), and transformation of governance (redistribution of responsibility for performing activities, including through partnership mechanisms) [7].

The introduction of mortgage lending in MFOs acts as a catalyst that simultaneously activates all three trajectories of change. At the level of content, mortgages fundamentally diverge from the logic of classical microcredit: the value proposition shifts from short-term financing of working capital needs of microenterprises to long-term facilitation of housing acquisition; thereby the nature of clients' problems being solved changes, and the focus shifts to a more stable segment of borrowers. At the structural level, implementing such a proposition requires qualitatively different processes: in-depth underwriting that assesses both the borrower's creditworthiness and the characteristics of the real estate asset; long-term loan servicing; full-fledged collateral management. A manifestation of this structural novelty is the implementation of a software solution of the credit conveyor type, documented in the case study; it provides automation and standardization of the new complex procedures and thereby increases operational efficiency. In the governance dimension, the MFO forms a different interaction ecosystem: instead of previous reliance on local communities and NGOs, the key counterparties become appraisal companies, insurers, notarial practices and, critically, providers of long-term funding sources [5].

The coherence and depth of these shifts are visualized in Table 1, which juxtaposes the elements of the traditional and transformed MFO business model.

Table 1. Key components of the transformation of the MFI business model during the introduction of mortgage lending (compiled by the author based on [5, 7]).

Business model component	Traditional model (microcredit)	Transformed model (with mortgage lending)
Value proposition	Short-term working capital, consumption smoothing	Long-term asset accumulation, housing security
Customer segments	Micro-entrepreneurs, low-income households (often without access to banks)	Economically stable low- and middle-income households, salaried employees (often with limited access to banks)
Key activities	Group lending, close client relationships, rapid loan turnover	Comprehensive underwriting, property valuation, long-term loan servicing, collateral management
Key resources	Field loan officers, social capital, short-term credit lines	Specialized underwriters, robust IT infrastructure (credit pipeline), long-term funding, legal expertise
Cost structure	High operating expenses (personnel), low cost of risk (joint liability)	High cost of funding, high investments in technology, lower operating expenses per loan

Revenue streams	High interest income from short-term loans, fees	Lower annual interest rates over a long term, origination and servicing fees
Risk management	Focus on repayment discipline, social collateral	Focus on credit risk (creditworthiness), market risk (property value), liquidity risk (ALM)

The proposed decomposition clearly demonstrates: for MFIs, entering mortgage lending is not an expansion of the product line but a radical reconfiguration of the operational core and a rebuild of strategic positioning.

In the mature markets of the United States and Europe, MFIs considering the introduction of products atypical for them face a combination of incentives and constraints that differs from that in emerging economies. In the United States, the regulatory perimeter, set primarily by the Consumer Financial Protection Bureau (CFPB), rests on high standards of client protection, strict adherence to fair lending principles (ECOA), and transparency requirements [19]. Although these norms are not addressed to MFIs directly, their extrapolation to complex products—above all mortgages—engenders substantial compliance costs. At the same time, regulation is fragmented and historically oriented toward banks, which creates legal uncertainty for innovative MFI models, effectively placing them in a gray zone [23]. In such a configuration, the regulatory environment serves more as a barrier to transformation than as its catalyst. The key incentive for innovation is market driven: the closing of niches left by large banks, especially in segments serving specific demographics—immigrants and entrepreneurs without a formalized credit history [25].

The situation within the European Union is different: there is strong institutional support for financial inclusion at the EU level. The EaSI and InvestEU programs provide MFIs with guarantees, technical expertise, and cheaper funding, purposefully nudging the sector toward development and innovation [18]. The European Code of Good Conduct for Microcredit Provision functions as a benchmark and quality standard, enhancing the transparency of the industry and its investment attractiveness. In this environment, institutional instruments become the main driver of transformation. Market incentives are similar to those in the United States and are concentrated on supporting entrepreneurship among vulnerable groups (youth, migrants, the unemployed), which is embedded in the broader social agenda of the EU.

As a result, whereas in the United States the transformation of MFIs is predominantly market determined and constrained by complex and costly regulation, in Europe it is purposefully supported and directed by supranational institutions. This dualism is illustrated in Fig. 1.

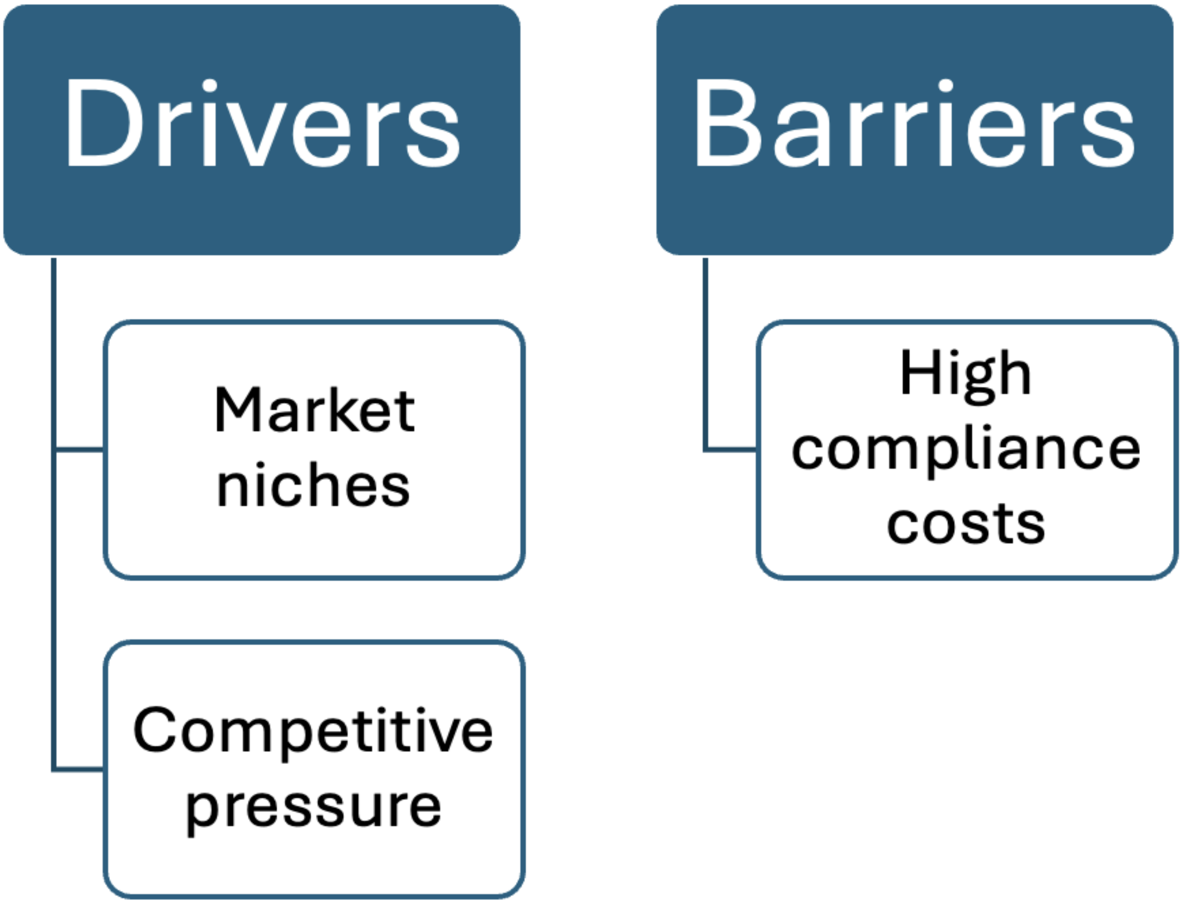

Fig. 1. Drivers and barriers to the introduction of atypical MFIs products in developed markets (compiled by the author based on [6, 8, 11, 12]).

The key challenge for MFIs in developed markets is the institutional vacuum: the prevailing regulatory architecture is constructed around a binary logic, with large banks on one side and small nonbank lending institutions on the other. MFIs that issue more complex products end up in the interzone: they incur the compliance costs of banking standards yet lack key banking privileges (such as access to central bank funding). The European trajectory seeks actively to narrow this gap through targeted support programs, whereas the American trajectory effectively leaves MFIs in a mode of passive compliance with regulatory norms.

The financial sector of Kyrgyzstan serves as a testing ground for analyzing the transformation of MFIs. There is high dynamism in the microfinance segment, which is of substantial importance for the national economy and relies on support from international partners — USAID, the World Bank, ADB, and EBRD [15, 16]. In parallel, a fintech ecosystem is taking shape, fueled by government initiatives (including regulatory sandboxes) and the expansion of access to digital infrastructure. The mortgage market is also active: in 2024 the volume of bank issuance reached 19,6 billion soms. Alongside commercial banks, the State Mortgage Company plays a significant role by implementing preferential programs [16, 17, 21].

Against this backdrop, the simultaneous growth of MFI portfolios and the acceleration of mortgage lending form the basis for their institutional convergence, which makes the case study particularly pertinent and timely (Fig. 2).

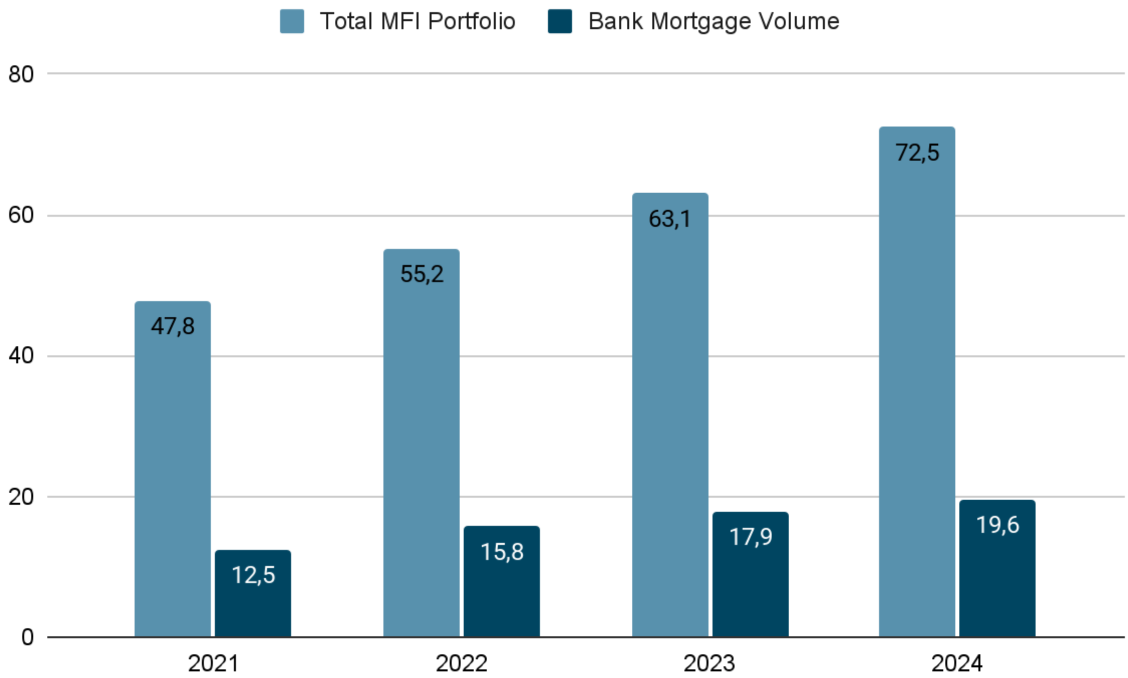

Fig.2. Dynamics of the total loan portfolio of MFIs and the volume of bank mortgage lending in the Kyrgyz Republic, 2021-2024 (billion com) (compiled by the author on the basis of [2, 3, 17, 13, 14]).

Let us consider a case from Bishkek through the lens of the conceptual model of transformation.

Development of a new product Mortgage. This concerns a profound restructuring of the value proposition and the substantive logic of the business. The MFO shifts its focus from micro-entrepreneurship to supporting long-term wealth creation in a new, more solvent client segment that had previously remained undercovered by the banking sector.

Implementation of the software credit conveyor. This initiative represents an innovation in the architecture of key operations and the organizational structure. It addresses the scalability bottleneck of complex mortgage underwriting: standardization and end-to-end process automation reduce operating costs, diminish the role of subjective factors, and ensure high decision-making speed, which is a critical parameter of competitiveness.

Creation of an automated system for assessing solvency. This is the central innovation in the field of risk management and the management of key resources. It entails a fundamental departure from the relational model characteristic of MFOs, which relies on personal ties and social capital, toward a data-driven approach. The use of large datasets makes it possible to calibrate borrower credit risk quickly and objectively when working with larger amounts and longer horizons of mortgage lending.

Despite the obvious benefits, reorienting the MFO business model toward mortgage lending is associated with significant risks and constraints that require heightened attention from managers and regulators.

Mission drift risk Mission Drift. This is a key challenge examined in detail in the literature on the commercialization of microfinance. By shifting the emphasis to a more marginal and comparatively less poor segment necessary for mortgage lending, the MFO risks departing from its original social goal of serving the least affluent groups of the population. The consequence may be the loss of institutional identity and trust on the part of traditional donors and partners [24, 26].

The transition radically transforms the organization’s risk profile. Risk concentration increases substantially. The default of a single mortgage borrower is comparable in loss magnitude to the defaults of dozens and even hundreds of microloans, which heightens pressure on capital. A classic maturity mismatch of assets and liabilities arises. Financing long-term assets mortgages over 10–25 years while short-term liabilities predominate creates a significant liquidity shortfall risk. Dependence on real estate market dynamics increases.

A decline in housing prices leads to collateral devaluation and higher potential losses in the event of borrower defaults.

Successful transformation requires solving two strategic tasks. First, access to long-term, stable funding sources is necessary for example, bond issuance or attracting syndicated loans, which is a serious challenge for most MFOs. Second, a profound restructuring of human capital is required: recruiting and targeted training of specialists in mortgage underwriting, real estate appraisal, legal support, and treasury operations management.

To structure these challenges and design measures to mitigate them, a risk matrix presented in Table 2 can be used.

Table 2. Risk matrix for MFIs implementing mortgage products (compiled by the author on the basis of [10, 20, 22]).

Risk category	Description	Mitigation strategy
Strategic	Mission drift: deviation from the core goal of poverty alleviation.	Implementation of social impact metrics; maintaining a balanced portfolio; clear governance at the board level.
Financial	Liquidity risk: maturity mismatch between assets and liabilities.	Raising long-term funding lines; developing treasury functions; exploring securitization opportunities.
Credit	Increased impact of defaults due to larger loan sizes.	Robust automated scoring models; strict underwriting criteria; mortgage insurance.
Market	Decline in real estate values affecting collateral.	Conservative loan-to-value (LTV) ratios; geographic diversification of the mortgage portfolio.
Operational	Lack of specialized skills; potential fraud in complex processes.	Investments in training; deployment of automated systems (credit conveyor); strong internal controls.

Thus, the proposed matrix serves as a practical tool for MFO management and regulators, enabling a transition from risk identification to the development of specific measures for their management, which is a key condition for the sustainability of the transformed business model.

Conclusion

The analysis conducted shows that the inclusion by a microfinance organization of atypical and technologically complex products—using mortgages as an example—acts not as an incremental extension of the current portfolio but as a powerful trigger for a deep redesign of the business model. The impact touches the entire organizational architecture: from strategic self-identification and the choice of target segments to operational logic, regulations, and elements of corporate culture.

The empirical results, aligned with the theoretical framework of business model innovation (BMI) and corroborated by case studies, indicate the systemic nature of the changes underway. The MFO is compelled to update in parallel the content (to form a new value proposition), the structure (to implement new processes and technological circuits, including the credit conveyor), and the governance layer (to reconfigure partnerships and accumulate missing competencies).

The transformation trajectory is context-dependent. Comparative analysis reveals an asymmetry of drivers and barriers across markets: in the United States the key constraint is regulation with high compliance costs, whereas in the European Union it plays a stimulating role thanks to targeted support programs. In Kyrgyzstan, representing developing jurisdictions, the determining factors are technological readiness and access to long-term funding.

The technological circuit acts as the main enabler. The Kyrgyz case demonstrates that without deep digitization of critical nodes—underwriting, creditworthiness scoring, and related procedures—it is impossible to sustainably manage the increased complexity and new risks; it is technologies that ensure the scalability of the updated model.

The data obtained fully confirm the hypothesis advanced: the launch of a mortgage product forced the MFO in Kyrgyzstan to fundamentally reconfigure its activities—to reorient toward a different client segment and to develop new competencies in risk management and IT—which initiated a move toward a hybrid configuration combining features of a classic MFO and a commercial bank.

The practical significance of the results is multilevel. For MFO managers they provide a conceptual frame and a roadmap for planning and implementing comparable strategic initiatives with an emphasis on key risks and necessary organizational changes. For regulators the conclusions point to the need for more flexible, differentiated supervisory approaches that take into account the increasing complexity of the microfinance sector and do not suppress innovations that advance financial inclusion. For investors and donors the study refines the risk–return profile of transforming MFOs, opening new windows of opportunity for investments in the sustainable development of the financial ecosystem.

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