Diversity, equality and inclusion as part of Corporate Social Responsibility of the banks.

How to implement it in Uzbekistan?

Sayfiyeva Guzal Jamshid qizi and Juraqulova Malika Uyg'un qizi

Corporate Governance, Tashkent State University of Economics

BDA-67: Banking and audit

Supervisor: Muradova Lyudmila, Academic Coordinator

March 10, 2023

Outline

1.Introduction

- Relevance
- Aim and objectives
- Scientific novelty

2. Overall

- Body 1. What does diversity, equality and inclusion mean?
- Body 2. EU experience in CSR of the banks
- Body 3. How we can implement diversity, equality and inclusion as part of CSR of banks in Uzbekistan

3. Conclusion

1.Introduction:

The idea of corporate social responsibility (CSR) emphasizes the necessity of internalizing the impact of business activities on the environment and society by extending the responsibility of companies beyond the interests of their owners to other stakeholder groups (including employees, customers, regulators, and community). CSR is unavoidably assuming greater significance within practically every organization. This is especially true for the banking sector, which significantly lost public trust and reputation in the wake of the global financial crisis. So, it is not unexpected that banks all across the world have notably increased their CSR efforts.

Relevance:

The recent years have brought a significant increase in the interest in corporate social responsibility (CSR) and performance (CSP) on the part of all major stakeholder groups, including, in particular, equity investors, managers, and regulators. The concept of CSR extends the responsibility of companies beyond the interest of their owners to other societal stakeholders, including employees, consumers, government, community, and the natural environment, whereas CSP focuses on actual results achieved in the area of social responsibility.

Aim and objectives:

The aim of this research paper is to examine EU experience and explore how to implement diversity, equality and inclusion as part of CSR of banks in Uzbekistan. To achieve this aim, the following objectives will be pursued:

1. Examining role of European banks' in CSR in the banking sector

2. To analyze the strengths and limitations of the CSR's and Uzbekistan's approach to achieve Diversity, Equality and Inclusion in financial system

3. To find the opportunities for developing the Uzbekistan's assessment and promotion of diversity, equality and inclusion as part of CSR of the banks

Body1. WHAT DOES DIVERSITY, EQUITY & INCLUSION MEAN? Overall, we believe in the importance of diversity and the values and benefits that diversity brings. Diversity promotes the inclusion of different perspectives and ideas, helps to avoid "group think", and creates an environment that benefits from differing perspectives and talents., we understand that diversity is also important to our shareholders, our community, our business partners, and our valued customers.

Diversity, equity, and inclusion are at the core of all bank's values and ethics. We strive to create a workplace and a banking community that welcomes all people regardless of age, race, ethnicity, disability, family or marital status, gender identity and expression, language, national origin, physical and mental ability, political affiliation, religion, sexual orientation, socio-economic status, veteran status, and all other characteristics that makes our collective humanity powerful and unique.

Table 1

Diversity is the range of human differences, including but not limited to race, ethnicity, gender, gender identity, sexual orientation, age, social class, physical ability or attributes, religious or ethical values system, national origin, and political beliefs. It is about the representation, or under-representation, in various contexts of different perspectives, lived experiences, identities, cultures and demographics.

Good diversity, that is diversity in which each category and group is evenly represented and fairly treated, opens up the opportunity for growth and innovation. It is therefore something which businesses should pay close attention to and ensure that their employees are well-versed in.

Inclusion on the other hand can be defined as ‘the practice or policy of providing equal access to opportunities and resources for people who might otherwise be excluded or marginalized’. It is the ecosystem within which organizations can seize the opportunity to let those differences thrive by acknowledging and respecting each of them and by implementing them into their everyday business practices.

Diversity & Inclusion, some sectors are still lagging behind. And financial services is one area where big improvements are still needed. For example, the sector has one of the worst gender pay gaps in the UK. (Table 1)

Building diversity and inclusion in the workplace:

We believe our differences make the difference. We’ve worked thoughtfully to establish a variety of programs and initiatives designed to embrace an inclusive and diverse culture — making Commerce Bank a place to thrive and grow professionally. We explored the opportunities for developing and promoting the diversity, inclusion in Uzbek banks:

1.Observance and celebration of cultural, heritage and awareness months

2.Mentorship programs to support professional development of diverse leaders and team members

3.Diversity and Inclusion training: educational workshops on topics including "Unconscious Bias", "Being an Ally" and "Creating a Sense of Belonging"

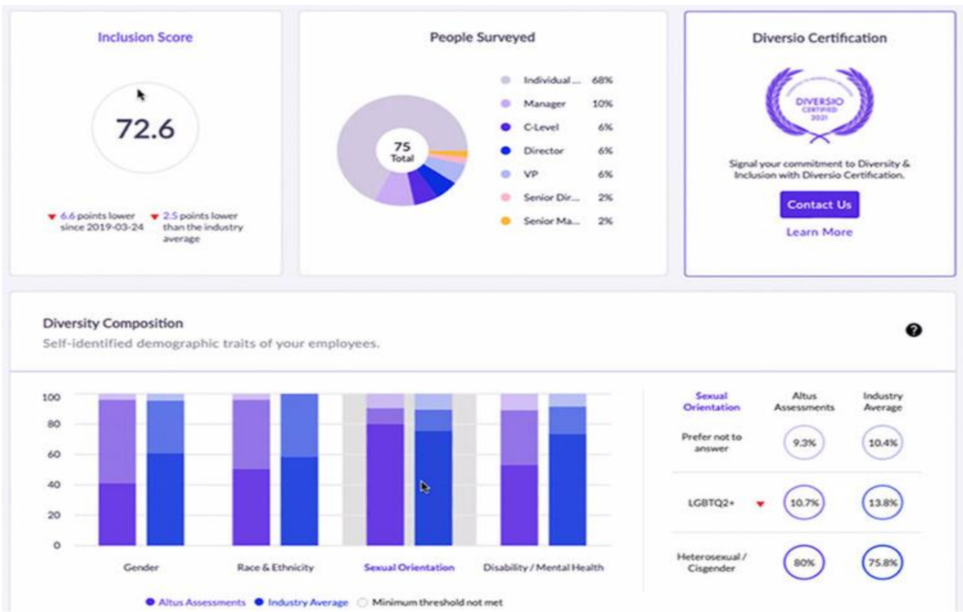
4.Community alliances to advance inclusive efforts

5.Employee Resource Groups to help us better understand and meet the evolving needs of our team members, customers and communities

Body2. EU experience in CSR of the banks.

In recent years, there has been good progress in the financial services industry in shifting mindsets on diversity and inclusion (D&I). Leaders have moved from looking at D&I as a box-checking exercise to forming effective business strategies that drive real business outcomes.

Diversity refers to the traits and characteristics that make an individual unique. Although diverse representation of underrepresented groups in an organization is important, inclusion — where behaviors and social norms ensure people feel valued and respected — is equally so.



Change isn’t just coming—it’s already here. From pandemic-related challenges to racial and social injustices, recent events have shone a spotlight on the urgent need for financial institutions to advance financial inclusion initiatives. Expanding access to affordable financial services for underserved markets doesn’t just recognize a moral imperative, but a business one as well. As the human-centered future of financial services becomes increasingly positioned around customer needs, wants, and social priorities, leading with heart and humanity will be integral to success. We can help you lead the way, with financial inclusion efforts that create a higher bottom line for all.

So, we examined the role of European banks in CSR in the banking sector and discovered that, CSR encompasses a wide range of proactive and reactive activities focused on both internal and external factors aimed at enhancing the economic, social, and environmental performance of enterprises, with respect to stakeholder expectations. The above factors, ranging from external regulatory and market pressures to the individual sense of moral obligation, have gradually become crucial determinants of modern firms' behavior. Being institutions whose existence and viability are almost entirely dependent on public trust in them, banks should naturally be inclined to follow the path of social responsibility and engage in CSR-related activities even more frequently and deeply than other businesses. Since banks are inherently more exposed to the risk of reputation than other industries, they are also more vulnerable to criticism from their stakeholders and customers. Not surprisingly, therefore, they are highly sensitive to environmental, social, and governance (ESG) risk, as it may directly affect both their financial performance and an overall operational risk exposure. Given the role of banks as leading financial intermediaries and the worldwide interconnections between them, the scale of banks' social impact is undoubtedly meaningful. The results of their activities affect not only the well-being of their owners, employees, and clients, but also society as a whole through participation in the processes of capital accumulation and allocation and the impact of the banking sector's financial soundness and stability on the entire economy. Social responsibility of banks involves both the responsibility of individual institutions for the security of funds entrusted to them and the responsibility of the entire banking sector for the stability of the financial system and the economy. Moreover, the long-term nature of many bank products and services leads to the emergence of a complex system of relatively persistent relationships between them and their external stakeholders. The business goals of banks should therefore not be reduced to the maximization of the benefits of their owners, but also encompass the needs of other stakeholders, and society as a whole. Given the above, banks should be more motivated to include the social responsibility dimension in their business decisions and to disclose information on the extent and actual outcomes of the undertaken actions. Engagement in socially responsible activities offers banks additional opportunities to distinguish themselves from competitors and to improve the perceived quality of their services in the eyes of the public.

Body3. If it is coming to Uzbekistan, IFC conducted a financial capability and inclusion survey in Uzbekistan in 2020. This report provides key findings of the survey and recommendations across three main areas: (1) financial inclusion, (2) financial capability, and (3) financial consumer protection. The other sections of the report provides a detailed overview of the results of the financial capability survey, summarizes key findings of the report (executive summary), introduces the methodology of the survey in chapter one, and focuses on the overall level of financial inclusion in Uzbekistan in chapter two. Chapter three is an overview of the levels of financial capability in Uzbekistan, specifically financial knowledge, attitudes, and behaviors of respondents. Chapter four explores the relationship between financial inclusion and financial capability. The final chapter looks into financial consumer protection practices in the country.

By thinking of Uzbekistan, Diversity and inclusion within CSR helps to create a positive brand image, helping to build an enhanced reputation and develop effective business relationships. By implementing a well-developed program for corporate social responsibility, an organization can create, and maintain, positive and engaging relationships.

The level of financial inclusion in Uzbekistan remains low: the majority of households and firms, rather than using formal finance, save and borrow informally, and few use digital finance products. Both indicate the high cost of finance as the top reason for not using it.

Secondly, households, which are mostly Muslim, declare that religious reasons prevent them from using formal finance, as only conventional finance is available. Unlike households, firms report that complex application procedures and high collateral requirements are the second and third most important reasons for not using formal finance. Financial inclusion is therefore constrained on the supply side. Policy recommendations include: promoting private and foreign capital participation in all segments of finance; removing/limiting the use of direct interest rate controls and administrative policy tools; and facilitating infrastructure development to promote digital finance. Demand-side policies, like improving financial literacy and customer protection, are necessary to supplement these policies. Strikingly, the country needs to create a financial inclusion and education strategy that will enable better-coordinated actions, leading to sustainable results.

Importantly, private domestic and foreign banks charge relatively high interest rates.

Until 2018, the Central Bank of Uzbekistan set the commission fees on the use of bank cards centrally. Anecdotal evidence suggests that the amount of fees charged to private individuals did not enable private banks to offer their services to private individuals. However, in 2018, the CBU started to publish recommended commission fees for the use of bankcards.

Religious reasons are the second most important reason for people not using financial services. The CIA Factbook reports that 88% of the members of Uzbekistan’s population are Muslims; however, the banks offer no Islamic banking products. This is partly a legacy of the former Soviet Union and a cautious approach to reforms in Uzbekistan. In May 2018, a number of news websites announced that, with the support of the Islamic Development Bank, the Ministry of Finance was preparing a presidential decree on creating a legislative base and infrastructure to support Islamic finance.

A lack of documentation and the inability to obtain an account are the next important reasons for not using formal financial services. A total of 10% of the respondents reported that they do not trust financial institutions. This is in line with the CER (2011), which reported, based on a 2010 Uzbekistan national survey, that 78% of their respondents indicated that they do not save with banks because they cannot withdraw cash when needed.

The website of the CIA contains information on the religious composition of the Uzbek population.

By the way “We don't use banks much because that's how things work here. We save in other ways: we buy livestock, raise them, and sell them. Or we buy foreign currency—it never goes down in value," says a woman in Uzbekistan's Fergana region.

Financial inclusion in Uzbekistan has long been neglected. The banking sector was dominated by state-owned commercial banks (SOCBs) that historically served mostly state-owned enterprises in priority sectors at below-market rates. What's more, while Uzbekistanis save as much as people in other developing countries, most of them — especially women — don't use banks or other financial institutions to deposit their savings. As a result, most women follow the example of friends and relatives, investing in livestock, gold, foreign currency, and even cars, whose value doesn't depreciate because of limited supply.

That's starting to change amid the financial sector restructuring initiated in 2017 by the government. Expanding financial inclusion in the use of formal savings is crucial for enhancing people's access to economic opportunities as well as for upgrading human capital, resilience to shocks, and shared prosperity.

Development strategy and legal framework for financial services:

Opening up the financial system for citizens, households, and micro, small, and medium-sized enterprises is at the heart of the government's financial sector overhaul. In June 2021, Uzbekistan adopted its first National Financial Inclusion Strategy for 2021-2023 (NFIS) with the support of the World Bank and the International Finance Corporation (IFC) and technical assistance funded by the Financial Sector Reform and Strengthening Initiative (FIRST), a multi-donor grant program. The plan focuses on five key policy areas: basic financial services, access to finance for micro, small and medium-sized enterprises, digital financial services, financial consumer protection, and financial literacy.

Digital payments are a key element of the strategy. Uzbekistan updated its legislation for payment services to enable transactions using electronic money and digital wallets. The legislation brought the previously unregulated sector under the supervision of the Central Bank of Uzbekistan. Around 50 payment system companies received new licenses, and digital banks emerged. In response to this competition, commercial banks innovated in digital access to finance.

In April 2022, Uzbekistan adopted a new law "On Nonbank Credit Organizations and Microfinance Activities" developed with support from the World Bank and FIRST. The measure establishes a unified legal framework that encourages the development of the nonbank credit organizations (NBCO) sector through a proportional regulatory regime, removal of unnecessary constraints, and protection of consumers using NBCOs.

Access to and usage of financial services:

In 2017, the availability of financial access points began to increase. This was largely driven by a surge in the number of automated teller machines from just 445 in 2017 to more than 11,000 in 2022.

The most active banks of Uzbekistan in the IV quarter of 2022 were determined. What has changed with inclusion and diversity?

Among the 17 major banks, "Aziya Alliance Bank", "Silk Road Bank", "Aloka Bank" and "Microcredit Bank" rose one place in the overall rating, while "Trustbank", "Invest Finance Bank", "Ipoteka Bank" and "Agrobank" decreased by one point, the remaining 9 banks kept their positions unchanged. (Table 2)

Rating of activity of large banks for the second quarter of 2022 (Table 2)

№	BANK	Overall Rating	Change in the Rating	Financial Intermediation Rating	Financial Access Rating	Capital Adequacy Rating	Asset Quality Rating	Management Quality Rating	Earning ability Rating	Liquidity Rating
1	Kapital bank	1	0	1	1	16	1	4	12	3
2	Trast bank	2	0	6	11	6	2	6	1	1
3	Hamkor bank	3	1	7	5	12	4	7	2	7
4	Azia-alliance bank	4	1	2	10	17	13	9	5	2
5	Ipoteka bank	5	-2	13	2	11	9	2	8	9
6	Invest finance bank	6	3	3	9	10	3	11	10	6
7	Ipak yuli bank	7	0	15	3	9	12	8	3	4
8	Aloqa bank	8	0	4	8	15	6	10	11	13
9	Orient Finance bank	9	-3	9	17	2	5	5	4	5
10	Mikrokredit bank	10	2	10	6	1	11	16	9	16
11	Agro bank	11	0	8	4	3	8	15	16	14
12	National bank	12	4	17	15	4	16	1	6	12
13	Qishloq qurilish bank	13	1	12	7	13	10	13	14	17
14	Uzsanoatqurilish bank	14	-4	16	16	8	15	3	7	11
15	Turon bank	15	0	11	13	7	7	14	13	15
16	People's bank	16	-3	5	14	5	17	17	15	8
17	Asaka bank	17	0	14	12	14	14	12	17	10

The Center for Economic Research and Reforms (Center) updated the "Bank Activity Index" for 29 commercial banks of Uzbekistan, and based on it, a quarterly rating of banks was compiled. The research is being conducted in order to monitor changes in the private sector's share of bank assets, as well as to assess the effectiveness of reforms and transformation processes in the banking sector of Uzbekistan. When calculating the index, bank indicators were used in the following areas: financial intermediation, financial popularity, capital adequacy, asset quality, management efficiency, profitability, liquidity.

Activity rating of major banks for the IV quarter of 2022 According to the results of the fourth quarter, "Kapitalbank" again took the first place in the rating of the most active large banks of Uzbekistan. "Hamkorbank" has maintained its position and occupies the second place in the rating, "Azia Alliance Bank" has risen by 1 place, exchanged places with "Trustbank" and completed the top three. "Azia Alyans Bank" kept the indicators of liquidity (1st place) and financial intermediation (1st place), improved the quality of assets by two places - to the 5th place, and improved management efficiency. improved its indicators by 3 places - to 6th place. However, the results of the rating show that "Asia Alliance Bank" should pay attention to the indicators of capital adequacy, which remain unchanged, since the bank, like a year ago, took the last line of the rating on this indicator (17 -place) is occupied. We remind you that in the IV quarter of 2021, "Aziya Alliance Bank" improved its position in the rating by 2 places, and at the same time, showing good results in terms of financial intermediation, potential profitability and liquidity, it took the 6th place.

Among the 14 small banks in the fourth quarter, TBC bank and Garant bank could not keep their place in the ranking, while Tenge bank, NAR bank and Uzagroeksport bank rose one point in the ranking (Table 3). The banking system in Uzbekistan is still at the stage of active development and is preparing for the privatization of state banks. It is planned to reduce the state share in the banking sector from the current 82% to 40% in 2025. The ongoing changes in the banking system and the growth of the competitive environment indicate the need for further development of private banks, in particular, through the search for innovative financial products and services.

Rating of activity of small banks for the second quarter of 2022 (Table 3)

№	BANK	Overall Rating	Change in the Rating	Financial Intermediation Rating	Financial Access Rating	Capital Adequacy Rating	Asset Quality Rating	Management Quality Rating	Earning ability Rating	Liquidity Rating
1	Davr bank	1	0	10	1	9	1	5	4	12
2	Universal bank	2	▲3	1	5	10	5	2	7	7
3	Ziraat bank	3	▼-1	1	7	6	6	4	6	8
4	Poytaxt bank	4	▼-1	9	9	1	2	6	3	1
5	Anor bank	5	▼-1	1	2	14	3	11	12	1
6	Ravnaq bank	6	▲2	1	4	11	4	9	9	10
7	Tenge bank	7	0	11	6	1	9	8	5	6
8	Madad invest bank	8	▲1	12	10	1	13	1	1	4
9	TBC bank	9	▼-3	1	3	8	11	14	8	9
10	Savdogar bank	10	0	8	8	13	8	12	10	11
11	KDB Bank Uzbekistan	11	0	12	12	7	7	3	11	1
12	Uzagroexportbank	12	0	12	13	1	14	7	1	5
13	Turkiston bank	13	0	1	11	12	10	13	13	13
14	High-Tech bank	14	0	7	14	5	12	10	14	14

Conclusion:

In summary, we can state that the goal of this research was to examine the experience of the European Union and how to adopt diversity, equality, and inclusion as a component of CSR for banks in Uzbekistan. In conducting this research, we looked for several ways to accomplish this goal, looking first at the role of European banks in CSR in the banking sector, then at Uzbekistan's methods for achieving diversity, equity, and inclusion in the financial system, and finally at the advantages and disadvantages of CSR. We researched chances to advance the evaluation and promotion of diversity, equality, and inclusion in Uzbekistan as part of the banks' CSR initiatives.

References:

https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.commercebank.com/about-us/diversity-equity-inclusion&ved=2ahUKEwiastXWlrD9AhUBx4sKHYPcBqs4FBAWegQIDRAB&usg=AOvVaw2n9Ky0QUTna2BPqsT55sja

https://www.google.com/url?sa=t&source=web&rct=j&url=https://sustainabilityunlocked.com/videos/diversity-and-inclusion-in-financial-services/&ved=2ahUKEwjP-8KWkrD9AhUM-yoKHXFPBm0QFnoECB4QAQ&usg=AOvVaw3QBr2aBcGOFgNBCPXgykMq

https://www.google.com/url?sa=t&source=web&rct=j&url=https://primisbank.com/diversity-equity-inclusion/&ved=2ahUKEwjP-8KWkrD9AhUM-yoKHXFPBm0QFnoECB8QAQ&usg=AOvVaw3ggeAp36SNR9KOydPC7OK7

https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.brinknews.com/what-does-diversity-and-inclusion-look-like-in-financial-services/&ved=2ahUKEwi8usqxmLD9AhVqhosKHdG0DAQ4ChAWegQIDhAB&usg=AOvVaw10NKHEkNGTX__WX079E-QQ

https://www.google.com/url?sa=t&source=web&rct=j&url=https://www.ifc.org/wps/wcm/connect/region__ext_content/ifc_external_corporate_site/europe%2Band%2Bcentral%2Basia/resources/uz%2Bfin%2Bcapacity%2Band%2Binclusion_eng&ved=2ahUKEwjWk4yomLD9AhXF-yoKHfq6DtwQFnoECDYQAQ&usg=AOvVaw0EOT5810roPjW4tSe9xGSv

https://www.euromoney.com/reprints

Carroll, A.B. Corporate Social Responsibility (CSR) and Corporate Social Performance (CSP). In The SAGE Encyclopedia of Business Ethics and Society; Kolb, R.W., Ed.; SAGE Publications, Inc.: Thousand Oaks, CA, USA, 2018; pp. 746–754.

https://www.google.com/url?sa=t&source=web&rct=j&url=https://blogs.worldbank.org/psd/livestock-lifelong-savings-improving-financial-inclusion-uzbekistan&ved=2ahUKEwiMysGb2cb9AhUS2SoKHbMyA3EQFnoECAoQAQ&usg=AOvVaw3RALcuswvJma8EF84PDD2z

https://www.google.com/url?sa=t&source=web&rct=j&url=https://review.uz/uz/post/opredelen-naibolee-aktivne-banki-uzbekistana-v-iv-kvartale-2022-goda-chto-izmenilos&ved=2ahUKEwiCw9nT2sb9AhUk_SoKHUVuCfgQFnoECAwQAQ&usg=AOvVaw2_Wr71_4JthBf-N7QjQ7jG

https://lex.uz/uz/docs/5972413

https://encyclopedia.pub/entry/1437

https://primisbank.com/payables/

https://societylifeanddevelopment.com/qa/what-is-the-impact-of-diversity-on-personal-behaviour.html

https://www.eureporter.co/world/uzbekistan/2022/07/05/the-most-active-banks-of-uzbekistan/