# Financial inclusion needs to be part of the government's strategy in the Kyrgyz Republic

More than 60% of adults in the Kyrgyz Republic do not have access to financial products and services, and many still prefer to keep their money under a mattress. While a quarter of the adult population have savings, only 3% have money saved in financial institutions.

Nor do people have much use for credit. Only 10.2% of adults have borrowed from a financial institution or used a credit card, a number that's below global averages.

Lack of access to banks and credit keep the poor from escaping poverty because they don't have the means to invest in a business, education, or even their own health.

Financial inclusion is a new idea in the Kyrgyz Republic. The government first introduced it after a violent power shift in 2010. Some progress has been made toward financial inclusion but it's not enough.

The share of credit increased from 14% of GDP in 2006 to 21% 10 years later, and the share of deposits rose from 15% to 23%. But these numbers are lower than in other lower-middle-income countries.

The country has more bank branches now but far fewer than the developed world does. The number of commercial bank branches increased from five per 100,000 adults in 2006 to eight in 2016. Only about 12% of the people use mobile banking. Rural areas' access to broadband Internet is restricted.

Unstable economic growth, a high poverty rate, and weak governance have hindered efforts to bring banking and credit to more people.

High income inequality restricts rural people's access to financial services. Small and medium-sized enterprises don't have enough collateral to apply for loans.

Most people have no access to insurance companies, pension funds, and the stock and bond markets. Financial markets are poorly developed and shallow: insurance assets are lower than 1% of GDP, and stock trading volume is slightly over 2% of GDP.

The Kyrgyz Republic must become more financially inclusive. But it faces challenges. One of the biggest is the large informal sector. Entrepreneurs can't get loans if they can't show their financial history. And many people can't prove that they're creditworthy and would rather borrow from pawnshops or relatives.

From 2006 to 2016, the number of SMEs grew on average by 5% annually, but their contribution to GDP declined. In 2016, they contributed 40.8% of GDP. They lack collateral, long-term credit, and financial knowledge, and the government doesn't have programs to support them.

A 2015 survey revealed that 40.3% of respondents had little or no financial knowledge. Only 19.3% thought their understanding of financial matters was good. Many people don't keep records of what they make or spend and don't have formal savings. Over 90% of bank card transactions are cash withdrawals. Most people prefer to pay in cash.

While remittances increased from 2006 to 2016—and could boost banking, deposits and savings, and investments—the country hasn't been able to take full advantage of them. Remittances have helped reduce poverty but their investment potential is low. Few banks have financial products for migrants' families, who prefer to invest in real estate and livestock or spend on consumption.

The Kyrgyz Republic hasn't centralized efforts to provide financial education. Most initiatives have been implemented in a disjointed fashion by the private sector and donors. In 2016, the central bank launched a financial literacy program but it's not clear which measures will be executed to achieve its objectives.

Financial inclusion needs to be part of the government's strategy. Authorities should increase people's involvement in economic activities, improve SMEs' access to finance, and create opportunities for inclusive growth. The strategy should include education to encourage people to save formally and to invest in financial instruments.

Financial literacy should be promoted in high schools and universities and through mass media and target the poor and migrants and their families. State programs should encourage SMEs and spur citizens, including women, to become entrepreneurs. Rather than rely on donors' funding, the government should establish a state development fund to provide cheap SME finance and come up with alternative collateral instruments.

Financial inclusion policies should also align with the government's push to digitize the economy. These efforts would reduce cash payments and boost the financial sector.

**This episode is based on research done for the Asian Development Bank Institute by Savia Hasanova, an economics expert at the Investment Round Table in the Kyrgyz Republic.**

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