

## INCLUSION OF FINANCIAL LITERACY AND SERVICES IN THE REPUBLIC OF UZBEKISTAN

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### ABSTRACT

This article describes the importance and role of financial literacy and financial services in the national economy. Moreover, several proposals have been made for further improvements in this sphere.

**KEYWORDS:** financial literacy, service, bank, innovation, credit card, finance

### INTRODUCTION

Clearly understanding the role of financial literacy and financial services in the national economy of the Republic of Uzbekistan several facilities have been made for reforming these sectors. Exactly, the decree "On the Central Bank of Uzbekistan" was adopted to provide more easiness in the financial sector of the Republic. It should be noted that financial literacy refers to a variety of important financial skills and concepts. People who are financially literate are generally less vulnerable to financial fraud. A strong foundation of financial literacy can help support various life goals, such as saving for education or retirement, using debt responsibly, and running a business.

### MATERIALS AND METHODS

According to Danes S. M. and others [1], financial literacy is the ability to understand and effectively use various financial skills, including personal financial management, budgeting, and investing. The lack of these skills is called financial illiteracy.

Bhushas P., and Medury Y., note[2] that financial decision is a process which is responsible for all the decisions related with liabilities and stockholder's equity of the company as well as the issuance of bonds. To make a good Financial Planning Process managers have to follow these six steps:

1. Determining current financial situation: To join all the information about the financial situation of the company, such as bank accounts, loans, taxes, utility bills, investments, insurance... Finally, with all this information analyzed, managers can evaluate how the financial situation is.
2. Establishing financial goals: Setting the goals companies want to achieve and the risk that they would be able to suffer.
3. Identifying different courses of action: Once managers have established the objectives, they must fix the actions to be carried out.
4. Evaluating alternatives: There is not a unique action to carry out the project. Managers should know that there are different ways to reach the same goals.
5. Elaborating and implementing the actions of the financial plan: When managers have already fixed their objectives and they know the actions to carry out, they only need to launch the project. They should keep in mind that not always makes more money in less time is synonymous of a better financial plan. They must prioritize the objectives.
6. Reviewing and revising the financial plan: Evaluating how the project is operating relative to a forecast which was made previously. If managers are not performing according to expectations, they should propose a strategy to correct the mistakes.

It should be noted that in recent decades, financial products and services have become increasingly widespread throughout society. Whereas earlier generations of individuals may have purchased goods primarily in cash, today various credit products are popular, such as credit cards, mortgages, and student loans. Other products, such as health insurance and self-directed investment accounts, have also grown in importance. This has made it even more imperative for individuals to understand how to use them responsibly.

Although there are many skills that might fall under the umbrella of financial literacy, popular examples include household budgeting, learning how to manage and pay off debts, and evaluating the tradeoffs between different credit and investment products. Oftentimes, these skills require at least a working knowledge of key financial concepts, such as compound interest and the time value of money. Given the

importance of finance in modern society, lacking financial literacy can be very damaging for an individuals' long-term financial success. Unfortunately, research has shown that financial illiteracy is very common, with the Financial Industry Regulatory Authority (FINRA) estimating that some 66% of Americans lack financial literacy.

It is noted [3] that the lack of financial literacy can lead to a number of pitfalls. Financially illiterate individuals may be more likely to accumulate unsustainable debt burdens, for example, either through poor spending decisions or through a lack of long-term preparation. This in turn can lead to poor credit, bankruptcy, housing foreclosure, or other negative consequences. Thankfully, there are now more resources than ever for those wishing to educate themselves about the world of finance. One such example is the government-sponsored Financial Literacy and Education Commission, which offers a range of free learning resources.

According to the scientists[4] developing financial literacy to improve person's personal finances involves learning and practicing a variety of skills related to budgeting, managing and paying off debts, and understanding credit and investment products. Here are several practical strategies to consider:

- Creating a budget— individual's should track how much money they receive each month against how much they spend in an excel sheet, on paper, or in a budgeting app. Their budget should include income (e.g., paychecks, investments, alimony), fixed expenses (like rent/mortgage payments, utilities, loan payments), discretionary spending (nonessentials such as eating out, shopping, travel), and savings.
- Paying themselves first—To build savings, this "reverse budgeting" strategy involves choosing a savings goal, a down payment for a home—deciding how much they want to contribute toward it each month, and setting that amount aside before they divvy up the rest of their expenses.
- Managing bill-paying—staying on top of monthly bills so that payments consistently arrive on time. They should consider taking advantage of automatic debits from a checking account or bill-pay apps, and sign up for email, phone, or mail payment reminders.
- Managing debt— individuals should use their budget to stay on top of debt by reducing spending and increasing repayment. They should develop a debt-reduction plan, such as paying down the loan with highest interest rate first. If their debt is excessive, they should contact lenders to renegotiate repayment, consolidate loans, or find a debt-counseling program.

According toWagner J,[5] financial literacy is defined as the knowledge of basic economic and financial concepts, as well as the ability to use that knowledge and other financial skills to manage financial resources effectively for a lifetime of financial well-being. Financial literacy as a concept is divided into three interrelated parts: guidelines, knowledge and skills, on the basis of which the index of financial literacy is calculated.

Moreover, Sabri M[6] stresses that the value of financial literacy is defined by absence of alternatives in the market economy as the dominant of social development and the inevitable participation all segments of the population in it. Financial literacy is defined as the ability to understand and execute matters of personal finance, including basic numeracy, interest compounding, inflation, and risk diversification. Someone who is financially literate understands compound savings rates, changes in value of money over time, mechanics of credit and debt, and how these various economic tools affect their choices. Those who are not financially literate are unable to make informed choices about personal finances. It should be recalled that, market based on the monetary relations, because money is the main financial tool of the relationship of all economic subjects, real vector of economic interests, and the main form of wealth. As it is known, finance - is the ratio of cash income and expenses. Thus, financial literacy is the ability to manage income and expenses, the ability to understand how money works: how someone makes, manages and invests it, and also expends it to help others. Common financial literacy principles are financial goals, budgeting, investments, superannuation, contracts and employment models. This literacy is achieved in two ways: first, by observation of financial transactions and accumulation of experience in this field, and secondly, the organized development of financial knowledge and their usage in practice. In short, financial literacy is the ability to budget, so it is required by all, irrespective of financial conditions.

According to Hilgert and others[7], financial literacy is necessary not only the outreach people but also some middle-class people and financially needy people. It is necessary, first of all at the lowest level of finance – particularly, for personal and family finance, which are the main parts of micro and mini levels of

the financial system. As far as all social groups of population are involved in finance, to the extent that the representatives of all social groups should have financial literacy, whether he or she is school children, students, workers, employees, farmers, entrepreneurs or pensioners. Everyone should understand how to make money, how to multiply and manage it. Family dependents need to understand that money is earned by labor of those people who are busy with work (they are usually capable of working family members), that money should be spent not haphazardly, but with taking into account the family budget, with the benefit for all members of the family. For people of middle age financial literacy helps to develop the right strategy for their retirement savings, gives a chance effectively manage available financial resources. As for youth, it provides a clear idea of finances, basic skills of budget and savings planning, allows to solve financing problems of their own education and homes housing. In other words, financially literate people have a greater capacity to earn better and disposing resources, reaching a greater effect as compared with financially illiterate people. Financial literacy is a factor to increase the economic culture in general as earnings culture, expenditure and consumption, savings and private augmented wealth. There is no doubt that the economically cultural identity is widely adopted finds in that area where there are more reasonable opportunities for personal development and people's actions in order to meet the vital needs of the material and spiritual blessing by the rational use of limited resources , and it creates confidence in the future. The absolute evidence of economic culture is the ability to correlate useful efforts in the process of labor activity. High economic culture creates the desire for high productivity and higher wages, whereas the media of low economic culture prefers marginal forms of employment, involvement in various hidden schemes of work, which composing the shadow economy.

Without considerable culture it is impossible the functioning of modern economy, which means a complex, multi-factor system, the field of unlimited possibilities. In connection with this economic culture should contain the attributes of strategic planning as an approach to the development of long-life projects.

In the strategic plan increasing of financial literacy will be of large return of the younger generation, so that there are a number of reasons. First, these people are more receptive to learning beyond of their ages. They systematically engaged in training activities in educational institutions (school, college, high school, university), to which is added by self-education. Mastering the basics of financial literacy may enter into educational programs as the one of worthwhile component. Secondly, in the frame work of educational institutions it is possible to achieve maximum coverage of different strata of the people, as far as the representatives of all segments of people are taught. Since young people is the most promising sector of financial services users, first of all financial literacy is necessary to them. Knowing the nuts and bolts of literacy, student will be easy to orientate in the issues, which are connected with money. Therefore the issue of increasing of financial literacy of youth is crucial, because economic well-being of a country depends in particular on them in future.

## METHODOLOGY OF THE RESEARCH

The methodology includes historical analyzes, systematic analyzes, and graphic methods. Statistics have been made by the help of official statistics of Uzbekistan and the world.

## RESULTS

Conducted researches revealed that following three factors cause to financial literacy:

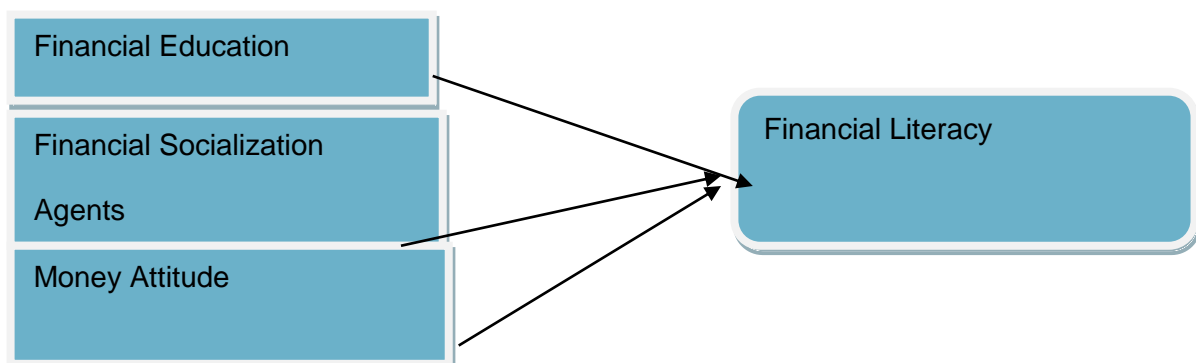


Figure 1 Factors of financial literacy[8]

According to the results of conducted researches the rate of financial literacy was considerable low in the Republic of Uzbekistan a half decade ago. Clearly, Standard and Poor's 2014 Global Financial Literacy Survey[9] showed that Uzbekistan has a much lower financial literacy rate than other transition economies and it can be seen in the following figure:

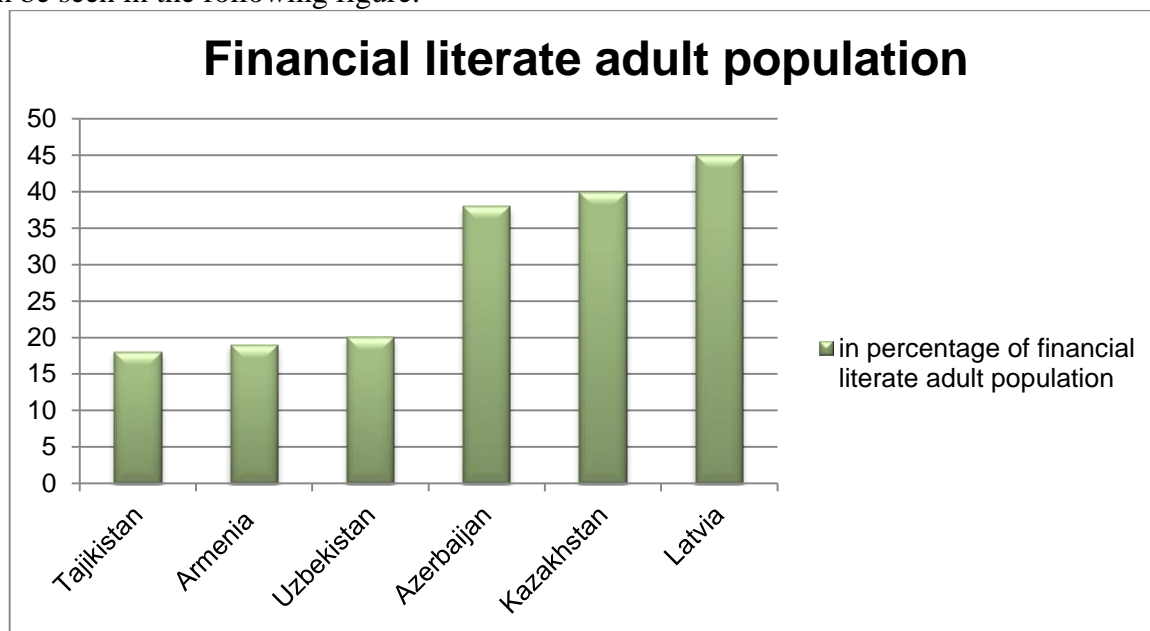


Figure 2: Financially Literate Adult Population in Transition Economies[9]

Studies revealed that there were several factors which caused to financial illiteracy in Uzbekistan[10]. Firstly, Uzbekistan had not national strategy for promoting financial literacy. However, based on an analysis of general financial literacy in Uzbekistan, a gender-specific national strategy was developed to raise the level of basic financial education of the Uzbek population. This 5-year strategy details the objectives, structures, methods and target groups of financial education in Uzbekistan. Furthermore, a two-year action plan was devised, listing specific activities, responsibilities, a timeframe and budget for the strategy's implementation. In all, some 13 Uzbek ministries and institutions helped co-design the action roadmap and the financial and cost plans as well as the monitoring concept. Project activities for the year under review also included several further training inputs for different actors. Courses for local trainers featuring simulations for financial budget planning and the promotion of small-scale enterprises had proven particularly successful in this context. Despite the delay in the adoption of a gender-specific strategy due to the elections of December 2016, the project was continued to meet the high demand for its further training measures.

In May 2017, the CBU reported that[11], jointly with the International Finance Corporation (part of World Bank Group), the Association of Banks of Uzbekistan, and the Chamber of Commerce of Uzbekistan, it had started to implement a new program on financial literacy. The program consisted of two parts: the first targets owners of small and medium-sized businesses, and the second aims to educate the general population. Importantly, this is not the first financial literacy program. A few other programs exist, like the German Agency GIZ project, within which the Sparkassen-Finanzgruppe also focused on financial literacy; for instance, the program operated a train the trainer program with a state financial institute. Additionally, the National Association of Microfinance Institutions of Uzbekistan, in partnership with the Microfinance Centre, had implemented a finance literacy program by directly training 633 low-income people and preparing 34 trainers on financial literacy. However, the scale of those programs was small and the impact of those programs was also low to increase financial literacy in the Republic.

It should be noted that financial knowledge is multifaceted. It covers knowledge of the stock and money markets mechanisms, including the foreign exchange market. Stock market - means of capital and democratization of capital. Here, small value of money, turning into securities constitute a large capital sufficient for effective investment. Consequently on this market the diffusion of capital among numerous owners takes place with the result that it becomes democratic. It is a fact that in developed stock market not

only the stock pros acted as players, but also ordinary citizens too, who have money savings. There are 25 to 40% of the population have securities in developed countries. According to available data in Uzbekistan more than 1.3 million of individuals are the owners of the shares and receive dividend income. In the future due to the large increase of income money savings will be formed which will be owned by the current youth and join in the stock market. But now young people need to know what are stocks, bonds, derivatives, certificates, options, dividends, foreign exchange earnings, the yield of securities, bond interest charges.

Conducted studies showed that the Central Bank of Uzbekistan [11] entered into agreements with the International Finance Corporation (IFC) to implement two projects aimed at improving the regulatory environment for the development of electronic and digital financial services and realizing programs to improve financial literacy, the press service of the regulator reported. The main goal of these projects is to expand the availability of financial services for the population. IFC experts will assist in the development of regulatory documents in the field of electronic and digital financial services, which includes remote servicing, implementation of the principles of remote customer identification, a regulatory sandbox for payment systems, and the attraction of bank payment agents by credit institutions.

In the field of increasing the financial literacy of the population, the IFC will assist the Central Bank in training personnel in commercial banks of the republic for their subsequent consultation (training) of their clients on topics related to budget planning and the principles of money management, responsible borrowing and formation of savings, as well as with digital financial literacy. In addition, educational materials in the “edutainment” (game learning) format on the basic concepts of financial literacy will be developed in cooperation with the IFC for broadcasting to a wide audience.

Moreover, The German bank KfW[12] also has expressed interest in cooperating with the Capital Market Development Agency of Uzbekistan. The cooperation concerns not only the sphere of the capital market, but also the sphere of education. The bank representatives proposed to attract specialists from Germany. They discussed the possibility of introducing subjects on financial literacy and separately on KfW finances at schools. In fact, KfW Development Bank is a German government-owned development bank, which provides financing to governments, public enterprises and commercial banks engaged in microfinance and SME promotion in developing countries. On behalf of the German Federal Government, KfW is developing cooperation with Uzbekistan. The volume of financing since 1993 amounted to €268.5 million.

Financial inclusion in its broadest sense was put on the central bank’s agenda at the end of 2017, when its priority areas were revised as part of reforms and efforts to ensure the openness of the national economy. Before then, efforts had been focused mainly on financing small businesses and entrepreneurships, while the issues of greater financial inclusion, consumer protection and financial literacy remained unaddressed.

Realizing the importance of financial inclusion and its impact on the development of the financial sector and economy as a whole, the central bank identified these issues as important priorities in 2017. In 2019, with the adoption of the revised Law of the Republic of Uzbekistan “On the Central Bank of Uzbekistan”[13], they were reflected in the article on regulatory roles that provides for “measures to ensure the protection of the rights and legitimate interests of credit organization service consumers, ensuring a higher level of financial inclusion and a higher level of financial literacy among the population and business entities.”

The financial sector and financial services in Uzbekistan are predominantly represented by banks. Therefore, when speaking about financial inclusion, I will be referring to activities in this sector. In order to ensure greater accessibility of banking services to a population of more than 33 million people, we decided to approach the issue from an efficiency point of view. As such, we abandoned the practice of opening large uneconomical bank branches in favor of replacing them with smaller banking service offices with reduced managerial staff and operating costs to ensure wider coverage in remote regions.

Four hundred and fifty-seven newly-opened banking service offices had replaced 60 closed bank branches with an additional 200 such offices have been opened in 2020. As of the beginning of 2019, there were 30 head offices of commercial banks, 850 bank branches, 595 mini-branches, 457 banking service offices and 902 self-service points available 24/7[11].

It should be stated that as in many countries, digital channels are considered to be an effective method for increasing the accessibility of banking services. Our government intends to address issues surrounding the coverage of banking services through the development of remote banking services, especially in small towns and rural areas. Moreover, before moving onto the development of rural banking services, the Law of the

Republic of Uzbekistan “On Payments and Payment Systems” came into effect in February 2020. That was a new document that set out the procedures for the control and monitoring of payment systems, licensing of payment system operators and payment organizations, requirements for payment system security and data protection, procedures for regulating the electronic money market and the identification of electronic money owners.

The adoption of this Law enabled smooth payment transactions and the widespread introduction of innovative technologies, as well as ensuring the effective, reliable and safe functioning of payment systems. In order to develop a payments ecosystem, the central bank established the National Interbank Processing Center and HUMO payments system, in addition to the existing Uzcard system, which is a private company. More than 180,000 payment terminals and over 2,000 HUMO system ATMs were installed across the country over a short period of time. Therefore, we are promoting market competition and providing more choice to consumers. In total, there are over 392,000 POS terminals and 4,000 ATMs operating in the country, with over 20.5 million cards in circulation. Additionally, the National Interbank Processing Center, which is HUMO’s payment system operator, has established relations with both Visa and MasterCard payment systems, allowing international cards to be used for transactions in Uzbekistan. Scheduled activities for 2020 include the issuance of HUMO International cards, which would enable overseas transactions, as well as the implementation of the HUMO Pay payment service, which would enable contactless payments using mobile phones within the HUMO infrastructure. Remaining on the subject of remote banking, we can safely say that remote banking services (RBS) mobile systems are popular among bank clients with over 9.5 million individuals using the service.

According to the official data of Central Bank of Uzbekistan, the central bank is currently developing and testing a system for the use of QR codes based on the Clearing Settlement System. Several commercial banks are participating in these tests using the mobile applications of the respective commercial banks. Meanwhile, work is underway to organize remote and biometric identification of individuals, mechanisms that make it more convenient for clients to use services regardless of the time of day, location or bank branch network.

The goal of these initiatives is to create an innovative payment service for interbank payments by individuals and legal entities around the clock in real time. When it comes to financial market infrastructure, the quality of banking risk management should not be ignored. In order to reduce information asymmetry between credit organizations and potential borrowers, as well as to promote competition in the credit market, the credit bureau and credit information exchange system processes have been updated. Credit scoring has been introduced. This system covers and analyzes information from more than 150 organizations, including financial institutions, utility providers and a number of trade organizations selling goods through installments. The effective use of established conditions and products in the financial market is clearly based on financial literacy and consumer protection, which will establish a basis for inclusion and further interaction between financial institutions and their clients.

Central Bank has also done a great deal of work in the area of consumer protection. First, Central Bank adopted the Law “On Banks and Banking Activities”, which enshrines the protection of the rights and legitimate interests of financial services consumers in a separate chapter. In accordance with the new provisions of the law, the terms of banking services, including information on commission fees, tariffs and interest rates, have been published on the bank’s official website.

Banks are now required to have call centers and customer feedback forms on their websites for filing complaints. Information sheets containing key loan information have been introduced to help consumers compare loan product terms and choose the best product for the consumer.

Central Bank has also developed and implemented a methodology for calculating the total cost of consumer loans and microloans that must be communicated to consumers and reflected in loan agreements. In order to prevent excessive debt burdens on consumers, credit institutions are prohibited by law from charging interest, levying commissions and penalties (e.g. fines, late fees) under microloan agreements, as well as loan agreements concluded by pawnshops, amounting to more than half the amount borrowed per year.

In addition, various commission payments levied by banks for the consideration of loan applications, loan account servicing, and insurance of loans as well as early loan (microloan) repayment penalties from individuals and small business entities are also prohibited.

According to the official data [11], all consumer protection activities will be accompanied by educational activities to increase public awareness. At the same time, Central Bank intends to establish a framework for a functional system that allows for the development of financial literacy from an early age and to ensure the continuity of education until a very advanced age. In a short period of time Central Bank has achieved a great deal of work in the area of financial inclusion. However, much remains to be done. Therefore, Central Bank is currently developing a strategy that will determine our priorities for the near future. AFI membership allows bank to learn from international experiences and adopt best practices for implementation. In addition, the academic and expert potential of the Alliance is a significant asset for countries that are just starting activities in this area.

In order to increase the financial literacy of the population, the Central Bank launched the information and educational resource Finlit.uz. Within the framework of this project, the tasks were set to form knowledge and skills that will help in choosing and using financial services, as well as for making reasonable and responsible financial decisions, correctly assessing opportunities in the financial market. The information and educational site consists of the following sections, which are simple and convenient to use:

- Articles - relevant information materials covering various areas and products of the financial market (deposits, loans, budget planning, payments and transfers, financial market, monetary policy, foreign exchange regulation and protection of the rights of consumers of financial services);
- Study materials - a dictionary containing terms in the field of economics, banking and finance, books on financial literacy, as well as educational videos;
- Online services - deposit and loan calculators, FAQs, surveys, etc;
- Projects - announcements and releases of events aimed at increasing the financial literacy of the population.

The information provided in the materials is advisory in nature and is aimed at acquiring skills and shaping the behavior of a financially literate person. The content of the site is at an early stage, and in the future will be supplemented and improved on an ongoing basis.

## CONCLUSION

Summing up it can be said that financial literacy programs can play an important role in reducing economic inequalities as well as empowering citizens and decreasing information asymmetries between financial intermediaries and their customers. Public authorities have a responsibility to develop financial education policies and set up robust financial consumer protection frameworks to ensure that consumers are informed and understand the financial products available to them. Innovations such as electronic payments are tipping the economic scales in favor of those who have, for too long, been excluded from the system. But unless consumers are equipped to make sound decisions when using financial services, no amount of innovation will bridge the gap.

- Providing free financial podcasts via public radio to educate citizens;
- Creating educational centers which educates financially and provides individuals with real practice;
- Making debates and seminars with financial professionals in both centers of the cities and rural areas in the Republic;
- Using IT technologies to improve financial services in the Republic.

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