



PRIME

Platform for Remittances, Investments and
Migrants' Entrepreneurship

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Kyrgyz Republic

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Overview of the Remittances market of the Kyrgyz Republic

1. Key market data
2. Market share dynamics
3. Financial services landscape
 - Payment system infrastructure
 - Interoperability
4. Financial inclusion
5. Digital financial services
6. Financial education
7. Priority areas





Key Market Data

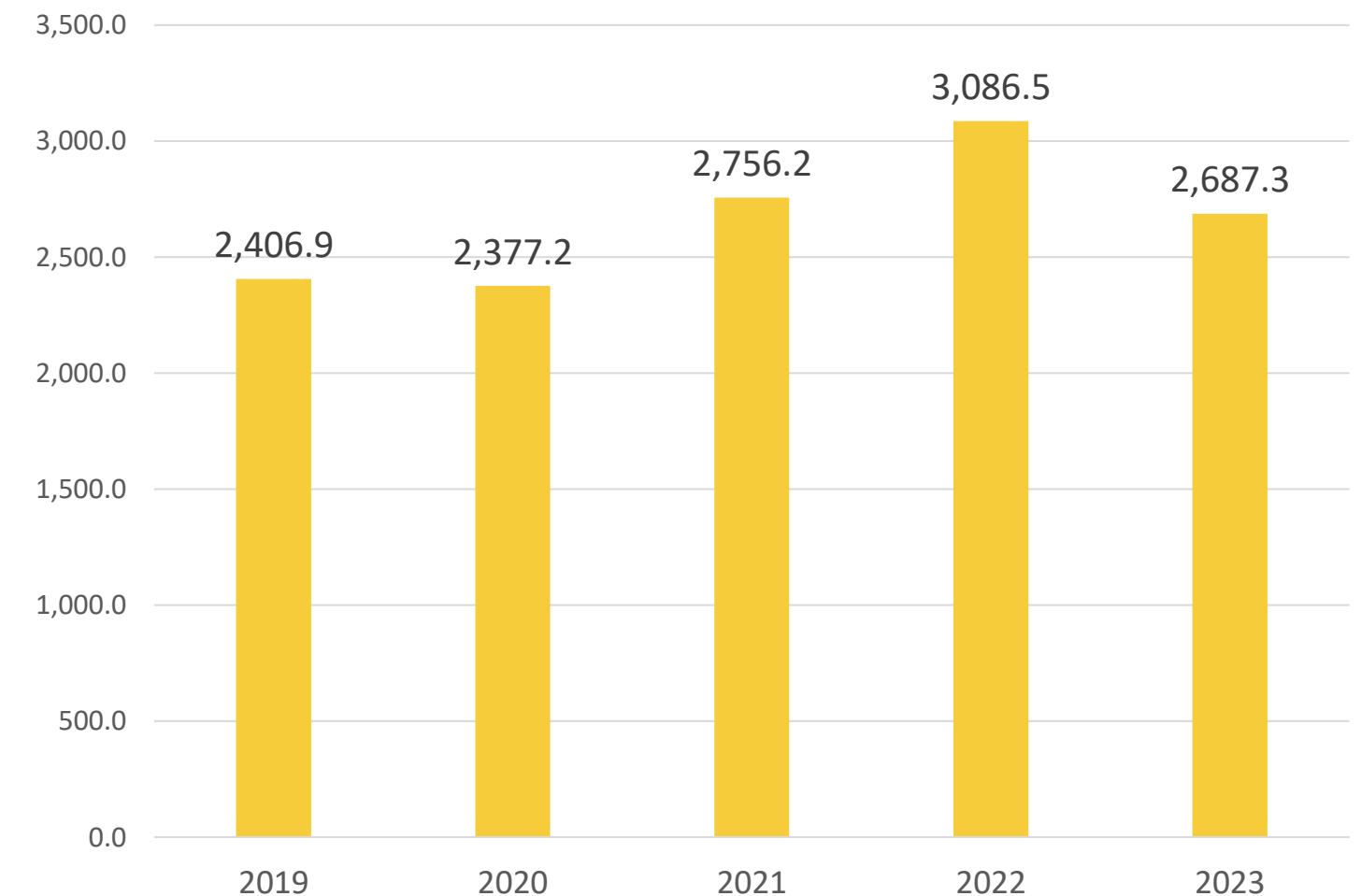
Remittances inflows: resilient despite global shocks

Remittances to the Kyrgyz Republic show a slightly growing trend

The average annual inflow of the past 5 years was US\$ 2.6 billion. The inflow in 2023 is slightly above that average

The volatility in the exchange rate between the Russian Ruble and the US Dollar significantly impacted the flows reported in 2022 and 2023

REMITTANCES INFLOW TO KYRGYZSTAN
per year in US\$ millions



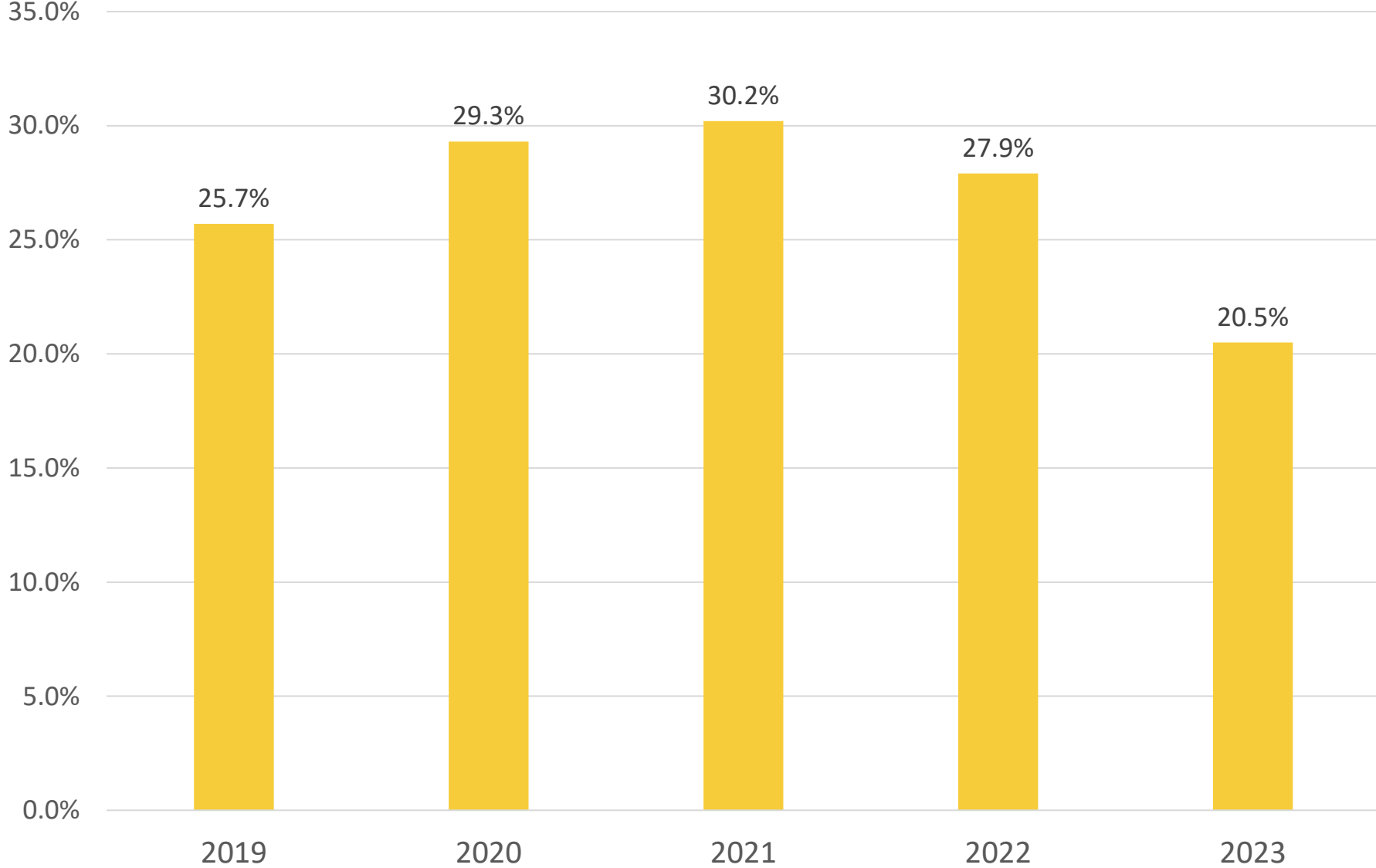
Source of data : World Bank
Graph and table developed by IFAD staff



Key Market Data

Remittances to GDP

Remittances to GDP Ratio (2019-2023)



The Kyrgyz Republic is one of the top 5 remittance recipients worldwide based on remittances to GDP ratio.

The Kyrgyz economy grew 7% in 2022 and faster than the increase in the remittance flow. In 2023, economic growth moderated to 4.3% while the remittance flow decreased, especially on the corridor Russian Federation to the Kyrgyz Republic, due to the depreciation of the Ruble versus the US\$.

Remittances continue to be the key source of family income in many parts of the Kyrgyz Republic.

Source of data : World Bank, based on data of NBKR



Key Market Data

Key corridors for remittances to Kyrgyzstan

The main corridors for inbound remittances to the Kyrgyz Republic:

Country	Share in % for first 9 months of 2023
Russian Federation	78.2
United States of America	4.9
Kazakhstan	3.7
Uzbekistan	2.0
Germany	1.0
Tajikistan	0.14
Others	10.1

The main corridors for the outbound remittances for remittances from Kyrgyzstan are :

Country	Share in % for first 9 months of 2023
Russian Federation	23.8
Uzbekistan	11.2
Kazakhstan	7.4
United States of America	0.7
Azerbaijan	0.6
Tajikistan	0.5
Belarus	0.5
Others	53.3

The key corridor for remittances is the Russian Federation, where the majority of migrants reside.

Other key corridors within Central Asia: Kazakhstan, Uzbekistan and Tajikistan.

In 2023, the USA emerged as a key corridor, while in previous years the EU, Türkiye, and UK recorded relevant flows.

Other corridors include flows from South Korea, United Arab Emirates, China, Japan and Ukraine.

Outbound remittances declined in 2023 to US\$ 561 million or 21% of inbound remittances. The two main corridors are Russia (86%) and Türkiye (12%).

Source of data : NBKR and National Statistics Committee
Graph and table developed by IFAD staff



Key Market Data

The remittance paradox: urban versus rural

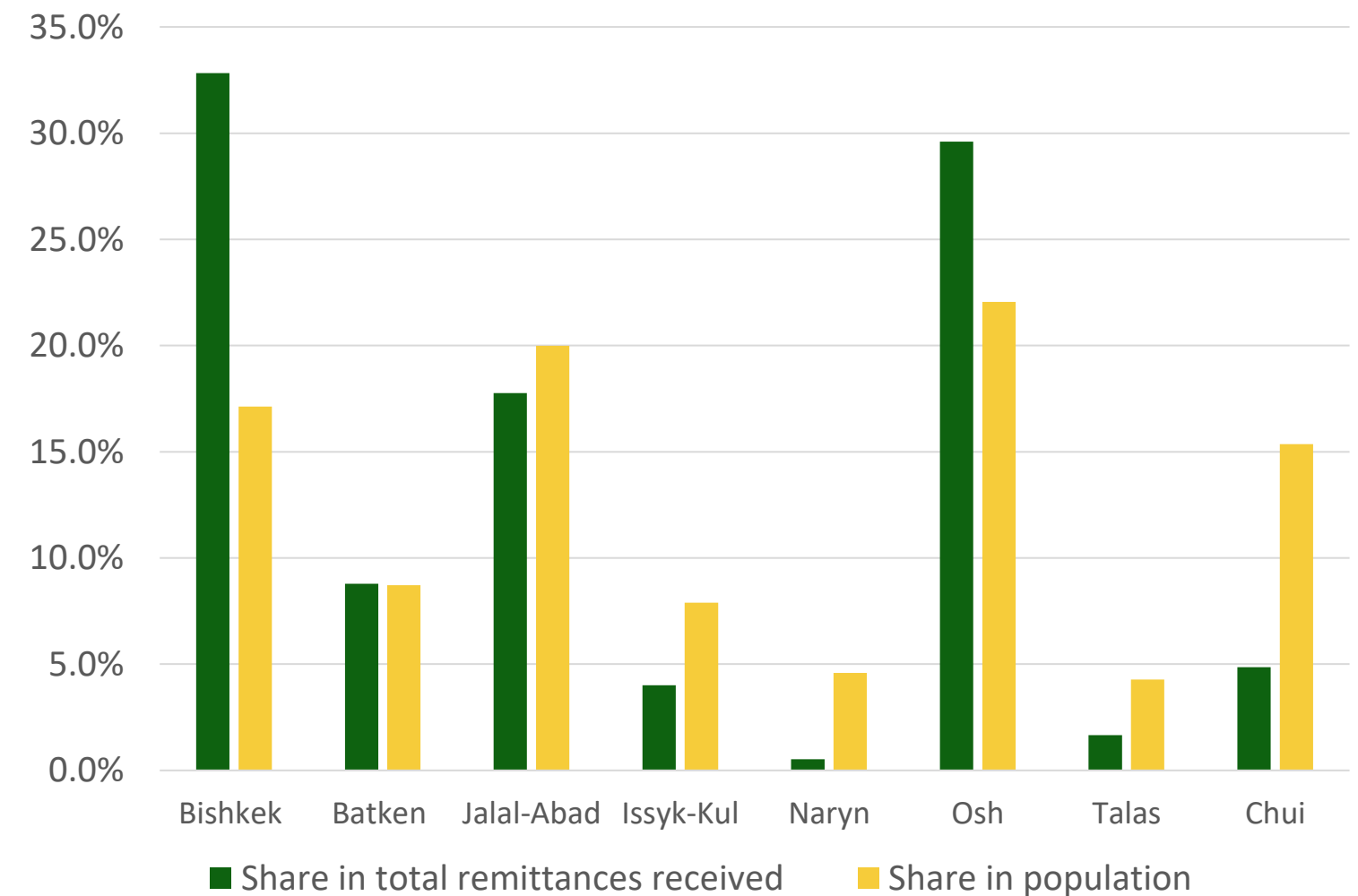
About 75% of the remittance inflows are received in the three largest cities: Bishkek, Osh, and Jalal-Abad, where about 40% of the population lives.

The case of Chui region adjacent to Bishkek is illustrative: 15% of the Kyrgyz population lives in Chui, and only 4.9% of the remittances are received here.

Average monthly remittance received in the country: US\$277

The main reason why only 25% of remittances are received outside the main cities, is the lack of access points in rural areas.

Regional distribution of remittances compared to population



Source of data : NBKR and National Statistics Committee
Graph and table developed by IFAD staff



Key Market Data

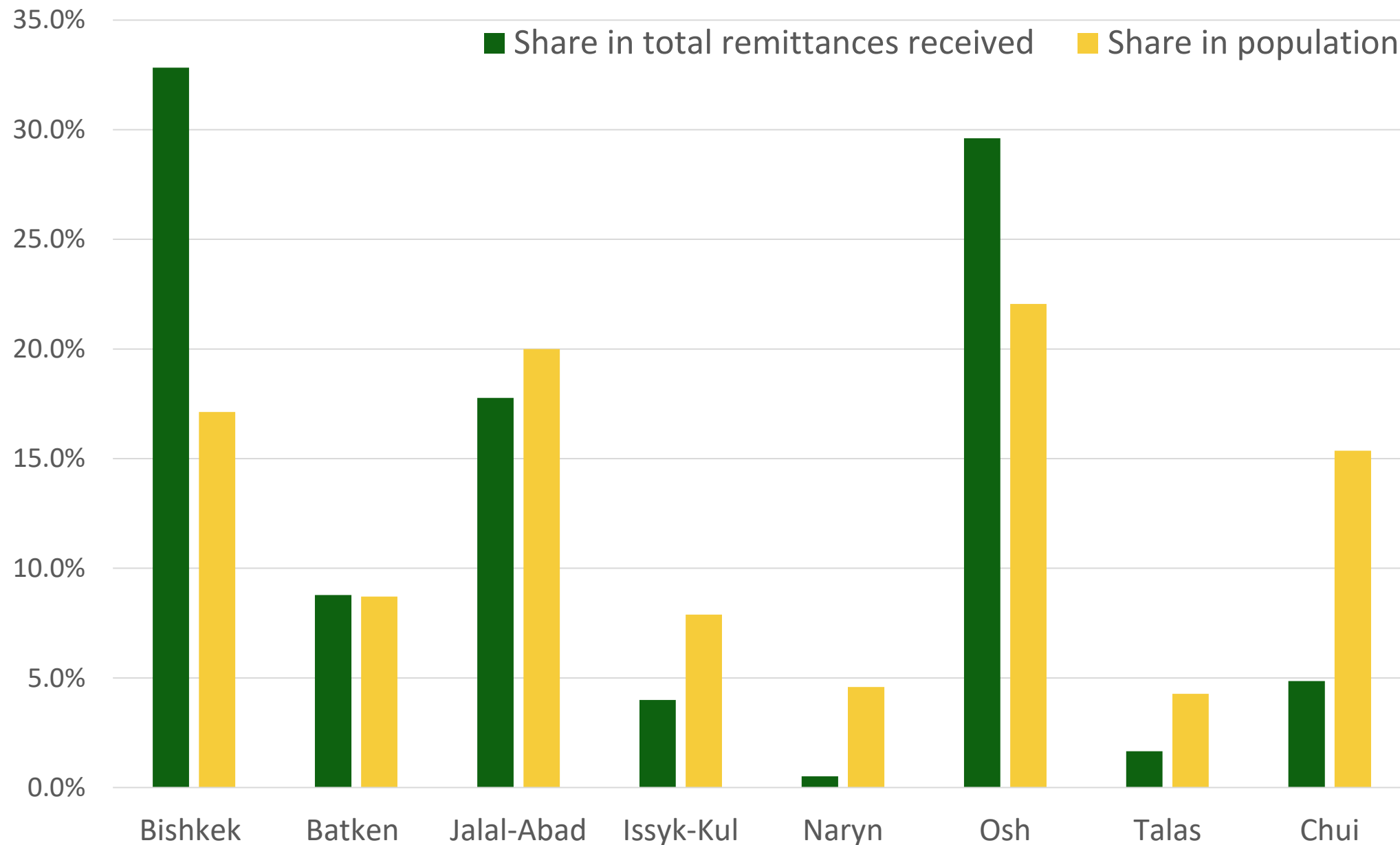
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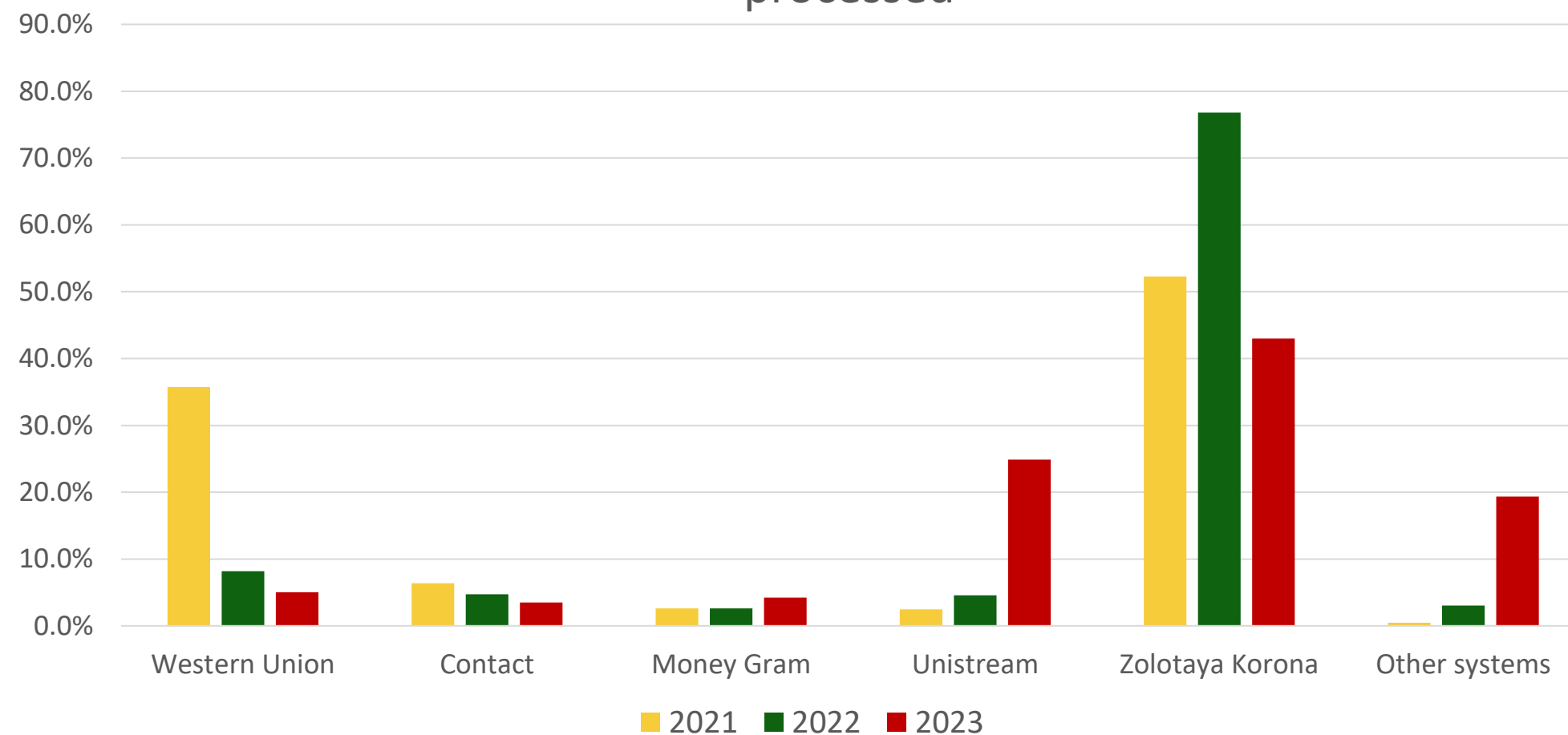


Source of data : NBKR and National Statistics Committee Graph and table developed by IFAD



Remittance Market Share Dynamics 2021-2023

Market Share of Remittance Service Providers
measured in amount of money
processed



- Market share measured by operator.
- Main player is (was) Zolotaya Korona. Its dominant position eroded in 2023 due to new entrants ,e.g. Astrasend, other service providers and Unistream. In previous years, Korona’s main competitor was Western Union that had a strong position in Russia.

Source of data : NBKR
Graph and table developed by IFAD staff



Remittance Market Share Dynamics 2021-2023

	2021		2022		2023 first 9 months	
	Operations	Volume	Operations	Volume	Operations	Volume
Western Union						
<i>incoming payments</i>	48,5%	35,8%	14%	8%	3%	5%
<i>outgoing payments</i>	3,7%	4,2%	5%	4%	6%	6%
Contact						
<i>incoming payments</i>	2,4%	6,4%	2%	5%	3%	4%
<i>outgoing payments</i>	7,8%	11,8%	6%	5%	20%	12%
Money Gram						
<i>incoming payments</i>	1,0%	2,6%	1%	3%	2%	4%
<i>outgoing payments</i>	0,6%	0,7%	1%	2%	2%	4%
Unistream						
<i>incoming payments</i>	1,2%	2,5%	3%	5%	23%	25%
<i>outgoing payments</i>	0,7%	1,7%	1%	3%	2%	4%
Zolotaya Korona						
<i>incoming payments</i>	46,7%	52,3%	79%	77%	39%	43%
<i>outgoing payments</i>	87,1%	81,5%	83%	68%	67%	57%
Other operators						
<i>incoming payments</i>	0,2%	0,5%	1%	3%	29%	19%
<i>outgoing payments</i>	0,1%	0,1%	4%	18%	4%	16%

The three main Russian Remittance Service Providers – Korona, Contact and Unistream– have a market share of 73% processing remittances to and from Kyrgyzstan.

This concerns remittances from and to Russia, as well as from and to other countries—especially within Central Asia.

As of 2023, the table also shows the remittances flows via digital channels including bank account, cards and wallets and other solutions of Fintechs. The new operators include RIA, UPT, Astrasend, Pluspay, as well as directly transfers sent from apps at Sberbank, VTB and others and represent now a significant share in the total flow. It also shows that these solutions feature a relatively higher volume of operations and lower average value per operation.

Source of data : NBKR
Graph and table developed by IFAD staff



Financial Services Landscape

The Kyrgyz financial sector is bank-centric: banks' assets represent 87% of total financial sector assets and banks' loans amount to more than 50% of GDP. This is complemented by a robust micro finance sector and a relatively small insurance sector.

The banking sector is diverse with 23 commercial banks including state-owned banks, Kyrgyz private sector investors, foreign investors and foreign banks.

Banks range from mass-retail banks, digital banks, to banks focused on corporates .

The banking sector leads the payments industry, which also includes several local Payments Operators.

The licensed banks can represent the services of registered International Money Transfer Operators, Card Payment Systems. Banks can subcontract agents of different types .



Payment systems infrastructure

The payments systems infrastructure includes:

- Bulk Clearing System (BCS) includes all 23 licensed commercial banks active in bulk payments connected to the NBKR using the Interbank Communication Network. Bank-to-bank transactions are cleared the same day.
- EICard or previously Interbank Processing Center (IPC): 21, i.e. almost all licensed banks issue cards and wallets and are connected to the IPC , and involved in retail payments. It has a connection to the Russian payment system.
- Real-Time Gross Settlement system (RTGS) has reduced the settlement and systemic risks on the interbank settlement process as individual transfers are settled continuously during the processing day.
- Cash remains a very relevant payment instrument in the Kyrgyz Republic: on average each adult holds US\$400 in cash and potentially a higher amount in foreign currencies, gold or other valuables.



Payment systems access infrastructure

Payment Access Infrastructure and usage				
	Total	Per 100,000 adults	in smaller towns and rural areas	
Bank branches	320	7	1	
Bank agents	3686	76	43	
ATMs	2260	46	17	
POS terminals	23009	473	203	
Cash In Terminals	2775	57	16	

- At 31 December 2023, there were 320 bank branches and 3,686 agents. Nearly all branches are in urban areas and equipped with ATMs and POS terminals. The number of agents grows quickly and reached nearly 3,700. A significant part of the agents operate in small towns and rural areas; the agents are equipped with POS Terminals and provide access to a range of services
- Other POS terminals are mainly found in urban areas and at busy commercial centers, shopping malls, restaurants, hotels, fuel stations, and gradually more retailers.
- The average of 473 POS terminals per 100,000 adults is low compared to other emerging markets where the ratio is 5 to 10 times higher.
- The access ratio in rural areas is estimated to be below 250 per 100,000 adults. This highlights a barrier to enhance not only access to cash, but also cashless payments and access to digital financial services.
- There are over 2,000 ATMs in the Kyrgyz Republic or 46 per 100,000 adults. ATMs can be easily accessed in the three main cities and several other towns and tourist resorts. The number and geographical distribution of the ATMs also highlights that in rural areas there is no access to cash via an ATM; card holders in small communities need to travel an hour or more to pick up cash.
- This infrastructural gap could be bridged by increasing the network of payment agents and small businesses equipped with POS terminals.



Usage of financial services

Financial products	in USD
Cash in hands	399
<u>Deposits of individuals in in KGS and FX</u>	357
<i>settlement accounts</i>	13
<i>demand deposits</i>	176
<i>time deposits</i>	168
Consumer loans	119

Amounts in US\$ and as average per adult
Source of data : NBKR; November 2023
Graph and table developed by IFAD staff

At 30 November 2023, NBKR data indicate that the average of cash in circulation per adult is nearly \$ 400.

That is more than the average per adult held in deposits held in KGS or FX which stood at US\$ 357 with a small part in transferable deposits, nearly held in demand deposits and the remainder in time deposits from 1 month to 1 year and longer

The amount of loans issued by banks to consumers is small, US\$ 119, if measured as average per adult. This can be explained that many persons do not take loans from banks.

A more detailed analysis would show that the majority of these formal financial services are used in the three large cities of the Kyrgyz Republic, while households in villages and rural areas have limited access to these services and often look for informal solutions, of and when needed.



Cash payment access points: a significant rural gap with opportunities to explore

The **self-service, cash-in payment terminals** operating in the Kyrgyz Republic include Mobilnik, Onoy, Umai, QuickPay, QIWI, and Bereke.

There are an estimated 2,775 of these terminals, also mainly in urban areas with relatively high density of consumers.

The number of these cash-in terminals in rural areas is limited. They require technical services for cash pick up and operation, which is costly if it is a small community 50 or 100 kms away from the main town.

There are about **682 Foreign Exchange bureaus** in the Kyrgyz Republic, again mainly in urban areas and much less in rural communities.

Foreign Exchange Bureaus can fill in gaps as bank agents for remittance operations and as payment agents.



Interoperability

- Technical and operational interoperability of banks payment systems is nearly 100% and meets international standards.
- Challenge: commercial conditions offered by banks to merchants or retailers when accepting payments from cards and wallets issued by other banks. The commission fee is high for retailers, although in line with conditions found in other emerging markets.
- The Government promote cashless payments by offering the consumer a reduction of 2% at the VAT or Sales Tax at certain retail points.





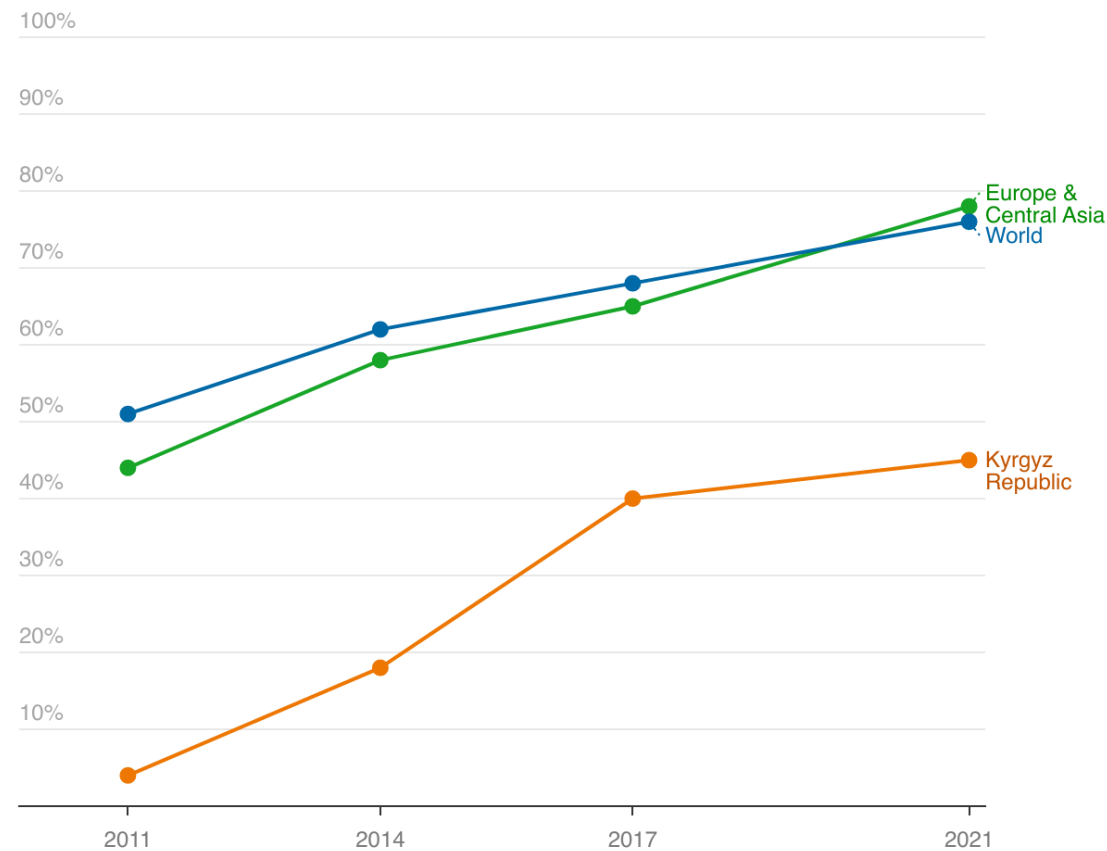
KYC and eKYC

- ✓ Significant progress in access to digital public services and registration documents, which can be obtained at special centres and paid via banks and post offices. Biometric IDs and passports are available for all.
- ✓ Issues remain as not yet everyone has the new documentation, and there is a legacy of accounts opened with old data from users.
- ✓ The main enablers for these new services include electronic know your customer (eKYC) and the payment card regulation, which granted permission to bank and non-bank financial institutions to onboard clients remotely and provide digital services.
- ✓ Limitations in rural areas

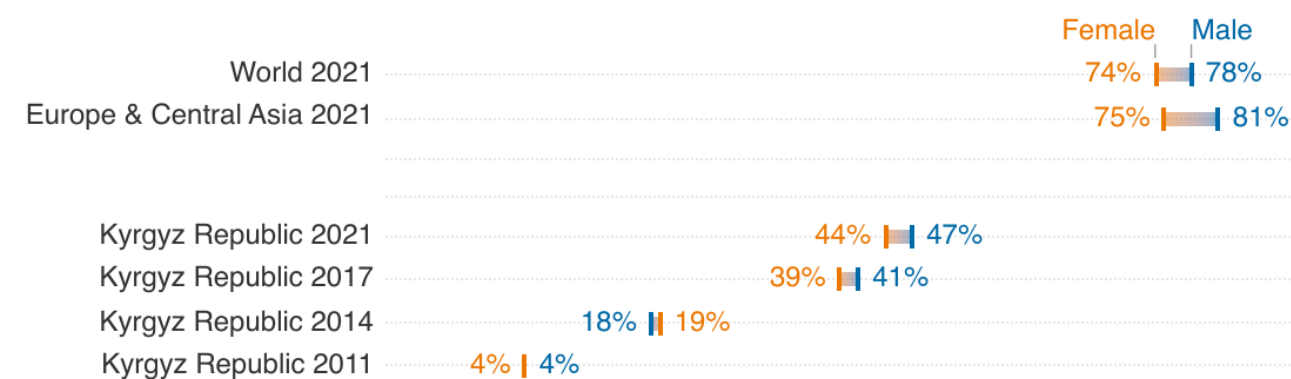


Financial inclusion

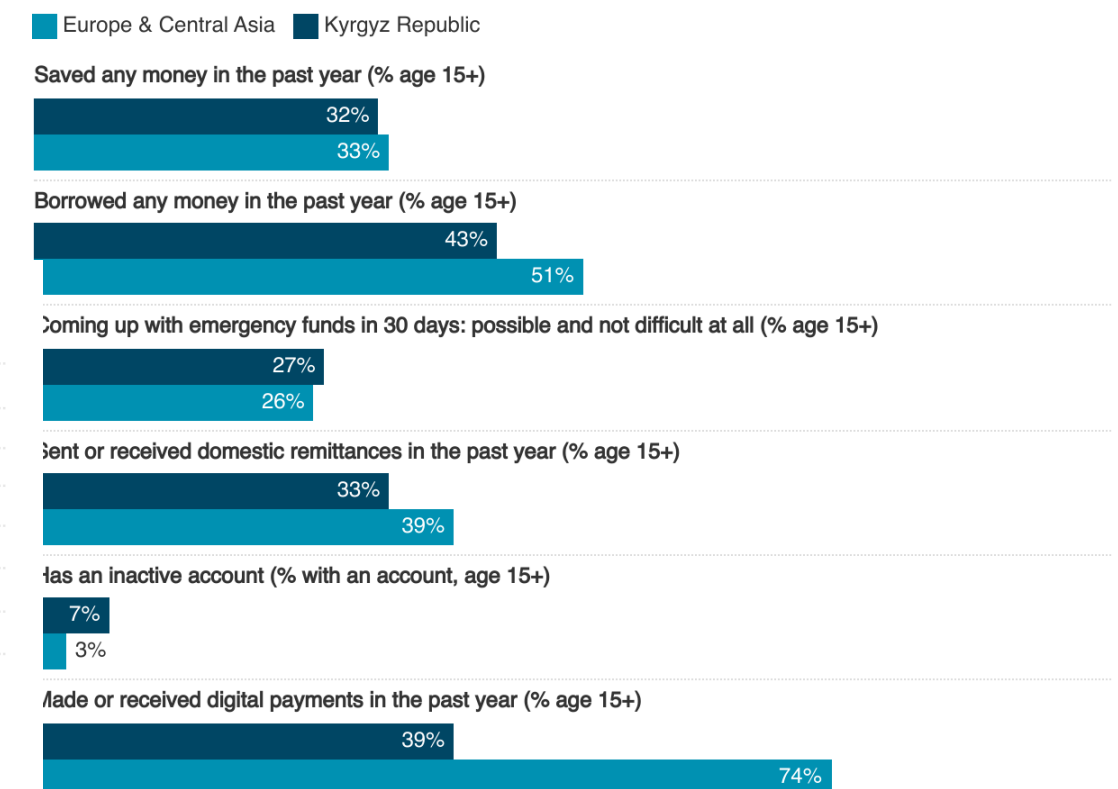
- **Financial inclusion has substantially improved** in the past 15 years and continues to show strong progress; in urban centers basic financial inclusion is high, above 90% while in smaller towns and rural areas this estimated to be between 40% and 50%, or up to 2 million adults not included or not using formal financial services.
- **Gender and rural gap** in financial inclusion continue to need further attention
- **Access to and usage of formal savings and credit** was low compared to the regional average in Central and Eastern Europe, South-Caucasus and Central Asia



Account Ownership in Kyrgyz Republic - Global Findex Database
Chart: FinDev Gateway



Gender Gap in Account Ownership in Kyrgyz Republic - Global Findex Database
Chart: FinDev Gateway



Use of Financial Services in Kyrgyz Republic in 2021 - Global Findex Database
Chart: FinDev Gateway



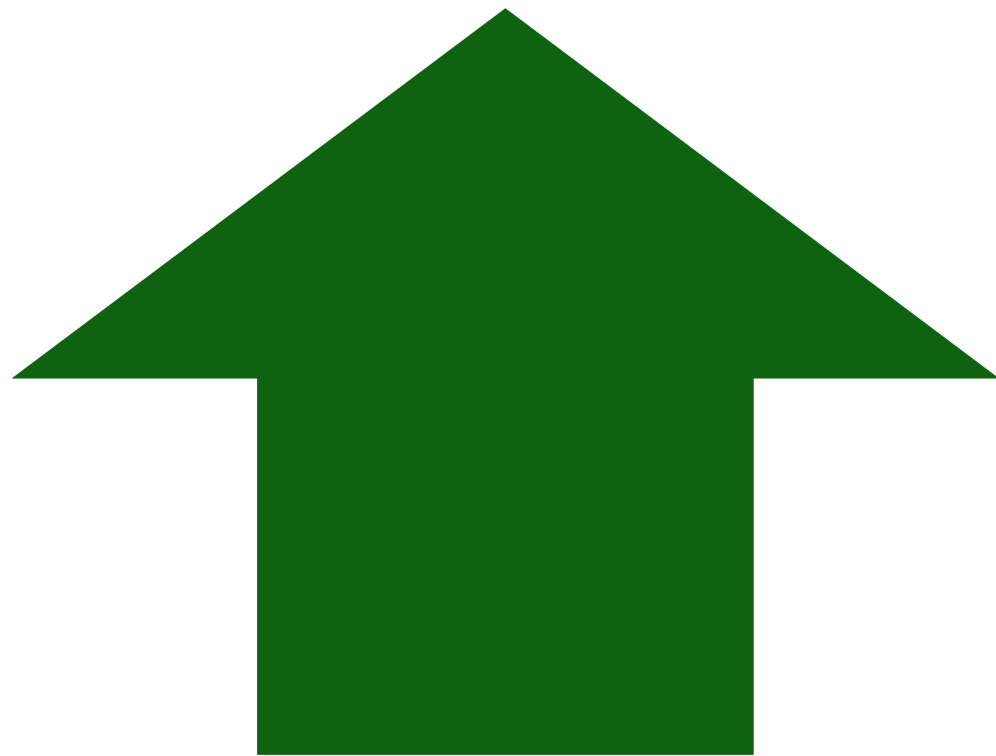
Focus on international remittance recipients

Positive triggers

- International remittances represent a significant part of household income
- Increased usage of bank accounts with cards or wallets linked
- Digital payments grow exponentially and drive usage of non-cash payment instrument

Challenges

- Most of remittances received are quickly converted into cash
- This is also the case when remittances are received into an account, card or wallet
- Outside the main cities, lack of access points for digital and bank-account-based remittances remain a decisive impediment for alternative to cash
- Deepening financial inclusion through enhanced financial literacy and cross-marketing between remittances and other financial services





Digital Financial Services (DFS) usage, growth and pricing

- Increased usage of DFS is on the agenda of the Kyrgyz financial institutions and the Government as they pursue their digital society program, where access and use of digital public services is spread: digitally pay for transport, and utilities, taxes
- Growth in usage of DFS has been impressive, especially in urban areas and amongst the younger population with most of them using mobile wallets and increasingly QR codes for payments, and transfers. Covid-19 caused a push in the increase of electronic and cashless money.
- Basic conditions such as 5G coverage of mobile networks for data communication at relatively low cost are very favourable. According to ITU and GSMA and based on reports of the State Communications Agency, possibly up to 40 small settlements out of the 2,130 are not yet covered by 2G mobile network technology. That is 1.9% of the territory. 2,049 or more villages, towns and cities have 4G and in the urban centers 5G is already available. Moreover, Kyrgyzstan has one of the highest ratios of mobile penetration of 159% and about 3 SIMs per subscriber. This high level of mobile penetration and usage supports digital literacy and usage of digital services.

In this context the digital remittance inflow can be a relevant contributor. However, particularly in rural areas, there is:

- a) A preference for cashing out remittances.
- b) A gap in access points
- c) Limited use case: absence of an ecosystem for using accounts or cards at small businesses
- d) Lack of enabling infrastructure
- e) Need for digital and financial education



Financial literacy and education programs

In alphabetical order. Financial literacy (21=100); Knowledge (7=100), Behaviour (9=100), Attitude (5=100)

Country	Financial literacy score	Financial knowledge score	Financial behaviour score	Financial attitude score
Armenia	53.4	49.9	56.8	52.4
Azerbaijan	45.9	35.0	53.8	47.2
Belarus	61.4	64.3	64.5	51.6
Kazakhstan	59.6	60.0	65.4	48.6
Kyrgyz Republic	55.4	46.3	65.7	49.4
Russian Federation	59.4	58.7	64.4	51.3
Tajikistan	51.1	42.9	59.7	47.3
Uzbekistan	59.9	51.3	68.4	56.6
Average CIS	55.8	51.1	62.3	50.5

In June 2016, technical assistance was provided to the National Bank of the Kyrgyz Republic to adopt a national financial education strategy for the entire population. Banks actively provide financial education to their clients.

The level of financial literacy in the Kyrgyz Republic can be considered “average” with a score of 55.4 on financial literacy, high financial behaviour scores but very low knowledge scores and average attitude to financial matters.

About 80% of adults in the Kyrgyz Republic suggest they will rely on a partner or family for retirement funds.

Close to half of adults in the country (45%) experienced a financial shortfall.

Particularly low scores were achieved in the simple and cumulative interest calculations, as well as in understanding risk and return, and risk and diversification.



Financial literacy and education programs - gaps

Gaps remain in the following areas to be addressed:

- Rural poor communities have limited access points for cashless payments and to other financial services.
- Particular attention needs to be given to education and literacy in using Islamic finance in rural areas and by women.
- Consumer protection for usage of digital payments and other financial services need to be part of financial education to enhance trust in using digital financial services: awareness of cybersecurity and detecting and avoiding the increasing fraudsters and scammers: “23% do not trust any institution to provide them with financial guidance” (OECD 2021).



Remittance market: priority areas

- Digitalization: emphasizing rural recipients as beneficiaries
- Financial inclusion deepening: financial and digital products that leverage remittances and expansion of rural agents
- Financial and digital education: for rural people and the most vulnerable
- Enhancing existing data for better decision- and policy-making
- Dialogue for better coordination among institutions involved (opening the space for the NRSNs)