Digitizing Remittances

in The Kyrgyz Republic

2023

Table of Contents

Acronyms

FDI	Foreign Direct Investment
eKYC	Electronic Know Your Customer
GDP	Gross Domestic Product
IMF	International Monetary Fund
MTOs	Money Transfer Operators
POS	Point of Sale
WBG	World Bank Group
NBKR	National Bank of Kyrgyz Republic

Acknowledgments

This report is part of Harnessing Innovation for Financial Inclusion (HiFi)—a program to scale up financial inclusion by harnessing technology and innovation— funded with UK Aid from the government of the United Kingdom.

Authors

This report was prepared by Angela Garcia Vargas and Beniamino Savonitto. Other World Bank Group staff who contributed to this report include Ahmed Faragallah, Emiko Todoroki, Fatima Eshimbekova, Maxim Valeriev Roussinov, Lada Orozbaeva, Lisa Johnston.

Executive Summary

Over the past decade, Kyrgyz Republic has made significant efforts to strengthen its payment infrastructure and improve the legal and regulatory environment for the payment system. These efforts laid the foundation for the development of a digital ecosystem, fostering a more inclusive payments market, and strengthening remittances services.

As a result, access to finance continues to improve and, while cash remains the preferred transaction mode, digital payments are gaining traction.

Executive Summary

Cross-border remittances represent a major share of the payments market in many countries, often comparable to, or larger than, the country's foreign direct investment (FDI) flows.

As one of the first financial services used by migrants and their families, many of whom come from low income households in rural areas, international remittances have direct links to financial inclusion, and are used frequently enough to create a strong use case for associated services.

In the Kyrgyz Republic, remittances accounted for over 30 percent of gross domestic product (GDP) in 2021, making it one of the most remittance-dependent economies in the world. Furthermore, remittance flows have demonstrated remarkable resilience through COVID-19, as well as Russia's invasion of Ukraine, helping to mitigate poverty in the country as a direct result of the pandemic and subsequent economic and social developments in the region.

Globally, electronic payments have revolutionized the remittances market. Digital channels have improved convenience and accessibility of remittance services for migrants, while new business models have emerged in the market, fostering quality, and lowering transaction costs.

The growth of digital payments in developing countries has lowered barriers to access and boosted the value of financial services to consumers and businesses. As access to low-cost, convenient, and fast payment services improves, the digitization of international remittances receipts can further reduce remittance costs and drive financial inclusion among an underserved population.

Over the past decade, Kyrgyz Republic has made significant efforts to strengthen its payment infrastructure and improve the legal and regulatory environment for the payment system. These efforts laid the foundation for the development of a digital ecosystem, fostering a more inclusive payments market, and strengthening remittances services. As a result, access to finance continues to improve.

While cash remains the preferred transaction mode in Kyrgyz, digital payments are gaining traction. For example, the share of households receiving remittances in an account through digital channels has grown rapidly from 4 percent in 2016 to 22 percent in 2021 (see infographic).

This note summarizes the changes in the Kyrgyz Republic's payments and international remittances market since a comprehensive package of reforms was launched in 2016 by the National Bank of the Kyrgyz Republic (NBKR) with support from the World Bank Group (WBG), and leverages available data and survey evidence in light of the impact of COVID-19 pandemic and Russia's invasion of Ukraine.

Remittance Recipients

Infographic

22%

households receiving remittances through **digital channels.**

Up from 4 percent in 2016.

62%

of banked remittance recipients prefer **cash transfers.**

Convenience and flexibility of cash transfers is highly valued and was not significantly disrupted by Covid-19.

6%

of the remittance recipients receive transfers directly into payment cards or e-wallets.

Digital channel users tended to live in larger cities and make greater use of digital payments.

DFS is growing in rural areas

Access to digital financial services in rural areas and smaller urban centers is growing, but survey data shows that many recipients do not know how to use accounts and payment cards, or believe that processes and traveling times are too difficult and inconvenient.

Digital transfers into accounts, payment cards or mobile wallets are found to:

- Improve speed and efficiency.
- Reduce queues, recipients can cash out at ATMs or cash points closer to home.

But

- The ability to cash out payments remained paramount, likely reflecting the limited use cases for digital payments in the economy.

Source: WBG.

Introduction

Advancing Financial Inclusion in Kyrgyz Republic

While the Kyrgyz Republic had been promoting the development of its financial sector under different initiatives and state programs since the early 2000s, more than a decade later the country was still experiencing difficulties in achieving widespread financial access and use of electronic payments. Access to a financial account was estimated to be as low as 3 percent at the time of the first World Bank Findex Survey in 2011.

To address these challenges, the NBKR engaged in a systematic effort to address the barriers to financial access and to promote electronic transactions, fostering a more inclusive payments market, and strengthening remittances services. These efforts, many of which benefitted from the advice and support of the WBG, focused on the following main areas:

- Strengthening the legal and regulatory environment for payment systems in line with international standards,
- Expanding banking and payment infrastructure to increase financial access and foster adoption and acceptance of digital payments,
- Supporting investment and adoption of technology among payment service providers,
- Supporting the safety, reliability and efficiency of the payment system, including by strengthening risk management functions.

Financial Access

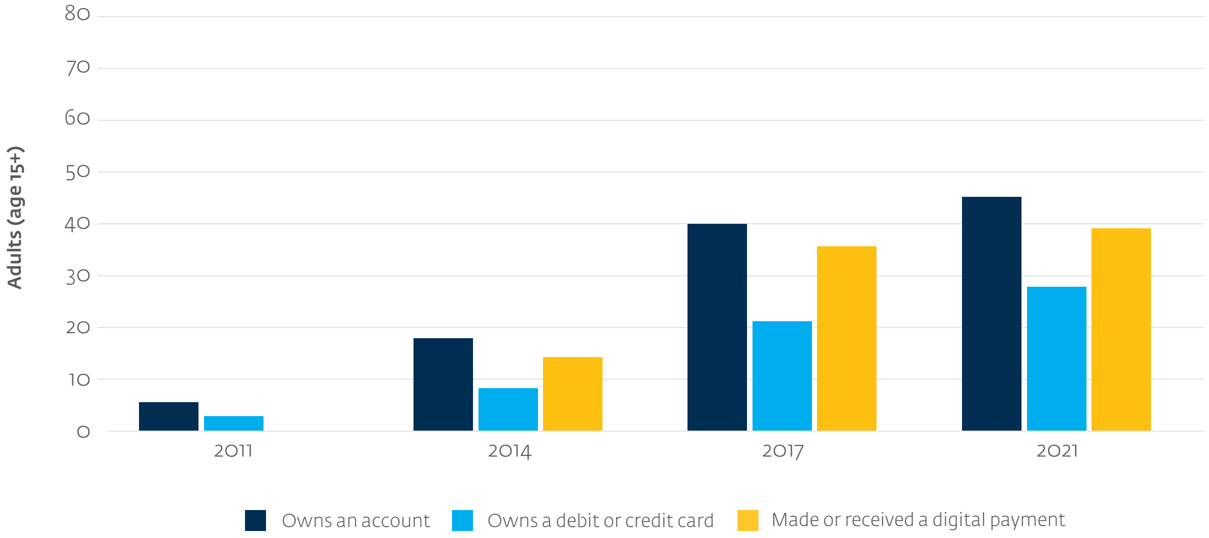
Accessibility has been a major barrier to financial inclusion in the Kyrgyz Republic. To date, approximately 40 percent of financial access points are in the capital city, despite 83 percent of the population living outside of it.[1]

However, financial access has improved dramatically in the last decade because of the regulatory reforms leading to 45 percent of adults having access to a transaction account, and 39 percent having made or received a digital payment by 2021 (Figure 1).[2]

1 Authors calculations using population data from Demographic Yearbook of the Kyrgyz Republic (Available at http://www.stat.kg/ru/publications/demograficheskij-ezhegodnik-kyrgyzskoj-respubliki/) and access points data including ATMs, POS, Payment terminals, branches, field cash outlets, and savings offices as reported in the by the NBKR (Available at https://www.nbkr.kg/index1.jsp?item=98&lang=KGZ).

2 World Bank Findex Database 2021.

Figure 1: Financial Access Indicators 2011-2021



Source: World Bank Findex Database 2021.

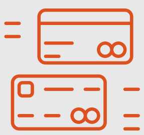
In 2016, the NBKR launched the Regulation on Electronic Money in Kyrgyz Republic seeking to create a conducive environment for innovation and mobile financial services. As a result, 5.4 million new e-wallets were opened as of October 2022, with an estimated 11 percent of the adult population now owning a mobile money account.[3]

The new regulatory framework has led to significant growth in payment infrastructure. Since 2015, the country's ATMs and point of sales (POS) grew by 156 percent and 242 percent respectively.[4]

In 2018, the NBKR introduced additional measures to promote agent banking through an extended range of services to banks, including e-money services, cash withdrawals using bank cards, and disbursement of money transfers. As a result, agent banking grew from 30 in 2017 to 94 in 2022, while agents providing only cash withdrawals from bank cards and e-money services increased from 229 to 1,673 over the same period.

In addition, there was a major push to increase availability and usefulness of the national "Elcard" and related infrastructure. As a result, the total number of payment cards in circulation almost quintupled from 2015 to October 2022 (Figure 2a).

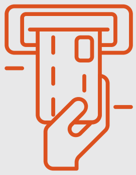
How The Kyrgyz Republic Motivated For The Increased Use of The Elcard



01

Launched the full digitization of public salaries paid directly into Elcards in 2018. This was followed by digitization of pensions and social payments, which reached approximately 55 percent of beneficiaries and pensioners in 2020.

3 World Bank Findex Database 2021.
4 NBKR data.



02

Completed an intersystem integration of the Elcard with the Russian national payment card system MIR in 2019. This allowed most Kyrgyz commercial banks to accept Russian cards at ATMs and POS terminals.

03

Improved accessibility with the launch of the Elcard mobile application in 2019. This allowed instant transfers to an Elcard from any bank in Kyrgyzstan, as well as mobile phone top-ups, services payments, mini-statements and payment histories, among other features.

While survey data from the Global Findex Database, 2022 indicates that use of payment cards is still quite limited[5], at the national level card transactions have more than tripled in value since 2015. And, although cash withdrawals still accounted for 80 percent of the value of transactions processed in 2022, the share of merchant payments is growing rapidly (Figure 2b).

Figure 2a: Number of Payment Cards

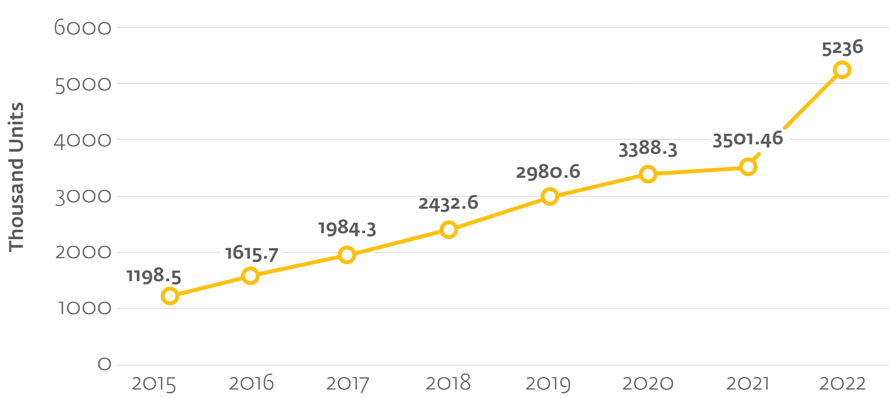
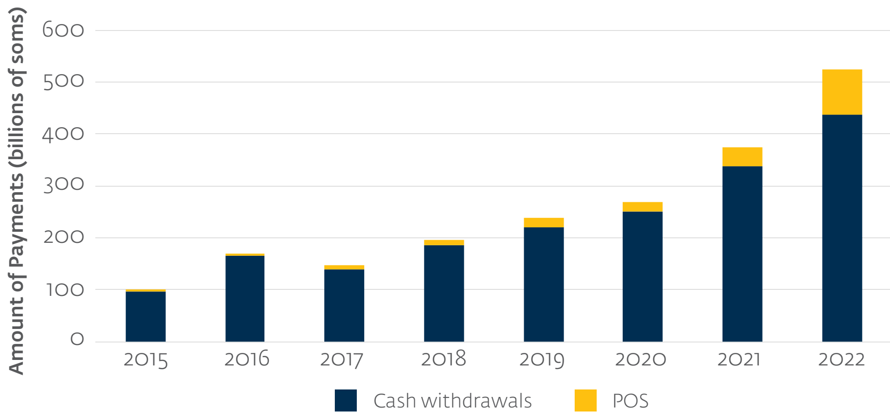


Figure 2b: Value of Transactions with Payment Cards



Source: NBKR data

5 World Bank, Global Findex Database, 2022. The survey estimates that only 1/3 of individuals with access to a debit or credit card had used it in 2021.

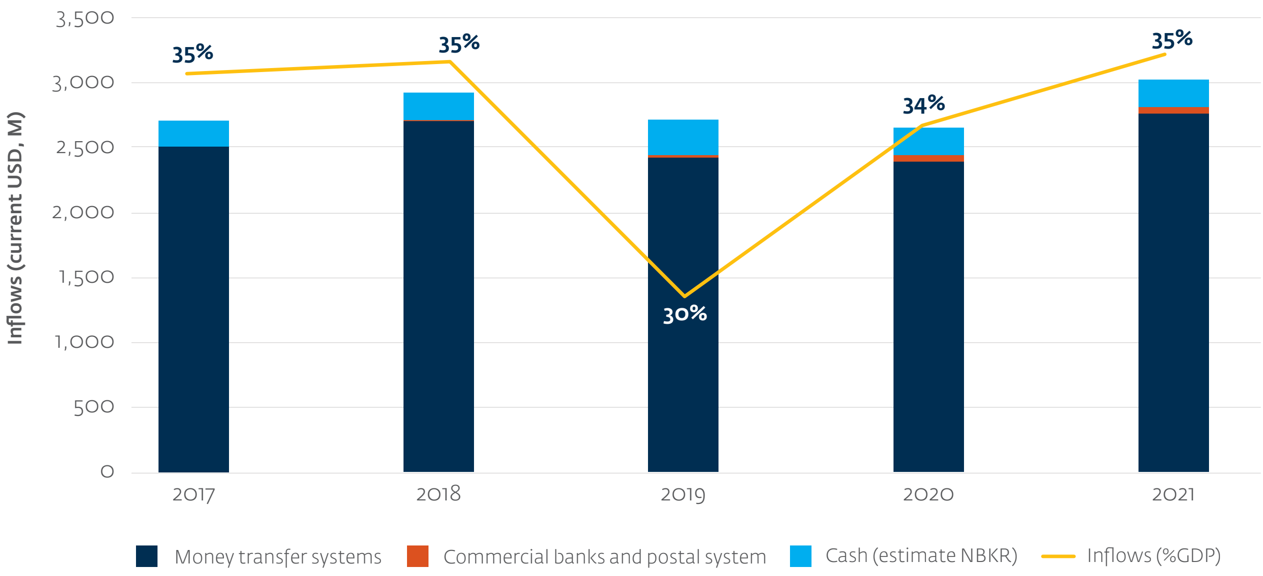
An Overview of Remittances in the Kyrgyz Republic

Migration and Remittance Flows

The economy of the Kyrgyz Republic relies heavily on labor migration and remittances, which account for an estimated 30 percent of the country's GDP, contributing a record US $3 billion by the end of 2022.[6]

The importance of remittance flows is underscored by recent analysis from the National Statistical Committee of the Kyrgyz Republic which estimated that, without foreign income from labor, 2021 poverty levels resulting from the repercussions of COVID-19 (see pg 14) would have increased from 33.3 to 42.8 percent of the population.[7]

Figure 3: Structure of Workers' Remittances



Source: NBKR, 2022, Balance of Payments of the Kyrgyz Republic for 2021.

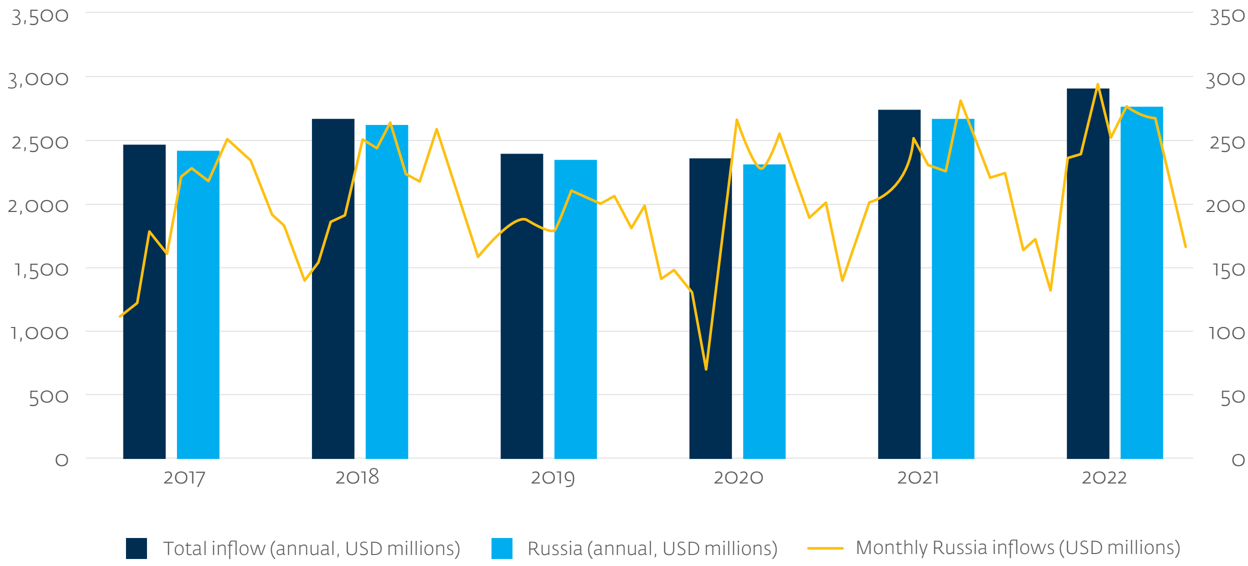
Due to high informality the exact number of Kyrgyzstani labor migrants is not known, but recent estimates project 800,000 to 1,000,000 Kyrgyz Republic citizens (up to 40 percent of the labor force) are working outside the country.[8] Most migrants go to Russia, which accounted for as much as 97.6 percent of remittance inflows in 2021.[9]

6 Gross remittance inflows reported by NBKR, 2022, Balance of Payments of the Kyrgyz Republic for 2021. Available at: https://www.nbkr.kg/DOC/04082022/000000000058917.pdf.
7 National Statistical Committee of the Kyrgyz Republic. The level of poverty in the Kyrgyz Republic, 2021. Available at http://www.stat.kg/ru/publications/uroven-bednosti-v-kyrgyzskoj-respublike/
8 Asian Development Bank. COVID-19 in the Kyrgyz Republic: Socioeconomic and Vulnerability Impact Assessment and Policy Response. August 2020.
9 NBKR, 2022, Balance of Payments of the Kyrgyz Republic for 2021. Available at: https://www.nbkr.kg/DOC/04082022/000000000058917.pdf.

As Figure 3 shows, transfers made through the money transfer systems in Kyrgyz Republic represented over 90 percent of gross inflows in 2021.[10]

While monthly data on remittance inflows showed significant volatility over the period analyzed, it must be noted that this was due to a slow-down in the Russian economy in 2019, the outbreak of Covid-19 and quarantine measures in 2020 to 2021, and Russia's invasion of Ukraine in 2022. However, total remittance flows from Russia demonstrated strong resilience and have reached record levels in 2022 (Figure 4).

Figure 4: Remittances Made Through Money Transfer Systems (Total & Russia)



Source: NBKR, 2022, Remittances of individuals made through the money transfer system.[11]

International Remittances

The remittances market in the Kyrgyz Republic is characterized by the leading role of money transfer operators (MTOs). 2016 data from WBG's Baseline Survey on Remittance Beneficiaries' Financial Behaviors in East Europe and Central Asia showed that nearly all remittance transactions in Kyrgyz Republic were received in cash, which was withdrawn at an MTO's office or a commercial bank. Only 2 percent of respondents reported receiving hand-carried remittances[12], which were estimated to represent between 7 and 10 percent of annual inflows.[13]

In 2016, remittance services offered by MTOs presented nearly identical features across providers. The Russia-Kyrgyz corridor, in particular, was characterized by cash-only transfers (both for funding and receiving), instant availability of funds, nationwide coverage at bank branches and low transfer costs.[14] These services were already priced well below average compared with other corridors and enjoyed high rates of satisfaction.[15]

10 Ibid. According to NBKR, transfer systems include Anelik, Blizko, Contact, Migom, MoneyGram, Western Union, Unistream, Zolotaya Korona, Leader, Bystraya Pochta, Allure and other money transfer systems and remittances via Kyrgyzpochtasy Public Enterprise. Estimates for transfers through commercial banks exclude any payments exceeding USD 3,000.

11 Available at: https://www.nbkr.kg/index1.jsp?item=1785&lang=ENG

12 World Bank. 2018. Baseline Survey on Remittance Beneficiaries' Financial Behaviors in East Europe and Central Asia. Available at: https://remittanceprices.worldbank.org/resources. The National Bank of Kyrgyz estimated that up to 8 percent of total worker inflows occurred in cash in 2016.

13 NBKR, 2020, Balance of Payments of the Kyrgyz Republic. Available at: https://www.nbkr.kg/DOC/29072021/000000000057143.pdf

14 Remittance Prices Worldwide dataset.

15 World Bank. 2018. Baseline Survey on Remittance Beneficiaries' Financial Behaviors in East Europe and Central Asia. Available at: https://remittanceprices.worldbank.org/resources.

A key shortcoming of this system however is the limited accessibility of commercial banks and service outlets. Until 2018, banks in Kyrgyz Republic were the only entities allowed to serve as agents for MTOs, which were prohibited from establishing their own agent networks or partnering with other providers – such as, exchanges, microfinance institutions (MFIs) or other payments providers. These restrictions stifled the range and convenience of services offered, limiting accessibility particularly in lower income and rural areas where it is often uneconomical for banks to operate a branch.

Changes to regulations regarding payment cards and banking agencies enhanced the commercial banks' ability to expand their infrastructure through agents, thus creating a path to increase service availability in underserved urban and rural areas.

Additionally, amendments to the Kyrgyz Republic's money transfers' regulation were introduced in 2018 to mitigate risks of non-execution of payments to commercial banks in response to the collapse of remittance provider Leader and other similar incidents. The amendments sought to maintain trust in the system by enhancing the provision that international MTOs comply with a mandatory security deposit, therefore guaranteeing their monetary obligations to Kyrgyz's banks.[16] Partly as a result, market concentration increased considerably over this time, with the top three providers accounting for more than 90 percent of the market (see Figure 7 in the next section).[17]

Innovative payment systems and infrastructure reforms also led to the introduction of new money transfer services from Russia to local bank cards (Elcard or international cards issued by a Kyrgyz bank) and e-wallets.[18] The main enablers for these new services included 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.

While data on the total share of remittances processed through these innovative channels is not yet available, they are likely to represent a significant instrument to drive financial inclusion and the adoption of digital payments among remittance recipients. These transfers can be cashed-out at branches, agents, and ATMs resulting in improved accessibility as cash-based transfers can only be withdrawn at bank branches.

Further enhancements to the regulatory framework were approved during the Covid-19 pandemic. Firstly, e-money regulation amendments expanded banks' (and their agents') capabilities to provide remote services and ensure uninterrupted functioning of the payment systems operators. Secondly, amendments were made to the regulatory Acts that determine registration and cancellation of licenses for international payment systems operators with regards to bank card settlements, money transfers, and international e-money.[19]

16 The number of international operators authorized by the NBKR had decreased considerably following the collapse of Migom in 2013. The number of licensed MTO fell from 20 in 2013 to 10 in 2016, reaching 12 at the end of 2021.

17 NBKR bulletin. Western Union has suspended its operation in Russia and Belarus across all channels, effective March 24, 2022 (Accessed Sept 2022, https://www.westernunion.com/blog/en/russia-and-belarus/).

18 Specific measures to promote the expansion of financial infrastructure and access included the approval of "The State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2018-2022", the Law "On Amendments to the Tax Code of the Kyrgyz Republic" which provided exemptions to import ATMs, POS terminals, payment terminals and kiosks, as well as significant innovations through the new Law "On the National Bank of the Kyrgyz Republic, Banks and Banking Activities" in 2017 which introduced basic requirements for the provision of banking services and information disclosure, and significant provisions on the protection of the rights and interests of customers through a ban of unilaterally changes to contractual conditions by banks. Regulation "On E-Money in the Kyrgyz Republic" was also amended in 2018, 2019 and 2020. In 2019, new regulations "On licensing of payment activities for organizations and operators of payment systems" and "On supervision of the activities of Operators of PS and PO" were approved developing the regulatory framework for non-banking institutions. Regulation "On the special regulatory regime was introduced in August 2020 which gave participants the opportunity to test innovative products or services in a limited environment or volume, thus creating a path for the NBKR to make appropriate regulation changes to eliminate obstacles to the provision of successful innovations.

19 NBKR. Annual Report 2020.

Box 1: The Impact of COVID-19

The economic situation for those stranded outside of the country deteriorated significantly leaving at least a third of surveyed migrants barely able to cover their basic needs.

The Covid-19 pandemic had an enormous impact on the Kyrgyz Republic resulting in a major shock to the economy. With strict lockdown and border closures from March to May 2020, the real GDP contracted by 8.6 percent. By 2021, poverty rates were estimated at 33.3 percent, up from a record low of 20.1 percent of the population in 2019.[20] A survey from December 2020, found that migrants were affected by measures to counteract the pandemic both by having to return to Kyrgyz Republic or remaining stranded in Russia or Kazakhstan. [21] As unemployment shot up from 2 percent (during migration) to 62 percent at the time of the survey, returning migrants – some estimates calculated as many as 25,000 – faced significant challenges finding work and securing enough income to meet household needs.

The economic situation for those stranded outside of the country deteriorated significantly leaving at least a third of surveyed migrants barely able to cover their basic needs. However, while their employment rates deteriorated, the impact was less than that experienced by returnees. For both migrant populations, employment was often only part-time and their earnings were less than before the pandemic.[22]

While remittance flows are typically countercyclical, the pandemic's impacts on the ability of migrants to travel and earn income threatened a marked decrease in remittance flows – migrants are often first to lose their jobs and have few social protection benefits. While transfers were heavily affected in the months following the onset of the COVID-19 pandemic, transaction data shows evidence of a strong bounce back effect starting in the third quarter of 2020 (Figure 5). This positive trend persisted in 2021, leading to record inflow of remittance payments that year.

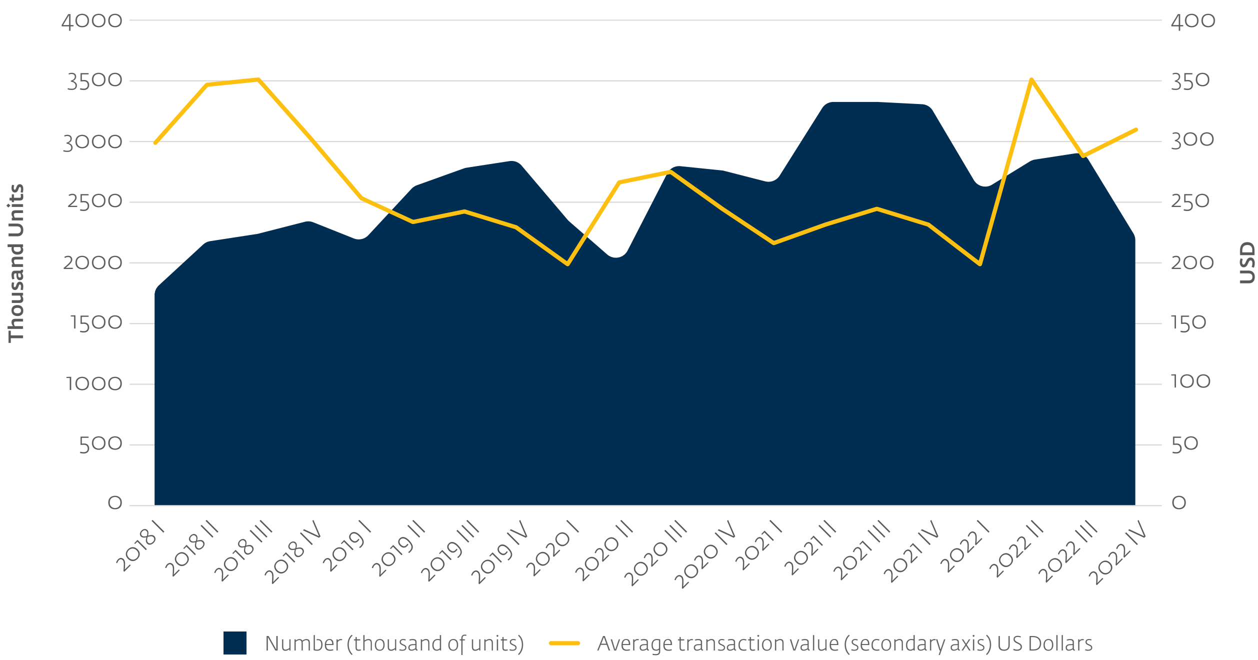
The resilience of remittance flows observed in Kyrgyz Republic is in line with global trends. While income decreased for many migrants, migrant workers committed to maintaining or increasing their support through a combination of lowering consumption, tapping into savings, and changing jobs.[23]

The acceleration of digital financial services has also contributed to the observed resilience of remittance flows. The pandemic led to a move towards digital channels driving changes in consumer behavior and business models and forcing previously informal flows into regulated channels. This shift towards formal transfer flows is likely to partly explain the resilience observed in the macroeconomic data.[24] In many contexts, the shift in customer behavior and business operations had long-standing effects likely contributing to the strong rebound (+7.6 percent) in payment volumes in 2021.[25]

Given the restrictions experienced during the pandemic, MTOs and banks in Kyrgyz Republic heavily promoted new digital channels to work around social distancing, lockdowns, and business closures. The cost of these new digital channels varied, though a few options – including for example Zolotaya Korona – set commissions at 0 percent.[26]

20 National Statistical Committee of the Kyrgyz Republic. The level of poverty in the Kyrgyz Republic, 2021. Available at http://www.stat.kg/ru/publications/uroven-bednosti-v-kyrgyzskoj-respublike/
21 International Organization For Migration (IOM). Kyrgyzstan: Study on The Socioeconomic Effects of Covid-19 on Returnees. June 2021.
22 Ibid.
23 Global Partnership for Financial Inclusion (GPFI), 2021, "Resilience in the market for international remittances during the Covid-19 crisis". https://www.gpfi.org/sites/gpfi/files/documents/5_IFAD%20WB%20Report_Resilience%20in%20the%20market%20for%20international%20remittances%20during%20the%20COVID-19%20crisis.pdf
24 Ibid.
25 Ardic, O. et al., 2022, "The journey so far: making cross-border remittances work for financial inclusion". FSI Insights No 43, 15 June 2022, and https://www.knomad.org/publication/migration-and-development-brief-36.
26 Online advertisement consulted in October 2020 (https://www.optimabank.kg/en/press-center/all-news/3890-zolotaya-korona-golden-crown-offers-interest-free-remittances-from-europe.html, https://unistream.ru/en/press/news/3143, https://koronapay.com/transfers/news/10-11-2020/, https://koronapay.com/transfers/news/25-12-2020/). Other references include: https://koronapay.com/transfers/news/31-03-2020/

Figure 5: Number of Money Transfers and Average Transaction Value



Source: NBKR, 2022, Bulletin of the National Bank of the Kyrgyz Republic

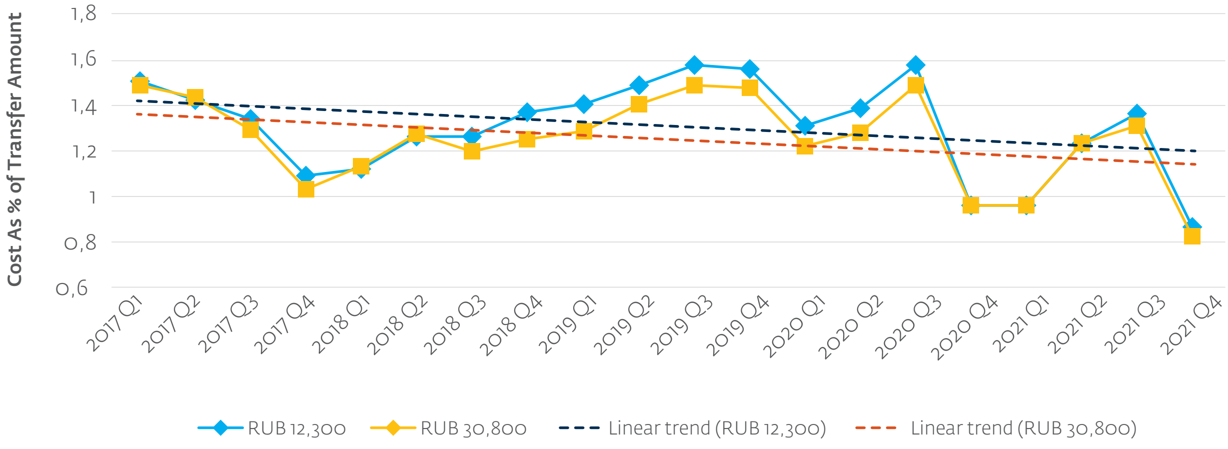
The Cost of Sending Remittances to Kyrgyz Republic

The cost of sending approximately RUB 12,300 (about $167 in Dec 2021) from Russia to Kyrgyz Republic averaged 0.9 percent in Q4 2021, significantly less than the 7.2 percent cost of sending euro €140 from Germany over the same quarter, and well below the global average of 6 percent registered in Q2 2022.[27]

Sending money from Russia to Kyrgyz Republic through regulated channels is therefore one of the least expensive corridors in the world maintaining costs of between 1 to 1.5 percent of the transfer amount over the years (Figure 6). However, these estimates do not include exchange rate margins as the recipient has the option of receiving the transfer in foreign currency and exchange rate margins are typically not charged or known to sender.

27 Remittance Prices Worldwide report, Issue n. 42, June 2022.

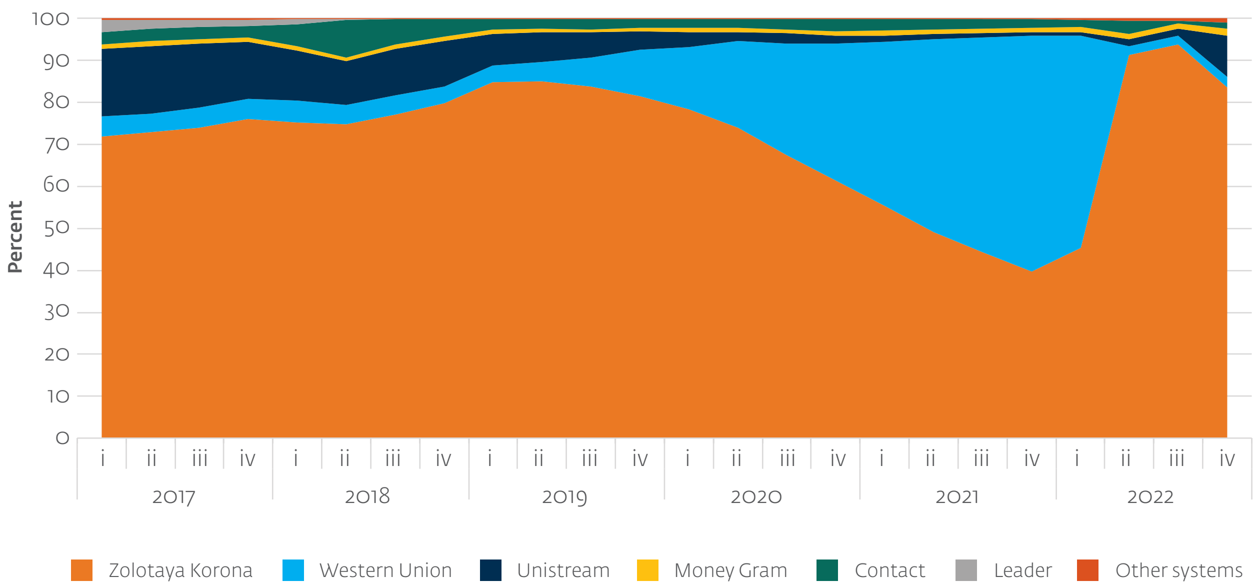
Figure 6: Remittance Prices in Russia-Kyrgyz



Source: Authors calculations based on Remittance Prices Worldwide dataset.

Most remittances (more than 90 percent) are sent through money transfer systems through MTOs and are received by commercial bank agents. Zolotaya Korona leads the MTO market in Kyrgyz Republic and is responsible for 70 percent of transactions between 2017 and 2021 (Figure 7). In Q3 2022, data from National Bank of Kyrgyz indicates that Zolotaya Korona transferred over 90 percent of the transactions sent through money transfers systems following the impact of Russia's invasion of Ukraine and the consequent sanction on Russia.[28] The covid-19 pandemic seems to have accelerated the offering of new digital channels and a temporal reduction in costs in 2020 (Box 1). Currently, Zolotaya Korona offers a range of online and offline options.

Figure 7: Market Share of Leading MTOs (No. of Transactions Processed)



Source: NBKR, 2022, Remittances of individuals made through the money transfer system.

28 NBKR, 2022, Bulletin of the National Bank of the Kyrgyz Republic. Available at: https://www.nbkr.kg/index1.jsp?item=137&lang=ENG. Please note that estimates are limited to the Transfer Systems. Market share estimates for 2022 are based on Q1-Q3 data available as of 01/20/2023.

Insights From a Survey of Remittance Recipients

In 2021, a survey was rolled out to collect information on the ways remittance recipients received money from international senders, and on the remaining barriers to innovation in cross-border payments. Figure 8 summarizes some socio-economic characteristics of remittance recipients surveyed.

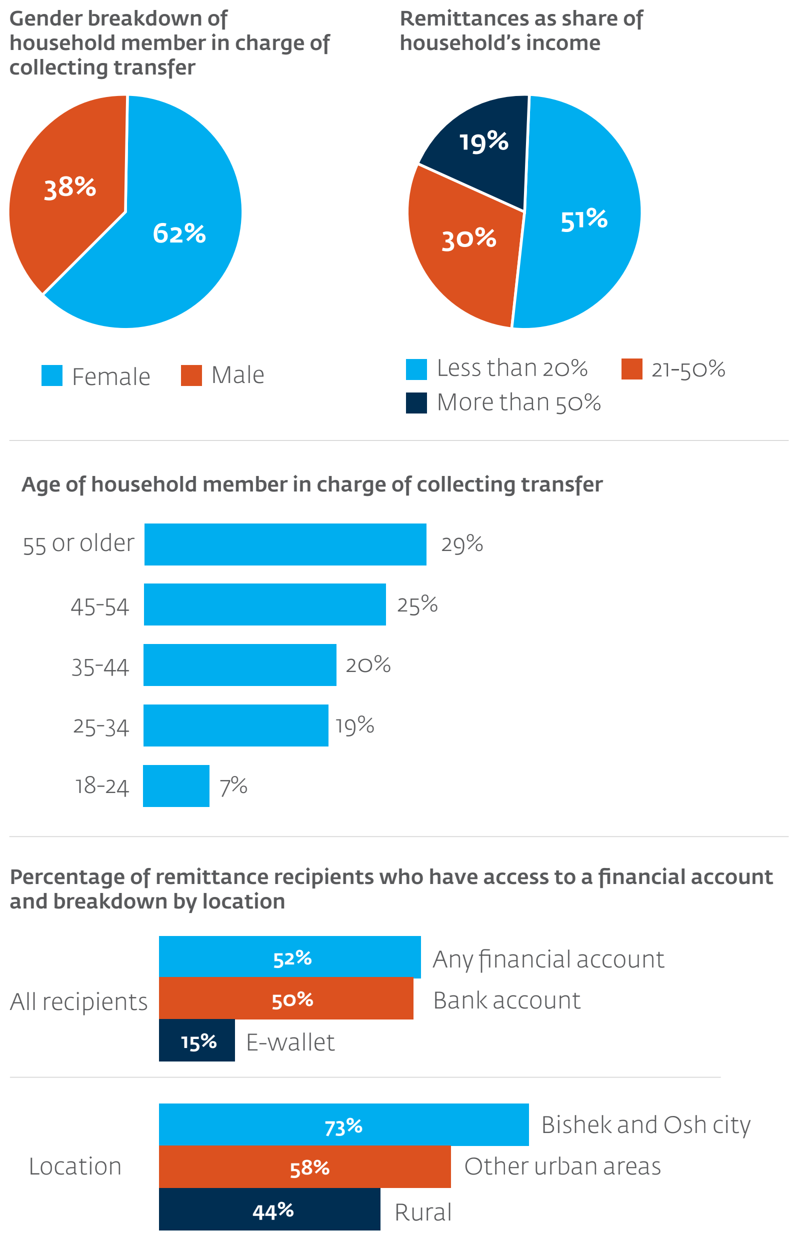
For the majority of interviewed households (81 percent), remittances represented less than 50 percent of the household income, with just over half (54 percent) claiming that recipients were 45 years or older. Most individuals (62 percent) in charge of claiming the transfers were women, aged 46 years on average.

About the survey

This nationally representative survey of remittance recipients was completed during the second semester of 2021 and covered 978 respondents from the five regions in Kyrgyz Republic, including urban and rural locations.

A stratified random sampling methodology was used to select households, which were asked questions to determine their eligibility. Included households had received remittances at least once in the past 12 months. Interviews were conducted with the household member usually charged with collecting the transfer.

Figure 8: Survey of Remittance Recipients in Kyrgyz Republic



Source WBG.

When asked about financial access, half of all respondents across urban and rural areas said they had a bank account or an e-wallet, with higher access noted for recipients in the main urban areas (73 percent). Most individuals with access to an e-wallet also had a bank account, however only 80 percent of account holders had payment cards.

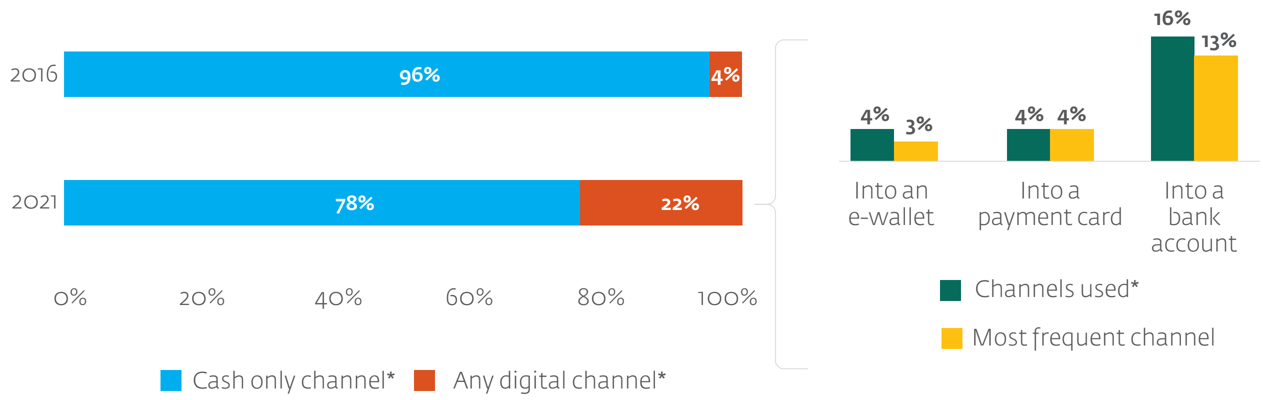
In general, the use of digital payments among respondents was generally low, with a mere 35 percent having made any type of digital payment in the past 12 months. Even among respondents with a payment card, only 20 percent reported doing offline or online payments. Cards were mostly used for ATM withdrawals.

Remittances Channels

While cash withdrawals at bank or agent locations remained a dominant service offered by MTOs in 2021 – with 80 percent of recipients using this channel most frequently in the past 12 months – the survey reveals encouraging progress in the digitization of remittance flows.

Of the remittance recipients, 22 percent had used any electronic methods in 2021, including transfers received directly into a bank account (16 percent), into a payment card (4 percent), and into an e-wallet (4 percent). This is up from 4 percent of recipients using *any* digital channel in 2016. The average (median) remittance amount in 2021 was $270USD ($136 USD) or 22,771 SOM (11,364 SOM) per transaction, slightly up from the average amounts reported in 2016. The average remittance amount is similar across different money transfer methods. Most remittance recipients (77 percent) received the transfer in local currency which differs from the information reported in the Remittance Prices Worldwide database. This mismatch points towards a lack of transparency in the information available to senders and recipients which affects the final cost of the transfer as withdrawing in local currency implies additional costs through an exchange rate margin which is not clearly disclosed.

Figure 9: Channels of Money Receipt Used in the Past 12 Months (2021)



**Includes all channels used by respondent in the past 12 months. Multiple answers allowed. Source: WBG.*

Figure 10 describes the socio-economic profile of remittance recipients by channel used. The profiles show a clear correlation between the use of digital channels and the education level of the household head, financial access of the migrant, and overall use of digital payments. While digital channel users were more likely to live in urban areas, the survey shows early adoption of e-wallets and cards transfers in rural settlements.

Figure 10: User Profiles by Channel

Receive cash transfer (MTO)

84%
of **rural households.**
79% other urban areas and 57% in main cities.

42%
of senders **have access** to a financial account.

60%
of users are **women.**

30%
of recipients made **digital payments** (past 12 mo).

Receive transfers into a bank account

25%
of households in **main cities.**
14% other urban areas and 11% in rural settlements.

42%
of senders **have access** to a financial account.

75%
of users are **women.**

50%
of recipients made **digital payments** (past 12 mo).

Receive transfer into a card or e-wallet

18%
of households in **main cities**
6% other urban areas and 4% in rural settlements.

87%
of senders **have access** to a financial account.

62%
of users are **women.**

70%
of recipients made **digital payments** (past 12 mo).

Source: WBG

Although households receiving remittances through digital channels could use their account for savings, or to make payments without having to withdraw money, most digital users reported that they immediately withdrew money from the account. As shown in Figure 11a, almost all recipients who received remittances through MTO or a bank account (e.g. Zolotaya Korona or Wester Union), withdrew their transfer in cash at a bank branch. ATMs or cash kiosks were the most common withdrawal location for respondents using cards and e-wallets, although their use was mainly concentrated in the cities of Bishkek and Osh.

While withdrawals are usually free for the recipient, the survey estimates significant costs related to the time and travel needed to access these payments, particularly in rural areas (Figure 11b). The distance from access points varies significantly between urban and rural areas. ATM and cash kiosks are within walking distance for most respondents (88 percent) in the cities of Bishkek and Osh. But only 9 percent of respondents in rural areas indicate that they are walking distance from an MTO agent or bank branch. Post offices, which are also an available channel, could potentially play a significant role in enabling easier access to the residents of smaller urban and rural areas, which are underserved by bank branches and payment infrastructure.

Figure 11a: Most Frequent Withdrawal Location by Channel Type

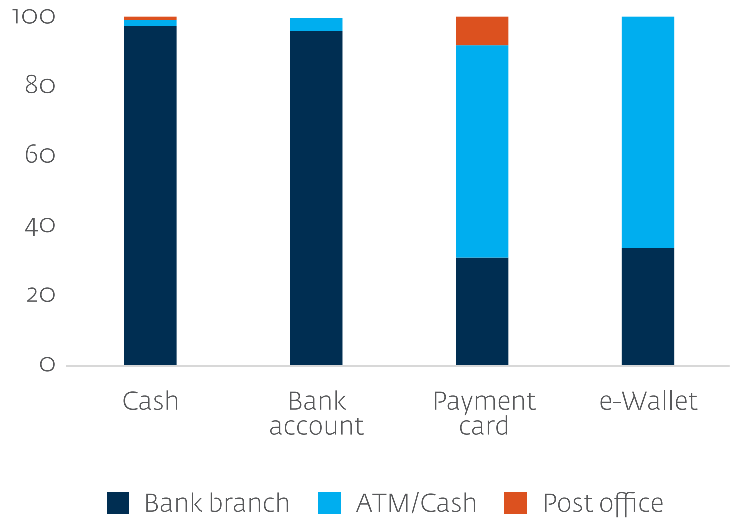


Figure 11b: Most Frequent Withdrawal Location and Reported Costs (% of Respondents Receiving Through Channel)

	Travel & transaction time (min)	Walking distance (% of resp)	
Main cities	22	88	ATM/Cash kiosk
	47	28	Bank Branch/MTO location
Other Urban areas	26	36	ATM/Cash kiosk
	41	39	Bank Branch/MTO location
Rural	26	70	Post Office
	41	20	ATM/Cash kiosk
	58	9	Bank Branch/MTO location

Source: WBG

The survey shows that digital channels (payment cards and e-wallets) reduce travel and wait times by an average of 16 minutes in both urban and rural locations. These channels, however, are not necessarily perceived as a cheaper option for the recipient.

Fees charged by MTOs and innovators for transferring funds to digital channels (account, payment card, e-wallets) have comparable costs to traditional cash channels on the Russia-Kyrgyz Republic remittance corridor.

Although the public fee schedule from Zolotaya Korona indicates that transfers from/to payment cards incur no commission, the total cost for recipients to 'cash-out' from ATMs or cash kiosks is higher– unlike bank branches where there are no fees. This is likely the case for most recipients given the early development stage of payments acceptance and the digital payment ecosystem in the country.

Survey data, however, shows that the higher marginal cost of these channels might be offset, in full or part, by a decreased need for time and travel, as well as by providing a safe place for storing and managing remittance receipts, for what remains a largely financial excluded population.

Remittance Providers and Channel Satisfaction

While cash remains the dominant channel for receiving remittances, survey data indicates a gradual shift in preferences in the market. Whereas 52 percent of cash recipients would recommend the same channel to family and friends, the ratio increases to 65 percent for respondents that receive transfers in a bank account, a payment card or an e-money account.[29] Greater convenicence for recipients was highlighted by respondents (45 percent) as the main reason for shifting to digital channels.

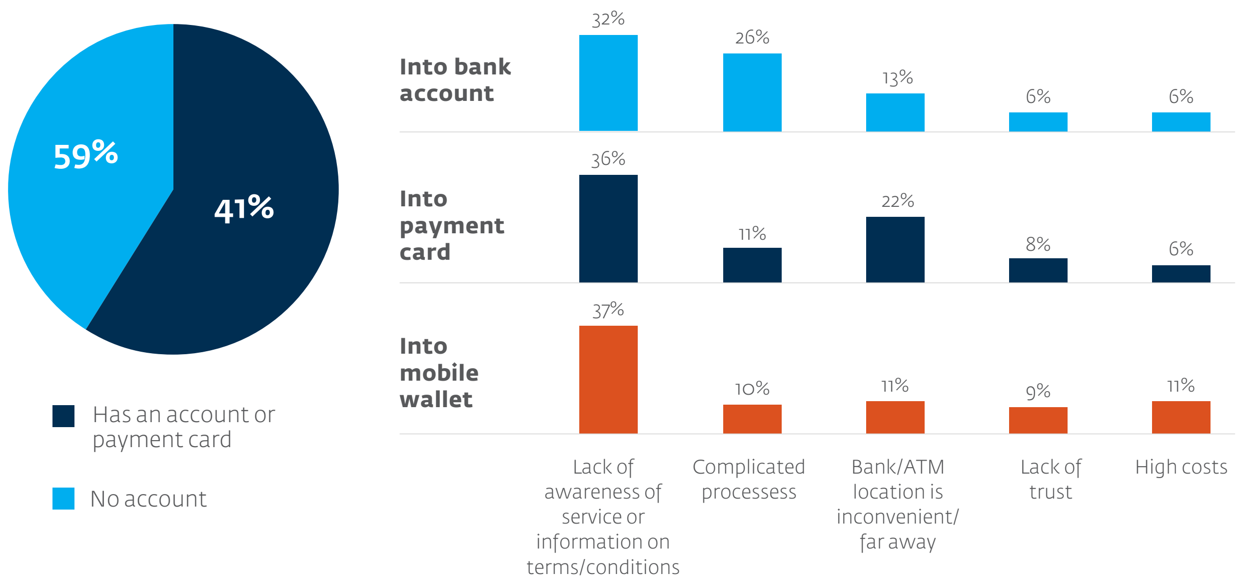
Even though promoter scores are higher for digital channels, the high reliance on cash, low banking rates[30], as well as the immediacy and reliability offered by cash transfers remain strong barriers to the full digitization of remittance flows. About three out of four cash recipients had no complaints with the channel used. This indicates that they have no incentives to change channel.

Qualitative interviews raised concerns about existing transaction limits for transfers and ATM withdrawals when using e-wallets. Moreover, survey data also shows a deficit in the perceived reliability and safety of e-money accounts. While about half of e-wallets and payment cards users reported 'efficiency of the transfer' as one of the top features of their channel, cash and bank account channels were more commonly perceived as reliable and familiar.

Only 41 percent of respondents who receive transfers in cash, own or have access to an account (Figure 10). While banks, or MTO agents, may be located slightly farther away for recipients, only 3 percent indicated distance as an issue, and only 12 percent indicated queues as a disadvantage for cash receipts. Among banked recipients, the main reason for 'sticking with cash' for remittance recipients appears to be lack of awareness about digital channels and their perceived complexity. While trust and costs are explitily raised among only a minority of respondents, these factors are likely to increase in relevance as awareness improves.

29 Measured using the Net Promoter score.
30 Findex (2021) finds that 45 percent of adults have access to an account in Kyrgyz Republic. Of these, only approximately half of account holders use their account to store money. Our survey suggests that remittance recipients are only marginally more likely to be banked (52 percent) compared to the national average.

Figure 12: Top 5 Reasons Why Remittances are Not Received Through Digital Channels



Source: WBG. Multiple answers allowed.

The data also provides insights into how intra-household dynamics play a role when deciding on how to send and receive remittances. Focus group discussions with remittance recipients, noted that senders typically make decisions on transfer channels, choosing whichever way is more convenient for him/her. When the survey asked whether the sender would agree to use a different method if the respondent wanted to change how they receive payments, only 43 percent of the interviewees believed the sender would agree. This percentage is higher for respondents receiving their transfer through digital channels (54 percent compared with 41 percent of those who receive through MTOs). The survey indicates a strong correlation between financial inclusion and access to digital channels between senders and recipients: 60 percent of households receiving remittances through digital channels reported that the sender has a bank account or e-wallet – almost 20 percentage points more than among recipients using a cash-based method. These dynamics emphasize the need to digitize and inform migrant families at both ends of the corridor.

To conclude, this survey shows that while digital channels are taking hold, particularly among early adopters in urban areas, there is significant stickiness of traditional, cash-based remittance methods persisting even after COVID-19, which, in many countries, introduced more individuals and businesses to digital channels (see Box 2). For the majority of cash remittance recipents these methods are familiar and present no significant pain points or disadvantages, while the use cases for a widespread adoption of digital channels are only emerging in the market.

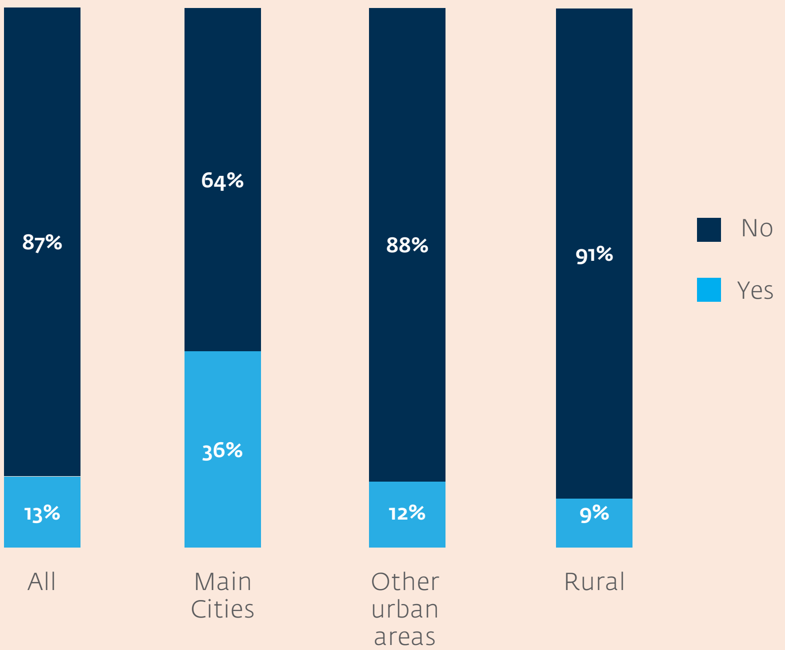
Contrary to what was seen in other markets, Covid-19 did not lead to mass adoption of digital accounts or payment channels.

Box 2. Insights on Digital Payments and Covid-19

As shown in Figure 5, after a dramatic drop in the first half of 2020, remittance volumes rebounded and demonstrated strong resilience. The evidence suggests that while migrants' incomes abroad were significantly affected and traditional cash-based channels became harder to access during the lockdowns, migrants continued to remit, with some shifting to formal digital channels. The survey sought to collect information to understand how Covid-19 affected remittance inflows and whether it encouraged digitization of other payments among remittance recipients.

Contrary to what was seen in other markets, Covid-19 did not lead to mass adoption of payment channels. Only 11 percent of respondents reported increasing usage of digital payments as a result of the pandemic. Covid-19 appears to have mostly had an impact on the 'intensive margin', leading mostly urban and banked adults to increase their adoption of digital payments (Figure 13). Only 9 percent of respondents in rural areas reported increasing non-cash payments usage, compared with 36 percent of respondents in the main urban centers of Bishkek and Osh.

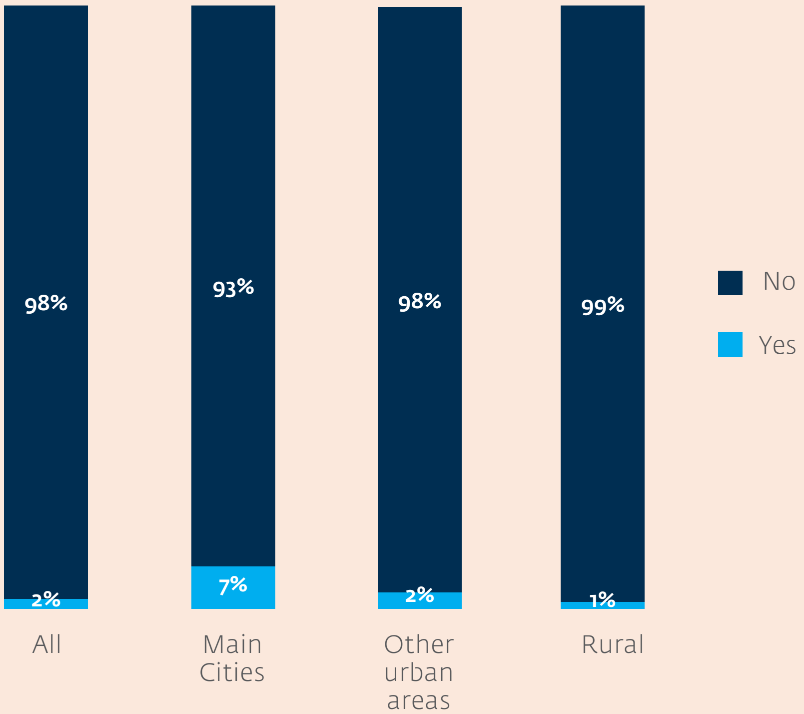
Figure 13: Increase in the Number of Digital Payments Due to the Covid Pandemic (Breakdown by Location)



Source: WBG

Half of the interviewed recipients reported difficulties in collecting the money due to lockdowns/businesses closures and many avoided using public transportation or going to the bank to collect money because of long queues. Despite this, only 2 percent of respondents reported making changes to the way they received remittances during the pandemic, such as trying digital services for transfers into a bank account, a card or an e-wallet (Figure 14). Despite some temporary operational challenges, bank branches and MTO offices demonstrated resilience and remained the preferred locations for receiving remittances.

Figure 14: Changed the Way Remittances are Received Due to the Covid Pandemic (Breakdown by location)



Source: WBG

The survey also inquired about issues that may have affected senders who continued to send remittances over COVID-19, compared with prior to the pandemic . Out of these households (over half of the sample), 44 percent reported changes in the sender's work and living situation during COVID-19. Among senders who experienced issues related to the pandemic, nearly a third temporarily lost their jobs, 12 percent changed jobs and 8 percent changed their place of residence.

This data likely understimates the effect of COVID-19 on senders as the survey did not capture those households that stopped receiving remittances altogether. While there are no official statistics on the number of migrants that returned to Kyrgyzstan due to COVID-19, a December 2020 survey of returnees provides further confirmation of the negative effect of the pandemic on household income.[31] In addition, our survey found that approximately 30 percent of the senders seemed to have experienced issues making transfers, due to restrictions on their ability to move during the lockdowns, while only 5 percent reported going to an MTO's office and finding it closed.

The survey also provides evidence that the effects of the pandemic continued well into 2021. Even as the total amount of remittance inflows bounced back, 41 percent of respondents who were receiving remittances from the same sender prior to Covid-19 indicated a reduction in frequency or overall amount of remittances received. 35 percent of respondents who received remittances from the same sender as before the pandemic reported that they were less frequent, while 33 percent reported the amount received was lower.

31 International Organization For Migration (IOM). Kyrgyzstan: Study on The Socioeconomic Effects of Covid-19 on Returnees. June 2021.

How Russia's Invasion of Ukraine is Affecting the Remittance Market in Kyrgyz Republic

The impact of the war in Ukraine and the resulting financial sanctions on Russia have significantly impacted the Kyrgyz Republic. As of October 2022, the International Monetary Fund (IMF) updated estimates for the Kyrgyz economy to 3.2 percent GDP growth in 2023, down from an estimated 5.6 percent a year earlier.[32]

At the onset of the conflict, the World Bank warned that fewer employment options for migrant workers and a weakened ruble against the US dollar, could result in as much as 33 percent reduction in remittance inflows for the Kyrgyz Republic in 2022.[33] Such a scenario would have led to a 5 percent projected contraction in the Kyrgyz economy in 2022.[34]

However, data on remittance flows as of December 2022 shows that that while remittances were temporaily affected, they rebounded rapidly – demonstrating remarkable resilience similar to that observed over Covid-19.

At the beginning of the war, inflows from Russia dropped to 78 percent from the volume received the previous quarter (Q4 2021). However, inflows grew 163 percent in Q2 2022 compared with Q1 2022 and 180 percent from the volume received in the same quarter in the previous year (Q2 2021).

A key impact of the Russian sanctions was a ban to the SWIFT international payment system for Russian banks, as well as the halting of Russian operations for many international businesses, including significant MTOs such as Western Union.[35]

In this case, the intersystem integration between Kyrgyz Elcard and the Russia's MIR implemented in 2019, as well as bank's integration with Sber (the largest bank in Russia) and other digital platforms, allowed migrants to continue receiving transfers through some formal channels.

The ability to facilitate operations under distress could boost adoption of digital services, however it's hampered by the overall low digitization of the economy. As Figure 7 shows, most remittances are currently canalized through Zolotaya Korona since Western Union halted its services from Russia. This could work as detriment to competition in the market.

32 IMF World Economic Outlook, October 2022 and October 2021.

33 https://blogs.worldbank.org/peoplemove/russia-ukraine-conflict-implications-remittance-flows-ukraine-and-central-asia

34 World Bank. Macro Poverty Outlook for Kyrgyz Republic: April 2022. Macro Poverty Outlook (MPO) Washington, D.C. : World Bank Group. http://documents.worldbank.org/curated/en/099007004222229143/IDU038215fde0151a0455909abf0773ada6cc569

35 Western Union suspended all its money transfer services in Russia and Belarus in March 24, 2022. https://www.westernunion.com/blog/en/russia-and-belarus/

Conclusion

Efforts to strengthen the Kyrgyz Republic's payment infrastructure and improve the legal and regulatory environment for the payment system have begun to bear fruit. Access to finance continues to improve and while cash remains the preferred transaction mode, digital payments are gaining traction.

Remittance flows have demonstrated remarkable resilience through the COVID-19 pandemic and Russia's invasion of Ukraine, helping to mitigate the already significant impact that they have had on poverty in the country. This resilience is partly attributable to work by the NBKR and the Kyrgyz's government in laying the foundation for the development of a digital ecosystem and the country's payment infrastructure.

Survey data shows the share of households receiving remittances in an account through digital channels has grown rapidly, and that cash transfers through MTO or bank branches are still the preferred channel for the majority of banked remittance recipients. The convenience and flexibility of cash transfers is valued by recipients and, contrary to other markets, was not signficiantly disrupted by Covid-19.

Nevertheless, transfers into accounts or other digital channels such as payment cards or mobile wallets are found to improve the speed and efficiency of transfers and allow recipients to cash out at ATMs or cash points closer to home with shorter queues. The ability to cash-out the payments received remains paramount for recipients.

Adoption of transfers directly into payment cards or e-wallets enabled by recent regulatory reforms remain incipient with only 6 percent of the remittance recipients relying on these channels. Digital channel users, especially users of these new card/wallet services, tended to live in larger cities and make greater use of digital payments in their daily lives. While access to digital financial services is clearly growing in rural areas and smaller urban centers, survey data shows that while many recipients have access to accounts and payment cards but do not know how to use them to receive remittances or think the processes and traveling times involved are difficult and inconvenient.

Although further digitization of remittances (and other payment streams) has the potential to generate significant efficiencies, high withdrawal fees and low transaction limits for digital channels can act as a barrier to adoption of bank and e-money accounts for managing finances and as a channel for receiving international remittances.