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FINANCIAL INCLUSION AND FINANCIAL LITERACY IN KAZAKHSTAN

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Abstract

This paper examines the current situation concerning financial inclusion and financial literacy in Kazakhstan and future prospects. Since 2000, the financial sector has been developing rapidly, driven by petrodollars, which has led to higher financial inclusion. However, the improvement in financial inclusion has not been distributed evenly, most notably between urban and rural populations. Moreover, financial literacy levels have not caught up with the development of financial services and this has led to insolvencies and banking crises. Since gaining independence in 1991, Kazakhstan has not had any systematic and wide-scale financial inclusion strategy or policy. This paper discusses key barriers to financial inclusion and suggests possible ways of overcoming these that could become the basis for a national financial inclusion strategy.

Keywords: financial inclusion, financial institutions, government policy and regulation, economic development, financial markets, saving and capital investment, financial literacy, personal savings, Kazakhstan

JEL Classification: G2, G21, G28, O16, A2, D14

Contents

1. INTRODUCTION

Kazakhstan is a middle-income country, with an economy that experienced booming growth in oil exports in the 2000s and early 2010s. One of the outcomes of its rapid economic growth was the development of the financial sector, and improvements in the areas of financial inclusion and financial literacy. However, serious problems remain in terms of both supply and demand for financial services. These problems have not fully been addressed in the government's agenda so far, and they remain among the barriers to more dynamic and inclusive economic growth.

Financial inclusion is becoming a goal for more governments and central banks around the world. National strategies are being designed with the help of international organizations and are being implemented in coordination with a wide range of governmental agencies. Most of these strategies include financial education as one of the pillars for ensuring higher financial inclusion. Research has shown that there is a strong correlation between financial literacy and financial inclusion. People who are aware of at least five financial products tend to have higher levels of financial literacy than those who are less aware (Atkinson and Messy 2013).

Effective financial inclusion policies and the role of financial education should take into account best practices from other countries, but also be based on good understanding of local specifics and the dynamics of social life. Low levels of financial literacy are most likely to be considered a major barrier to financial inclusion (Gardeva and Rhyne 2011). Hence, one of the tools for achieving higher and safer financial inclusion should be financial education. It is important to note that the ultimate goal of a financial inclusion strategy should not solely be on hitting numeric targets or the share of the population actively using financial services, but rather the share of the population using these services responsibly to improve their life conditions over the long term.

Ensuring financial inclusion is an ongoing process that takes a long time and is difficult to implement completely. Diagnostics of the current situation should preside over the drafting of a national strategy for financial inclusion. It is important to ensure that the drafting of a national strategy is discussed widely by all key stakeholders, including policy makers from various governmental agencies directly and indirectly involved in its implementation, regional and local municipalities, financial service providers, business community, civil society, and nongovernment organizations (NGOs). It is important to conserve the buy-in from all these parties to increase the chances of success for the national strategy.

2. OVERVIEW OF THE FINANCIAL SYSTEM IN KAZAKHSTAN

The financial sector in Kazakhstan is relatively small in terms of volume, which limits investment and the operations of companies, and hinders bank lending. These problems are mostly due to transition factors, including the economic cycle, the unsustainable use of international loans, and a period of unstable high exchange rates. Structural factors, such as uncertainty with regard to property rights and the judiciary, as well as the lack of transparent financial statements, also hamper financial development. However financial inclusion in Kazakhstan is at a comparable level with other developing countries. The World Bank (2017) reports that in 2017 59% of adults (age 15+) had an account at a formal financial institution, 47% of adults (age 15+) made or received digital payments, and 92% of small and medium-sized enterprises

(SMEs) had an account at a formal financial institution.[1] The financial sector in Kazakhstan is dominated by banks and as a result, financial inclusion beyond banks remains modest.

Kazakhstan is well positioned in terms of the number of bank accounts, credit and debit cardholders (more than 17 million cards issued or one card per person) and ATMs. Household debt is low at 10% of gross domestic product (GDP). However, the insurance sector remains underdeveloped.

Table 1: Overview of the Banking Sector in Kazakhstan[2]

Total number of banks of which:	33
state-owned	1
with foreign participation	15
Assets, $ billion	77
as % of GDP	58
Total loans, $ billion	44
as % of GDP	35
Corporate loans (excluding SMEs), $ billion	20
Loans to SMEs, $ billion	15
as % of total loans	32
Retail loans, $ billion of which:	11
consumer loans, $ billion	8
mortgages	3
Non-performing loans (more than 90 days overdue) in retail loans, $ billion	1.3
as % of retail loans	11
Deposits, $ billion of which:	52
retail deposits, $ billion	24
retail deposits, as % of deposits	45

Source: NBK monthly publication "Tekushhee Sostojanie Bankovskogo Sektora Respubliki Kazakhstan" as of 1 January 2017.

The availability of banking services differs from region to region, with the highest number of branches and premises per person in 2 major cities: Astana and Almaty. The lowest concentration is in the southern regions with the largest populations: South Kazakhstan province (oblast), Zhambyl oblast, Kyzylorda oblast, and Almaty oblast.

According to the National Bank of Kazakhstan (NBK), currently there are two national payment systems: interbank money transfer system and interbank clearing system. In addition, international payment systems (Visa, MasterCard, American Express, and UnionPay) are operating in the country. Visa and MasterCard payment systems account for more than 95% of all transactions, and these firms issue debit and credit cards.

1 World Bank. Financial Inclusion Data. Global Findex. http://databank.worldbank.org/data/reports.aspx?source=1228 (retrieved 8 September 2017).

2 In this paper, "$" refers to US dollars.

Table 2: Number of Commercial Banks Branches by Region in Kazakhstan

	Branches	Additional Premises	Both	Per 10,000 Person
Almaty city	27	325	352	2.0
Karagandy oblast	31	177	208	1.5
East Kazakhstan oblast	30	176	206	1.5
Astana city	28	168	196	2.0
Pavlodar oblast	25	109	134	1.8
South Kazakhstan oblast	22	111	133	0.5
Aktobe oblast	19	96	115	1.4
Almaty oblast	21	89	110	0.6
Kostanai oblast	14	87	101	1.2
Mangistau oblast	22	78	100	1.5
Atyrau oblast	21	71	92	1.5
West Kazakhstan oblast	14	68	82	1.3
Akmola oblast	19	61	80	1.1
Zhambyl oblast	16	59	75	0.7
North Kazakhstan oblast	16	53	69	1.2
Kyzylorda oblast	13	40	53	0.7
Total	338	1,768	2,106	1.2

Source: NBK website: http://www.nationalbank.kz/?docid=3000&switch=russian

There are 32 insurance companies registered in Kazakhstan, of which 22 are members of the state-owned Insurance Guarantee Fund. The assets of the insurance companies are relatively low at 2% of GDP. The average insurance premium amount is $60.[3] According to the World Trade Organization (WTO) accession requirements for Kazakhstan, foreign insurance companies will be allowed to establish branches 5 years after accession, i.e., not before 2020.

As of September 2017, there were 160 micro-financial institutions (MFIs) registered in Kazakhstan. Their number has been increasing rapidly—in January 2017, there were 136 MFIs.[4] Consumer lending by banks in Kazakhstan has decreased since 2015, following the devaluation of the national currency and the tightening of regulations. However, demand has shifted to payday loans and non-bank lending organizations, such as MFIs. In 2016, in just 1 year, the loan portfolio of MFIs had increased by 50% and reached $0.3 billion. In the first 6 months of 2017 the loan portfolio increased by 30% and reached $0.4 billion.[5] One of the reasons for the remarkable growth in MFIs is that their regulations are not as tight as those for commercial banks. For example, licensing is not required for those MFIs that do not attract deposits from the population.

[3] NBK website: http://nationalbank.kz/cont/Тек.%20состояние%20на%2001.01.2017%20рус.pdf (retrieved 18 September 2017).

[4] NBK website: http://nationalbank.kz/cont/Текущее%20состояние%20МФО%2001.07.2017%20рус.pdf (retrieved 25 September 2017).

[5] NBK. Tekushhee sostojanie mikrofinansovyh organizacij Respubliki Kazakhstan. July 2017.

Online micro-lenders provided paycheck loans of almost ₸9 billion in 2016 in comparison with ₸2.5 billion in 2015, which shows the booming growth of the sector. In the 3 years since its inception the sector of online micro-lending has reached almost ₸34 billion (0.7% of total retail loans), disbursed in 543,000 micro loans with an average size of ₸37,000 (equivalent of $100) and an average loan period of 23 days.

Currently there is only one pension fund operating in Kazakhstan – Edinyi Nakopitelnyi Pensionnyi Fond or the Single Accumulative Pension Fund (ENPF), created in 2013. Every formally employed person in Kazakhstan has to pay 10% of their salary to the pension fund. In 2017 there were more than 9 million pension accounts, of which 5.6 million were active contributors (or 66% of the total employed population, including self-employed).[6] Almost none of those who are self-employed make mandatory or voluntary payments to a pension fund or most tax payments. The ENPF is the main source of local currency liquidity in the country and has accumulated nearly $21 billion (15% of GDP). Its funds are mostly invested in government securities (44%) and corporate bonds of local banks (20%). The ENPF is not listed and does not trade on the Kazakhstan Stock Exchange (KASE).[7]

KASE has been operating since 1993. After the pension reform and creation of private pension funds, KASE experienced rapid growth in trade volumes. However, after the government's 2013 decision to consolidate all pension savings into a single state-owned fund, the number of listed companies dropped from 354 in 2010 to 142 in 2017. Currently the main operations of KASE concern foreign exchange (52%) and repurchase agreement transactions (46%), whereas government and corporate securities remain negligible (1%). Stock market capitalization is at $47 billion and corporate bond market capitalization $24 billion. The NBK owns 50.1% of KASE shares.

Kazakhstan has been a net exporter of remittances since 2000, and the annual amount of remittances outflows gradually increased from $47 million, peaked at $1.9 billion in 2012, and declined to $1.4 billion in 2017. The remittance outflows strongly correlate with oil revenues and are directly linked to oil prices. The amount of inflowing remittances since 2000 has been in the range of $3–$11 million per year and have not affected the financial situation in Kazakhstan.

Since 2011, Kazakhstan has had a law that regulates the issuance of e-money, which can be issued only by the commercial banks. Private companies can act as operators for the banks to buy and sell e-money, and to provide transaction services using e-money.[8] The growth in e-money use is exceptional: In 2017, the volume of e-money transactions jumped 2.6 times and reached $1 billion.[9] Growth is also seen in Internet and mobile banking, with a growth in the volume of transactions of 70% to reach almost $3 billion, equal to one-third of cashless payments using bank cards. The total number of registered Internet and mobile banking users reached 7.8 million people or 60% of population aged 16+ years in 2017.

[6] ENPF presentation, 12 April 2017.

[7] NBK website: http://nationalbank.kz/cont/TC%20НПС_01.01.2017_рус.pdf (retrieved 15 September 2017).

[8] Law of the Republic of Kazakhstan of 21 July 2011 No. 466-IV "On Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan Concerning Electronic Money."

[9] http://www.nationalbank.kz/?docid=3453&switch=russian (retrieved 10 April 2018).

3. FINANCIAL INCLUSION

ADB defines financial inclusion as “ready access for households and firms to reasonably priced financial services.” According to the World Bank Global Findex Database (2017), 59% of adults (age 15+) in Kazakhstan have an account at a formal financial institution (up from 54% in 2014).[10] At the same time, only 46% of adults in the poorest 40% of households had an account at a formal financial institution.[11] In addition, the gap between richer and poorer in 2017 reached 17 percentage points.

Table 3: Accounts in Formal Financial Institutions in Kazakhstan

	2011	2014	2017
Account (% age 15+)	42	54	59
Account, male (% age 15+)	40	52	57
Account, in labor force (% age 15+)	44	62	68
Account, out of labor force (% age 15+)	37	42	46
Account, female (% age 15+)	44	56	60
Account, young adults (% ages 15-24)	27	32	37
Account, older adults (% ages 25+)	47	61	66
Account, primary education or less (% ages 15+)	20	28	30
Account, secondary education or more (% age 15+)	46	58	64
Account, income, poorest 40% (% age 15+)	34	45	49
Account, income, richest 60% (% age 15+)	48	60	65
Account, rural (% age 15+)	37	49	57

Source: World Bank Global Findex (2017).

However according to the Organisation for Economic Co-operation and Development (OECD), there is a difference between “unbanked” and “underserved” populations. To be considered “banked,” one only needs at least one open bank account, which can be an obligatory bank account opened as part of the social security or salary payment scheme. The “underserved” population comprises those who rarely use their accounts or do not know how to use them.[12] This is an important aspect for analysis of financial inclusion in Kazakhstan as all current pensioners receive their pension payments on bank cards and use the cards mostly to withdraw cash. Hence, the 54% of the “banked” population can be treated as a supply-side measure, but it does not show the “demand” side, i.e., the actual usage of financial services, which could be much lower. In addition, according to the legislation a retail bank account can be closed only if the client applies to close the account. Otherwise accounts (both retail and corporate) will continue to stay active. Thus, the total number of open bank accounts does not represent the number of accounts that are being actively used. Unfortunately, the data reported by the NBK only show the number of bank accounts with a minimum amount of ₸1 million (equivalent of $3,000). This does not allow a proper estimation of how many accounts contain an insignificant amount (for example, less than ₸30,000 or $100), and therefore can be considered abandoned.

10 https://openknowledge.worldbank.org/bitstream/handle/10986/29510/9781464812590.pdf (p.124) (retrieved 27 May 2018).

11 http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf (p. 83) (retrieved 19 November 2017).

12 OECD. 2015 *National Strategies for Financial Education. OECD/INFE Policy Handbook*. Paris: OECD.

According to the European Bank for Reconstruction and Development (EBRD), the share of people without bank accounts ("unbanked population") in Kazakhstan in 2014 was around 40%, the main reasons being "too expensive," "lack of money," and "lack of trust." The following factors did not play a significant role: "too far away," "religious reasons," and "lack documentation" (EBRD 2016).

Although almost all SMEs have an account at a formal financial institution, the share of firms using bank loans remains relatively low. This applies to the share of firms using banks to finance investments (16%), firms using banks to finance working capital (13%), and firms with a bank loan or line of credit (20%). The main reasons for the low use of credit remain the restrictively high rates for loans and high requirements for collateral levels, usually in the form of real estate.

The official data on the number of accounts indicate the high concentration of retail deposits. In local currency, 99.6% of all demand deposit accounts is lower than $3,000. For term deposits, 86% of all deposit accounts in local currency amount to less than $10,000. Overall, there are currently 4.3 million demand deposit accounts and 3 million term deposit accounts in local currency. In value terms, the concentration level is lower, with only 93% of all demand deposit accounts and 60% of term deposits being lower than $3,000. For term deposits, 70% of all deposit accounts in US dollars hold less than $10,000. Overall, there are currently around 85,000 demand deposit accounts and over 900,000 term deposit accounts in US dollars.

Official statistics indicate relatively high levels of financial inclusion; however, it should be noted that one person could have several current and card accounts, and one depositor could have several deposit accounts in one bank, including demand deposits and different term deposits, and/or several deposits in different banks. According to the statistics, there are more than 24 million current accounts in banks and over 10 million card accounts with some cash balances. Despite the high number of current accounts and card accounts in banks, it is still unclear whether these bank accounts are actually being used. According to Kazakhstan Deposit Insurance Fund (KDIF) data, the share of accounts with less than $3,000 (minimum amount reported) is very high for cash balances on current accounts in local currency (96%), remains of money on card accounts in local currency (99%), as well as cash balances in current accounts in US dollars (92%) and remains of money on card accounts in US dollars (96%). Clearly, for a more comprehensive picture, further disaggregation of the data is needed (see Appendix 1 for more detail).

Bank cards in Kazakhstan are used relatively widely. There are over 17 million active bank cards; however, during the reporting period only half of all cards were being used. Most bank cards—around 87%—are debit cards mainly used to receive and withdraw government transfers. In 2017 there were almost 10,000 ATMs and more than 120,000 point of sale (POS) terminals, of which respectively 30% and 45% were located in 2 major cities: Almaty and Astana. In August 2017, for the first time, the number of transactions cashless payments using bank cards have equaled to the cash withdrawals. However the monthly volume of the amount paid using bank cards ($0.8 billion) is still lower than the amount withdrawn ($2.8 billion). It is important to mention that every third cashless payment using the bank card was done in the Internet. [13]

[13] NBK website: http://nationalbank.kz/?docid=786&switch=russian (retrieved 12 September 2017).

According to the World Bank (2017) Global Findex survey, only 19% of adults (age 15+) saved for old age (up from 6% in 2014), and only 14% saved in a financial institution (up from 8% in 2014). What is noteworthy is that the richest 60% of the population was twice as willing (23% vs. 12%) to save for old age compared to the poorest 40%.[14]

Table 4: Financial Inclusion Indicators in Kazakhstan

	2011	2014	2017
Debit card ownership (% age 15+)	31	32	40
Credit card ownership (% age 15+)	9	11	20
Credit card used in the past year (% age 15+)		5	17
Used a debit or credit card to make a purchase in the past year (% age 15+)		15	26
Borrowed any money in the past year (% age 15+)		45	46
Borrowed from a financial institution (% age 15+)	13	16	20
Outstanding housing loan (% age 15+)		15	21
Received domestic remittances in the past year (% age 15+)		12	18
Received domestic remittances through a financial institution (% age 15+)		2	8
Sent domestic remittances in the past year (% age 15+)		14	16
Sent domestic remittances through a financial institution (% age 15+)		5	9
Paid utility bills in the past year (% age 15+)		65	64
Paid utility bills using a financial institution account (% age 15+)		3	21
Received wages in the past year (% age 15+)		45	44
Received wages in cash only (% age 15+)		14	14
Deposit in the past year (% with a financial institution account, age 15+)		72	83
Made or received digital payments in the past year (% age 15+)		40	54
Made digital payments in the past year (% age 15+)		23	38
Received digital payments in the past year (% age 15+)		42	43

Source: World Bank Global Findex (2017).

Another issue is that access to financial services is not evenly distributed among different groups of the population and some of them are almost totally excluded. For instance, only 5% of rural women had taken any loans from a bank in the last 12 months according to a survey conducted by United Nations (UN) Women in 2015.

From 2020, foreign banks will be allowed to establish branches in Kazakhstan. This was a WTO accession requirement for the country. Foreign banks will be allowed to open retail deposits only for $120,000 or more. The government should take into account that in countries with more foreign banks, banks focus disproportionately on "easy clients": white-collar workers with a stable job and a decent salary. Other groups benefit less from the presence of foreign banks.[15]

[14] World Bank Global Findex (2017), https://globalfindex.worldbank.org (retrieved 20 April 2018).

[15] EBRD. 2016. p. 71.

4. ANALYSIS OF THE CURRENT REGULATION OF FINANCIAL SERVICES

The NBK is the main state body responsible for regulation of the financial sector. The NBK is responsible for the regulation and supervision of banks, insurers, pension funds, investment funds, credit bureaus, and securities markets. From 2004 to 2011, the regulatory and supervisory functions were performed by the Agency on Regulation and Supervision of the Financial Market and Financial Organizations (FSA), an independent entity that reported directly to the President. During 2011–2013, the Committee for the Control and Supervision of the Financial Market and Financial Organizations (FSC) performed the supervisory and regulatory functions. Later, the FSC became a structural division of the NBK and continued to perform supervisory functions. Financial regulation is based on the dedicated Law “On state regulation, control and supervision of the financial market and financial organizations.”[16]

Currently, regulation of the financial sector is conducted based on the goals set in the “Concept for the Financial Sector Development of the Republic of Kazakhstan until 2030” (2030 Concept). According to the 2030 Concept, the main goal is to create a competitive and effective financial sector based on the global practices and OECD standards.[17] To achieve this goal, the following tasks are envisaged:

1. Reducing the costs of society and the state to maintain the stability of the financial system in the event of potential shocks.
2. Improving the efficiency of the financial sector in the context of economic integration and globalization.
3. Improving the infrastructure and creating optimal conditions for the qualitative development of the financial system.
4. Expansion of financial sector growth resources, including through financial products that meet the needs of the economy.
5. Maintaining a balanced economic environment and reducing credit risks in the economy.

The Law “On Payments and Payment Systems” (effective as of 10 September 2016) regulates the payments system in Kazakhstan. This law regulates relations in the sphere of payment system operations and the market, as well as improving practice for the performance of payments and money transfers. The law defines several new participants in the payment services market, including non-bank suppliers of payment services, such as payment organizations, payment agents, and subagents. New participants were added to facilitate and promote the development of e-money in Kazakhstan.[18]

To increase the level of trust in banking services, in 1999 the NBK created the KDIF. All commercial banks in Kazakhstan are members of the KDIF system. The KDIF provides a guarantee of up to ₸10 million ($30,000) for each deposit denominated in local currency and up to ₸5 million ($15,000) for deposits denominated in foreign currency. Currently, due to the small size of deposits, the KDIF system covers 99% of

[16] Law of the Republic of Kazakhstan of 4 July 2003 No. 474-II “On state regulation, control and supervision of the financial market and financial organizations.”

[17] Concept for the Financial Sector Development of the Republic of Kazakhstan.

[18] http://signumlaw.com/regulation-of-payment-systems-and-market-of-payment-services/?utm_source=Mondaq&utm_medium=syndication&utm_campaign=View-Original (retrieved 1 December 2017).

accounts.[19] The KDIF guarantee is valid for only one deposit account of a person per bank. This threshold can stimulate big depositors to split their deposits between several banks and accounts in order to guarantee their safety. This factor should be taken into account when analyzing the concentration of retail deposits.

Aside from deposit insurance, the NBK has implemented several measures aimed at consumer protection, including the following:

- refinancing for mortgages denominated in foreign currency to support consumers who obtained loans in US dollars and suffered high payments after the series of devaluations of the national currency;
- bank ombudsmen dealing with mortgage loans;
- insurance ombudsmen dealing with transportation insurance issues;
- online calculators to estimate the effective annual interest rate on loans and deposits.

In addition to the state regulation of financial services, there are attempts to impose self-regulation on different areas of the financial sector. For instance, the FinTech Association, which unites online micro-lenders, has imposed a voluntary threshold on the maximal penalty amount for its debtors of 300% of the amount of the principal balance.

5. EVALUATION OF BARRIERS TO THE AVAILABILITY OF FINANCIAL SERVICES

There are many barriers to financial inclusion that are widely recognized. Among those most relevant to Kazakhstan's case are the following factors:

- Historical circumstances among societies that for various reasons do not have a tradition of wide use of financial services, such as commercial loans and mortgages, in the post-Soviet countries.
- Negative perceptions and a lack of trust in general concerning financial agents based on previous negative experience, especially in countries that have undergone radical economic reforms;
- Regulatory constraints, mostly based on the risk management requirements promoted by regulatory agencies.
- Employment status, based on the ability officially to confirm income, which is especially important in developing countries with a higher informal sector.
- Low awareness of financial services, mostly due to information asymmetry.
- Limited knowledge of how to conduct risk assessment of financial services, which prevents their use.
- Financial services and products that capture those in the unbanked population, and do not allow them to move to traditional services and products (shark loans, etc.).

[19] http://www.kdif.kz/en/sistema-garantirovaniya-depozitov-v-rk (retrieved 25 November 2017).

- The focus of financial service providers on parts of the population with higher income and representing lower risk, excluding the rest through prohibitive fees and credit history requirements.
- Geographical, physical, and information and communication technology (ICT) barriers, especially for populations living in rural and low-income areas.
- Digital discrimination, which is becoming a more important factor as more financial services move to online platforms, hence excluding those groups of populations with limited access to the Internet.
- The general educational level, which can prevent the less-educated part of the population using “complicated” (in their view) financial services.

6. OVERVIEW OF STATE POLICY TO PROMOTE FINANCIAL INCLUSION

Financial inclusion for firms and SMEs is an important issue for Kazakhstan. As a response to the financial crisis in 2008, Kazakhstan widened its schemes to support firms' access to financing through interest rate subsidies and loan guarantees. These measures were effective during the financial crisis, but in the long run they have had limited benefits. Strengthening the ability of banks to access wholesale financing will contribute to sustainable improvement in their ability to provide loans. In the short term, improved access to international wholesale financing could solve this problem with a good credit rating. Joint ventures and the sale of shares to international banks could also improve the access of banks to international financing, while strengthening their management. At the same time, it is necessary to continue other efforts to develop domestic savings, giving priority to improving the management strategies and long-term investments of the pension fund. In the longer term, the institutional environment of the financial sector should become stronger to provide investors with greater confidence in their ability to protect their investments and the reliability of financial information.

In areas where a number of banks are already competing with each other, some population segments may still remain underserved because they do not meet the strict requirements imposed by these institutions. In this case, other types of financial service provider can pick up those clients that are left behind by banks and help to ensure financial inclusion. Evidence from MFIs suggests that they may pick up some clients who are not served by formal banks. Moreover the opening of new branches of MFIs in locations with a large percentage of low-income households in most cases eventually leads to an increase in the number of households with bank accounts. Therefore, the financial inclusion policy should take into account the role of MFIs as “enablers” of the first step for people to become formally “banked.” Currently there is no such state policy in place and the MFI sector is not regulated thoroughly, probably due to its relatively small size.

7. FINANCIAL EDUCATION

The 2014 “Concept for the Financial Sector Development of the Republic of Kazakhstan until 2030” (2030 Concept) stated that work on increasing the level of financial education should be continuous and include various aspects. The 2030 Concept also acknowledged the fact that most developed and an increasing number of developing countries have permanent state programs aimed at increasing financial literacy levels. However, despite this acknowledgement, the 2030 Concept did not set a target for developing such a national strategy, but rather tasked the NBK with a list of measures, including launching a call center for consumers of financial services, producing educational animated cartoons on related topics, and adding information related to financial literacy to school and university teaching programs. Naturally, given their scope, these measures have had a limited effect on promoting financial inclusion among the population.

Over the period 2007–2011, the State Program for Enhancing the Investment Culture (2007–2011 Program) was implemented. It had a budget of $30 million over 5 years and was expressly focused on increasing the knowledge of the population concerning investment opportunities in Kazakhstan with a view to attracting private funds to be used for economic growth. The official goal of the program was to “increase the investment activity level of the population and to attract retail savings to promote economic growth.” The NBK participated through the promotion of financial education and “the emphasis was on television projects, as the most popular communication tool at that time.”[20] However, despite the intention to increase the investment culture and financial literacy of the population in Kazakhstan, it focused more on promoting demand from retail investors as a necessary factor for the successful implementation of the “People’s IPO” program.[21] After the completion of this program, there was effectively no other wide-scale policy action aimed at increasing financial inclusion.

Currently, the NBK, together with some commercial banks and MFIs, is carrying out financial education in Kazakhstan. However, these efforts are not regular and lack coordination. Therefore, it is hard to estimate the impact of these measures. To date, the NBK’s activities in financial education for school children and students have included the following:

- In 2013, broadcasting the television programs “Kyzykty karzhy” and “Fascinating Finances,” incorporating elements of a television journal and aimed at children’s cognitive development.
- Broadcasting the television program “Smart game” (2012), an intellectual quiz for students. The jury included employees of the NBK and its subsidiaries. The main prize was studying on the NBK’s Master Program.
- Publication of special editions in the Republican newspapers “Ulan” and “Druzhnye rebyata” for children on financial topics in 2012–2013.
- In 2013, release of an animated film on the history of the tenge.
- In 2013, publication of “The History of Money,” a book for children with vivid illustrations.
- In 2013, a competition for the best design of coins among children, held throughout the country.
- Conducting a number of educational events for students and schoolchildren jointly with the Republican Children's Library, including meetings and lectures on financial literacy.

[20] http://nationalbank.kz/cont/ИНФОРМАЦИОННОЕ%20СООБЩЕНИЕ_О%20первом%20казахстанском%20форуме_русс.pdf (retrieved 25 September 2017).

[21] IPO here refers to initial public offering; it is always abbreviated.

The main website of the NBK does not have a dedicated section on financial literacy, nor does it provide educational materials on financial services adapted for the wider population. Instead, the NBK launched a website specifically dedicated to financial education (fingramota.kz). However, the content of the website remains limited and can be considered informative, rather than interactive and educational. The main page of the NBK's official website does not have a link to this website. Moreover, some of the advice given on the website could potentially raise questions. For example, the first piece of advice in the "Family budget" section states: "Get rid of credit cards and try not to take loans."[22]

It is worth noting that while the 2007–2011 Program was adopted as a government decree, the newly adopted "Program to improve the financial literacy of the population for 2016–2018" (2016–2018 Program) was approved by the Board of the NBK.[23] The new program has the following goals:

- The development and accumulation of skills in financial planning.
- The formation of active economic behavior among citizens, corresponding to their financial capabilities.
- A reduction in overstated expectations for state financial support.
- An increase in the confidence of consumers of financial products and services in the financial sector.
- An increase in the overall economic activity of the population.

The 2016–2018 Program has the following key performance indicators (KPIs):

1. Increase the savings of the population: from ₸13 billion in 2016 to ₸14 billion in 2018.
2. Increase loans to the economy from ₸17 billion in 2016 to ₸20 billion in 2018.

These KPIs primarily describe the growth of the economy, and can only indirectly represent an increase in financial literacy levels and the adoption of financial services by the wider population. Hence, it is crucial that the new National Financial Inclusion Strategy includes independently measured KPIs that are more related to financial inclusion and financial literacy, possibly based on the World Bank Findex indicators and OECD Programme for International Student Assessment (PISA) test results.

To gain a better picture of the financial literacy level, in 2018 the NBK is planning to commission sociological research. In addition, the NBK plans to do the following: continue to hold press conferences for the media on financial literacy topics; give lectures at schools, libraries, and universities; organize seminars for the media, NGOs, and governmental agencies. In particular, according to Atkinson and Messy (2013), education for financial inclusion should target the following three groups:

1. Those with no formal financial products.
2. Those using a very limited range of products.
3. Inexperienced, newly included consumers.

[22] http://fingramota.kz/budget/budget/ (retrieved 3 October 2017).

[23] Resolution of the Board of the NBK of 30 September 2016 No. 244.

It is important to note that increased financial inclusion needs to be accompanied by growing financial education. New opportunities to borrow and invest can pose risks for the savings of households, and a proper level of understanding of how markets operate is required to avoid insolvency and wide-scale losses. Moreover, improved access to infrastructure must be matched by wide-scale investments in financial education. This is needed to address the issues that arose in Kazakhstan in 2007–2008, when the supply of loans increased sharply over a short period of time and borrowers paid little attention to the terms of the loans, which eventually led to defaults on mortgages, and retail and corporate loans denominated in foreign currency. The low level of financial education at the time spurred the banking and financial crisis in the country.

The risk of irresponsible over-borrowing by the population is especially relevant for markets during a post-economic boom period, when it takes time for households to adjust their consumption to new lower levels of income; this leads to growth in consumer loans, mostly from MFIs, and eventually possibly to over-indebtedness.

In an attempt to increase public interest in investing in the stock exchange, in 2012 the government initiated the so-called "People's IPO," a wide-scale privatization program, in which it was planned to include initial public offerings (IPOs) of shares in the country's most attractive national companies and monopolies in the infrastructure and energy sectors. The move was considered a major economic reform aimed at increasing the country's profile, liquidity, and economic development over the coming decade, and providing a larger stake in the national wealth to Kazakhstan's population. The successful implementation of the program, reflected in the level of involvement of retail investors, could potentially strengthen the social stability of the country and spur economic growth. The plan was to place 5–15% stakes locally to raise \$100–\$200 million from more than 5,000 retail investors. The total estimated domestic demand from retail investors at the time was estimated at \$1.3–\$2.6 billion.[24]

8. CONCLUSIONS AND RECOMMENDATIONS

In general, we can conclude that since independence in Kazakhstan there has been no systematic, wide-scale financial inclusion strategy or policy. The general informal understanding was that economic growth would lead to a reduction in poverty, and higher income levels would in turn lead to higher levels of financial education and inclusion. Indeed, the development of the banking sector, driven by access to the global finance market prior to 2007, led to greater access to the financial sector for the population. However, the access to infrastructure was not matched by improved financial education. This in turn led to cases of insolvency for mortgages, and retail and corporate loans denominated in foreign currency, and eventually to the banking crises in the country. As a result, the government had to use taxpayers' money to save some parts of retail, the corporate clients of banks, and not least the banks themselves. This led to an increase in critical voices among the population and the president had to announce several times that the government would not be bailing out the banks. Nonetheless, in 2017 the government spent nearly \$6 billion to help banks lower their non-performing loan (NPL) levels, which had been dragging the sector down since 2008.

[24] Renaissance Capital Research. 2011. Kazakhstan: Privatization of "holy cows" to start in 2012.

There has been no state-level policy document on financial inclusion and education in Kazakhstan. The 2007–2011 Program, aimed at increasing the investment culture and financial literacy of the population in Kazakhstan cannot be considered such a policy as it was mostly focused on promoting the number of retail investors in the local stock market and did not take into account other sectors of the financial market. The 2016–2018 Program, aimed at improving the financial literacy of the population, also cannot be considered a strategic document as it only defines the actions of the NBK and is an internal document, lacking sufficient authority to coordinate other state agencies.

A national financial strategy is needed in Kazakhstan for several reasons. First, there is a great need to provide the unbanked population access to existing financial services. This will reduce the informal sector, and provide new opportunities for the population with a lower incomes (including those employed in the healthcare and education sectors), as well as micro entrepreneurs. Second, current policy for promoting financial inclusion and education in Kazakhstan is fragmented, and constitutes half measures at best. The activities of the NBK in enhancing financial literacy have been non-existent since 2011, and those implemented predominantly employed non-systematic and non-institutional tools, such as television campaigns (mostly targeting children and youth). Although such measures may play some role in contributing to an increase in financial literacy, it is clear that they are not game changers. Third, there is a need to define clear goals for the government's efforts at financial inclusion. Moreover, there is no link to the level of financial education and how this should be co-promoted with financial inclusion. Improved access to financial services should be matched by an increased understanding of the risks, costs, and benefits of the use of financial services.

In summary, there is a great need to have a national financial inclusion strategy, and this should be based on a nation-wide discussion of what such a strategy should include and focus on. There are several requirements for a national financial strategy in Kazakhstan, some of which are listed below:

- It is necessary to set clear goals for the strategy and identify clear KPIs to measure their achievement. It is important to link the goals of financial inclusion to the goals on the government's agenda, such as those of attaining higher levels of economic growth and social development. This will help ensure that financial inclusion remains on the government's agenda over the long term and secures the needed funding.
- There must be a strong linkage with financial education and regular measurement of financial literacy levels based on the OECD methodology (OECD/INFE Policy Handbook for National Strategies for Financial Education).
- Coordination is needed among the implementing governmental agencies (first of all the NBK and the Ministry of Education).
- There must be participation of civil society in all stages of the strategy: design, discussion, implementation, and assessment. This will ensure that the needs of various groups of the population will be taken into account in the policy for financial education and financial inclusion.
- National statistics measuring financial literacy and financial education need to be developed that can be comparable at national and international levels. Currently existing statistical indicators should be updated and broadened to include new financial services, especially those that are online and semi-formal.

- The national strategy should be based not only on the “ready-made out-of-the-box” solutions proposed by international experience, but also on local knowledge and understanding of the behavioral patterns of the local consumers of financial services. This will require conducting a series of sociological studies to identify the role of traditions, habits, and previous experience in the adoption and use of financial services.

“Push” and “pull” factors should be combined when designing the national strategy. The government’s role should not be focused on providing free-of-charge training and the dissemination of educational information; rather, it should focus on organizing, stimulating, and coordinating society’s efforts to make financial sectors and their services more available to larger numbers of those who would use them responsibly. Working closely with the main stakeholders—financial institutions and NGOs—should be at the core of the new strategy to ensure buy-in from a wider range of population groups.

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