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ANALYTICAL PAPER
FINANCIAL ACCESS FOR THE POPULATION
IN THE KYRGYZ REPUBLIC

2020

Analytical Paper of the National Bank of the Kyrgyz Republic

Financial Access for the Population in the Kyrgyz Republic

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of the National Bank of the Kyrgyz Republic¹

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<p>The views represented in this paper belong completely to the author and do not compulsorily reflect the viewpoint of the National Bank of the Kyrgyz Republic.</p>
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Summary

An analysis of the financial inclusion situation in the Kyrgyz Republic contained in this paper was prepared using the World Bank's Global Findex Database and the indicators of the G20 Global Partnership for Financial Inclusion.

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INTRODUCTION

In 2010, the G20 countries created the Global Partnership for Financial Inclusion (GPFI) platform, meanwhile the G20 leaders recognized that financial inclusion of the population is among the important factors of the economic sustainable development in the country.

Currently, the financial inclusion is defined as a fundamental need and inalienable right of a consumer and a business entity in many countries.

Financial services are mainly provided in the Kyrgyz Republic by the commercial banks and non-banking financial-credit organizations, meanwhile these services are provided by the stock markets in the developed countries.

In 2019, the Kyrgyz Republic initiated development of the National Strategy for Financial Inclusion as part of a project to improve financial inclusion in Central Asia. The development of this strategy will be implemented by the National Bank with the technical assistance of the International Finance Corporation's project to expand financial inclusion in Central Asia, funded by the Government of Switzerland, as well as by the government agencies and the representatives of the private sector. The main objective of this project is to expand access to savings and loan products provided by the financial-credit organizations on a sustainable basis.

Implementation of the activities of the National Strategy for Financial Inclusion within the framework of the project to improve financial inclusion in Central Asia should have a positive impact on the economy on the country, since the financial sector will contribute to inclusive growth and promotion of a competitive and export-oriented economy.

Taking into account international practice and the current state of financial inclusion in the Kyrgyz Republic, the National Strategy will identify such priority areas as expanding the product range (including insurance services and capital market development), delivery channels and points of financial access, increasing the financial literacy of the population and ensuring consumer protection.

Besides financial inclusion, financial literacy and consumer protection are components of financial inclusion, and they are recognized as an integral part of the sustainable economic growth in the country.

The objective of this paper is to prepare a primary analysis of the situation with regard to financial inclusion, aimed at comprehensive assessment of the banking and non-banking services availability among the population in the Kyrgyz Republic.

REFERENCES REVIEW

Financial access can be understood as the absence of (price and non-price) barriers for the use of banking and non-banking services. Financial inclusion is defined by the GPFI as "a state when all able-bodied population, including those currently excluded from consumption of the financial services, has effective access to a basic set of financial services."² The latter include insurance, lending, savings and payment services.

Galor and Zeira (1993) demonstrated that lack of financial access deprives the poor people of access to education due to lack of funds, despite justification for the investment in education. According to Banerjee and Newman (1993), income inequality is increasing due to insufficient access of the population to banking and non-banking services and it affects the economic growth of the country.

Based on the results of surveys conducted in the large banks of 80 countries, the researchers Beck, Demirgüç-Kunt and Martinez Peria (2007) developed such access indicators as physical access, affordability and the right to receive three types of banking services - deposits, lending and making payments. In the course of work on the indicators,

²<https://www.gpfi.org/sites/gpfi/files/documents/2017%20G20%20Financial%20Inclusion%20Action%20Plan%20Final.pdf>

the authors identified a negative interdependence between the indicators illustrating the availability of obstacles and the actual use of financial services. Barriers for use of financial services, such as the availability of the branch offices, minimum account balance, account maintenance fees, fees for making payments, requirements for document and the time frames to provide services vary significantly in different countries.

Penetration depth of the financial system accelerates economic growth and increases the income of the poor people faster. Additional evidence is given in the cross-country studies examining the relationship between financial development and income inequality.

Alimukhamedova and etc. (2016) found that the geographical factor affects the financial access of the population in Uzbekistan. Physical proximity of the households to the microfinance organizations has a positive effect on their consumption and savings. This is confirmed by a similar study in the context of Bangladesh (Khan, Akib and Rabbani, Atonu 2015), where geoinformation methods were used. The authors found spatial differences in access to micro-lending. The population that located closer to the microfinance organizations was more likely to apply to them for microloans.

Hasanova (2018) found in her paper on financial access for the population in the Kyrgyz Republic that factors such as high levels of corruption, political instability, lack of political will, and insufficient control over compliance with the laws prevent from expansion of financial access. These factors condition others factors, which also complicate the financial integration in the country - distrust of the population to the state bodies and the financial institutions.

In addition, low incomes and insufficient financial literacy of the population have a negative impact on domestic investment through savings.

Moreover, small and medium-sized enterprises face many obstacles, which are mainly associated with collateral; generally, it is real estate in the rural areas. The SME sector cannot receive the requested loan amount due to instability of the real estate market and, as a result, an unfair valuation of the mortgaged real estate.

ANALYTICAL PAPER METHODS

In preparing the analytical paper “Financial Access for the Population in the Kyrgyz Republic”, the existing sets of indicators were used that describe financial inclusion at the country level:

1. Global Findex - the World Bank global financial inclusion database;
2. indicators of the G20 global partnership to expand financial access.

Global Financial Inclusion Index

In 2011, the World Bank, with the assistance of the Bill & Melinda Gates Foundation, implemented the Global Findex Database. This database contains a complete set of information on how people save, borrow, make payments and manage risk. The population survey is conducted once every three years and covers 140 states.

The concept of financial involvement is synonymous with responsible financial inclusion and is based on three main elements: financial inclusion, financial literacy (financial education), and consumer rights protection (I. Yuzefalchik, 2019).

Three waves of surveys were conducted in the Kyrgyz Republic in 2011, 2014, 2017. The stratified sampling (population size, geographic location), formed at random, each time included 1,000 respondents aged 15 and older.

Due to the fact that the database contains 776 indicators, some of them were used to perform analytical work. Meanwhile, it is worth mentioning that there is no information on most indicators for 2011. The most complete information on the answers of respondents is included in the database for 2017. The Global Financial Inclusion Database is divided into 6 sections:

- availability of an account³;
- without access to banking services;
- making payments;
- use of an account;
- savings, loans and financial stability;
- opportunities to expand financial inclusion through digital technologies.

The **G20 Global Partnership for Financial Inclusion (GPFI)** measures financial inclusion in three ways⁴:

- financial access;
- use of financial services;
- quality of provided products and services.

These indicators give an idea of access to products and services and use thereof, including new channels for provision of financial services such as mobile banking, e-wallets, etc.

Statistical data on the Kyrgyz Republic as of the end of 2018 were collected and an analysis was carried out in the course of preparation work. This analytical review is the basis for development of the National Strategy for Financial Inclusion.

FINANCIAL ACCESS IN THE KYRGYZ REPUBLIC BASED ON FINDEX GLOBAL DATABASE

1. Account opened in the financial institution. An account opened in the financial institution allows the population to keep money and savings for the future in a safe manner.

It also makes it easier to pay the bills, to provide access to loans, make purchases, and send or receive money transfers.

Globally, about 69 percent of adults have accounts in the commercial banks or other financial institutions such as the credit unions, cooperatives, or microfinance organizations. However, in the high-income countries, about 94 percent of adults have an account; meanwhile this indicator makes approximately 63 percent in the low- and middle-income countries.

Table 1. Kyrgyz Republic. Accounts Opened in the Financial Institutions
(in percent)

<i>age 15+</i>	2011	2014	2017
Account in the financial institutions	3.8	18.5	38.3
men	3.6	17.9	38.7
women	3.9	18.9	38.0
in rural areas	2.6	16.1	37.7

Source: Global Findex database.

At the end of 2017, 38 percent of the population in the Kyrgyz Republic had the accounts opened in the financial institutions, meanwhile men constituted 39 percent, women – 38 percent. Compared to 2011, the number of people using the accounts opened in the financial institutions has increased approximately by 10 times (Table 1)⁵.

For comparison, we present the data of banking statistics of the Kyrgyz Republic. Thus, starting from 2011 till 2017, the number of the population having the accounts opened in the commercial banks increased approximately by 5 times and at the end of 2017 amounted to approximately 70.2 percent (Table 2). It is worth mentioning that until 2019, the population

³ The title of this section implies the existence of a public account in the bank or other financial institution, as well as an account in the companies providing mobile money services. In accordance with the topic of our research, we will use an account opened in the financial institution.

⁴ https://www.gpfi.org/sites/gpfi/files/Indicators%20note_formatted.pdf

⁵ Global Findex database does not contain information on urban population

did not place their funds on deposits in the non-banking financial-credit organizations, that is, they did not have accounts opened in such organizations.

Table 2. Kyrgyz Republic. Share of the Population Possessing Deposit Accounts

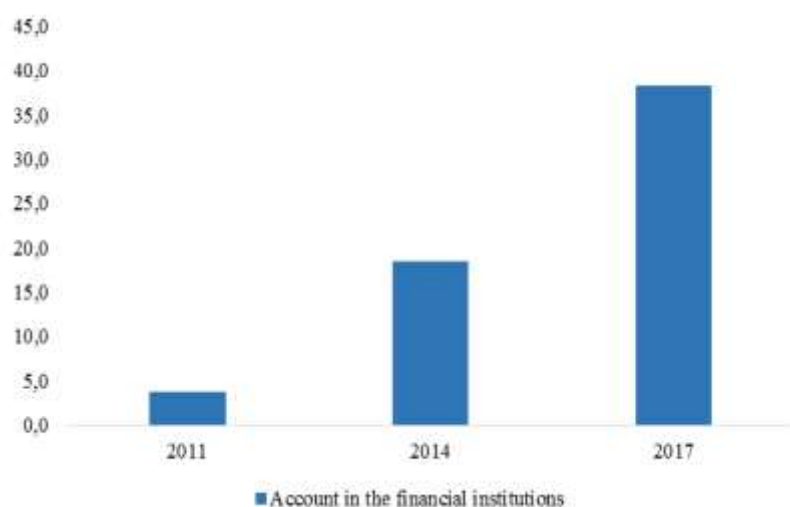
<i>age 15+</i>	2011	2014	2017	2018
Number of deposit accounts, thous.	791.1	1,708.8	3,164.1	3,639.2
among them:				
of the individuals	682.0	1,564.1	2,929.2	3,377.1
Population (thousand people)	3,820.7	3,985.5	4,170.8	4,235.8
Number of accounts per 100 thousand people	17,848.9	39,246.2	70,229.4	79,727.3
Share of population holding deposit accounts, in percent	17.8	39.2	70.2	79.7

Source: National Bank of the Kyrgyz Republic, National Statistical Committee of the Kyrgyz Republic.

According to the World Bank and the National Bank of the Kyrgyz Republic, there is a positive upward trend among the accounts opened in the financial institutions and the deposit accounts. This may indicate financial penetration and the possibility to open and maintain such accounts by the population.

2. Without access to banking services. At the end of 2017, approximately 1.7 billion people around the world did not use banking services, that is, did not have accounts in the financial institutions (in 2014, approximately 2 billion people).

Figure 1. Kyrgyz Republic. Accounts Opened in the Financial Institutions
(in percent)



Source: Global Findex database.

In 2017, about 40 percent of interviewed respondents in the Kyrgyz Republic did not have accounts opened in the financial institutions due to lack of funds. Approximately 19 percent of the population still does not trust financial institutions.

Moreover, some respondents believe that the financial institutions are located at a remote distance and the cost of their services is quite high (17 and 18 percent, respectively).

Also, part of the population does not have account opened in the financial institutions for such reasons as lack of necessary documents, one of the family members has an account, religious reasons, etc.

Table 3. Kyrgyz Republic. Without Account Opened in the Financial Institution
(in percent)

	<i>age 15+</i>	2014	2017
There is no account opened in the financial institution			
financial institution is located very far		-	16.9
financial services are very expensive		-	17.6
required documentation is not available		-	15.9
there is no confidence in financial institutions		-	18.6
religious reasons		-	8.4
lack of funds		-	40.0
someone in the family has an account		-	13.7
there is no need in account		-	6.8

Source: Global Findex database.

3. Making payments. Payments can be grouped into five categories: government payments to the population (public sector wages, pensions, and government transfers); business payments to the population (private sector wages); other payments for work (payments for sale of the agricultural products and payments from self-employment); payments of the population to businesses (utility bills); payments between people (domestic transfers).

Government payments to the population. Approximately 23 percent of surveyed respondents worldwide said that they received at least one payment from the government in the previous year in the form of public sector wages, pensions or government transfers. Government transfers include any social benefit such as subsidies, unemployment benefits or payments for education, or medical expenses.

In the high-income countries, the share of the population receiving government payments is approximately 43 percent, in the developing countries - 19 percent.

In the Kyrgyz Republic, according to interviewed respondents, the largest percentage share of government payments, about 19 percent, falls on pensions to women.

Table 4. Kyrgyz Republic. Government Payments to the Population
(in percent)

	<i>age 15+</i>	2014	2017
Public sector wages received in the previous year		7.5	7.5
men		6.5	8.1
women		8.4	7.1
in rural areas		7.1	7.2
Public sector transfers received in the previous year		8.0	8.4
men		7.0	7.1
women		9.0	9.7
in rural areas		8.6	9.1
Pensions received in the previous year		-	15.2
men		-	10.7
women		-	19.3
in rural areas		-	16.1

Source: Global Findex database.

Business payments to the population. Generally, approximately 28 percent of the population worldwide reported that they received at least one private sector wage payment from an employer. However, in the high-income countries this indicator is approximately 46 percent, and in the developing countries it makes 24 percent. In the Kyrgyz Republic, 23 percent of the population received a salary in the private sector from an employer.

Table 5. Kyrgyz Republic. Salary in the Private Sector
(in percent)

	<i>age 15+</i>	2014	2017
Private sector wages received in the previous year		13.6	22.7
men		16.4	29.1
women		11.2	17.0
in rural areas		12.6	20.6

Source: Global Findex database.

Payments between people are domestic money transfers. In the developing countries, approximately 27 percent of adults reported that they used domestic money transfers during the previous 12 months, sent or received money from their relatives or friends living elsewhere.

In 2017, approximately 25 percent of the respondents interviewed in the Kyrgyz Republic said that they used money transfers. Sending/receiving money transfers through the financial institutions is the most popular among the population, approximately 17 percent.

Table 6. Kyrgyz Republic. Domestic Money Transfers
(in percent)

	<i>age 15+</i>	2014	2017
Domestic transfers received in the previous year		21.8	25.0
men		19.5	24.5
women		23.9	25.4
in rural areas		21.6	23.9
Domestic transfers received:			
through the financial institution		10.5	17.0
using an account		4.2	7.7
via mobile phone		0.1	1.1
personally and only in cash		8.5	7.0
through the money transfer system		10.5	0.5

Source: Global Findex database.

4. Use of an account. Using an account to make digital (electronic) payments. Globally, according to Global Findex survey conducted in 2017, approximately 52 percent of adults, or 76 percent of account holders, made or received a digital payment at least once a year: in the high-income countries – 91 and 97 percent, respectively, in the developing economies – 44 and 70 percent, respectively. This data includes all respondents who made or received payments via mobile money, debit or credit card, mobile phone, and the Internet. In 2017, only 27 percent of the respondents interviewed in the Kyrgyz Republic made digital payments and 23 percent received digital payments.

Table 7. Kyrgyz Republic. Digital Payments
(in percent)

	<i>age 15+</i>	2014	2017
Digital payments made in the previous year		10.6	26.6
men		10.7	28.6
women		10.6	24.9
in rural areas		8.9	24.6
Digital payments received in the previous year		9.8	22.6
men		8.4	22.9
women		11.1	22.2
in rural areas		7.9	23.3

Source: Global Findex database.

5. Savings, loans and financial stability. The population saves money for future expenses, for example, large purchases, investments in education or business, for declining years or for possible emergencies. If the population faces sudden expenses and cannot cover them through savings, they can apply to the financial institutions for a loan.

Method of money saving by the population. Table 7 shows how and for what purposes the population of the Kyrgyz Republic save money. The data for 2017 compared to the data for 2014 demonstrate that the population saves less money. The main reason is most likely to be currency shocks during the period of 2014-2015, when there was a rapid depreciation of the national currencies of Russia and Kazakhstan against the US dollar, which contributed to weakening of KGS exchange rate. Given that more than 60 percent of the consumer basket is made up of imported goods, the population focused on consumption expenditures and saved less money.

Moreover, the inflow of money transfers, which is a source of consumption and savings for many families, decreased in 2015-2016.

According to the population survey, in 2017, only approximately 24 percent of respondents saved money. Meanwhile, they primarily saved for business establishment and expansion – approximately 9 percent. There was reduction in savings for declining years, etc. in the financial institutions.

Table 8. Kyrgyz Republic. Methods and Purposes of Population Savings
(in percent)

<i>age 15+</i>	2014	2017
Saved money to create, manage or expand a farm or business	9.3	8.5
men	12.1	10.4
women	6.9	6.9
in rural areas	9.0	8.3
Saved money for declining years	4.6	3.3
men	4.5	2.4
women	4.6	4.0
in rural areas	4.3	2.8
Saved money in the financial institution	4.9	3.0
men	4.6	2.0
women	5.1	3.9
in rural areas	4.1	2.1
Saved money with assistance of the savings club or by a person outside a family	9.9	6.0
men	9.4	4.4
women	10.3	7.4
in rural areas	10.7	5.2
Saved money for higher education or schooling	14.4	-
men	16.2	-
women	12.7	-
in rural areas	13.8	-
Saved money in the previous year	36.2	23.7
men	39.1	22.8
women	33.7	24.5
in rural areas	36.0	21.6

Source: Global Findex database.

Methods and purposes of the population borrowings. In 2017, about 47 percent of adults worldwide reported that they borrowed money during the last year. Among the high-income countries, the share of the population who took out loans (formal and informal) made approximately 64 percent, meanwhile in the developing countries this indicator constituted approximately 44 percent. In 2017, this indicator in the Kyrgyz Republic decreased by 6 percentage points compared to 2014, to make approximately 32 percent.

Table 9. Kyrgyz Republic. Methods and Purposes of Population Borrowings
(in percent)

<i>age 15+</i>	2014	2017
Borrowed money for health or medical purposes	6.7	5.5
men	7.3	4.7
women	6.1	6.1
in rural areas	7.1	5.4
Borrowed money to create, manage or expand a farm or business	6.4	8.8
men	7.7	8.7
women	5.3	8.9
in rural areas	6.4	9.3
Borrowed money for higher education or schooling	4.4	-
men	4.6	-
women	4.2	-
in rural areas	4.3	-
Borrowed money from the financial institutions	13.5	9.4
men	13.5	9.7
women	13.5	9.1
in rural areas	14.8	9.9
Borrowed money from the family or friends	21.0	16.9
men	21.3	19.4
women	20.7	14.6
in rural areas	19.3	16.4
Borrowed money from the savings club	-	3.5
men	-	2.8
women	-	4.2
in rural areas	-	3.1
Borrowed some money in the previous year	38.2	32.2
men	38.9	33.2
women	37.6	31.3
in rural areas	38.6	31.7

Source: Global Findex database.

6. Opportunities for expanding financial inclusion through digital technologies.

Transformation of payments from cash to digital payments can:

- increase their efficiency by increasing the speed of payments and reducing the cost of paying and receiving thereof;
- improve the security of payments and therefore reduce crime, increase transparency and decrease corruption;
- increase savings.

Mobile phones and the Internet originated a new generation of financial services. These services do not require complex devices. In sub-Saharan Africa, push-button mobile phones

contributed to development of mobile money. Smartphone technology is increasingly used to conduct transactions through the accounts of the financial institutions.

Mobile phones and the Internet can stimulate financial inclusion if they are backed up by the necessary infrastructure. Physical infrastructure such as reliable electricity and mobile networks is a key factor. People are less likely to use digital payments if there are technical problems and network outages. Financial infrastructure is also needed to include a payment system and a physical network to deliver payments across the country. If opened branch office or savings bank might prove ineffective in terms of costs, because the population living in these locations does not use financial services, partnership relations can be formed with the post offices or the retail stores to offer basic financial services to the clients. People using digital payments must to be able to deposit and withdraw cash in a safe, secure and convenient manner at the cash payment locations. Ideally, people receiving digital payments should store their funds digitally, shop and pay bills electronically. However in many places, digital payments have not yet become widespread for everyday purchases, i.e. in the local retail stores and markets, especially in the developing countries. Therefore, most people need to be able to cash out at least some portion of money they receive through digital payments.

Technology and infrastructure are only parts of the picture. The governments should ensure that there are appropriate regulations and consumer protection measures so that people could use digital financial services. Regardless of the technology used, financial services must be adopted to the needs of such groups as women, poor people, and new users who may have low literacy rates.

The results of the Global Findex survey conducted by the World Bank demonstrated that the population of the Kyrgyz Republic has low level of financial access. In many respects, our country is left behind the average level of the developing countries. Therefore, a set of measures should be developed to improve financial access for the population.

FINANCIAL ACCESS IN THE KYRGYZ REPUBLIC ON GPMI BASIS

Overview of Infrastructure of Physical Access to Financial Services

Physical access to financial services is one of three measurement categories of financial inclusion and it is described using five indicators grouped into three categories:

- number of bank branches, ATMs and POS-terminals;
- electronic cash accounts;
- service points per 100 thousand able-bodied adult people.

Below there is an overview of the infrastructure of physical access to basic financial services in the Kyrgyz Republic, comparison of the results with some CIS countries, and an analysis of the problems of consumers' access to the banking services. The section includes an overview of the banking and non-banking system, bank payment agents and other major financial service providers.

Banking sector is a key element of the financial system in the Kyrgyz Republic. Compared to the developed countries, where the main share of the financial market is occupied by the stock markets, this share is occupied by the commercial banks in the Kyrgyz Republic.

According to the National Bank, 25 commercial banks were operating at the end of 2018, including 321 branch offices, 885 savings banks and 154 field offices. Meanwhile, in 2018, there were 37 branch offices of the commercial banks per 100 thousand able-bodied people.

Table 10. Financial Inclusion Indicators*(conventional units)*

	2012	2013	2014	2015	2016	2017	2018
Number of bank branches	950	1,033	1,110	1,202	1,316	1,350	1,360
Number of branches per 100 thousand able-bodied people	28.1	30	31.8	34	36.7	37.2	37.1
Number of branches per 100 thousand people	17.1	18.2	19.2	20.4	21.9	22	21.7

Source: author's calculations according to the data provided by the National Bank of the Kyrgyz Republic.

The financial sector in the Kyrgyz Republic covers banks, as well as, for example, non-banking financial-credit organizations (NBFCOs). The share of assets and loans of the microfinance sector to the total amount of assets and loans of the banking system and the system of non-banking financial-credit organizations is 8.3 and 11.73 percent, respectively. As of the end of 2018, 664 NBFCOs were registered in the territory of the Kyrgyz Republic (specialized financial-credit organization, 142 microfinance organizations, 106 credit unions, 413 exchange bureaus and two credit bureaus) (Table 11).

Table 11. NBFCO Indicators*(conventional units)*

	2012	2013	2014	2015	2016	2017	2018
Number of NBFCOs	810	765	641	626	673	658	664
Number of NBFCOs per 100 thousand able-bodied people	23.9	22.2	18.4	17.7	18.8	18.1	18.1
Number of NBFCOs per 100 thousand people	14.6	13.5	11.1	10.6	11.2	10.7	10.6

Source: National Bank of the Kyrgyz Republic, author's own calculations

The indicators of the payment system are also used as the indicators of financial inclusion. According to the National Bank, in 2018 the number of issued bank cards amounted to 2,432.6 thousand, the main share of issued cards falls on Bishkek city - 40.4 percent. Instruments of access to managing a bank account, making non-cash payments and cashing out funds are, for example, ATMs and POS-terminals. Thus, the total number of ATMs in the country is 1,583 units, and the number of ATMs per 100 thousand able-bodied people is 43.2 units, the main share thereof is located in Bishkek (44.0 percent).

As of 2018, the number of POS-terminals amounted to 10,946, there are 274.1 POS-terminals per 100 thousand able-bodied people, which are mainly concentrated in Bishkek.

Table 12. Financial Inclusion Indicators in the Payment System
(conventional units)

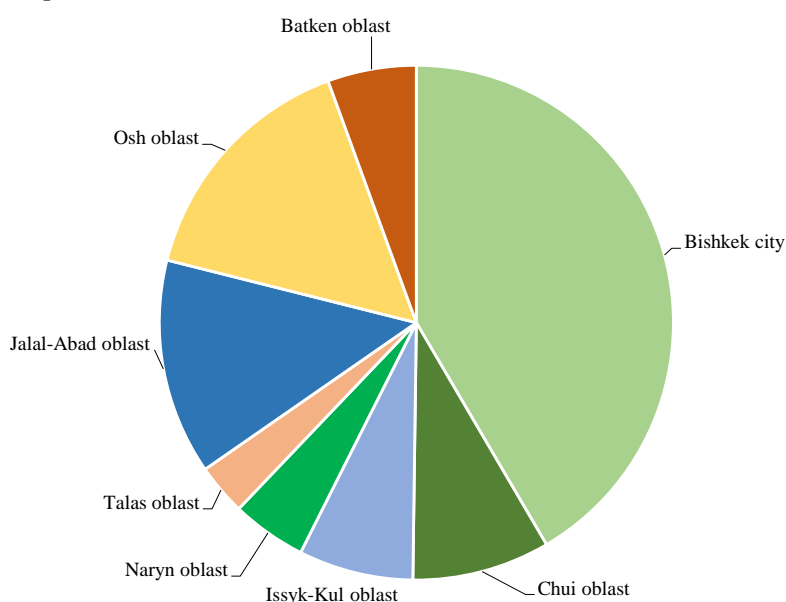
	2012	2013	2014	2015	2016	2017	2018
Number of ATMs	610	818	998	1,236	1,300	1,413	1,583
Number of POS-terminals	2,487	3,485	4,675	6,054	7,101	8,285	10,046
Total number of issued payment cards as of the end of the year (thousand pcs.)	408.9	650.6	908.9	1,198.5	1,615.7	1,984.1	2,432.6
Number of ATMs per 100 thousand able-bodied people	18	23.8	28.6	34.9	36.3	38.9	43.2
Number of POS-terminals per 100 thousand able-bodied people	73.5	101.3	134	171.1	198	228.3	274.1
Penetration rate of bank payment cards per 1 person (pcs.)	0.07	0.11	0.16	0.2	0.27	0.32	0.39

Source: National Bank of the Kyrgyz Republic, author's own calculations

Based on the above data, all indicators are noted that show constant positive growth.

The largest share of bank cards in circulation falls on Bishkek city due to the concentration of population in the capital, interregional migration, business activity, financial resources, branch offices of the commercial banks, etc., which conditioned relative development of the payment services market.

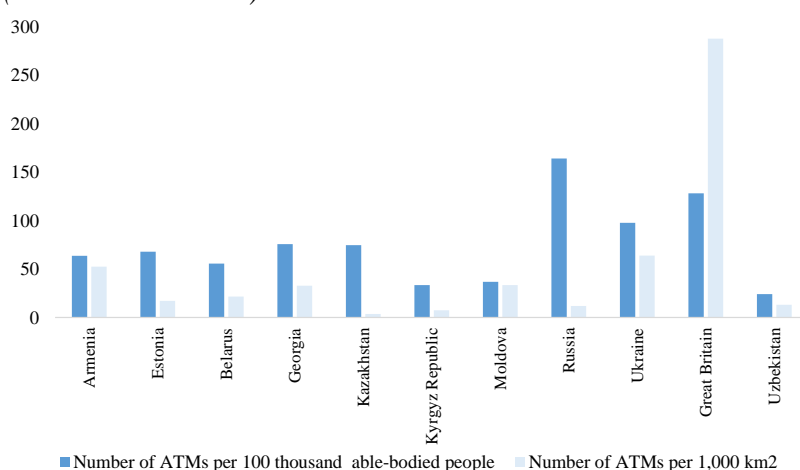
Figure 2. Number of Cards in Circulation by Regions as of 01.01.2019
(in percent)



Source: National Bank of the Kyrgyz Republic

As of January 1, 2019, by types of bank payment cards, cards of the international payment systems made 50.2 percent and cards of the national payment system “Elcart” made 49.8 percent. It should be noted that a significant share of the national payment system is due to introduction of the payroll programs in the state-financed organizations.

Figure 3. Comparison of Payment System Indicators in Some Countries, 2017
(conventional units)



Source: IMF

The use of e-money in the Kyrgyz Republic is becoming very popular among consumers.

In addition, e-wallets are becoming popular in the Kyrgyz Republic, the number thereof has increased several times during recent years. Thus, if in 2017 their number constituted 683.0 thousand pieces, in 2019, there were 1960.3 thousand pieces.

For example, money transfers, e-money cashing, payment for goods and services using e-money, replenishment of e-wallets demonstrate significant growth. In 2019, the value of transactions increased by approximately 49.6 percent compared to 2018.

Table 13. Payments Made by E-money*

	2018		2019	
	<i>number</i> (thous. pcs.)	<i>volume</i> (mln. KGS)	<i>number</i> (thous. pcs.)	<i>volume</i> (mln. KGS)
Money transfer	496.8	2,544.4	697.1	4,620.4
E-money cashing	2,054.3	9,117.3	2,076.6	14,158.4
Payment for goods and services	18,824.6	4,342.8	16,406.5	5,945.4
E-wallets replenishment	9,656.6	13,520.7	10,858.5	20,228.0

* - these statistics have been gathered since 2018

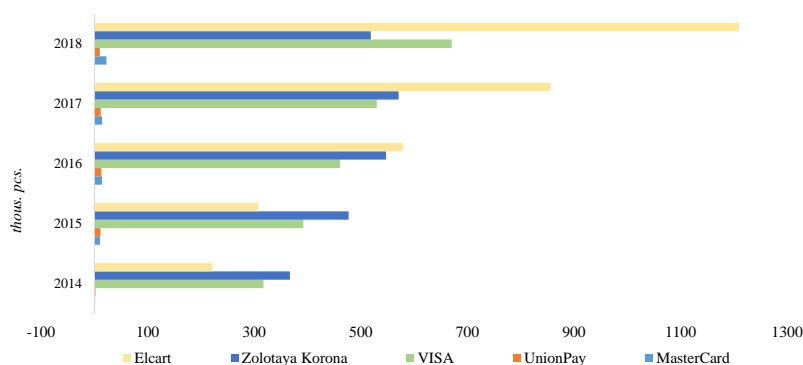
Source: National Bank of the Kyrgyz Republic

Currently, nine commercial banks have a license to issue e-money (“KB Kyrgyzstan” OJSC, “Dos-Credobank” OJSC, “Bakai Bank” OJSC, “KICB” CJSC, “Aiyl Bank” OJSC, “Bai-Tushum Bank” OJSC, “Finka Bank” CJSC, “Kompanion Bank” CJSC, “Bank of Asia” CJSC). In total, there are 11 e-money settlement systems (Elsom, Umai.kg, Kompanion, Ilbirs, Balance, Megapay, O! Money, Amanat, Altyn, Mbank Online, Mobile Money).

Demand for Financial Services

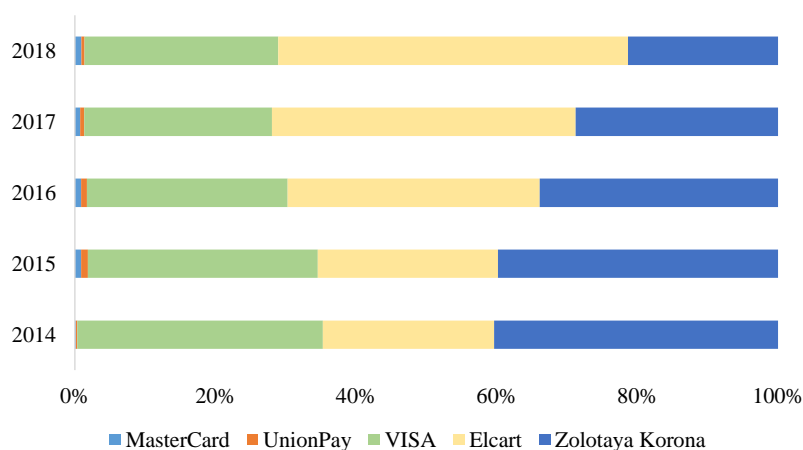
The second indicator of measuring financial inclusion is the **demand for financial services**, which is assessed using indicators such as use of the credit products, insurance services, the number of deposits, loans, insurance per 1,000 adults, prevalence of non-cash and mobile payments, money transfers, share and number of the small- and medium-sized enterprises having accounts and loans in the banking sector.

Figure 4. Dynamics in the Number of Bank Payment Cards (as of the End of Period)



Source: National Bank of the Kyrgyz Republic

Figure 5. Dynamics in the Number of Bank Payment Cards in Percent (as of the End of Period), Share



Source: National Bank of the Kyrgyz Republic

Rural population constitutes 66.0 percent of the total population in the Kyrgyz Republic. Unlike those living in the cities, this part of the population has limited access to banking services. There are several reasons for it, the high cost of servicing bank branch offices in the rural areas and low infrastructure development are the main ones. Therefore, the National Bank of the Kyrgyz Republic is taking a set of measures to develop the possibility of access to banking and non-banking services through the widespread introduction of innovative payment technologies, including mobile banking, e-money and e-wallets in the rural areas.

The National Bank of the Kyrgyz Republic, together with the Government of the Kyrgyz Republic, continues to work on implementation of the State Program to increase the share of non-cash payments and settlements for 2018-2022, the objective thereof is to increase the level of penetration of the banking and payment services.

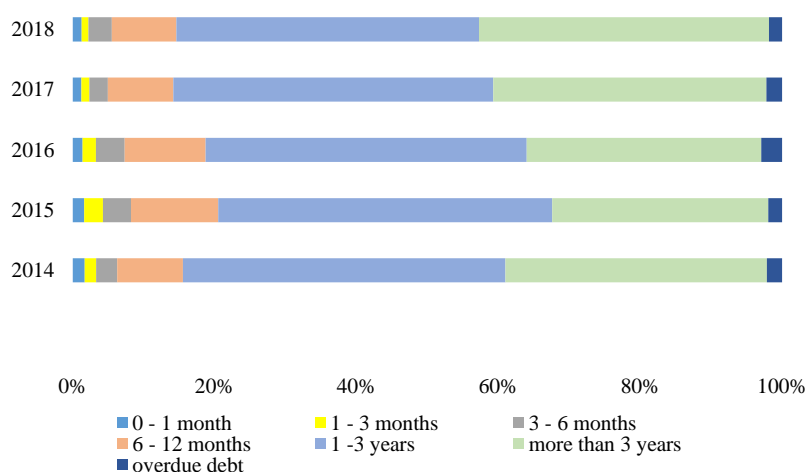
Bank payment cards are the most popular financial product among people of Kyrgyzstan. In recent years, the number of transactions conducted using payment cards has been steadily growing due to the State Program. In 2018, the total volume of transactions conducted using payment cards increased by 33.6 percent compared to 2017 and amounted to KGS 192.2 billion. There is a lack of culture to pay by bank cards for goods and services in the country. Thus, 94.5 percent of all transactions accounted for cash withdrawal. The absence of terminals in the retail and service outlets, particularly in the rural areas, restrains the use of non-cash payments.

Table 14. Main Indicators of the National Payment System Development

	2014	2015	2016	2017	2018
Number of transactions conducted using payment cards (mln. pcs.)	15.5	20.5	24.8	28.7	37.9
Volume of transactions conducted using payment cards (bln. KGS)	83.8	100.5	120.5	146.9	196.2
Non-cash transactions conducted using payment cards to GDP (in percent)	20.9	23.4	25.3	27.7	35.2

Source: National Bank of the Kyrgyz Republic

Loans are the second most popular financial product in the Kyrgyz Republic. As of the end of 2018, the volume of the banking sector's loan portfolio increased by 15-18 percentage points and amounted to KGS 127.9 billion. In terms of industries, loans primarily fall on trade (27.3 percent), agriculture (18.5 percent), consumer loans (10.7 percent), mortgage (9.6 percent), etc. The share of non-performing loans in the loan portfolio of the banking system amounted to 7.5 percent or KGS 9.6 billion. The number of borrowers reached 407.0 thousand legal entities and individuals.

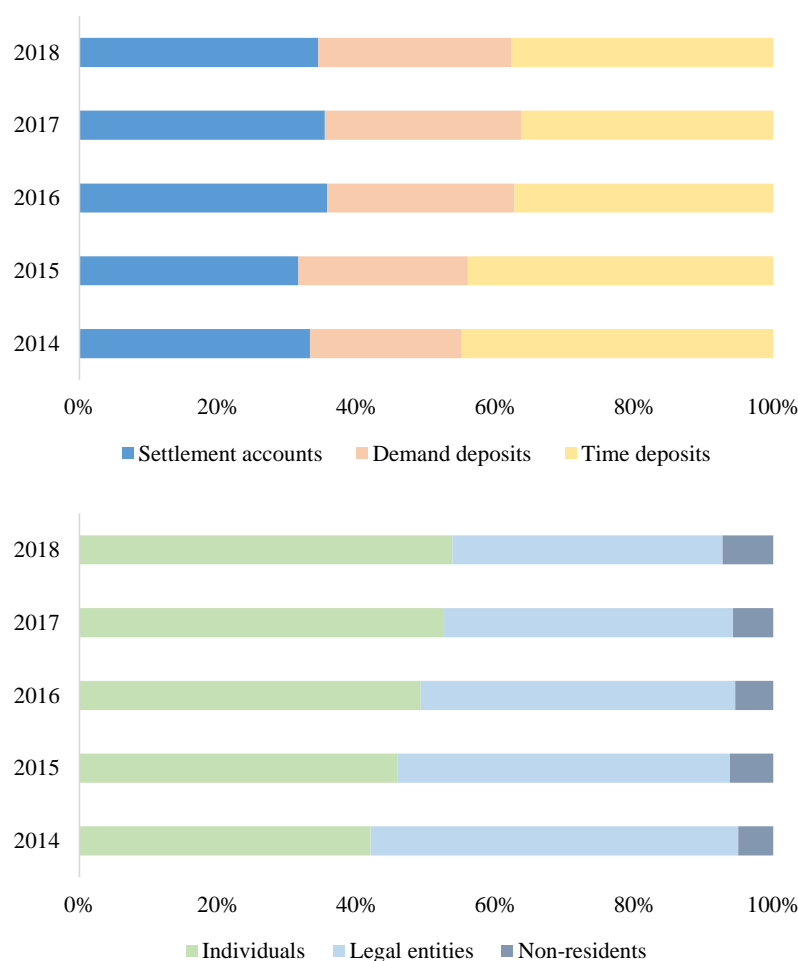
Figure 6. Total Volume of Loans by Maturities (as of the End of Period), Share

Source: National Bank of the Kyrgyz Republic

The largest share of the loan portfolio is occupied by loans with a maturity from 1 to 3 years. It is worth noting that the share of loan products with a maturity of more than 3 years increased by 1.7 times. This indicates a relative extension of the commercial banks resources and an increase in demand among the population for long-term loans.

Micro-lending is the most widespread type of lending among the population. In 2018, the number of microcredit recipients was 481.9 thousand people, women constitute 55 percent thereof. The volume of issued funds amounted to KGS 23.1 billion. There are 3.87 microfinance organizations per 100 thousand people. The volume of loans issued by the microcredit organizations per 100 thousand able-bodied people amounted to KGS 474.12.

Figure 7. Total Volume of Deposits in the Commercial Banks by Types and Maturities, share



Source: National Bank of the Kyrgyz Republic

The bank deposits are the third most popular products. According to the National Bank, 2.5 million legal entities and individuals have deposit or savings accounts. At the end of 2018, the volume of deposits in the banking sector amounted to KGS 133.1 billion. By types of depositors, the deposit base of the banking sector is as follows:

- deposits of legal entities – KGS 51.8 billion;
- deposits of individuals – KGS 71.5 billion;
- deposits of non-residents – KGS 9.7 billion.

It is worth noting that the number of depositors - individuals and non-residents – is increasing year by year; meanwhile the number of legal entities, on the contrary, is decreasing (Figure 8).

According to the National Statistical Committee, the average size of individuals' deposits at the end of 2018 amounted to KGS 22,447.1, the number of individuals' deposit accounts was 3,335,142. The low level of savings and deposits is the result of insufficient confidence of the population in the banking system, low incomes of the population, lack of a tradition of savings and household budgeting.

Table 15. Key Indicators of the Banking System

	2014	2015	2016	2017	2018
Loans per 100 thousand able-bodied people	2,148.8	2,583.3	2,551.1	2,955.6	3,489.2
Loans provided by the microcredit organizations per 100 thousand able-bodied people	636.9	421.5	310.8	359.5	474.1
Deposits (residents only) per 100 thousand able-bodied people	2,138.3	2,631.94	2,761.7	3,124.6	3,632.1
Deposits of the banking system to GDP (in percent)	20.6	23.9	22.5	22.9	23.9
Loans of the banking system to GDP (in percent)	19.7	21.8	19.6	20.4	23.0

Source: National Bank of the Kyrgyz Republic

In general, the indicators of financial inclusion in terms of the demand for financial services demonstrate a positive upward trend, except for loans of the microcredit organizations per 100 thousand adult people. This is a consequence of the transformation of several microfinance organizations into the commercial banks.

Quality of Financial Services

The third indicator of the G20 Financial Inclusion Indicators is the quality of services. Quality measurement covers such inclusion aspects for the consumer as financial literacy, consumer protection, as well as smooth and secure provision of financial services.

Protection of the rights of financial services consumers is among the positive consequences of the global financial crisis with much attention paid thereto. Financial sector stability interacts directly with protection of the rights of financial services consumers.

In Kyrgyzstan, the National Bank protects the rights of consumers of the banking and financial services. Meanwhile, according to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, banks and banking activity”, the National Bank shall not be entitled to interfere in civil-law relations between the financial-credit organizations and their clients. The central bank’s mission is to protect consumers’ rights by ensuring provision of quality financial services, information disclose, implementation of good business practices by the financial-credit organizations, compliance with the laws, etc.

In international practice, financial literacy is defined as the ability of the population to understand financial risks and make effective decisions to improve their own financial well-being and ensure protection of their interests.

In the Kyrgyz Republic, the State Program for Increasing Financial Literacy of the Population in the Kyrgyz Republic for 2016-2020 was adopted on the basis of research and analytical work conducted in 2014 with the results demonstrating low level of financial literacy among the population. The Program focuses on improvement of the quality of used financial services. The National Bank of the Kyrgyz Republic is the coordinator of the Program.

The regulator has developed a website on financial literacy www.finsabat.kg to improve financial literacy. This website contains up-to-date materials on economics and finance prepared by various government departments and financial institutions. Educational materials posted on this site will help users to form an idea of operation of the domestic financial and banking systems, their impact on the life of every person, provide complete information about the products and services offered by the financial institutions of the country, about the rights and obligations of the borrowers.

In general, the financial literacy of the population is improving due to the events carried out by the Government and the National Bank, it is improving particularly among the younger

generation, who are becoming active users of such remote financial access channels as mobile banking, Internet banking, e-money and e-wallets. Increasing coverage of the country's regions with high-speed Internet access and development of the Internet trading and e-commerce contribute thereto.

CONCLUSION

Financial inclusion indicators in the Kyrgyz Republic demonstrate positive upward dynamics. This is due to the fact that a special state program to improve financial inclusion and literacy of the population was adopted in the republic.

In addition, measures have been taken to digitize the banking sector as a way to financial inclusion, work is implemented to increase access to the banking and non-banking services through electronic and payment terminals, to develop the remote channels for financial access and non-cash payments.

Most of the low-income population, small-sized enterprises and rural population can receive access to financial services upon introduction of mobile technologies. In the long term, it may contribute to job creation, poverty reduction and become a driver of development in the Kyrgyz Republic. However, currently, there are factors restraining economic growth. These factors are a high level of inequality between regions, underdeveloped infrastructure and institutional system, dependence on money transfers, and geo-economic shocks, etc.

In 2015-2016, the National Bank of the Kyrgyz Republic established the Consumers' Rights Protection Division and the Financial Literacy Sector.

Protecting the rights of the financial services consumers covers the issues of considering consumer complaints, compensation of damage, ensuring transparency of the financial services, as well as creating an effective legal and regulatory environment.

The key points of consumer rights protection arrangement are related to the financial education of the citizens and development of the financial education. The program to improve the financial literacy of the population in the Kyrgyz Republic for 2016-2020⁶ was developed to achieve these goals. It includes activities focused on a wide range of consumers of the financial services - from schoolchildren to the old people. Particular attention is paid to the most vulnerable categories of the population: pensioners, children, people with disabilities, citizens with a low level of education, labor migrants, women, and unemployed people.

The research methodology included an overview of the current situation and development trend in the financial services market of Kyrgyzstan, including its statistical analysis. The main objective that determined the algorithm of actions when searching for information was the extraction of secondary data generated from open sources and with obtaining semi-closed data by monitoring various statistics. This paper will serve as a solid foundation for a full-scale study.

⁶ <https://www.finsabat.kg/projects/3>

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