

# ROADMAP FOR A NATIONAL STRATEGY FOR FINANCIAL EDUCATION IN **AZERBAIJAN**





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EDUCATION IN AZERBAIJAN**



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### ***Abbreviations and acronyms***

ABA – Azerbaijan Banks Association

ABTC – Azerbaijan Bank Training Centre

ADIF – Azerbaijan Deposit Insurance Fund

AMFA – Azerbaijan Microfinance Association

CBAR – Central Bank of Azerbaijan

FIMSA – Financial Markets Supervision Authority of the Republic of Azerbaijan

FINCA - Foundation for International Community Assistance

IFC – International Financial Corporation

JAA – Junior Achievement Azerbaijan

MoE – Ministry of Education

MoF – Ministry of Finance

MoT – Ministry of Taxes

MoU – Memorandum of Understanding

NSFE – National Strategy for Financial Education

SBFIC – Savings Banks Foundation for International Cooperation

SME – Small and Medium Enterprises

WB – World Bank

## 1. Short background of the CIS project

Building on internationally-recognised expertise and longstanding commitment to advancing financial literacy around the world, the OECD/INFE is leading a three-year technical assistance project on Financial Education in the Commonwealth of Independent States (CIS)/Eurasia. The project will provide dedicated guidance and technical support for the design, implementation and review of evidence-based financial education strategies and policies in six CIS/Eurasian economies: Armenia, Azerbaijan, Belarus, Kazakhstan, the Kyrgyz Republic and Tajikistan. This project will draw on OECD/INFE outputs and the expertise and experience of its wide membership to support the design, implementation and evaluation of effective financial education strategies and policies as a complement to financial consumer protection and inclusion approaches.

The project involves four work streams focused on the following priority areas to be adapted to each country context and particularities:

- Advanced data collection and analysis of financial literacy levels and gaps
- Developing, implementing and reviewing effective national strategies for financial education
- Addressing youth's financial literacy needs through schools and out-of-schools initiatives
- Identifying and meeting the financial literacy needs of migrants and their families

Where relevant, the project will benefit from the global expertise of the G20/OECD Task Force of Financial Consumer Protection. This project is being undertaken with financial support from the Ministry of Finance of the Russian Federation and benefits from its technical expertise and participation in project activities.

## 2. Relevant context

The Azerbaijan Democratic Republic will celebrate its 100th anniversary in 2018, although it was part of the Soviet Union in years 1920-1991. The country is led by President Ilham Aliyev and his New Azerbaijani Party. The local currency is Azerbaijani manat (AZN). 1 USD = 1.7002 AZN (16.11.17, Central Bank of the Republic of Azerbaijan).

### *Economic situation*

The main issues facing Azerbaijan are the recent economic crisis and devaluation, dollarization, access to credit, corruption, and the unusual situation of internally displaced people (IDP). Azerbaijan has made progress in reforming several sectors, but “complex corruption challenges are yet to be tackled” (OECD, 2016b).

The Azerbaijan economy has seen significant fluctuation. GDP grew from 5.7 billion USD to 75.2 billion USD in the period from 2001 to 2013 (World Bank, 2017b). In 2014, the steep drop in oil prices caused an economic downturn as the Azerbaijan economy was heavily depending on hydrocarbon exports (OECD, et al., 2015). In 2016, the GDP was only half of what it had been in 2014, at 37.8 billion USD (World Bank, 2017b). According to the State Statistical Committee of the Republic of Azerbaijan (2017), in the first 10 months of 2017 the GDP was approximately 33 billion USD.

The impact of the drop in oil prices reached most of the country. In 2015, there were two devaluations of the local currency, with the Manat falling 25 percent in February 2015 and a further 32 percent in December 2015 (IMF, 2016). Before the last devaluation, the public had been told to stay calm and keep their savings in banks and local currency, leading to a loss of trust in banks and an increased tendency

towards dollarization. The consumer price index in 2017 was 113,2% compared to the first quarter of 2016 (The State Statistical Committee of the Republic of Azerbaijan, 2017).

The economic downturn has also created positive change. First, it forced the government to work on reducing corruption (Farchy, 2016). Second, the Government prioritised economic diversification and support for SMEs as a way to reduce the dependency on oil. The majority of SMEs are operating in trading and vehicle repair sectors (32.7% of all SMEs in 2013), construction (23.4% in 2013), and transportation and storage (11.3% in 2013)(OECD, et al., 2015). The Azerbaijan government hired the consultancy firm McKinsey to create a road map for developing the economy to 2025 and beyond (Trend News Agency, 2016). This overall Strategic Road Map focuses on national economic perspectives, and incorporates individual roadmaps for 11 economic sectors (Center for Analysis of Economic Reforms and Communication, 2017).

### ***Population and migration***

The population of Azerbaijan was 9.65 million in 2015. Average life expectancy is 67.7 years for men and 74.0 for women (OECD, 2016a; World Bank, 2017a). According to the State Statistical Committee of the Republic of Azerbaijan (2017), the unemployment rate was 5% in 2015, and the average monthly salary was approximately 280 USD in the first quarter of 2017. The vast majority of the population are Muslims. To our knowledge no shariah complaint products or tailored financial education is provided in Azerbaijan.

According to the OECD/INFE financial literacy survey (Atkinson, 2018), 57% report that they or their family members have sent money home whilst working abroad. Merely two percent report to be currently sending money to family in another country. However, in terms of value, Azerbaijan is more of a sender than a receiver of remittances, at least based on available data.

**Table 1. Remittances**

Remittances in USD millions	2011	2014
Inward remittances	1,893	1,846
Compensation of employees	121	138
Personal transfers	1,772	1,709
Outward remittances	1,280	2,031
Compensation of employees	114	287
Personal transfers	1,138	1,745

(source: Ratha et al., 2016)

### ***Financial sector and inclusion***

According to the Financial Markets Supervision Authority (FIMSA), there are currently 32 banks and 47 non-bank credit institutions operating in Azerbaijan. There are 10.7 commercial bank branches per 100 000 adults (World Bank, 2016). Almost a third of the population was using the services of formal institutions in 2014, as shown in Table 2.

Total bank deposits equalled approximately 7.95 billion USD and the household debt was 2.9 billion USD in August 2017 (CEIC, 2017).

**Table 2. Financial inclusion**

Account at a financial institution (% age 15+)	2011	2014
Whole population in age 15+	14.9	29.2
Women	14.3	25.9
Men	15.6	32.6
Poorest 40% of people	8.6	26.9
Richest 60% of people	18.5	30.7

source: Global Findex database

### ***Financial consumer protection***

In February 2017, the Financial Markets Supervision Authority of the Republic of Azerbaijan (FIMSA), the Swiss Secretariat for Economic Affairs (SECO) and the World Bank launched the second phase of the Financial Sector Modernization Project. Its objective is to support the stabilization and development of Azerbaijan’s financial sector by enhancing the legal and regulatory framework, strengthening FIMSA supervisory capacity and improving the financial safety net to protect the interests of depositors and financial services consumers (FIMSA, 2017). Since September 2017, a Banking Ombudsman operates as a separate institution from the Azerbaijan Banks Association (ABA) (Israflbayova, 2017). Its aim is described as:

to achieve enhancing of customers’ trust in banks and to find solution to disputes between banks and customers prior to courts. This institute can ensure the out-of-court settlement of disputes that may occur between banks and customers. The main purpose of the establishment of the institute is to achieve the formation of relationships based on trust between banks and customers by resolving disputes with the help of the Banking Ombudsman. (ABA website)

The main functions of the Central Bank are the implementation of the monetary and foreign exchange policy; issue and setting exchange rate of Manat; exercising foreign exchange regulation and control; management of gold-foreign exchange reserves; compiling balance of payments and statistics on country’s aggregated external debt and international investment position; and the organisation and regulation of payment systems (CBAR, n.d.). The central bank (CBAR) used to regulate the banking sector but most of its responsibilities were shifted to the newly launched FIMSA. FIMSA is supervising credit unions, capital markets and the insurance sector, and dedicates more attention to consumer protection and financial inclusion. Its charter states:

Financial Market Supervisory Authority of the Republic of Azerbaijan is founded by the Decree #760 on "Foundation of the Financial Market Supervisory Authority of the Republic of Azerbaijan public legal entity" of the President of the Republic of Azerbaijan on February 3, 2016 for the purpose of licensing, regulation and control of the securities market, investment funds, insurance, credit organizations (bank, none-bank organization and operator of the postal service) and payment service fields; the legalization of money funds or other property gained via criminal way and improvement of the control system to prevent financing of

terrorism; and to provide the clarity and speed of a control system over the above-mentioned fields (FIMSA, 2016).

Consumers can complain to FIMSA. According to their website, FIMSA:

- Requests and analyzes information and documents from supervised organizations and issuers to protect rights of investors and consumers and carry out redress actions;
- Applies administrative measures against violating persons;
- Carries out relevant measures to improve corporate governance at joint stock companies;
- Receives and analyzes reports from issuers and takes appropriate measures as prescribed in legislation;
- Reviews letters and complaints from investors and participants of financial markets, analyzes them and takes appropriate measures following investigation as prescribed in legislation;
- Takes appropriate measures for investor and consumer education;
- Participates in court hearings related to investors and consumers rights violations in financial markets;
- Issues compulsory and binding instructions to prevent violations of rights and consumers in the financial markets, and to restore violated rights.

The central bank operates a deposit guarantee fund as a separate body. Starting from March 2016, deposits accepted by the fund’s member banks with the annual interest rate of 3% in the foreign currency and 15 % in the national currency will be fully insured for 3 years (ADIF, 2017).

### 3. Current needs/challenges faced by the population

The OECD/INFE financial literacy survey conducted in 2017 in the CIS measured the financial literacy levels of the general population, with booster samples of youth, migrants, entrepreneurs and people living in rural areas for analysing the needs of the population (Atkinson, 2018).

#### ***Knowledge and skills***

The survey results indicate both low levels of financial knowledge and of confidence to answer these questions, as can be seen in Table 3. Fewer than 4 in 10 people were able to answer correctly questions about simple and compound interest, time value of money, and inflation. Overall, 18% of the respondents answered “don’t know” to four or more knowledge questions.

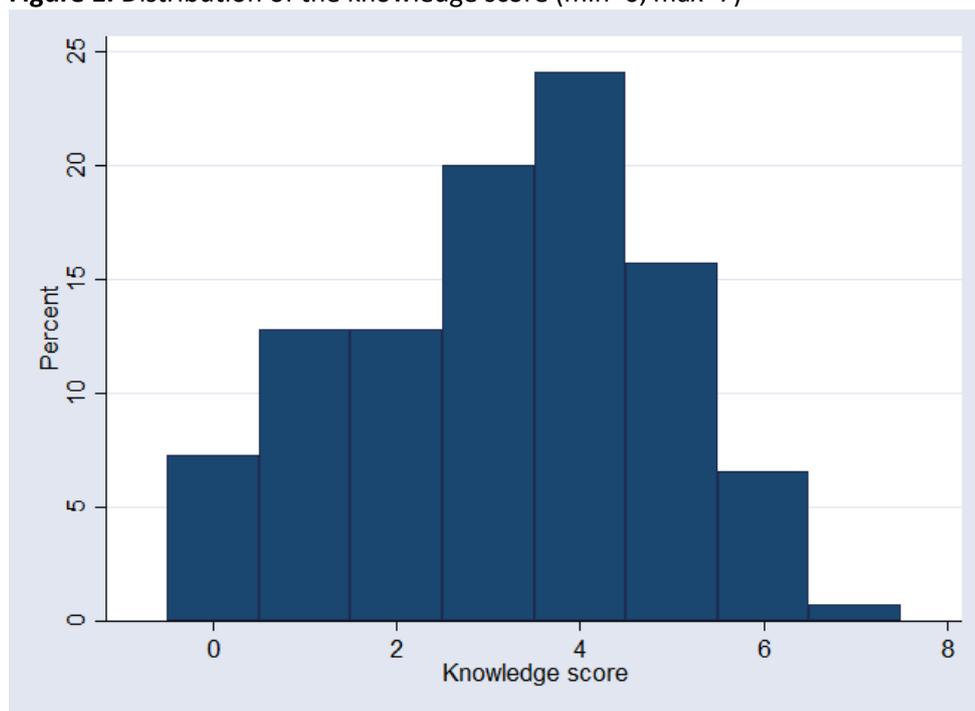
**Table 3.** Knowledge of financial matters

<b>Topic of the financial knowledge question</b>	<b>Correct</b>	<b>Don't know</b>
Time value of money	38%	29%
Interest paid on loan	78%	13%
Calculation of interest plus principle	35%	40%
Compounding over 5 years	32%	33%
Combined simple interest and compounding	17%	
Risk and return	73%	18%
Definition of inflation	24%	24%
Diversification	54%	21%

Source: OECD/INFE financial literacy survey.

The average financial knowledge score was 3.2, out of a maximum of 7 points. There were very few individuals on top financial knowledge levels, as evident in Figure 1. Merely 23% of the respondents scored 4 or more points.

**Figure 1.** Distribution of the knowledge score (min=0, max=7)

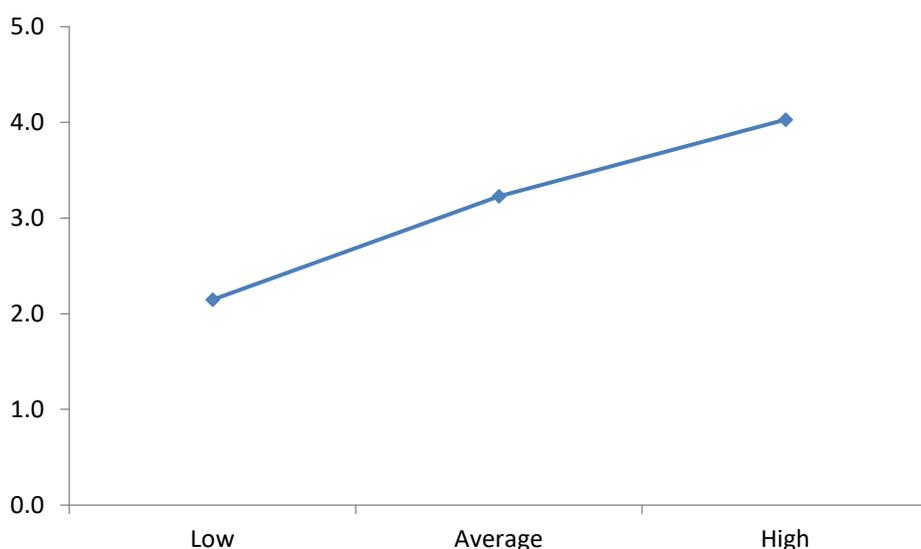


Source: OECD/INFE financial literacy survey.

The biggest shortcomings are in knowledge of inflation, calculation of simple and compound interest, and understanding the time value of money. Therefore, the reason behind low levels of saving and investing may be the limited understanding of interest rates and compounding, and also low numeracy levels.

However, individuals have an adequate understanding of their knowledge and skills. Some 15% consider themselves to be less knowledgeable of financial matters than the average person in their country, 16% consider to be above the average. In analysis of their knowledge scores, the results confirmed their estimations. The average score for those who consider themselves to be on higher knowledge level, was indeed above the average. This suggests that overconfidence is not a problem in Azerbaijan.

**Figure 2.** Self-reported financial knowledge compared to the average citizen and the mean score



Source: OECD/INFE financial literacy survey.

The Strategic Road Map (2017) draws attention to the shortcomings of consumers' inadequate expectations when making financial decisions, and highlights the importance of consumer acting as potentially rational agent:

*One of the least desired situations under complex economic conditions and during the implementation of economic reforms is the economic agents (investors and consumers) having inadequate expectations and irrational decisions being taken under the influence of such expectations.*

Based on the current data, the consumers seem to have adequate understanding of their own knowledge and skills. However, they may have inadequate expectations for their financial well-being, not adjusted to the conditions of economic downturn and increased responsibility for own long term financial resources.

There is a reason to believe that one of the key problems is the lack of trust towards financial institutions. As discussed in section 2, economic reforms, devaluations and bankruptcies have decreased the financial well-being of the citizens. As noted by policymakers:

It should be kept in mind that one of the major values in modern economic relations is strong trust. Strong trust is deemed to be the most important pre-condition for future successful economic reforms (Center for Analysis of Economic Reforms and Communication, 2017).

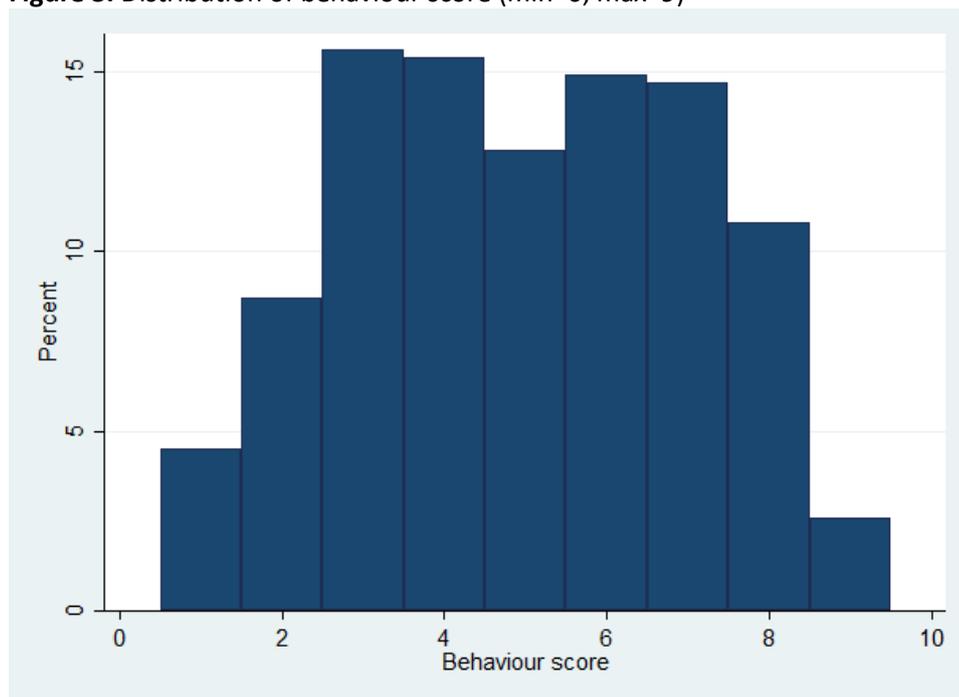
The OECD financial literacy data show that trust was mentioned as the main factor affecting the choice of financial products by only 28% of respondents, while the speed of obtaining the product was far more important (59%). Overall, this evidence suggests that both the lack of trust and individuals difficulty in objectively analysing their financial needs may have a role in driving the low levels of saving and investing. Choosing products hastily is not a prudent behaviour and may lead to taking unreasonable risks or obligations. Therefore, one of the topics of financial education programmes should be the advantages of comparing and choosing financial services.

### ***Sound behaviour in managing personal and household finances***

Sound behaviours, such as comparing financial products and setting long-term financial goals, are vital for securing financial well-being of the individuals and the household. In Azerbaijan, the mean behaviour

score is 5.0, out of maximum 9 points; merely 43% achieved a minimum target score (defined as 6 or more financially savvy behaviours out of 9). This percentage is the lowest in the region. Therefore, institutions developing and implementing the national strategy need to pay extra attention to behavioural issues and incorporate behavioural insights in the design of their programmes. The new IOSCO OECD report on the application of behavioural insights to financial education will be valuable in this regard (IOSCO and OECD, 2018).

**Figure 3.** Distribution of behaviour score (min=0, max=9)



Source: OECD/INFE financial literacy survey.

### *Budgeting and planning for the short term*

About 75% of respondents report that their household has a household budget, and 64% of the respondents have a personal budget. This shows a significant improvement since a previous financial literacy and capability measurements, showing that in 2013, merely a third of the households kept a budget (IFC, 2014). This improvement may be related to the creation of an interactive budgeting tool on the FE portal [www.bizimpullar.az](http://www.bizimpullar.az) developed by the CBAR after that survey, or it may have to do with the difficult economic times that have forced people to plan their personal finances more prudently than before, making a budget an essential tool.

Many lack a sufficient financial buffer. In case of facing a major expense, equivalent to one month's income, 22% would have to borrow money or ask help from friends and family. Moreover, in case of losing a household's main income, only one in ten would be able to cover their expenses without borrowing or moving home for one month or more. It means 90% of the people are in a financially vulnerable state and highly dependent on their employer.

Debit card linked to a bank account is held by merely 2.5%, suggesting that the majority of transactions are conducted in cash. Therefore, bank statements can be used as a basis for budgeting by less than half of the

people. Any sort of a payment product (current account, debit card, mobile payment facility or payment card) is held by 43% of the population.

### *Saving and investing for the longer term*

More than half (61%) of the people in Azerbaijan have saved some money in the last 12 months. Those who are actively saving, hold their savings in cash (50%) or with family (32%). Savings and investments products are used by very few – only 2%. Such a low level of use of savings products can be explained by the low level of trust in banks, and by a lack of understanding of interest rates and compounding, as measured in the knowledge questions. Some 7% of the active savers have held some of their savings in foreign currency. Those who do save, keep it mostly in cash at home or in their wallet. This means that their savings are not earning any interest and may be spent easily. Furthermore, they are not protected by the deposit guarantee fund.

Individuals are rather short-term oriented, as only one third of the respondents achieved the minimum target score in financial attitudes. The average score was 2.8 out of 5. Men are 1.4 times more likely to have long term plans than women. Less than half (47%) of the people in Azerbaijan set long term goals and strive to achieve them. A third of those who have long term goals, do not have financial goals. Financial goals are held by 36% of the population. The main financial goals are saving for real estate purchase or education. Both of these are ways of investing into long term financial well-being. It may be that the economic downturn, devaluations and lack of trust in banks have taught people to invest more into non-financial tools.

There is a strong correlation between active saving and setting long term goals. Those who are actively saving money, are more likely to have long term goals. Some 33% of the respondents are active savers and set long term financial goals, 25% do not do either of them. The reason for short term orientation might be the economic crises, but it can also be that people do not understand the benefits of long term investing, as interest compounding is generally not known, or that they do not trust the financial system.

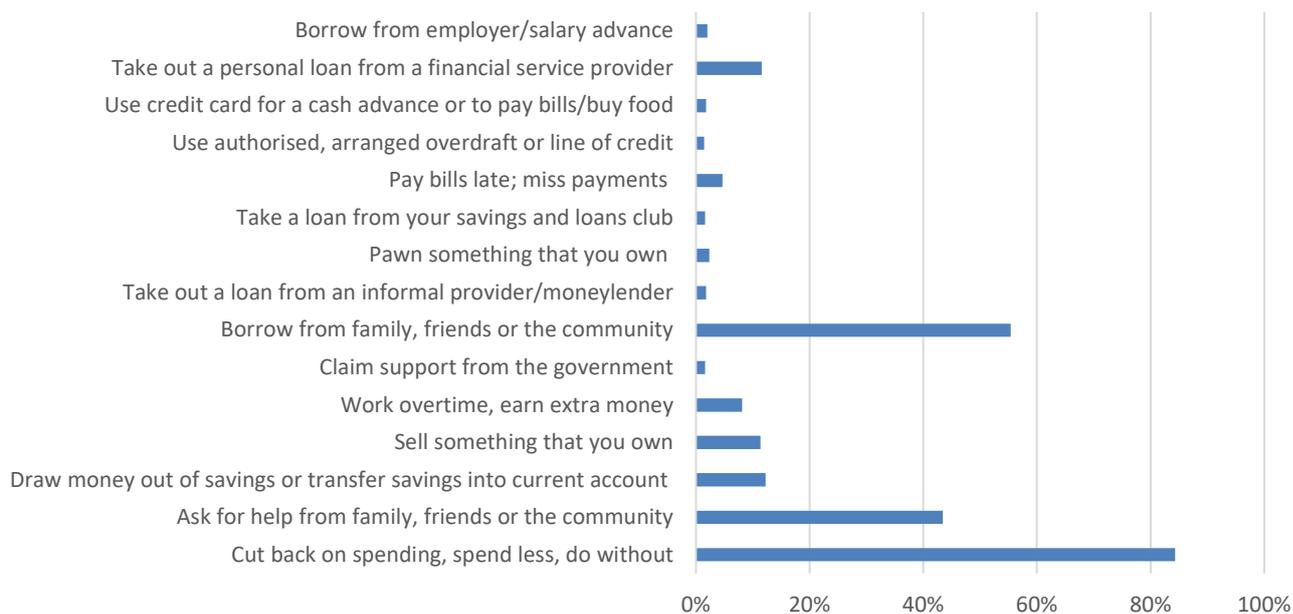
The main focus of financial education programmes should be on explaining the importance of budgeting and saving, and provision of the basic knowledge and tools needed for that. Once the short term finances are under control, the next stage should be the explanation of possible tools for longer term financial planning.

### *Avoiding debt*

About 55% of respondents reported that in the last 12 months their income did not quite cover their living expenses. When it happened, less than half were able to cope without borrowing. The majority borrowed from friends or family, while only a few had used formal or informal credit products (see Figure 4).

In October 2017, the campaign *Borrow Wisely* promoted among other things a demo version the Financial Health Check tool. This could be developed further and promoted more widely and on regular basis, along with the checklist developed for the campaign.

**Figure 4.** Ways of making up a shortfall in income (multiple responses possible)

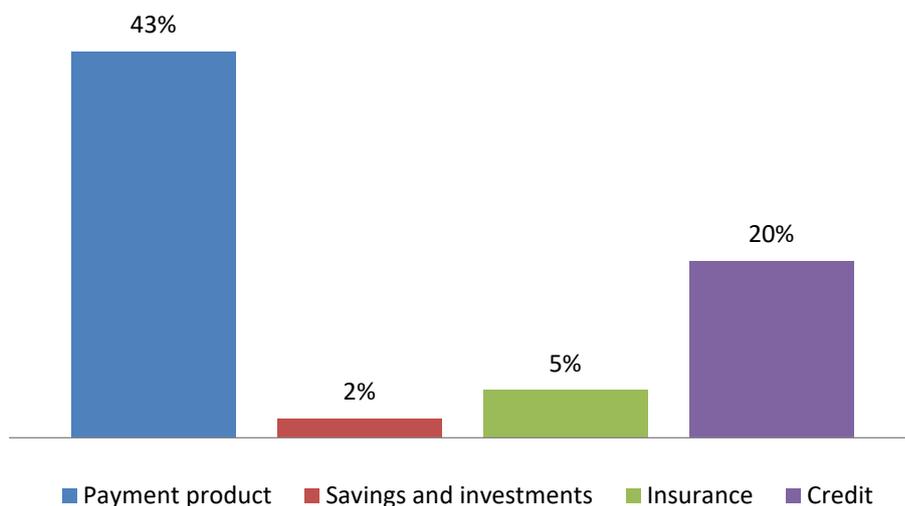


Source: OECD/INFE financial literacy survey.

### Financial products use

Only half of the population (48%) do not hold any payment, savings, insurance or credit products. Almost half own some kind of a payment product. Financial products are owned slightly more by individuals in the age group 20-49, but the differences between age groups are not statistically significant.

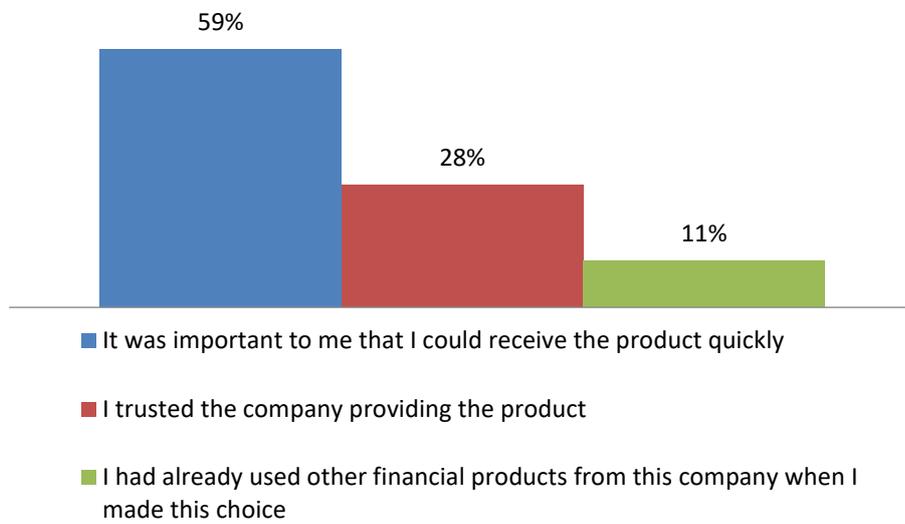
Figure 5. Proportion holding financial products



Source: OECD/INFE financial literacy survey.

Only half of those who had recently chosen financial products said to have used impartial advice before deciding. The most used sources were best-buy guidance from a newspaper, website or other publication. The main factor affecting the choice was the speed of receiving the product. This may mean that such decisions were not carefully considered. Financial education programmes could include the explanation of the advantages of prudent financial choices.

**Figure 6.** Reasons for choosing the product

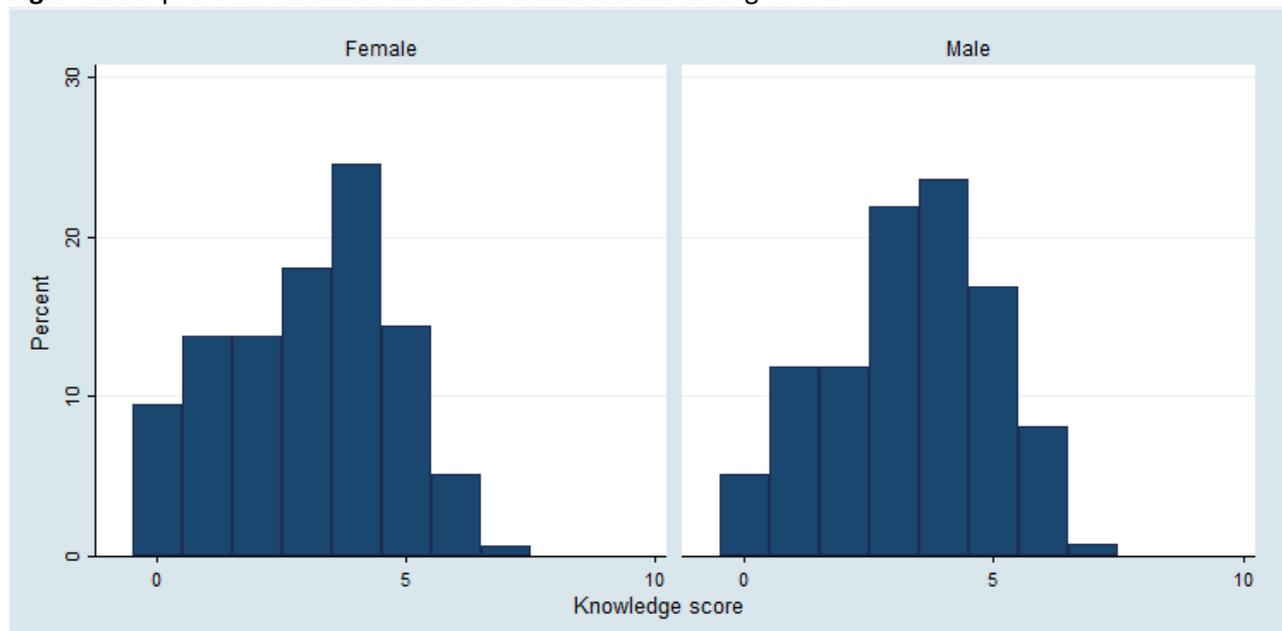


Source: OECD/INFE financial literacy survey.

### **Gender differences**

Gender differences in mean financial knowledge scores are not statistically significant in Azerbaijan (the mean knowledge score was 3.0 for women and 3.4 for men). However, there are more women on lower levels of financial knowledge than men, as depicted in Figure 7..

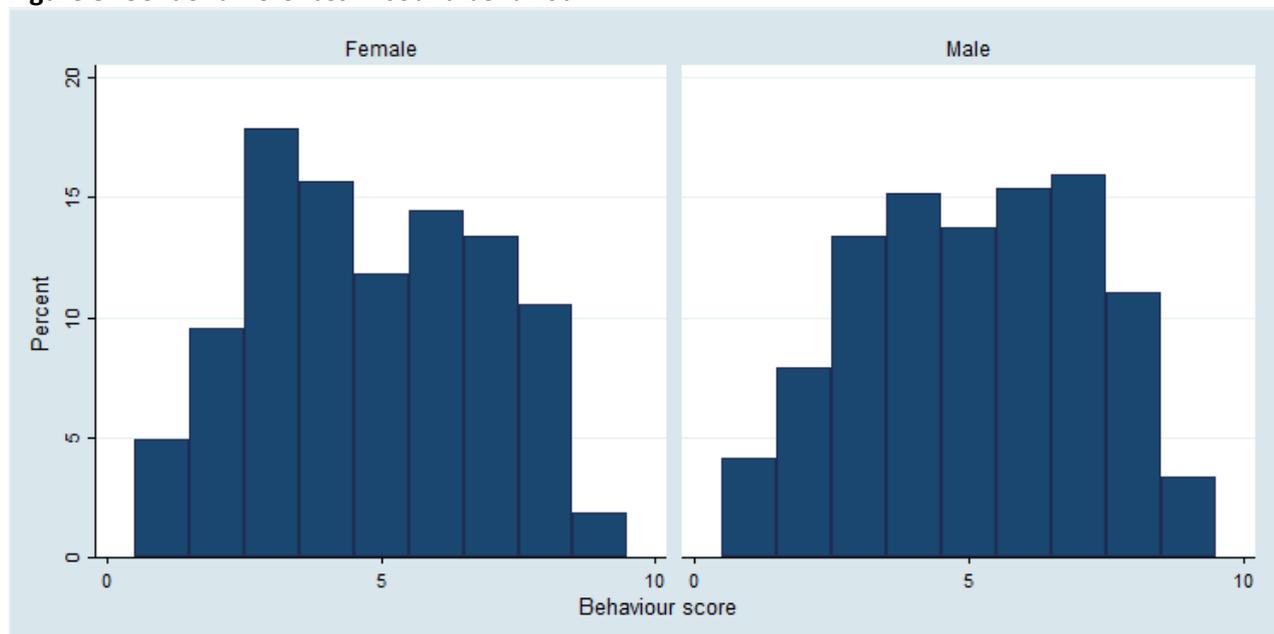
**Figure 7.** Proportion of women and men on financial knowledge levels



Source: OECD/INFE financial literacy survey.

The gender difference is less significant in behaviour, but it is in the same direction as in knowledge. There are more women on lower behaviour score levels than men, see Figure 8. For women the mean behaviour score was 4.8 and 5.1 for men.

**Figure 8.** Gender differences in sound behaviour



Source: OECD/INFE financial literacy survey.

Although all individuals need to learn more about finances, women are in an even more vulnerable situation and should be therefore targeted especially. It is already done by AMFA (see section 2), but such initiatives tend to have project based funding. More sustainable approach would enable long-term improvements.

**Target groups**

The results of the OECD/INFE financial literacy survey show that migrants and people living in rural areas have significantly lower financial knowledge and behaviour scores than the general population; however these findings are based on a convenience sample, and may not be representative (see Table 4).

**Table 4.** Regression analysis of different segments, linear regression coefficients and standard errors

<b>Knowledge score</b> (base: general population)	
Migrants (n=100)	-0.708*** (0.173)
Rural areas (n=100)	-0.868*** (0.173)
SMEs (n=100)	0.062 (0.173)
Youth (in age 18-29) (n=305)	-0.101 (0.114)
<b>Behaviour score</b> (base: general population)	
Migrants (n=100)	-1.124*** (0.213)
Rural areas (n=100)	-0.064 (0.213)
SMEs (n=100)	0.666** (0.213)
Youth (in age 18-29) (n=305)	-0.489** (0.149)

Source: OECD/INFE financial literacy survey. \*\*\* indicates significance at 1% level, \*\* at 5%, \* at 10%.

In the general population, regression analysis (Table 5) shows that the inhabitants of larger cities and people who use computers in their daily lives tend to have higher knowledge and behaviour scores than

people living in cities. Individuals age 20-29 have significantly lower knowledge and behaviour scores than middle age population. In the youngest group, 18-19 years old, the differences were not significant, but there were too few of them in the sample (2.5%) to draw meaningful conclusions regarding their financial literacy levels. Therefore, financial literacy levels of students need further research.

Those who have children living with them, people in employment, people earning above the median income, and individuals with vocational or university education have significantly higher behaviour scores than their comparison groups, but they do not differ significantly in knowledge. In knowledge, the groups in need of extra attention are in age 20-39 and 70+, and those who refused to state their income.

**Table 5.** Regression analysis of knowledge and behaviour score

	Knowledge	Behaviour
Gender		
Male		
Size of commune (comparator= city)		
Village		
Small town		
Town		
Large city		
Age (comparator= 40 to 49)		
18 to 19		
20 to 29		
30 to 39		
50 to 59		
60 to 69		
70 to 79		
Work status (comparator= not working)		
Working		
Family status (comparator= no children)		
Has children at home		
Education (comparator= No education beyond school)		
University education		
Technical or vocational education		
Income (comparator= median income)		
Refused income		
Below median income		
Above median income		
Use of digital tools (comparator = did not use a computer)		
Used a computer		

Legend:

	Positive correlation, significant at the 95% level
	Negative correlation, significant at the 95% level

Source: OECD/INFE financial literacy survey.

#### **4. Description of the current status of the NSFE in the country**

##### ***Institutional framework***

The CBAR is mandated by Presidential Decree to develop and implement a National Strategy for Financial Education (NSFE) (Aliyev, 2016, see Section 4 for further information). In early 2018, structural changes in the CBAR resulted in financial literacy team becoming an independent division overseen by a Deputy Governor.

Since 2011, more than 200 000 people have been provided financial education by the CBAR and more than 30 of their partner organisations (Garalova, 2017). Currently the key providers of financial education in addition to the CBAR are the Azerbaijan Banks Association (ABA), the Azerbaijan Microfinance Association (AMFA), the Savings Banks Foundation for International Cooperation (SBFIC) and Junior Achievement Azerbaijan (JAA). Many of the programmes are focused on entrepreneurship and on economic education. More traditional financial education topics such as budgeting and saving are covered by projects launched by the CBAR and SBFIC. Based on the mapping exercise and desk research, it seems that financial education policy in Azerbaijan is focused on schools, students and teachers, with relatively few programmes targeted at the general public. Women and entrepreneurs have been provided financial education mostly by AMFA.

##### ***The National Strategy for Financial Education***

The presidential decree No. 1138 from the 6<sup>th</sup> of December 2016 states the need for developing financial services, consumer protection and financial literacy in Azerbaijan (Aliyev, 2016). It is part of the Strategic Road Map covering national economic perspectives, providing road maps for 11 economic sectors (Center for Analysis of Economic Reforms and Communication, 2017). The decree gives the responsibility for coordinating financial education programmes to the CBAR. The National Strategy for Financial Education was signed by the Deputy Governor of the central bank in December 2016. Its implementation is still in its early phase and it contains action plans for the years 2016 and 2017. A roundtable to discuss the implementation of the strategy and the next steps for the coming years is expected to be held in mid-December 2018. The current roadmap will therefore arrive just in time for helping to set and adjust objectives of the NSFE.

Currently, the leading institution for the existing financial education programme and the implementation of the Strategy is the Center for Research and Development of CBAR. The strategy document highlights the importance of collaboration with all relevant stakeholders such as the Ministries of Finance and Education, the Ministry of Taxes (MoT), the Financial Markets Supervisory Authority (FIMSA), the Azerbaijani Deposits Insurance Fund (ADIF), the National Television and Radio Council (NTRC), along with the Azerbaijan Banking Association (ABA), the German Savings Banks Foundation for International Cooperation (SBFIC), the Azerbaijan Microfinance Association (AMFA), the International Financial Corporation (IFC), commercial banks, microfinance institutions and NGOs.

The programme states that:

There is a plan on setting up a Coordination Council that will unite key stakeholders to enable state-level coordination of the financial literacy related initiatives. The legal form and structure of the future council will depend on its institutional mandate and the vision of founding government agencies. The Council deems appropriate to bring together representatives of the CBAR, MoE, MoF, MoT, FIMSA, commercial banks,

consumer rights unions and NGOs. Along with the coordination activities, the Council will also promote corresponding initiatives and projects, assess their efficiency and report annually to the CBAR on the implemented tasks. The latter is responsible to share the progress report with all of the stakeholders (Central Bank of the Republic of Azerbaijan, 2016).

### *Priorities of the existing strategy*

The priorities of the current approach taken by CBAR were set based on the results of three surveys (conducted by the State Statistics Committee for the WB in 2009, the International Financial Corporation in December 2013-January 2014 and CBAR in April-May 2014), and the analysis of the case studies of leading countries of this field.

The priorities of the strategy are (Central Bank of the Republic of Azerbaijan, 2016):

1. to understand financial management, to be able to benefit from financial products and services, as well as to develop a capacity to make decisions stemming from the existing financial situation;
2. to follow market dynamics of financial institutions based on their decisions and benefit from available support mechanisms;
3. to understand the growing accountability of increased financial products and services and their complexity, as well as be aware of transferring financial risks to consumers;
4. to have a knowledge on important and necessary information, to gain access to objective consultancy and assistance opportunities and improve living standards of consumers.

The central bank states that the ultimate objective of the national strategy is: “[...] to empower and open new opportunities for financial services consumers and help them in addressing challenges caused by continuously developing financial and socio-economic system” (Central Bank of the Republic of Azerbaijan, 2016).

### *Target groups*

The key target groups are schoolchildren and youth. Other target groups identified are households, journalists and retired people, although no programmes have yet been developed for the last group.

### *Measurable targets*

The strategy acknowledges the need for measurement and evaluation, but the baseline, target or tools for measurement have not been identified. Currently, the quantitative indicators being used are the number of visitors to the CBAR financial education portal and the number of participants in training events.

### *Definition of financial literacy*

The concept of financial literacy is defined as “the availability of a set of skills and knowledge that allows a financial consumer to improve own material welfare by benefiting from financial resources and services, through assessment of financial risks and opportunities and making informed decisions.”

### *Guiding principles of the strategy*

The strategy is based on the following guiding principles (Central Bank of the Republic of Azerbaijan, 2016)

- a) *Impartiality*: Financial literacy initiatives should not be of promotional nature for financial products or services, but rather deliver the messages on the true content;

- b) *Inclusiveness*: Materials on financial literacy shall include country's population, as well as schoolchildren, students and youth, legal and physical persons, as well as people with limited physical ability;
- c) *Responsibility*: the project management unit at the central bank is responsible for the accuracy of messages to be delivered to the public;
- d) *Relevance*: Nature of target groups shall be taken into consideration during the development of materials and implementation of activities, so they are usable under corporate social responsibility projects;
- e) *Targeting*: Keeping the needs of target groups in the center of attention;
- f) *Prioritizing*: Efficient use of resources.

### *Types of financial education programmes included in NSFE*

Financial education programmes listed in the strategy are:

1. development of the Life Skills curriculum for schools and integrating financial literacy more into the topic.
2. Teacher training in partnership with SBFIC and MoE for implementing the Life Skills discipline. These are 5-day courses, with 25 participants, and are offered 10 times a year. Training and resources are provided by CBAR, rooms and invitations are funded by the MoE, coffee breaks are provided by SBFIC. The SBFIC also provides and implements their Savings Game during the courses.
3. Training to ensure that journalists understand financial services and communicate the relevant issues effectively.

In addition, the strategy includes the development and promotion of the financial education portal [www.bizimpullar.az/](http://www.bizimpullar.az/)

### *Action plan*

Action plans were developed by the CBAR for 2016 and 2017, following the recommendation of the World Bank (2016).

### *Funding*

The Centre for Research and Development has an annual budget of approximately 1400 USD for implementing the NSFE. Therefore, the majority of funding and in-kind resources come from private and bilateral donors such as SBFIC, and financial services institutions such as FINCA. The project for providing financial education to rural women and micro-entrepreneurs is funded by the EU and Polish Microfinance Authority. Until 2017, one of the key partners and funders for CBAR was the World Bank. Currently, the key partner and funder is SBFIC.

Banks and micro-finance institutions are mainly funding the training of their clients and employees; on a smaller scale they provide prizes for students on CBAR competitions and help to cover costs such as coffee breaks.

### *Monitoring and evaluation*

Currently the NS is only monitored by collecting basic quantitative data (number of participants, visits to the website) from the stakeholders. They report to CBAR. One of the key recommendations of the World Bank (2016) was to “develop a Monitoring and Evaluation Framework” to measure progress in the implementation of the national strategy.

The need for assessment and evaluation has been recognised in the NS, but is discussed in future tense (Central Bank of the Republic of Azerbaijan, 2016):

There is a need for precise evaluation mechanism to be designed for evaluation of program efficiency on financial literacy. [...]Corresponding evaluation indicators have to be developed to enable assessment of financial literacy programs efficiency. These indicators should include factors as knowledge, skills and behaviors. The evaluation should be of periodic nature.

### ***Financial education activities of the CBAR***

Since December 2016, CBAR has held more than 70 events to promote financial education. Examples of repeated projects include:

- On the 2017 International Savings Day, October the 31<sup>st</sup>, a financial literacy seminar was organised at the Agrarian University in Ganja for more than a hundred students and lecturers. The topics covered were consumer behaviour, family budget planning, the insurance and tax system, savings, the deposit insurance mechanism, cashless payments, security elements of coins and promotion of national symbols on banknotes (Central Bank of the Republic of Azerbaijan, 2017a).
- In October, seminars were held at Azerbaijan University of Architecture and Construction. The topics included macroeconomic reforms, balance of payments and the banking sector (Central Bank of the Republic of Azerbaijan, 2017b).
- CBAR organises annual competitions and seminars for students and universities, and promotes the International Savings Day, My Money Week and financial literacy month. It also creates and makes available online tools and resources for free (Garalova, 2017).

### ***Financial education in schools***

Financial education has been integrated into the Life Skills curriculum. The national curriculum is currently being revised. Its emphasis is on developing not only knowledge and skills, but also values and habits.

CBAR organized summer schools “Learn, save and earn” for children in age 10-12. It is a week-long training where the children learn about the history of money, budgeting, saving and entrepreneurial skills through entertainment. It includes playing the Savings Game and visiting financial sector institutions.

For pre-school children, CBAR runs 25-minute tutorials in pre-school establishments to introduce the basic concepts of managing personal finances. In the first half of 2017, 400 children and nursery teachers participated in such training sessions.

JAA developed teaching resources for schools and has been working with the CBAR on the project “Banks in action”, but their funding has come to an end. The Ministry of Education is supporting the launch of a new financial educational project. JAA has started introducing financial literacy at the VET schools in 4

regions and the beneficiaries are students at age 15-25. JAA is applying for international funding, as mentioned below. If it gets approved, they will start with teacher training (150 teachers) and teaching students (5000) in 2018. They are planning to launch partnerships with banks for providing financial education in schools. Their partners could be ABA, ABTC and the recently launched Financial Literacy Council.

There is a lack of data on the financial literacy levels of students. Azerbaijan has not participated in the PISA financial literacy test nor have children been in the sample of any of the financial literacy surveys. For designing the financial education programmes, measurement and evaluation of financial education at schools and financial literacy among students is needed.

### ***Financial education activities of the financial industry and not-for-profits***

Various long-term initiatives have been put in place by the industry and not-for-profit sector:

- A Financial Literacy Council has been created within the ABA. Finalised in April 2017 and launched by the top managers of member institutions, it aims to increase financial literacy in the banking sector and to improve coordination between the banks and with other stakeholders of financial literacy in the country (Ibadli, 2017).
- In October 2017, AMFA and VF AzerCredit held a *Borrow Wisely* campaign . The campaign highlighted a simple checklist that consumers should consider before taking a loan (VF AzerCredit, 2017). The campaign targeted existing and potential customers of AMFA and VF AzerCredit with video messages, posters, leaflets and brochures. A demo version of a Financial Health Check tool was provided for the general public (Azerbaijan Micro-finance Association & VF AzerCredit, 2017). It was the third in a series of annual educational campaigns organised with the support of the Microfinance Centre in 15 countries of the region.
- SBFIC have run a project on *Responsible finance, financial education and consumer protection* since 2015. This is due to come to an end in February 2018 (Sparkassenstiftung, 2015). Since 2015, SBFIC has been the key partner for CBAR, organising and funding many of the financial education events.
- AMFA is starting a new EU-funded project for providing financial education to 500 women in 5 regions of Azerbaijan during 2018-2019. The association is initiating a partnership with UN Women and UNDP Azerbaijan for a regional project aiming at women empowerment, which would include financial education training for female founders of start-ups.
- JAA tries to involve the corporate sector in funding their programs. Currently, they are working on a project concept which will last for 3 years and targets school students at age 14 -15. The initial idea is that JAA starts introducing entrepreneurial skills and financial literacy within the courses organized after school in pilot schools. In the second half of 2017, they started a new program in two regions - Goychay and Sheki - and are aiming to provide financial education to 300 young people. The project is titled *Education for Employment: new opportunities for regional youth* and will be financially supported by Pasha Holding. JAA has applied to EU grant on Modernizing Education system in Azerbaijan. Their partners are JA Estonia and AMFA. Until 2014, their projects were financed by international donors.
- The Azerbaijan Bank Training Centre (ABTC) is currently preparing a project proposal targeting internally displaced people (IDP). They have submitted the proposal to a sponsor and waiting for the outcomes. In case of receiving the support, they will adapt a role-play game for IDP for the initiation of business idea; develop training materials, especially case studies for development of

financial and marketing plans for creation of micro business and a full package of materials for the registration of a company.

## 5. Description of the potential (additional) scope of the NSFE

The main challenges for the citizens are caused by the economic downturn and the lack of trust in financial institutions, as explained in section 2. The survey results discussed in section 3 show substantial shortcomings in financial knowledge and behaviours. These issues are approached on the highest level by the Strategic Road Map. It does address financial education, therefore the high-level support and the momentum should be used for developing the NSFE.

### *Potential scope for developing the NSFE*

**There is currently no formal cooperation mechanism such as a Steering Committee or officially agreed regular cooperation in place**, although stakeholders from public and financial sector are already annually reporting to CBAR about their FE programmes, stating mostly quantitative data such as the number of participants.

**High level commitment will be needed** for establishing official coordinating mechanisms and increasing the power of CBAR. Regular communication on the highest possible level should be part of the development and implementation of the NSFE. Recently, a Financial Literacy Council was founded by the banks' association (see section 2) but its role is waiting to be specified in the new NSFE document.

**In order to increase the impact of FE initiatives, maximise the outcomes of international projects and to avoid duplication, a coordinating body such as an Implementation Committee is also needed.** The plan to launch such Council has been mentioned in the existing strategy (see section 4), but to our knowledge it is not yet functioning. Such a committee should involve all key stakeholders from public and private sector, including the NGO-s, just as listed in the strategy document. Currently the latter seem to be less included in the NSFE development and implementation process

**A sustainable funding system needs to be launched**, once approval from the highest possible level has been achieved and coordination has been established. Currently CBAR does not have sufficient budget for implementing the NSFE. The provision of financial education is overly dependent on international projects. Once these projects end (for example, SBFIC project ended in February 2018), the initiative may end as well. One possibility would be to involve the financial sector in a more systematic way, as they are aware of the importance of financial literacy and are already active in the field. The High-Level Principles on National Strategies for Financial Education (OECD INFE, 2012) list the possibilities of using private sector financial support: a levy on the industry, a voluntary contribution through financial and in-kind support to public and civil society financial education programmes, or thorough national associations or self-regulatory bodies.

However, the funding should not be relying entirely on the financial sector. At least some of the funds could be provided by the state. As the President emphasized the importance of financial and entrepreneurial skills in his decree from December 2016, this could serve as a key argument for convincing the government to provide financial support for implementing the NSFE.

**The NSFE should set measurable goals, principles of measurement and evaluation, and it should design action plans.** There is a need for improved action plans with clear goals and evaluation methods, as was highlighted already in the World Bank report (2016). The data collected through the OECD/INFE financial literacy survey could serve as a baseline for setting measurable goals for the new NSFE. The High-Level

Principles on National Strategies for Financial Education (OECD INFE, 2012) suggest developing national financial literacy surveys that are conducted at regular intervals, and using additional indicators for monitoring the impact of the NSFE programmes.

**The NSFE should identify target groups based on the OECD/INFE financial literacy measurement results.**

The results showed that young, less educated and currently not working individuals need more attention. However, also the general public should be addressed, as discussed in section 3. Knowledge and behaviour levels are low among all groups, prudent choice of financial services is rare in most groups. The Strategic Road Map for the country highlights low income, youth and women as key target groups for improving social and economic situation, and prioritises the development and provision of better quality education (Center for Analysis of Economic Reforms and Communication, 2017). Therefore, these need to be the priorities of the NSFE as well.

**The NSFE should ensure the evaluation of the long-term impact of the strategy overall and of the single initiatives.**

Currently, there are several financial education campaigns and programmes, but no long term vision nor supervision. There seems to be **lack of evaluation of longer-term impact** of such initiatives. For evaluation, the OECD/INFE Policy Handbook on National Strategies for Financial Education (OECD, 2015) advises to design the methods and tools, and to budget for it when preparing the NSFE.

**6. Proposed approach to design, implement or revise the NSFE**

The High-Level Principles on National Strategies for Financial Education (OECD/INFE, 2012) define a NSFE as “a nationally co-ordinated approach to financial education that consists of an adapted framework or programme, which:

- Recognises the importance of financial education - including possibly through legislation- and defines its meaning and scope at the national level in relation to identified national needs and gaps,
- Involves the cooperation of different stakeholders as well as the identification of a national leader or co-ordinating body/council,
- Establishes a roadmap to achieve specific and predetermined objectives within a set period of time and,
- Provides guidance to be applied by individual programmes in order to efficiently and appropriately contribute to the NS.”

In Azerbaijan, the first and second part have already been addressed to some extent, as discussed in section 4, but improvements could be made. The last two areas, detailed roadmap and guidance of individual programmes, need addressing.

The Policy Handbook National Strategies for Financial Education (OECD, 2015) recommends the following actions:

1. Developing a diagnosis to inform the national strategy;
2. Establishing institutional and governing arrangements;
3. Setting and achieving objectives, evaluating and funding the national strategy; and
4. Ensuring effective and innovative provision of financial education.

The rest of this section suggests activities for addressing the above mentioned issues, as summarised in table 5.

**Table 5. Summary of key areas and policy suggestions**

Key areas	Policy suggestions
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a. Developing the diagnosis	1 – Mapping existing initiatives, stakeholders and their interests on the Financial Literacy Forum 2 – Collecting and analysing data on the financial literacy of adults and young people
b. Establishing institutional and governing arrangements	3 – Convening a high-level stakeholder meeting and creating a Steering Committee 4 – Launching an Implementation Committee with regular meetings/workshops and with dedicated subgroups
c. Setting objectives and evaluation	5 – Specifying the target groups based on the OECD financial literacy measurement exercise and plan approach most suitable for each of the groups 6 - Setting objectives, designing action plans and evaluating their success 7 – Evaluation of the effectiveness of financial education initiatives
d. Ensuring effective and innovative provision of financial education	8 – Developing financial education initiatives under the NSFE
e. Resources and sustainability	9 – Ensuring long-term resources for the NSFE

Based on: The OECD/INFE Policy handbook “National Strategies for Financial Education.” 2015: [www.oecd.org/g20/topics/employment-and-social-policy/National-Strategies-Financial-Education-Policy-Handbook.pdf](http://www.oecd.org/g20/topics/employment-and-social-policy/National-Strategies-Financial-Education-Policy-Handbook.pdf)

### ***a. Developing the diagnosis***

#### *1 – Mapping existing initiatives, stakeholders and their interests on the Financial Literacy Forum*

Various stakeholders in public, private and non-governmental sector are working on different financial education projects, but there seems to be rather little communication between them. As several international projects are ending or have recently ended, it would be important for the stakeholders to discuss the existing initiatives, their key lessons and outcomes, challenges and possibilities for the future.

The OECD has conducted a mapping exercise and a financial literacy survey in Azerbaijan, on which the CBAR could build upon. The CBAR intends to arrange a further mapping of existing initiatives and conduct a Financial Literacy Forum for developing the NSFE in December 2018.

Other tools that could be used to map current initiatives include consultation with stakeholders, calls for evidence, desk research, and organisation of conferences and workshops open to interested organisations (OECD, 2015). In such events, it important to ensure that stakeholders do not feel criticised for their work or evaluated by the state institutions.

#### *2 – Collecting and analysing data on the financial literacy of young people*

Azerbaijan currently lacks data on the financial literacy of young people. Using an internationally tested tool and comparing the results with countries from the same region provides valuable insights for developing the school curricula and programmes.

Azerbaijan has previously collected such data on reading, maths and science through the OECD PISA assessment, and could therefore explore the possibility of participating in future financial literacy options of the PISA financial literacy assessment. In doing so, it will be important to get support for the assessment in advance: countries are typically asked to confirm participation about three years before the data is collected, and there are certain additional costs to be covered.

## ***b. Establishing institutional and governing arrangements***

### *3 – Convening a high-level stakeholder meeting and creating a Steering Committee*

The Presidential decree and Strategic Road Map for Azerbaijan highlight the importance of financial literacy. A high-level agreement and a strong mandate are key factors in ensuring the sustainability of financial education programmes. Building on this momentum, it may be possible to discuss with the Office of the President the possibility of calling a high-level stakeholder meeting and agree on developing a Steering Committee on financial education.

### *4 – Launching an Implementation Committee with regular meetings/workshops and with dedicated subgroups*

Various stakeholders in public, private and non-governmental sector are working on different financial education projects, but there seems to be rather little coordination between them.

The creation of an implementation committee, in addition to a steering committee, and regular communication among stakeholders of the NSFE would help to use the limited resources more effectively, as well as to avoid overlapping and gaps in provision of financial education. The structure of the Implementation Committee could be agreed upon within the steering committee, keeping in mind the importance to involve all relevant stakeholders from public and private sector in the implementation committee and to ensure that the committee has a budget for implementing the NSFE effectively.

The participation of private stakeholders in an implementation committee should be monitored to ensure that it meets criteria of impartiality and unbiasedness, as also highlighted by key guiding principles of the existing NSFE in Azerbaijan (see section 4) and the OECD/INFE guidelines for private and not-for-profit stakeholders in financial education (OECD, 2015).

It may also be worth creating dedicated subgroups within the implementation committee for specific target groups, aims and topics of the NSFE. Subgroups could help to better attain effective, sustainable and innovative provision of financial education to specific target groups or for specific objectives than a just broad Implementation Committee.

## ***c. Setting objectives and evaluation***

### *5 – Specifying the target groups based on the OECD financial literacy measurement exercise and plan approach most suitable for each of the groups*

The main emphasis of existing financial education initiatives has been on students, teachers, journalists and women, but there may be target groups that do not receive sufficient attention. The OECD/INFE financial literacy survey offers detailed evidence on the distribution of financial literacy in the population.

The NSFE could take this occasion to use the results of the survey and other available evidence to identify and possibly reconsider its main target groups. The results of the OECD/INFE survey suggest that young people, the elderly, migrants, and those living in rural areas may deserve special attention. As the NSFE will be revised and action plans should be designed, this is an excellent timing for specifying the evidence-based target groups and approaches.

#### *6 - Setting objectives, designing action plans and evaluating their success*

The existing national strategy already has a set of high level priorities, but these could be further integrated by action plans with clear goals. The NSFE should have a clear action plan and related evaluation mechanisms. It should also include a discussion of ways to secure the implementation of the national strategy from possible financial, political or leadership changes.

#### *7 – Evaluation of the effectiveness of financial education initiatives*

The OECD emphasises the importance of evaluating the effectiveness of financial education programmes in order to identify approaches that meet their objectives, and create meaningful outcomes for participants. Evaluation also enables policy makers to focus resources on the most effective programmes and tools and fine tune those that are not working as intended.

Key programmes should be piloted and evaluated before full-scale implementation; and evaluation should be built into programme design. Suitable methods for evaluation could be identified and agreed upon as part of the revised NSFE. Given limited resources, these may include before-and-after questionnaires, interviews or using existing data, and may also include collaboration with universities and other researchers with access to external funding. It is important to share the results broadly among the relevant stakeholders, to ensure that all can benefit from the lessons learnt.

### ***d. Ensuring effective and innovative provision of financial education***

#### *8 – Developing financial education initiatives under the NSFE*

It is important that the NSFE is implemented through a number of coordinated activities aiming at ensuring effective provision and targeting key audiences. The following paragraphs provide some suggestions tailored to the context of Azerbaijan.

As financial literacy levels are low in all segments of the population, it may be worth targeting the general public through TV, radio and the internet. The Strategic Road Map also highlights the importance of communication with the general public. Suggestions of possible initiatives include:

- For innovative provision of financial education, CBAR can further develop the website [www.bizimpullar.az](http://www.bizimpullar.az). For example, a financial literacy index of the population could be added to the website, as it is done in Latvia (Financial and Capital Market Commission, 2015), in order to visualise financial literacy gaps and draw attention to certain topics.
- Mobile applications could be developed to provide tips for managing personal finances effectively and help to budget. A mobile application could be developed based on the existing online budgeting tool on [www.bizimpullar.az](http://www.bizimpullar.az). The app would help to write down costs the moment they occur. Mobile phones are widely used and the budgeting tool already exist, therefore this approach is suitable for the country and it only needs to be adapted into an application and promoted to the citizens. The app could be also used for sending reminders of the need for planning.

- TV programmes and soap operas have been found to be effective in influencing social norms and improving financial behaviours (Berg & Zia, 2013). As mentioned earlier, the IFC has suggested using TV and radio as the main communication channels. In the survey *Financial Literacy in Azerbaijan 2013*, TV, radio and the internet were found to be the main sources of financial information.
- As evidenced in section 3, saving and investments are used very little and there is a low understanding of the relevant financial concepts. Financial education programmes should aim at improving knowledge and understanding of diversification, simple and compound interest, and awareness about saving and investment services.

#### ***e. Resources and sustainability***

##### *9 – Ensuring long-term resources for the NSFE*

According to the Policy Handbook on National Strategies for Financial Education (OECD, 2015), in most countries the implementation of NSFE is funded by a combination of public and private resources, though typically with the majority of the resources coming from public authorities. In many cases, funding comes from several institutions involved in the implementation of the NSFE, rather than from a single budget. In some countries, a statutory levy is used to collect contributions from private financial institutions.

Most activities under the existing national strategy are funded by a range of public, private, national and international sources, with a strong dependence on external funding, such as the SBFIC, EU and World Bank projects. It will be important for the future Steering committee of the NSFE to secure a good mix of public and private resources. It will be particularly important to put in place long-term planning and multi-year budget horizons, due to the long-term nature of the behavioural change sought by financial education policies, and to make sure that resources are sufficiently stable to help ensuring effective and innovative provision of financial education and long-term impact.

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