



Financial Inclusion in Armenia: The Financial Capability Assessment Project (FCAP)

The FCAP was designed to support Armenia's National Strategy for Financial Education (NSFE) by setting policy priorities, strategies and benchmarks for financial education reforms, as well as monitoring the effectiveness of the strategy on a regular basis. The goal of the FCAP was to develop a national baseline for financial capability in Armenia and identify measurable targets for the NSFE.



1. Introduction

Financial inclusion in Armenia, measured by the percentage of the adult population (15+) holding an account at a formal financial institution,¹ is around 17% (compared to 44.9% in Europe and Central Asia). According to a nationwide survey conducted in 2012, a large proportion of the population was not aware of certain financial products: 32% of adults had taken out a loan from their family or friends, while only 19% had borrowed from a formal financial institution.

In 2010, Armenia participated in the OECD's International Network on Financial Education (INFE) survey, which was followed by a World Bank-supported baseline assessment survey in 2012. The data and the findings of these surveys informed the development of the National Strategy on Financial Education (NSFE).

The NSFE was spearheaded by the Central Bank of Armenia (CBA), which set out to increase the level of financial literacy, improve confidence in the national financial system and advance financial inclusion in Armenia. To formulate the strategy, the CBA collaborated with a multitude of stakeholders and formed a national steering committee. The steering committee officially met for the first time in mid-2012 to finalize the NSFE, and the government formally adopted it in 2014.

However, the CBA wanted a more comprehensive, in-depth understanding of national financial literacy levels, and the usefulness and applicability of existing financial information was seen as a major challenge. Previous surveys had missed relevant, country-specific financial education issues, such as the wider economic impact of financial literacy, long-term savings and consumer protection rights, financial risk and fraud, long-term savings and consumer protection rights.

Hence, the CBA called for a sound framework to enable comprehensive monitoring of the effectiveness and public accountability of the NSFE. To address these challenges, the CBA called for a framework that would comprehensively monitor the effectiveness and public accountability of the NSFE. It decided to design and implement the Financial Capability Barometer (FCB). In 2013, CBA used a grant from the Alliance for Financial Inclusion (AFI) to fund the Financial Capability Assessment Project (FCAP), beginning in early 2014.

The objective of the FCAP is to ensure the NSFE is successful by setting policy priorities, strategies and benchmarks for financial education reforms, and regularly monitoring the effectiveness of public accountability of the NSFE. More specifically, the expected outcomes of the grant were a national baseline for financial capability in Armenia and measurable targets for the NSFE.

Almost a year after the CBA completed the FCAP, AFI evaluated the grant. This document summarizes the findings of that assessment.

We would like to thank the Central Bank of Armenia for their outstanding efforts, not only in implementing the FCAP, but also its contribution to the AFI Network. The Central Bank of Armenia has been a principal member of the AFI Network since June 2009 and chairs the Consumer Empowerment and Market Conduct Working Group (CEMC WG). Very special thanks goes to the staff of the Consumer Rights Protection and Financial Education Center, Armenuhi Mkrtchyan, Sona Lalayan, Arthur Pokrikyan and Sevak Mikayelyan, without whom, the assessment would not have been possible.

1 <http://datatopics.worldbank.org/financialinclusion/country/armenia>

2. Objective

The grant evaluation serves multiple purposes. First, it assesses whether the grant has achieved its objective and expected outcomes. Second, it gauges impact and sustainability. That is, the overall impact of the grant at the institutional, country, and network level. It also looks into the effectiveness of the grant program processes, lessons learned, and challenges to be shared with the global AFI Network.

3. Approach

The grant evaluation began with desk research at AFI's headquarters in Kuala Lumpur. All available documents associated with the grant and the FCAP were reviewed. These included the grant proposal, grant reports, financial statements, the FCB survey, capability matrix, NSFE documents, related publications by stakeholders and development partners, economic country data and other country reports on Armenia.

The second and main step was the in-country visit to Armenia from 25-27 November 2015. Together with the CBA's Consumer Rights Protection and Financial Education Center, AFI's M&E specialist prepared the field visit and was joined in Armenia by AFI's policy expert and consumer protection & market conduct working group (CEMC WG) manager.

The evaluation team met with most of the relevant stakeholders in the country and conducted face-to-face interviews. A structured questionnaire guided the discussions, as well as the notes from the individual interviews are available for review.

This report is the final step in the evaluation process. It is a joint document that includes both an impact and policy analysis. It has been reviewed by relevant CBA and AFI staff and includes their comments.

The methodology of the analysis followed five main criteria as defined by OECD-DAC standard evaluation practice: relevance, effectiveness, efficiency, impact and sustainability. In addition, the policy assessment is based on best global practice as defined in AFI guideline notes and CEMC WG publications. It draws on international financial education standards as set by the World Bank or the INFE.

4. Findings

The grant evaluation was conducted in eight parts, beginning with the five standard OECD-DAC evaluation criteria. The policy analysis that follows highlights the lessons and insights from the design of the Financial Capability Barometer (FCB). Improvements for AFI's internal grant-making process are then briefly discussed. The section ends with an overview of the challenges encountered with the FCB in particular and the wider engagement process in general.

4.1 RELEVANCE

Financial education protects consumers against financial risks and fraud. It helps to strengthen trust in financial institutions and encourage responsible financial behavior in individuals. Ultimately, financial education allows the financial system deepen and become more stable.

Given the comparatively low levels of financial inclusion and financial awareness in Armenia, the goal of the FCAP-improved financial capability of the people of Armenia is extremely relevant. The activities and outputs stipulated in the grant proposal directly contribute to this overarching goal.

The field visit findings confirm the CBA has achieved all FCAP targets and are consistent with the objective of the grant. The FCB and capability matrix directly informed the NSFE. The CBA and the steering committee reviewed the strategy in 2014 in light of the new FCB findings and set concrete, measurable financial education targets to be met each year for the duration of the NSFE.

Moreover, the FCAP was directly relevant to the individual programs of almost all national stakeholders involved in financial education. The only notable exception is the private banking industry, which is showing inertia in financial consumer education.

4.2 EFFECTIVENESS

The CBA was highly effective in achieving the project goals, showing ownership, leadership and persistency in pursuing the objective of the grant. This strong engagement was not limited to the responsible department, but extended to the entire organization, with a CBA board member even chairing the quarterly steering committee meetings.

Another factor contributing to the effectiveness of the project was the organizational capacity and technical competency of the staff of CBA's Consumer Rights Protection and Financial Education Center. This made a big difference to the quality and overall relevance of the FCAP. For instance, CBA's research team not only advised on the methodology for the FCB, but also conducted the data analysis.

The consultative approach guiding the development of the FCB methodology, including a regional conference with international experts that tested and vetted the approach, also contributed to the quality of the FCAP, as did the CBA's engagement with interested stakeholders in advance of the project.

The formation of the steering committee was not only a reflection of the CBA's cooperative efforts, but also contributed to the overall effectiveness of the FCAP itself. It has effectively bridged the gap between policymaking and grassroots implementation, while creating a healthy level of peer pressure. Regular meetings help to update members on progress, discuss challenges and solve problems together. For instance, the online platform Basecamp (www.basecamp.com) allows members to share relevant documents and communicate with each other outside the regular steering committee meetings.

Participation in AFI Network services, such as training, working groups, and conferences also contributed to the overall effectiveness. It helped the CBA to strengthen capacity in important areas of financial inclusion and provided access to regional peers who could assist in reviewing and commenting on the FCB approach.

The objective of the AFI Network is to develop smart, practical policies and share good practices through peer learning with financial regulators. The FCAP also benefited from AFI's knowledge sharing and learning platform. The methodology developed by the CBA is internationally unique in its sound and, tested approach to measuring financial literacy in a comprehensive, yet manageable and practical manner. Its modular structure also allows a high degree of flexibility and can be customized for any regulator involved in financial education and consumer protection.

4.3 EFFICIENCY

The CBA implemented the FCAP very efficiently. Despite tight schedules, extensive national consultations and the addition of new unplanned activities, the CBA met all project deadlines. Moreover, the grantee managed financial resources so cost-efficiently that 41% of the total grant amount could be saved without compromising the overall quality of the outputs.

The FCAP has no known parallels with any other (AFI) project, which makes it difficult to benchmark the efficiency. If an AFI-funded FCAP is compared to a hypothetical CBA-funded FCAP, AFI may have a slight advantage in disbursing funds as it is not bound by an institutional budget cycle and can provide financing within weeks of the grant agreement being signed.

In addition, AFI brought along the combined knowledge and experience of the network. This seemed to have been a comparative advantage over a sole CBA-funded program and might have had a positive effect on efficiency gains of the FCAP.

4.4 IMPACT

As a cornerstone of the NSFE, the FCAP has had a significant impact on the landscape of financial education in Armenia and will continue to in the future. Below is a list of the main impacts attributed to the FCAP, with the affected actors in brackets.

National target setting and regular NSFE review

- > FCA findings were used to review the NSFE and define its current targets. NSFE implementation is expected to result in financial education for 75% of all Armenians by 2034. (All members of the national steering committee)

Policymaking

- > FCB findings set the current regulatory and policy focus for the promotion of financial education in rural areas and for women. (Central Bank of Armenia)
- > The FCB competency matrix is the basis for formulating an integrated approach to public financial education and is integral to the revision of the national curriculum. (Ministry of Education)

Programming

Probably the biggest impact of the FCAP has been that stakeholders have developed new programs or changed how programs were previously run:

- > Rural Financial Education Project (RFEP) will ultimately reach about 20,000 people by 2019. The RFEP also uses cutting-edge impact measurement. (Central Bank of Armenia and Savings Bank Foundation)
- > Financial education was introduced into subjects like math and social science at elementary schools. (Ministry of Education and Science and Central Bank of Armenia)
- > Curricula development for financial education, a new subject at high schools. Overall, the MoE has reached 350,000 students and is conducting training of trainers for over 5,000 teachers (Ministry of Education and Science and Central Bank of Armenia)
- > New funding proposals for financial literacy designed specifically to address the needs and topics identified in the FCB competency matrix (Union of Credit Organizations)
- > Revision and update of materials to raise awareness and better promote the importance of deposits and savings. (Armenian Deposit Guarantee Fund)
- > Training programs are being developed based on the demands and needs identified by the survey findings. (Savings Bank Foundation)
- > Focus on entrepreneurship and the financial aspects of education for high school students. (Junior Achievement Armenia)
- > Shift and increase in resources to strengthen regions that lack support. (Financial System Moderator)
- > New focus on the proper calculation of interest on deposits and loans to give consumers more than just basic mathematics skills. (Financial System Moderator)

Relationships and Networks

Various stakeholders already had relationships, but the FCB helped to unite and strengthen them to achieve joint targets. Some examples of concrete impacts are:

- > Memorandum of Understanding (MoU) with the Ministry of Education and Science on financial literacy programs. (Junior Achievement Armenia)
- > Cooperation with the CBA has had a positive impact on both the institution and the FCAP. (Junior Achievement Armenia)
- > The CBA considers the steering committee constructive and the comments and recommendations of fellow steering committee members have helped to improve their work with elementary and high schools in Armenia. (Ministry of Education and Science)

Capacity Building

All stakeholders found that the FCB enhanced their understanding of national financial literacy, even those who stated the results confirmed their own findings. Thus, the FCB has contributed to knowledge and learning at the national level, and the FCB and NSFE have built the capacity of not only the steering capacity members, but also the organizations they work with indirectly.

Projected Impact on Consumers

Ultimately, the implementation of the NSFE will result in more financially literate citizens. Based on estimates of the steering committee members, the direct impact of their combined programs on primary, secondary or tertiary education associated with the NSFE will ultimately provide financial training to about 48% of Armenians under the age of 25. To do this sustainably, the programs will have to train up to 5,680 trainers and teachers by 2019 to deliver financial education in their institutions.

TARGET GROUP	OUTREACH BY 2019
Students Educated	510,000
Trainers Trained	5,680
Adults Informed	241,000

This is bound to have far-reaching implications on financial inclusion and the national economy at large when these students enter the labor market and earn income as financially literate, responsible consumers.

Moreover, the combined financial education programs targeted at consumers will impact around 10% of all Armenian adults. The programs cover a wide range of important topics that the FCB has identified as skill gaps, ranging from entrepreneurship skills to responsible credit behavior.

Together, the FCB programming will have a significant positive effect on financial literacy and financial inclusion in the country, ultimately reaching about a quarter of Armenia's total population.

4.5 SUSTAINABILITY

Although the FCAP has come to an end, the FCB survey will be conducted in regular five-year intervals. It has become an integral part of Armenia's 20-year NSFE. The findings of each FCB survey will prompt a review of the NSFE and guide the action plan for the next five years. The CBA has already made budgetary provisions to cover the costs of the next nationwide FCB survey, planned in 2019.

The steering committee is well established and institutionalized. Members are very active and there is strong evidence of effective collaboration. All steering committee members have experienced value in their participation. The steering committee will also be the main platform where FCB findings are presented and discussed, and it is very likely that members will align their own programs with updated national targets and action plans.

In addition, the NSFE will be closely aligned with the National Financial Inclusion Strategy (NFIS), which is currently being formulated by the CBA's financial system development department. This will help the CBA to ensure that the increase in financially capable consumers is matched with adequate financial access and an appropriate supply of financial products. This will increase the likelihood of achieving long-term sustainability for financial inclusion in general and financial education in particular.

4.6 LESSONS & INSIGHTS

Within the FCB framework, a financially capable person demonstrates the knowledge, abilities, skills and behavior enabling them to make conscious, responsible decisions about personal finances. The framework has four dimensions and seven themes.

DIMENSION	THEME
1 Knowledge - a cognitive understanding of financial concepts	A Economic impact - Financial & macroeconomic concepts
2 Skills - ability to apply knowledge	B Personal budget management
3 Attitude - willingness to apply knowledge and skills	C Saving and long-term planning
4 Behavior - the act of using financial products and services	D Debt management
	E Shopping around
	F Personal rights protection
	G Safe usage of financial services (fraud)

The survey was designed by conducting in-depth interviews using structured questionnaires, which identified the questions that should be included. In addition, eight focus group discussions were held in three different areas to explore people's perceptions of financial capability and to understand the best way to capture financial capability in a survey.

In terms of FCB results and scoring in the competency matrix, CBA was cautious not to paint too optimistic a picture. It was advised to take a conservative approach to assessing the level of national financial capability through the FCB because a sober analysis might produce a more realistic understanding of the actual situation.

3,165 households were contacted, of which 1,536 (48.5%) participated in face-to-face interviews. The results are nationally representative for the adult population (18+ years) living in Armenia. The survey was carried out from 5 October to 6 December 2014. The results show that the financial capability of Armenians based on the Financial Capability Index (FCI) is 44% on average. The results also showed that, based on the Spearman correlation matrix, "Attitude & Behavior" were much higher than "Knowledge & Skills".

That is, many respondents demonstrated intuitive decision-making and a tendency to be overconfident in their financial capability. This may at first seem a rather surprising outcome, but given the relatively high levels of literacy in the country and the importance of education in the society at large, the results are more understandable

Behavior is an essential element of financial literacy, and arguably the most important. The positive outcomes of being financially literate are driven by behavior. The way in which a person behaves will have a significant impact on their financial well-being. Attitude is another important element. If a person has a negative attitude about saving for their future, for example, they may be less inclined to invest in the financial system.

Given these outcomes, the national focus is now on elevating the financial knowledge and skills of the average Armenian adult to 75% by 2034. This seems to be a good basis for effective financial education programs, as more knowledge and skills will result in truly effective decision-making.

Overall, the main findings of the survey have encouraged the CBA to highlight certain areas and align its strategies to better address them. Savings and long-term planning is a case in point. This topic is of particular importance and the most problematic, as low skills and awareness can endanger consumers' welfare and financial sustainability.

Consumer behavior and attitudes have a negative impact on the economy when there is poor communication between government and the public, and when people do not have faith in the economy, mistrust banks and panic, or avoid making long-term economic decisions. In Armenia, there is a relatively strong consumer rights culture, people tend to shop around, and if given easy-to-use financial tools, people will use them effectively. However, people in

Armenia significantly overestimate their ability to protect themselves from fraud. In terms of financial product usage, loans are most popular (35%), followed by bank accounts (28%), debit/credit cards (19%), money transfers (17%), insurance (16%), deposits (5%) and pension accounts (2.4%).

The survey results have provided Armenians with an indication of the level of financial education needs across the country. As discussed with stakeholders and the CBA team, the survey sample could be widened in the next survey phase to generate more in-depth, regional insights. More detailed analysis will be needed after this second survey to better identify the aspects of financial education that most need attention, and the population groups needing dedicated support.

In general, timing is quite important for successfully undertaking such projects. For one, proper analysis of data and results takes time, especially to understand the policy implications of FCB outcomes. The effectiveness and impact of FCB would have been considerably smaller if the release of the findings had not coincided with the Ministry of Education incorporating them into their review of national education policy and curricula.

4.7 IMPROVEMENTS TO THE GRANT PROCESS

The grantee found that the major reporting requirements were well communicated. The workload for grant management was manageable and not too time intensive. However, the CBA stated that the time between grant approval, signing the grant contract and the release of grant funding was too lengthy. They would have appreciated information on the possible delays this process might entail. Since two months had passed before the legal documents arrived, an already tight project timeline led to a considerable time crunch.

It was therefore suggested to clearly communicate in detail the steps involved in the grants process and specify the average time it takes for each, for instance, in the form of standard operating procedures (SOP). This would allow future grantees to take these delays into account when laying out the timeline for their project. The CBA also noted that an SOP needs to highlight the role of GIZ. This might help to clarify the confusion around the involvement of GIZ, as most grantees are under the impression that the grant is only between their institution and AFI.

As the grant process involves the approvals of various departments within the recipient institution, amendments to ongoing grant agreements, for instance, might be difficult to justify internally. The legal or accounting department might pose serious opposition to delays in deliverables or additional activities that had no provision in the original contract, even though external factors might strongly call for those.

4.8 CHALLENGES

Overall, the FCAP has been very successful and faced only a few real challenges. The ones highlighted below are related to data management and stakeholder engagement.

Good data collection and interpretation is very demanding, and stakeholders and researchers involved with the FCB survey appreciated the methodology used by the CBA. It is in line with international best practice and the actual surveying was very sound. In terms of usefulness and knowledge generation, the survey was regarded very highly, especially the social science aspects.

Nevertheless, national experts pointed out that the sampling methodology and the wording of the questionnaire, e.g. translating the research hypothesis into a practical questionnaire, using questions that respondents can understand easily, etc., have been the main challenge. It was also suggested that the number of observations be increased in the next FCB survey. While the findings are representative on a national level, the sample size has been deemed too small for proper regional representation.

So far, the underlying dataset of the FCB survey has not been shared outside the CBA. External researchers in particular have been critical of this and consider it a rather untransparent practice. Sharing FCB survey data with the general public or select research organizations, would significantly increase the potential impact and knowledge derived from the survey. In other words, the benefits of more open access to FCB data are likely to outweigh the risks.

A major challenge for the NSFE and the FCB is to increase uptake and engagement among Armenian's private sector banks. The national banking association is not an active member of the national steering committee and banks are playing only a limited role in the implementation of the NSFE. The challenge is to ensure banks, as the main stakeholders, are committed and live up to their financial education responsibilities.

5. Conclusions & Action Items

The FCAP achieved its objective and delivered on its outcomes. The project had positive, far-reaching impacts on the grantee as well as the majority of financial education stakeholders in Armenia. It resulted in new insights for better policy decision-making and improved programming. The FCAP was very relevant, effective, efficient, and sustainable. Most notably, the FCAP had a direct positive impact on national targets, both financial as well as education policy, improving programming and the capacity of stakeholders.

The field visit produced several important action points for AFI and the AFI Network.

- > AFI will share the FCB methodology within the Network as a reference and potential blueprint.
- > The CBA and AFI will invite national steering committee members and GIZ Armenia to participate in a CEMCWG meeting as observers.
- > AFI, in collaboration with the CEMCWG, will develop a case study/guideline note on the FCB as best international practice to encourage both members and international organizations to use this methodology to conduct financial capability measurement projects.
- > AFI will inform CEMCWG members about the German Savings Banks Foundation's programs in member countries to help expand financial education at the micro level.
- > The CBA and AFI will create a blog or write a blog post on the Armenian NSFE and the FCB.
- > AFI will synthesize the results of its evaluation and the impact of the FCAP in a promotional case study for potential donors.

About AFI

The Alliance for Financial Inclusion (AFI) is the world's leading organization on financial inclusion policy and regulation. A member-owned network, AFI promotes and develops evidence-based policy solutions that help to improve the lives of the poor. Together, AFI members from more than 120 financial inclusion policymakers and regulatory institutions are working to unlock the potential of the world's 2 billion unbanked through the power of financial inclusion.

Learn more: www.afi-global.org

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Alliance for Financial Inclusion

AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 e info@afi-global.org www.afi-global.org

www.facebook.com/AFI.History  [@NewsAFI](https://twitter.com/NewsAFI)