THE ROLE OF COMMERCIAL BANKS IN REDUCING POVERTY AT THE MAHALLA LEVEL IN UZBEKISTAN: FINANCIAL INCLUSION AS A SYSTEMIC TOOL

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ABSTRACT

This article examines the role of commercial banks in reducing poverty at the mahalla level in Uzbekistan within the framework of the mahalla-based working system introduced in 2021. Drawing on data from the Central Bank of Uzbekistan, the Agency of Statistics, and the Ministry of Poverty Reduction, the study analyses the theoretical underpinnings of financial inclusion as a mechanism for alleviating poverty and evaluates the effectiveness of preferential lending programmes targeting low-income households. The article applies a comparative institutional approach, contrasting international models including the Grameen Bank Bangladesh, PMJDY India, and M-Pesa Kenya with emerging Uzbek practices. Findings indicate that mahalla-level collaboration between banks and district administrators significantly lowers informational asymmetry, thereby reducing the cost of serving unbanked populations. Pilot data from Surkhandarya and Fergana provinces demonstrate a loan repayment rate of 94 per cent among poverty-targeted borrowers, surpassing the national average by two percentage points. The article concludes with policy recommendations aimed at scaling Social Banking principles and digital financial technologies within the mahalla institutional framework to achieve the national poverty reduction target of below 7 per cent by 2026.

Keywords: financial inclusion, poverty reduction, commercial banks, mahalla system, Social Banking, Uzbekistan, microfinance, preferential lending, informational asymmetry, group lending.

ANNOTATSIYA

Ushbu maqolada 2021-yilda joriy etilgan mahallabay ishlash tizimi doirasida O'zbekistonda tijorat banklarining mahalla darajasida kambag'allikni qisqartirishdagi roli o'rganiladi. O'zbekiston Respublikasi Markaziy banki, Statistika agentligi va Kambag'allikni qisqartirish vazirligi ma'lumotlari asosida moliyaviy inklyuzivlikning nazariy asoslari tahlil etiladi hamda kambag'al oilalarga mo'ljallangan imtiyozli kreditlash dasturlarining samaradorligi baholanadi. Xalqaro modellar Grameen Bank Bangladesh, PMJDY Hindiston va M-Pesa Keniya O'zbekiston amaliyoti bilan qiyoslanadi. Pilot ma'lumotlar kambag'al oilalarga berilgan kreditlarning 94 foiz qaytaruvchanlik darajasini ko'rsatdi. Maqola Social Banking tamoyillari va raqamli texnologiyalarni mahallabay tizimga kengaytirish bo'yicha tavsiyalar bilan yakunlanadi.

Kalit so'zlar: moliyaviy inklyuzivlik, kambag'allikni qisqartirish, tijorat banklari, mahalla tizimi, Social Banking, O'zbekiston, mikrokredit, imtiyozli kreditlash, axborot assimetryasi, guruh kreditlash.

INTRODUCTION

Poverty alleviation remains one of the central challenges of economic policy in Uzbekistan. According to the Agency of Statistics of the Republic of Uzbekistan, 8.8 per cent of the population

approximately 3.1 million people lived below the subsistence minimum in 2023, while more than 412,000 families continued to receive targeted social assistance. Although aggregate poverty indicators have improved considerably since 2018 when the rate stood at 11.4 per cent structural barriers prevent a large share of low-income households from accessing formal financial services. This gap undermines the effectiveness of redistributive policies and perpetuates what economic theory identifies as the financial isolation poverty trap.

The mahalla-based working system, introduced by Presidential Decree in December 2021, has created an institutional platform that bridges the distance between commercial banks and vulnerable households. Under this framework, banks cooperate with district-level government assistants to identify creditworthy low-income clients and deliver targeted financial products directly at the community level. The New Uzbekistan Development Strategy 2022–2026 explicitly designates the expansion of financial inclusion as a key mechanism for cutting the national poverty rate from 8.8 per cent to below 7 per cent by 2026 Presidential Decree PF-60, 2022.

Globally, the World Bank's Global Findex 2021 report confirms that a 10 percentage-point increase in formal financial service access correlates on average with a 2–3 percentage-point reduction in national poverty rates. Yet in Uzbekistan, as of 2023, only 41.3 per cent of the rural population holds a formal bank account, compared with 68.5 per cent in urban areas a 27-point gap that represents approximately seven million unbanked citizens Central Bank of Uzbekistan, 2023. Closing this gap through the mahalla institutional channel is the central argument of this article.

The article pursues two objectives: first, to construct a theoretical framework connecting financial inclusion with poverty reduction in the specific socio-institutional context of Uzbekistan; and second, to evaluate the preliminary empirical evidence on the effectiveness of mahalla-level bank–government collaboration as a systemic poverty-reduction tool. The remainder of the article is structured as follows: Section 2 presents the theoretical framework; Section 3 reviews international evidence; Section 4 analyses empirical data from Uzbekistan; Section 5 discusses findings; Section 6 offers conclusions and policy recommendations.

MATERIALS AND METHODS

Research Design

This study adopts a mixed-methods research design combining quantitative statistical analysis with qualitative comparative institutional analysis. The primary research approach is explanatory seeking to identify causal mechanisms linking mahalla level bank government cooperation with poverty-reduction outcomes. Secondary data analysis is complemented by comparative case study methodology, drawing on international models to derive transferable lessons for Uzbekistan.

Data Sources

The empirical analysis draws on the following data sources: Central Bank of Uzbekistan Annual Reports 2020–2023, providing statistics on preferential lending volumes, bank branch networks, and digital payment penetration; Uzbekistan Agency of Statistics poverty and income distribution data 2018–2023; Ministry of Poverty Reduction household-level programme outcome reports 2022–2023; World Bank Global Findex Database 2021, for cross-country financial inclusion benchmarks; Pilot programme administrative data from Surkhandarya and Fergana provinces, 2022–2023, covering 1,240 households.

Analytical Framework

The theoretical analytical framework integrates three complementary strands: Stiglitz's information asymmetry theory of credit market failure; Sen's capability approach to poverty as freedom deprivation; and the Social Banking concept as operationalised by Murtazaev and Yusupov in the Uzbekistan context. Comparative institutional analysis follows the method of structured, focused

comparison George and Bennett, 2005, selecting cases Bangladesh, India, Kenya, Germany, Kazakhstan on the basis of institutional similarity along the dimension of social capital utilisation.

RESULTS

Financial Inclusion Gap in Uzbekistan

Analysis of Central Bank 2023 year data reveals a pronounced financial inclusion gap along both geographical and income dimensions. Rurally, only 41.3 per cent of the population holds a formal bank account versus 68.5 per cent in urban areas. Among households receiving targeted social assistance , the share with any formal financial product falls to an estimated 22–28 per cent, based on cross-referencing MIY recipient lists with bank customer databases in the pilot provinces. The districts with the highest poverty rates Surkhandarya 18.4%, Kashkadarya 14.2%, and Jizzakh 13.1% also record the lowest levels of formal bank service usage, confirming the spatial co-occurrence of poverty and financial exclusion.

Preferential Lending Dynamics, 2020–2023

The volume of preferential lending channelled through the mahalla system grew from a baseline of 4.1 trillion soum in 2020 to 8.6 trillion soum by mid-2023 a 2.1-fold increase, approaching but not yet meeting the 3× target set in the Banking System Reform Strategy for 2025. The number of financial service access points in rural areas reached 9,800 by mid-2023, against a target of 12,000 by 2025. Onboarded digital payment users grew from 30 per cent to 48 per cent of the adult population, leaving a 12-percentage-point gap to the 60 per cent target.

Pilot Programme Outcomes: Surkhandarya and Fergana

The 2022–2023 pilot programmes in Surkhandarya and Fergana provinces covered 1,240 low-income households selected through hokim yordamchi household assessments. Key outcome indicators recorded at twelve-month follow-up were as follows. The loan repayment rate reached 94 per cent, compared with a national average of 92 per cent for all retail lending a statistically significant difference, $p < 0.05$. Thirty-four per cent of applicants were active MIY recipients at the time of application, confirming effective targeting of the most vulnerable segment. Among households that received credit, 67 per cent reported creation of a new income-generating activity within twelve months. Average monthly household income rose by 48 per cent in nominal terms. Twenty-nine per cent of households exited the MIY support register within the observation period.

International Comparative Evidence

Structured comparison of five international models yields the following pattern. The Grameen Bank Bangladesh achieved 95+ per cent repayment rates through solidarity group lending a mechanism structurally analogous to the mahalla social trust network. India's PMJDY enrolled 255 million previously unbanked citizens within two years by combining zero-balance accounts with biometric digital identity a model directly applicable to Uzbekistan's rapidly expanding digital ID infrastructure. Kenya's M-Pesa demonstrated that mobile technology can substitute for physical branch networks at 10 per cent of the cost, relevant to Uzbekistan's rural coverage gap. Germany's Sparkasse model shows that community-mandated banking with democratic governance sustains both commercial viability and social outreach over 200 years. Kazakhstan's directed credit system under Baiterek Development Institution illustrates the potential for state-coordinated bank incentives to target agricultural and SME borrowers.

DISCUSSION. Theoretical Interpretation

The pilot data strongly support Stiglitz's 2012 prediction that proximity knowledge when systematically incorporated into credit assessment reduces adverse selection and lowers default probability. The 94 per cent repayment rate among poverty-targeted borrowers, exceeding the national average, is inconsistent with the conventional banking assumption that low-income clients represent elevated credit risk. Rather, it confirms that risk is a function not of income level per se, but of

informational asymmetry: when banks can access reliable household-level data through the hokim yordamchi channel, the apparent riskiness of poverty-targeted lending dissolves.

Sen's 1999 capability framework adds a normative dimension to this finding. The 48 per cent average income increase and 29 per cent MIY exit rate among pilot households suggest that credit access does not merely transfer money but expands the substantive freedoms of low-income households enabling investment, risk management, and economic self-determination. This is consistent with capability theory's prediction that financial inclusion expands the 'capability set' available to individuals.

Practical Implications

The findings have three major practical implications. First, the mahalla system is not merely a social service delivery platform but a viable credit information infrastructure. Hokim yordamchilari effectively perform the function of informal credit bureaux, collecting and transmitting household-level data that reduce bank transaction costs. Second, poverty-targeted lending is commercially viable when the mahalla information channel is operational: the above-average repayment rate means that social and commercial objectives are complementary, not competing. Third, the current scale of mahalla-based preferential lending 2.1× the 2020 baseline suggests significant remaining capacity before the 3× target is reached, implying that further scaling is feasible within existing institutional arrangements.

CONCLUSION

This article has argued, on the basis of both theoretical analysis and empirical pilot data, that commercial banks operating through the mahalla institutional framework can serve as a systemic and commercially sustainable instrument for poverty reduction in Uzbekistan. The key theoretical mechanism is the reduction of informational asymmetry through proximity knowledge: the mahalla social network provides banks with cost-efficient household-level credit information that substitutes for formal collateral requirements. The key empirical finding is that this mechanism produces above-average repayment rates while successfully reaching the most vulnerable households.

Three policy recommendations follow. First, the mahalla-based bank cooperation model should be scaled nationally, with priority to Surkhandarya, Kashkadarya, and Jizzakh provinces, where the poverty–financial exclusion spatial overlap is most acute. Second, digital financial technologies AI-based alternative credit scoring, mobile bank agent points in mahalla centres, and digital onboarding should be systematically integrated into the credit delivery pipeline to extend reach and reduce transaction costs. Third, bank staff and branch incentive structures should be redesigned to reward mahalla-level client acquisition, aligning individual and institutional interests with the national poverty-reduction mandate.

The broader implication of this analysis is that the apparent tension between commercial banking objectives and social development goals is not inherent but institutional. Given the right coordination mechanism as the mahalla system provides financial inclusion and commercial viability reinforce one another. Achieving the 2026 target of below 7 per cent national poverty requires treating the mahalla not as a peripheral social programme but as a core element of the commercial banking value chain.

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