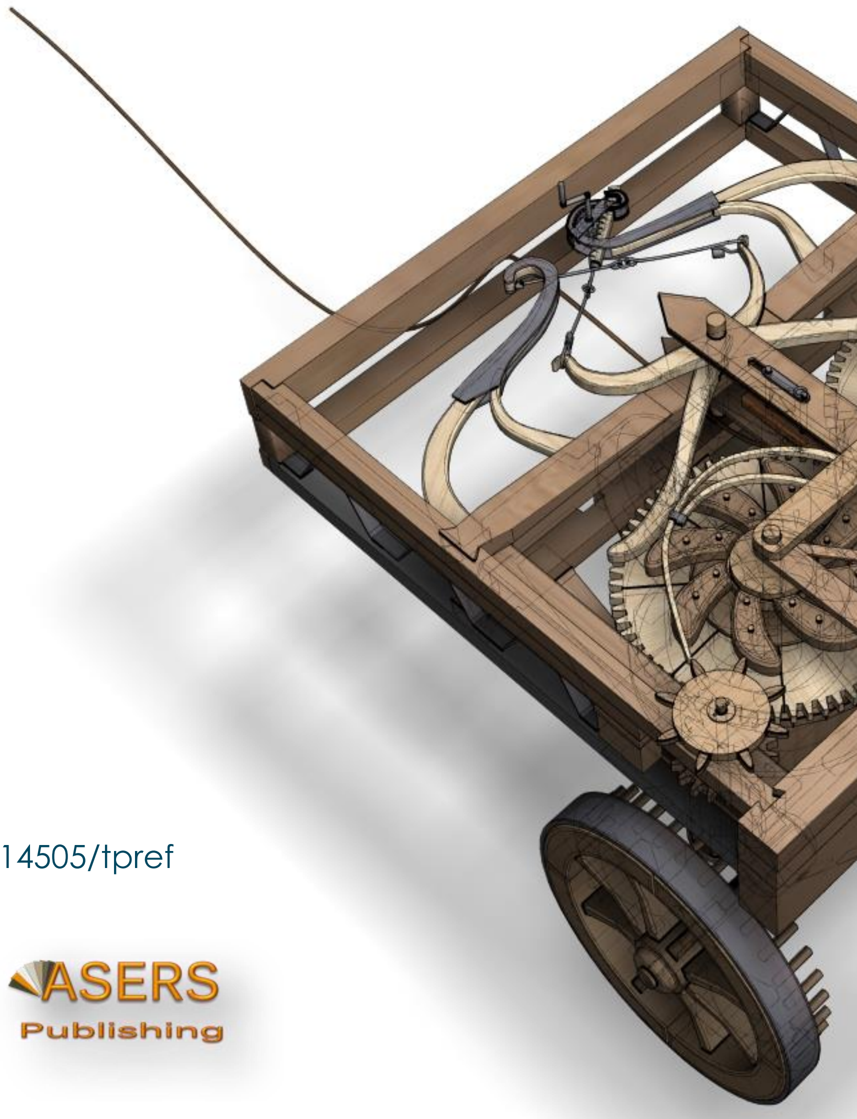
Theoretical and Practical Research in Economic Fields

Special Issue



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Call for Papers
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Theoretical and Practical Research in Economic Fields

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This Special Issue was created at the request of a group of researchers from Ukraine. It is a response to the challenging situation of Ukrainian scholars due to the Russian invasion as well as the growing demand for knowledge on Ukrainian issues.

We would like to express our endless thank to our colleagues, scholars from Ukraine who are working amid the war on topics that are important for all. Also, we thank all our international authors for their valuable contributions to this Issue.

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Features of the Development of the Microfinance and Credit Monitoring System in Kyrgyzstan and Ukraine

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Abstract: This research paper analyses the differences between banking and microfinance business models in the context of credit monitoring systems and funding sources. The purpose of this research was to show the differences in the context of these components of the activities of banks and microfinance organizations (MFOs) on the examples of Kyrgyzstan and Ukraine. The main research methods used were analysis, forecasting and abstraction. The study emphasized the importance of assessing the creditworthiness of clients, including assessment of their financial performance, credit history and other indicators. It was concluded that such analyses are crucial for financial institutions, as they enable them to assess the risk associated with lending and make informed decisions. The article also reviewed the regulatory framework of Kyrgyzstan in terms of credit monitoring of banks and MFOs, differences in their activities depending on the size of the loan, the financial capacity of the borrower, and the collateral assessment process. Also, an idea was formed about the process of financial monitoring in Ukraine, approaches applied in the country. In the process of comparing the two systems, a conclusion was made about their similarities (peculiarities of regulation, fundamental principles of creditworthiness assessment and risk management), but certain differences related to general approaches to monitoring were also noted. The study allows, based on the studied foreign experience, to increase the efficiency of credit monitoring of financial organizations' clients. It also generally brings new knowledge for the study of the banking and microfinance sectors.

Keywords: microfinance; banking system; credit monitoring; welfare assessment; risk management; asset management.

JEL Classification: G32; G21; O16.

Introduction

The credit system plays a key and multifaceted role in the economic development of developing countries. It provides the financial infrastructure for businesses and households by providing them with a variety of services, such as deposits, loans, or funds for investment. This helps to boost investment, expand entrepreneurship and create new jobs. It also remains an important link in the resource redistribution system, allowing funds to be collected from depositors and then made available in the form of loans to businesses and individual customers. This helps to stimulate economic growth and increase the turnover of funds in the country, as well as to ensure the stability and safety of the financial system and provide services for the storage and exchange of funds (Kovalenko *et al.* 2023; Loi 2023). Banks also contribute to the development of financial markets, which can lead to increased access to capital for companies through the issuance of shares and bonds (although this component of the role of these organizations is more relevant for developed countries). The development of the banking system remains particularly important for developing countries because they often face challenges such as financial and economic instability, so increasing the resilience of the banking sector can play a role in mitigating these risks through better governance and regulation.

Numerous scholars have worked on assessing the development of the banking system in Kyrgyzstan (Aseinov and Karymshakov 2018; Abbasi *et al.* 2020; Akomea-Frimpong *et al.* 2022; Niyazbekova *et al.* 2023). However, they focused more on the historical aspects of the development of the field rather than the current state of the industry's development. Karymshakov and Sulaimanova (2019) considered changes in the financial structure of Kyrgyzstan as a whole. Although they assessed the current state of the financial infrastructure in the country, they paid little attention to assessing the actions that could be taken to increase the efficiency of the system. Many scholars have also paid attention to assessing the current development of the country as a whole. Thus, Toktosunova *et al.* (2021) studied the problems associated with the growth of external public debt in the Kyrgyz Republic. They feared that the excessive increase in external debt could eventually lead to a loss of sovereignty, as donors, expecting loans, make specific demands of both economic and political nature (Trusova *et al.* 2018). However, they did not note valid recommendations to avoid such an outcome. Mehta *et al.* (2022), Al-Harbi (2019), Buallay and Al-Ajmi (2020), Nikolaychuk (2022) assessed the country's development characteristics with respect to sustainability trends. The scholars also highlighted the benefits that the country could gain from increased adoption of these technologies (taking into account its current state and near-term development prospects). Akbulaev and Aliyeva (2020), Branzoli *et al.* (2023), Patino and Gutierrez (2019) also focused their attention on the peculiarities of economic development in Kyrgyzstan as such, with special attention to certain demographic trends. Thus, since there are not so many works on analysing the development of the banking sector in Kyrgyzstan freely available, this study is also relevant.

The purpose of this study was to assess the differences between the functioning of banking and other organizations, in particular microfinance institutions, in individual countries in terms of their credit monitoring and sourcing.

1. Materials and Methods

The study utilized a part of the legal framework of Kyrgyzstan. In particular, the text of Regulation No. 52/4 'On the minimum requirements for credit risk management in commercial banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic' (2010), which describes the basic principles of credit monitoring in the country, was analysed. Since the comparison of financial monitoring systems in the country was conducted for Ukraine, the constituent parts of its legislative system were also assessed. In particular, the text of Law of Ukraine No. 25 'On Prevention and Counteraction of Legalization (Laundering) of Criminal Proceeds, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction' (2020), one of the clauses of which is financial monitoring conducted by the bank or any other responsible institutions to prevent any unfair actions on the part of enterprises.

The approach used during the study was systematic. It made it possible to assess individual factors in terms of their joint interaction within a single system, and to draw conclusions about the whole model based on these relationships. In its turn, the main method applied in the framework of the work was analysis due to the fact that, during the study, a considerable amount of information on the development of the non-banking banking sector of individual countries, their systems, and models of credit monitoring was used and considered. The historical method was also used to analyse data on the development of systems in the past, in retrospect. Abstraction, in turn, reduced the number of factors examined during the study by sorting them by level of significance and then abstracting out those that have no significant impact on the development of the banking system. Forecasting also played an important role, which made it possible to make assumptions about the future development of this sphere.

This study also has certain limitations. In particular, the paper focuses primarily on credit monitoring systems and financial practices in Kyrgyzstan and Ukraine, but it only indirectly mentions credit monitoring systems in other countries. Although the paper discusses the legal and regulatory framework and processes in terms of financial monitoring within countries, it lacks quantitative statistical data. The purpose of this study was only to assess the peculiarities of credit monitoring in these countries, not to quantify them, but such a study is also quite relevant in the current environment. In addition, the paper assumes that the similarity of the regulatory framework leads to similar results in credit monitoring systems, although this may not be the case because the analysis process itself is formed by different people, in different businesses and in completely different operating conditions. Therefore, it is also worth paying attention to this when assessing the material described in this paper.

2. Research Results

The analysis of the credit monitoring system and sources of funding itself is important for understanding the long-term sustainability and performance of any financial institution, be it a bank or a microfinance institution. It includes analysing the creditworthiness of clients, which is an analysis of their financial performance, credit history. In addition, such institutions should conduct collection activities in order to be able to manage debts and recover debts in case of non-repayment of loans (Drobyazko *et al.* 2019; Makhazhanova *et al.* 2022). This is important to minimize losses and ensure timely repayments. For developing countries, the use of alternative credit assessment methods is also relevant, as clients in these countries may not have extensive credit histories.

The functioning of financial monitoring systems may vary significantly from country to country. If considering the situation in Kyrgyzstan, the process is regulated by Laws, as well as Regulation No. 52/4 'On the minimum requirements for credit risk management in commercial banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic' (2010). Banks and microfinance institutions (MFOs) are required to regularly monitor the status of their loans. This includes analysing client payments, verifying compliance with loan agreement terms and conditions, and assessing the financial sustainability of borrowers. In addition, they should take into account changes in foreign currency exchange rates and assess their impact on loans exposed to currency risk (Vovchenko 2021). The frequency of such checks depends on the amount and type of loan, as well as the classification category: for large loans, monitoring is more frequent (up to once every six months), for others – less frequent (once a year). Thereafter, banks and MFOs are obliged to submit regular monitoring reports to the management with relevant proposals. In case of late loan payments or deterioration of loan classification, the bank and MFOs should intensify monitoring (at least once a month) and analyse the current financial situation of the borrower. The main purpose of such monitoring is to identify possible trends in the deterioration of the borrower's condition and, consequently, the loan condition.

During the evaluation process, the classification of loans should be carried out independently by persons who are not involved in the loan origination process. This prevents conflicts of interest and ensures the objectivity of the assessment. The bank and MFOs should conduct a thorough analysis of the financial condition of the guarantor (surety) if it is the only collateral for the loan, and regularly assess the safety of the collateral and its change in value. If problems with the lender begin, the bank and MFO should initiate appropriate procedures to deal with problem loans, including the possibility of loan restructuring. If there are only early indications of such problems, the bank and MFO should clarify the reasons for the problems and take the loan under special supervision (Cheremisina and Tomashuk 2023). This may include additional collateral verification, additional guarantees, suspension of repayments, loan classification, and other measures to protect the bank's interests. The bank and MFO should also document and keep records of all activities undertaken in relation to the loan, including records of telephone conversations, meetings with the client, and other activities.

One of the important stages in the work of banks and MFOs with clients on lending is the analysis of the customer's financial condition. It consists, in particular, of collecting documents: application (questionnaire), financial statements (if any), information on collateral, business plan. These stages are fairly standard for all countries and ensure such interaction between the Federal Treasury Institution and the borrower that the lender remains confident in the borrower's ability to repay the funds. The collateral valuation process itself can vary depending on what the collateral is. Most often it is real estate, including residential houses, commercial buildings, land plots and other immovable property. However, it can also be movable property (cars, machinery, equipment), securities (stocks or bonds), precious metals and stones (gold, silver, diamonds), bank deposit accounts. More rarely, intellectual property or future income (contracts for future payments) may be used as collateral (Trusova *et al.* 2021; Kalenyuk *et al.* 2022). The reason for this is both the comparatively higher risk associated with the use of these assets as collateral and the difficulty of valuing and relying on them. Accordingly, the bank has its own specialists to analyse each type of asset and form a fair price for it, on the basis of which collateral is formed and credit is granted. For example, the price of securities may be based on the market value (if they are freely traded on the stock exchange), while the valuation of buildings requires additional work on the part of Federal Credit Union employees or outsourcing (professionals outside the bank). If considering the national structures that are also involved in financial monitoring, it is necessary to mention credit bureaus, individual state bodies (National Bank of Kyrgyzstan, State Service for Regulation and Supervision of the Financial Market under the Ministry of Economy and Commerce of the Kyrgyz Republic, Ministry of Finance), tax authorities, individual companies (*e.g.* audit firms) and international organizations.

It is worth now considering how financial monitoring takes place on the example of another country, namely Ukraine. Thus, the state has Law of Ukraine No. 25 'On Prevention and Counteraction of Legalization (Laundering) of Criminal Proceeds, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction' (2020), which describes the system of financial monitoring in the country. Thus, according to the law, the objects of primary financial monitoring include financial institutions, such as banks, insurers, credit unions, payment system operators, stock exchanges and any other participants, in one way or another related to financial transactions and work with customers. Financial monitoring entities should adopt a risk-based approach, considering criteria such as customer profiles, their geographical location, and the types and ways in which services are provided to them. The extent to which monitoring will be carried out depends on the nature and scale of their activities. High-risk customers also include persons residing in jurisdictions that do not comply with international guidelines, sanctioned individuals or entities, and others as specified by law (Vereshchahina 2023). These clients are often not engaged at all and are denied any engagement. Non-profit organizations, including charities, must take measures to minimize the risk of being used for illegal activities, considering the recommendations of state financial monitoring bodies. Monitoring itself should be realized based on internal documents and recommendations of the relevant bodies of state financial monitoring. Risk criteria shall be determined by the subjects of financial monitoring themselves considering the instructions of the National Bank of Ukraine or other relevant state bodies; the subjects themselves shall also consider typological studies, national risk assessments and recommendations of the subjects of state financial monitoring (Furmanchuk 2023).

Financial monitoring entities in Ukraine are required to develop, implement and update internal financial monitoring documents, including rules and programmes for primary financial monitoring; in addition, they must register with the relevant authorities and notify them of any changes in key personnel or activities and ensure the effective organization and conduct of primary financial monitoring. In general, Law of Ukraine No. 25 'On Prevention and Counteraction of Legalization (Laundering) of Criminal Proceeds, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction' (2020) describes a significant number of both obligations of such companies and rights and prohibitions. In case of their violation, the management of the companies may receive both administrative and criminal penalties for their actions. As for the requirements for inspection of financial institutions in Ukraine, there are also quite a lot of them. Thus, financial institutions are prohibited from opening and maintaining anonymous accounts or entering into correspondent relationships with shell banks; they must apply due diligence measures and carry out identification and verification of the client in terms of how business relationships with other members are formed, and financial transactions are conducted. The conduct of any verification requires supporting documents from the organization or a third party. The verification of the persons to whom the financial monitoring is actually being conducted must also be carried out: their connection to different criminal groups. Based on the results of the verification, financial institutions can decide whether to follow up with the organization or individual, or what measures (if any) should be taken against them. Based on the data discussed above, a comparison of both financial monitoring systems can be constructed. This can be seen in the box in Table 1.

As can be seen in Table 1, there are significantly more similarities between countries in financial monitoring systems than differences. The reason for this is that this part of the work of enterprises and relevant authorities is quite standardized among all countries, while the differences may consist only of minor peculiarities. However, for effective monitoring, it is not the process described in the legal framework itself that plays a much higher role, but the extent to which companies adhere to it and how they are supervised by the state.

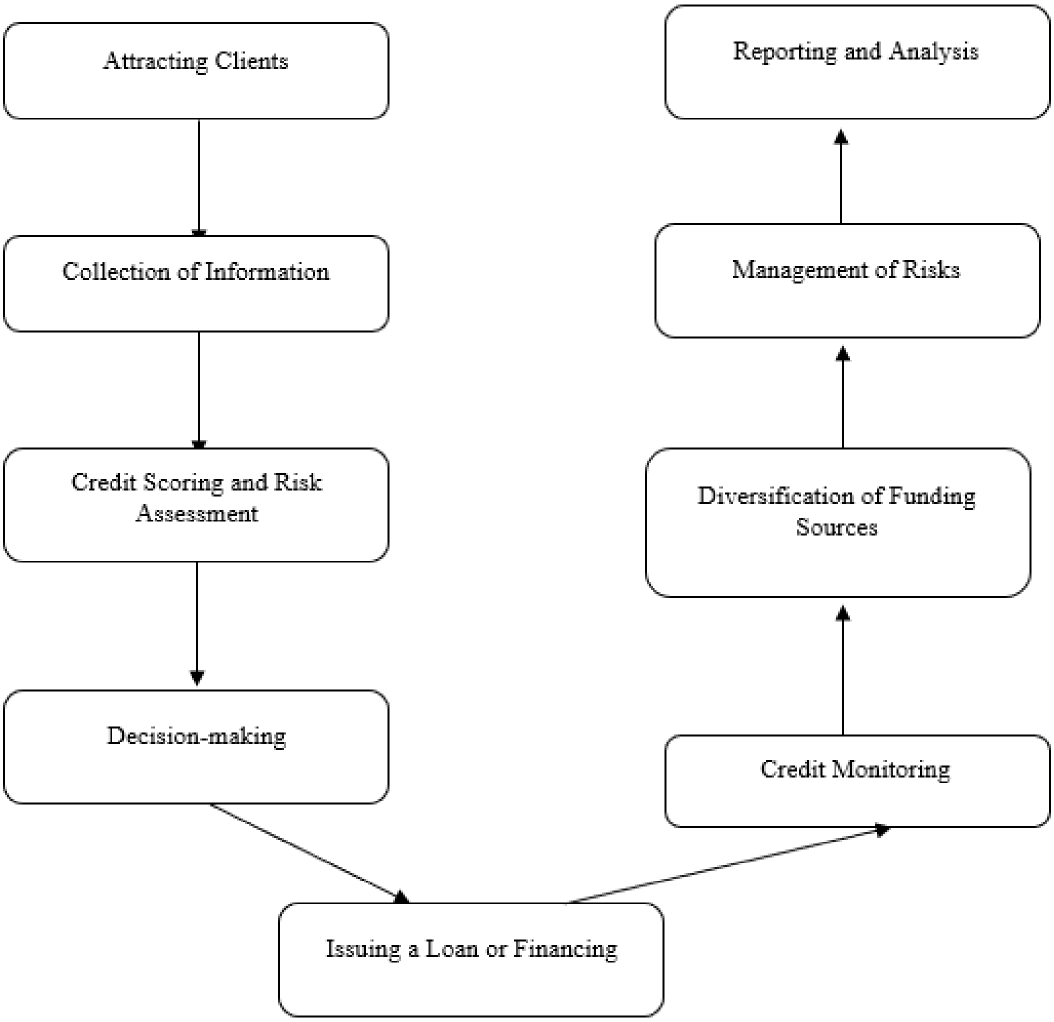
Table 1. Different and similar components of credit monitoring systems and sources of financing in Kyrgyzstan and Ukraine

No.	Similar components	Various components
1	Both Kyrgyzstan and Ukraine have established a legal and regulatory framework for financial monitoring and credit risk management. In Kyrgyzstan, this is regulated by Law of the Kyrgyz Republic No. 93 'On banks and banking activities' (2022) and Regulation No. 52/4 'On the minimum requirements for credit risk management in commercial banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic' (2010), while in Ukraine – Law of Ukraine No. 25 'On Prevention and Counteraction of Legalization (Laundering) of Criminal Proceeds, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction' (2020).	Within the legal and regulatory framework, in Kyrgyzstan the main focus is on commercial banks and financial and credit institutions licensed by the National Bank of the Kyrgyz Republic (MFOs, credit unions, credit union finance company (CUFC), credit bureaus, exchange bureaus, guarantee fund are licensed by the NBKR). In the Kyrgyz Republic, state regulation and supervision of the non-banking financial market (which includes the securities market, insurance activities, activities of non-state pension funds, pension asset management companies, pawnshops, and lottery activities), accounting and auditing activities is carried out by Law of the Kyrgyz Republic No. 249 'On the authorised state body in the sphere of supervision and regulation of the financial market' (2009). The payment system in the Kyrgyz Republic is regulated by Law of the Kyrgyz Republic No. 21 'On the Payment System of the Kyrgyz Republic' (2015). In Ukraine, a wider range of financial institutions are subject to financial monitoring, including insurers, credit unions, payment system operators and stock exchanges.
2	Both countries emphasize a risk-based approach to financial monitoring. In assessing the need for monitoring, they take into account client profiles, geographical location and types of services provided. High-risk clients are subject to more rigorous monitoring.	The specific responsibilities and penalties for financial institutions that violate the rules vary slightly.
3	Financial institutions in both countries are required to conduct due diligence on their clients. This includes collecting documents such as applications, financial statements and collateral information. The goal is to assess the client's ability to repay the funds.	
4	The frequency of monitoring depends on factors such as the amount and type of loan. In both countries, larger loans may require more frequent monitoring, while smaller loans are subject to less frequent checks.	
5	Financial institutions in both countries are required to regularly assess the safety and value of collateral. If there are problems with the loan, they may have to take actions such as additional checks or suspending payments.	
6	In both countries, financial institutions must document and keep records of all credit-related activities, including meetings, phone calls, and other interactions with customers.	

Source: compiled by the authors based on the data of the Regulation No. 52/4 'On the Minimum Requirements for Credit Risk Management in Commercial Banks and Other Financial and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic' (2010) and the Law of Ukraine No. 25 'On Prevention and Counteraction of Legalization (Laundering) of Criminal Proceeds, Financing of Terrorism and Financing of Proliferation of Weapons of Mass Destruction' (2020), Law of the Kyrgyz Republic No. 249 'On the authorised state body in the sphere of supervision and regulation of the financial market' (2009), Law of the Kyrgyz Republic No. 21 'On the Payment System of the Kyrgyz Republic' (2015).

There is currently no publicly available information on the business models of banks (or other credit organizations) on how they conduct financial monitoring or assess their clients' sources of funding (Poyda-Nosyk and Noemi 2023). Nevertheless, based on the information analysed above, it is possible to draw conclusions as to what an 'average' business model of such an institution might look like. It can be described using the model shown in Figure 1.

Figure 1. Business model for working with clients of banking organizations



Source: compiled by the authors.

Each of the steps shown in Figure 1 has its own characteristics, which are generally described by their names. Therefore, it is worth describing only some of them in more detail. Thus, within the framework of 'credit scoring and risk assessment' the financial institution uses the information collected at the previous stage to calculate the client's credit rating and assess its creditworthiness, which may include analysis of payment history, income, debts, and other financial indicators. Based on this information, subsequent decisions are made on whether to grant a loan or financing. Once a loan is granted, the organization continuously monitors the customer and their financial position, which includes tracking payments, credit history and other changes that may affect the repayment of the loan. Often, banks may also use outside information for this purpose. If in the process of such monitoring, the client's credit risk becomes too high, the client is refused service and all interactions with the client are closed. It should be noted that this model may differ from bank to bank, and banks may use their own criteria for assessing customer risk and their own thresholds for starting or closing business relationships with them. Nevertheless, their essence and construction as a whole should remain unchanged and have a similar structure.

3. Discussions

The impact of banks on financial stability was also assessed by Mabkhot and Al-Wesabi (2022). Researchers analysed the impact of various macroeconomic factors on the financial stability of banks on the example of banks in the Gulf countries. The scholars analysed six key macroeconomic variables including GDP growth, inflation rate, exchange rate, government fiscal consolidation, oil prices and political instability, based on analysing the relationships between them, they showed that government intervention is important to stimulate economic growth, diversify the sources of oil revenues and mitigate the risks associated with macroeconomic factors that may affect the volatility of banks' earnings. Based on this information, the study recommends that Gulf banks should diversify their investments and financial activities beyond the oil sector. Such diversification will help to break the link between oil prices and the overall macroeconomic and financial system, which will ultimately improve financial stability and confidence in the banking system. It also emphasizes the importance of investment awareness and financial education. It is worth noting that these recommendations are also relevant for Kyrgyzstan. This is due to the fact that the country is also dependent on the export of labour force. In this case, it is important to diversify investments of banks and MFOs, which can improve their condition and thus make their development more efficient.

D'Orazio and Popoyan (2022) assessed the role of the financial system for a country's development in their study. They noted that it plays a critical role not only for economic stability and welfare of the population, but also for other goals such as climate goals. The study shows that the effectiveness of decision-making in financial stability governance structures in countries plays a critical role in ensuring the achievement of sustainable development goals in terms of climate. Jokipii and Monnin (2013) studied the relationship between banking sector stability, real output growth and inflation in 18 OECD countries. The researchers showed that there is a positive relationship between banking sector stability and real output growth, but there is no clear relationship between banking sector stability and inflation. In addition, they noted that the stability of the banking sector itself has a significant impact on welfare, and noted that depending on the sector, forecasts of future economic development may differ. Therefore, ensuring the sustainability of the sector is an important government objective, which, among other things, can be improved by improving the quality of financial monitoring in the country, among its financial organizations.

Cvetkoska *et al.* (2021) evaluated the efficiency of commercial banking in developing countries, in particular – Northern Macedonia, Serbia, and Croatia. Researchers noted that the stability of the financial system, especially in developing countries with banking systems, largely depends on the efficiency of banks, especially large banks. In case the development of these organizations is characterized by the state, it is relevant to formulate public policy objectives for such banks, offering ideas for strategic planning and decision-making on activities to improve their future state.

A study on how credit monitoring process and debt recovery strategies adopted by commercial banks in Kenya was conducted by Migwi (2013). Researchers noted the importance of the country having a clear policy in this regard, as well as a good asset base among banking institutions (their reasonably high level of diversification and quality). In addition, banks should have qualified staff to ensure that the loan recovery policy is well implemented and that customers receive high standard services. The scholar notes that for the sustainable development of the sector, banking institutions also carry out all relevant activities, as in Kyrgyzstan, in particular – controlling operations on customer accounts, conducting a thorough risk assessment, controlling loan repayment intervals and evaluating loan applications. Thus, such activities on the part of such institutions will significantly increase the sustainability of the system, as well as improve the efficiency of the economy as a whole (Horoshko *et al.* 2021).

Bhattacharyay and Nerb (2002) identified a core set of indicators that characterize market efficiency for monitoring financial stability in financial and asset markets. The scholars emphasized that identification is based on limited time-series data from participating countries with differences in data availability, frequency and time lag. They suggested that countries should conduct rigorous quantitative analyses based on longer time series and more data to identify leading indicators appropriate for their economic situation. In particular, they note the role of collaboration between statistical agencies and financial sector supervisors, including central banks and security commissions, to effectively monitor financial stability. Although market monitoring in general is different from credit monitoring by banks or other organizations, they are both very important for ensuring the sustainability of the economic system (Khodakivska *et al.* 2022). Moreover, credit monitoring data is used extensively in the analysis of financial institutions, so that the development of both systems should be conducted by both public and private organizations, in connection with legislation and in good faith.

Cotoc *et al.* (2021) discussed the impact of international money laundering regulations on anti-money laundering in their study. Their work was based on data from the reports of the financial intelligence units of the European Union member states. In particular, the scholars showed that the number of transactions received by national anti-money laundering authorities between 2018 and 2019 increased over time. However, as they also pointed out, the data, regarding this number of transactions, may in fact be inaccurate. Because of this, standardize methodologies for reporting statistics and case studies to more accurately assess the effectiveness of anti-money laundering efforts. Although this study was primarily focused on the European Union, this situation remains relevant for Kyrgyzstan. It is also important for the country to be more active in the fight against money laundering, including by better analysing and collecting data on the financial activities of its citizens. In particular, credit and financial monitoring by businesses can help.

Cincinelli and Piatti (2021) paid much attention to the credit risk taken by banks based on data from Italy. The researchers showed that there are several main factors that lead to an increase in the number of non-performing loans in countries. Most often, this is due to some kind of crisis, which reduces the ability of borrowers to repay their debts. In addition, the limited ability of banks to repay defaulted loans has also played a role. The factors determining the excess NPLs were found to be the following: return on assets, loan growth rate and business cycle. In addition, the activities of the authorities and their attitude towards both borrowers and banks during such periods also played an important role. Based on the research conducted by the researchers, it can be concluded that Kyrgyzstan should pay more attention to the sustainability of the credit system during crisis periods; in particular, the state authorities should support both banks and other credit organizations, as well as enterprises, to ensure their functioning.

Thus, all the main stages of credit monitoring in Kyrgyzstan and Ukraine have been described in detail. However, their existence does not guarantee that they will be adhered to by both banking institutions and MFOs, as well as by enterprises or companies. Therefore, how the government can make them adhere to the rules (how high the level of institutional development in the country is) also plays an important role in this context. This is also something that the authorities should pay attention to when setting public policy.

Conclusions and Further Research

Thus, analysing credit monitoring systems and funding sources is of paramount importance for the long-term sustainability and performance of financial institutions, be they large banks or microfinance institutions. This comprehensive assessment covers various important aspects such as assessing the creditworthiness of the client, effective debt collection and loss minimization to ensure timely repayment of loans.

The effectiveness of financial monitoring systems can vary significantly depending on the regulatory framework adopted in each country. The case study of Kyrgyzstan shows that the credit risk management process in this context is governed by Regulation 'On the minimum requirements for credit risk management in commercial banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic'. FCIs operating under this law are required to closely monitor their loan portfolios by scrutinizing customer payments, compliance with loan covenants and the financial strength of borrowers. The frequency of monitoring depends on factors such as the size and type of loan, with larger loans subject to more frequent scrutiny. The ultimate goal is to submit regular reports to management, especially in case of late loan payments or deterioration in loan classification. In comparison, Ukraine has its own legal framework: while there are similarities between the two countries' systems, such as the risk-based approach and due diligence requirements, Ukraine's scope extends to a wider range of financial institutions, including insurers, credit unions, payment system operators and stock exchanges. Notably, compliance with this regulatory framework is essential to ensure the integrity and financial health of institutions. Effective supervision and adherence to standardized procedures are key to protecting against financial risk and ensuring that financial institutions operate within the law.

It is relevant for the following studies to assess other components of banking development and microfinance sector in the countries of the Eurasian Economic Union or Commonwealth of Independent States. In addition, it is relevant to continue analysing the banking system of Kyrgyzstan, its weaknesses and strengths, as well as finding levers for development, especially in the current difficult conditions of economic development in the country.

Credit Authorship Contribution Statement

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Gulimhan Sansyzbaeva: Writing – review and editing, Methodology;
Svitlana Ivashyna: Writing – original draft, Conceptualization;
Oleksandr Ivashyna: Writing – original draft, Investigation.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.
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Declaration of Use of Generative AI and AI-assisted Technologies

The authors declare that they have not used generative AI and AI-assisted technologies during the preparation of this work.

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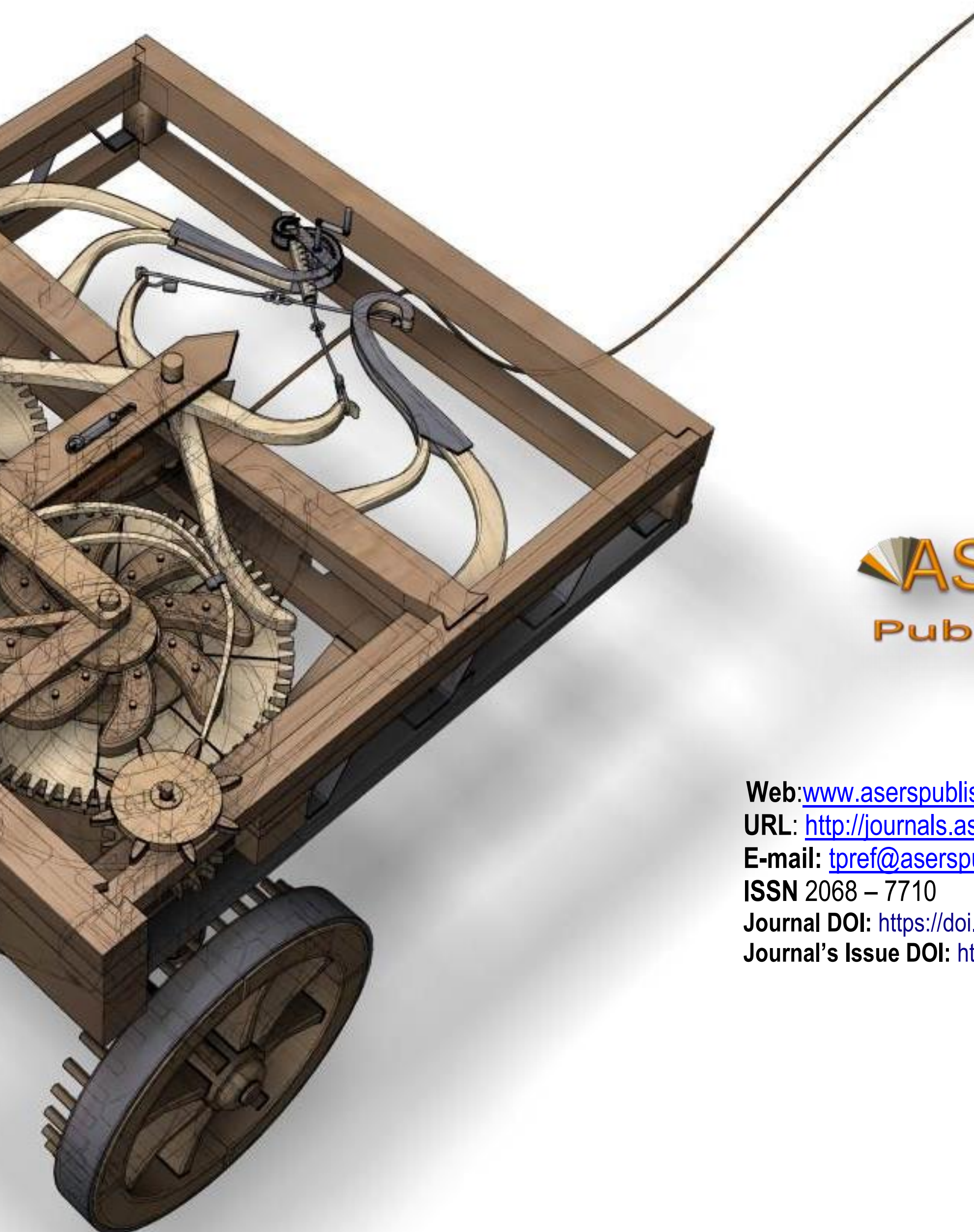

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