

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: AB5590

<b>Project Name</b>	Financial Literacy and Education
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Sector</b>	Other social services (50%);General finance sector (30%);General education sector (20%)
<b>Project ID</b>	P120338
<b>Borrower(s)</b>	RUSSIAN FEDERATION
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<b>Implementing Agency</b>	
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<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Country and Sector Background

**Financial literacy, financial education and consumer protection**

- i. **Financial literacy can be defined as the ability to make informed decisions about the use and management of one's money.** The international community is increasingly treating financial literacy as the ability of individuals to manage his/her finances and to make effective short- and long-term financial decisions. According to the UK Financial Services Authority, financial literacy (capability) would include *the ability of people to live within their means, keep track of their finances, plan ahead, particularly for retirement, choose relevant financial products and stay informed about financial matters.*<sup>1</sup> Topics of financial literacy range from personal budget management, planning for pensions and other major life course events, to understanding life insurance, risk-return trade-off by individual investors, consumer rights and mandatory information disclosure policies.
  
- ii. **Improved financial literacy is essential for strengthening the ability of individuals and their families to manage increased risk, including avoiding excessive personal debt, managing financial difficulties, reducing the risk of bankruptcy, maintaining savings, and ensuring adequate welfare at retirement.** Financially literate customers represent an important prerequisite for financial sector development, for controlling proliferation of sub-prime financial

<sup>1</sup> [http://www.fsa.gov.uk/pubs/other/fincap\\_baseline.pdf](http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf)

products, and for the reduction of financial crises risks. Finally, improved consumers' financial literacy is an essential dimension of an effective modern consumer protection regime that is formed by comprehensive legal and regulatory frameworks, full information disclosure, and institutions of monitoring and redress.

- iii. **Financial education is defined by OECD as a process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choice, to know where to go for help, and to take other effective actions to improve their financial well-being.** Specifically, i) information involves providing consumers with facts, data, and specific knowledge to make them aware of financial opportunities, choices, and consequences, ii) instruction involves ensuring that individuals acquire the skills needed to understand financial terms and concepts through the provision of training and guidance, and iii) advice involves providing consumers with counsel about generic financial issues and products so that they can make the best use of the financial information and instruction they have received.
- iv. **The overarching aim of consumer protection is to redress the imbalances of power, information, and resources between consumers and financial institutions,<sup>2</sup> by prohibiting financial institutions from engaging in unfair or deceptive practices, and by giving individuals clear and complete information that would allow them to make informed decisions.** Consumer protection provides an important source of market discipline to the financial sector, encouraging financial institutions to compete by offering better products and services rather than by taking advantage of poorly informed consumers. It also helps build demand for good governance, by strengthening transparency in the delivery of financial services and accountability of financial firms. In addition, consumer protection helps financial firms face the risks that arise when dealing with retail customers, especially those related to miss-selling of financial services.
- v. **Financial education and consumer protection are two sides of the same coin with provision of information on financial issues common to both.** While financial education supplements the provision of information with instruction and advice, consumer protection emphasizes legislation and regulation designed to enforce minimum standards, require financial institutions to provide clients with appropriate information, strengthen the legal protection of consumers when something goes wrong, and provide for a system of redress.
- vi. **The last decade has seen increasing international demand for financial literacy and consumer protection.** This is caused by several key factors: (a) individuals becoming increasingly more involved in life course financial decisions and needing to secure retirement income under conditions of reduced public provision of lifelong welfare; (b) increased complexity of financial products being offered by a deregulated financial sector; (c) increased incomes, higher life expectancy and possibly the desire for more choice.
- vii. **As financial markets develop and deepen, effective consumer protection is becoming crucial for the evolution of a fair, open, efficient and healthy market.** The rapid growth of household lending over the last decade has been accompanied by an increase in the number of households that had difficulty understanding the risks and obligations they assumed—or the full

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<sup>2</sup> Financial institutions are very familiar with the terms and conditions of their financial services, but retail consumers may find it difficult or costly to obtain sufficient information on their financial purchases, or to assess complex financial services even when relevant information is disclosed.

range of choices available. Complex financial services were, and continue to be, offered to consumers, including those with weak credit histories. The securitization of such household credit highlights the importance of consumer protection (as well as risk management) in minimizing systematic risk in the financial sector.

- viii. **Demand for increased financial literacy and consumer protection led several countries to prepare national financial literacy/financial education (FL/FE) strategies.** Central banks, financial regulating agencies, and National Treasuries began supporting the delivery of financial education programs. Also, various platforms have emerged for coordination between public, non-for-profit, and private financial education institutions. FL measurement is undertaken in several countries, and the impact of FE programs is increasingly discussed by educators and experts. OECD has approved a set of guidelines for Financial Education<sup>3</sup> and has endorsed a long term FL project.

## 2. Objectives

The overall **development objectives** of this investment project are to (i) improve the financial literacy of Russian citizens in order to promote their prudent financial behavior and responsible participation in the financial services markets; and (ii) increase the effectiveness of consumer protection in financial services in Russia.

## 3. Rationale for Bank Involvement

**The Government of Russia requested that the World Bank prepare a project to support its financial education and literacy improvement efforts in Russia.** The initiative for engagement in improving financial literacy and education in Russia was triggered during Russia's G-8 Presidency in 2006 when financial literacy was established as one of the policy themes for the Finance Ministers Meeting, and a high level international conference on financial literacy was convened. In November 2006 the President of the Russian Federation requested that the Government, the Central Bank of Russia, and the Association of Russian Banks develop an action plan to improve the country's level of financial literacy and information available to the population on banking services. In 2007, the Ministry of Finance initiated preparation of the FEFL program in Russia and allocated US\$100 million for its implementation. The World Bank was requested to assist in project design, preparation, implementation, and supervision on a fee-for-service basis. However, procedural difficulties and the financial crisis slowed down the preparation process. In a meeting between the Deputy Prime Minister and the Minister of Finance of the Russian Federation, and the President of the World Bank, held in Istanbul on October 3, 2009, the Deputy Minister of Finance on October 6, 2009 requested the initiation of the Financial Education and Financial Literacy (FEFL) project as an investment lending operation with sizable counterpart financing. The request to further accelerate project preparation, dated December 30, 2009, was sent by DPM Kudrin to the World Bank.

## 4. Description

The proposed investment project would consist of five components: (i) Development of financial literacy strategy and financial literacy and consumer protection policy implementation monitoring, (ii) Financial literacy capacity building, (iii) Development and implementation of education programs and information campaigns for improving financial literacy, (iv) Consumer protection in financial services, and (v) Project management.

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<sup>3</sup> <http://www.oecd.org/dataoecd/7/17/35108560.pdf>

### **Component 1: Development of financial literacy strategy and financial literacy and consumer protection policy implementation monitoring**

The objective of this component is to support development of the National Financial Literacy Improvement Strategy (NFLIS), establishment of the institutional and legislation framework for its implementation, and development of the FL/CP monitoring and evaluation system. This component will finance consultancies and goods needed for i) establishment of IDPC, ii) establishment of Expert Board, iii) development of NFLIs, iv) legal and analytical work in FI and CP, and v) conducting national FL and other surveys and impact studies.

### **Component 2: Financial Literacy Capacity Building**

The objective of this component is to support building institutional and human capacity for raising financial literacy in Russia at both federal and regional levels, as well as public and private sectors. Component will finance consultant services, training and goods for i) establishment of institutional capacity in financial education, ii) training teachers of all levels of education system, iii) creation of national FL portal, iv) creation of RCFLs, and v) training of journalists.

### **Component 3: Development and implementation of education programs and information campaigns for improving financial literacy**

The objective of this component is to improve financial literacy through the provision of a series of educational services and information campaigns. This component will finance consultant services and goods for i) development and implementation of education materials and programs for improving FL, ii) development and delivery of information campaigns for improving FL, and iii) supporting civil society FL initiatives.

### **Component 4: Consumer protection in financial services**

The objectives of Component 4 are to strengthen consumer disclosure for financial services and improve the economic rights of consumers. This component will finance goods, consultant services and training for i) capacity building in the Consumer Protection, ii) civil society institutions and initiatives in financial consumer protection, and iii) supporting innovations in consumer protection.

### **Component 5: Project Management**

The objective of this component is to finance costs of the Project Implementation Unit (PIU), connected with day-to-day management of the Project.

## 5. Financing

Source:		(\$m.)
Borrower		85
International Bank for Reconstruction and Development		25
	Total	110

## 6. Implementation

### (i) Partnership arrangements

Currently there are no partnership arrangements envisaged by the project.

### (ii) Institutional and implementation arrangements

The proposed Project will be implemented by the Ministry of Finance with supervision and coordination by the project stakeholders through a project coordination council. Institutional framework for expert support to the project teams, technical project implementation, and regional implementation of financial literacy and consumer protection programs will be determined at appraisal.

**Project Management.** The Project will be under the overall responsibility of the Ministry of Finance. All implementation procedures will be summarized in the Project Operation Manual (POM) including clear delegation and segregation of responsibilities within and among all involved agencies.

#### *Financial Management*

The details of financial management arrangements are outlined in Annex 7.

### (iii) Monitoring and evaluation of outcomes/results

Data for monitoring outcomes/results will be derived from (i) regular monitoring reports from Government agencies involved in financial markets regulation and consumer protection, (ii) project progress monitoring to be coordinated by the PIU, (iii) a comprehensive consumer finance survey, and (iv) regular assessments of the financial literacy level to be coordinated by the IDPC.

Data to be received from Government agencies' reports will be a key source for monitoring project outcome indicators. This data will include:

- FFMS data on participation in non-government pension funds;
- MHSD data on participation in government pension co-financing program;
- CBR data on consumer credit arrears;
- CPS data on consumer complaints and inquiries, consumer credit consultations held, etc.

Regular progress monitoring by the Project Working Group of the Ministry of Finance and the PIU will track delivery of key project results, including finalized financial literacy strategy, improved legislation for consumer protection, developed instrument for FL assessment, etc. This information will be summarized in Progress reports submitted to the World Bank by the Borrower.

The consumer finance survey will provide detailed information that will help assess changes in the financial and savings behavior of the population as a whole, as well as among particular age cohorts, and social groups. Two rounds of the survey will be financed by the project in YR2 and YR4. The survey will be conducted by a competitively selected private sector firm.

Regular FL assessment surveys by NCFL will help assess changes in attitudes, perceptions, behaviors, and basic financial arithmetic skills of the project's target groups. Two rounds of the national representative survey will be financed by the project in YR1 and YR3. The survey will be conducted by a competitively selected private sector firm.

The Project will also finance a comprehensive project impact evaluation, which would help estimate the “net” effect of project implementation in pilot regions as compared to control regions.

The Project will support capacity building for monitoring and evaluation within MoF and CPS aimed at ensuring sustainability of project results. Currently, none of the ministries is responsible for raising financial literacy planning, monitoring, and evaluation. Government’s Project Concept envisages establishment of a unit responsible for financial literacy strategy and its implementation. Specifically, the World Bank will support capacity building for agencies in the use of analytic and monitoring tools that are to be created under the project, e.g. for conducting and processing results of the consumer finance survey and the FL level assessment surveys. After the project is completed these surveys will be conducted by the MoF on a regular basis.

## 7. Sustainability

Sustainability of project investments depends upon the (a) development of National Financial Literacy Improvement Strategy (NFLIS) and consumer protection policy framework and regulations, (b) appropriate budget allocations, and (c) institutional framework. Improvement in financial literacy and consumer protection is one of the top Government priorities and is expected to remain a priority even if the Government changes before project completion. Financially, the Government has been confirming its commitment to a financial literacy program by allocating resources to improve financial literacy since 2008. Lack of strategy and implementation capacity caused these allocations to go unused. Commitment to the Project has been reflected in the adequate provision of funds in the 2010 Budget. Regular allocations to the Project would be secured in the budget allocations during the project period. The Project would also provide incentives for greater participation of the private sector and NGOs through co-financing of their financial literacy and consumer protection ideas, initiatives, and programs. Sustainability of the project critically depends on establishing the appropriate institutional framework to maintain engagement in financial literacy and consumer protection areas in the long run. The special unit responsible for financial literacy issues and the NFLIS and its implementation will remain as the central FL gateway after the project ends. MoF will be responsible for all FL and CP programs at the national level and monitor FL and CP programs delivered at the regional levels. Expert Board may continue to provide expert assistance to the MoF after the project ends and the IDPC is dismissed. RCFLs are the only new institutions to be established under the Project. Establishment of the RCFLs will be under discretion of the participating regions. RCFLs are expected to be developed within existing regional institutions such as universities, public institutions or regional administrations. The Project will also strengthen the capacity of existing institutions for delivering financial education and strengthening consumer protection, particularly the CPS.

## 8. Lessons Learned from Past Operations in the Country/Sector

**Financial education and literacy is a new area of support in the World Bank.** Although Russia FEFL is the first World Bank investment project supporting financial literacy, it is a theme that cuts across several World Bank sectors, including education, social protection (e.g. pensions), financial supervision, and consumer protection in financial services, which are all individual areas extensively supported by World Bank operations. Project design reflects lessons related to (a) international experience with efficient institutional frameworks for raising financial literacy, and delivering financial education programs and financial consumer protection; (b) guidelines and best practice for efficient financial education programs; (c) the World Bank’s experience to date with SIL-type operations and large counterpart financing; (d) particularities of the World Bank’s SIL portfolio in Russia. The key lessons drawn from international experience are detailed below, as well as how the project absorbs and reflects these lessons:

- (a) *International experience.* Financial education programs have been systematically implemented by public and private sectors in developed countries. Such programs in developing countries have been prepared and delivered ad-hoc following individual initiatives. Experience of financial literacy programs in EU27 countries is largely positive,<sup>4</sup> as well as similar programs in the EU and Canada.<sup>5</sup>
- (b) *Guidelines and best practices.* OECD has been the leading international agency in supporting financial education programs. OECD compiled financial education guidelines (Annex 14) and best practices in individual financial services.<sup>6</sup> In the consumer protection area, the World Bank has generated substantial experience and knowledge on the process of establishing strong consumer protection system. The World Bank has conducted nine country consumer protection diagnostic reviews and compiled the best practices Guidelines on consumer protection. Furthermore, best practices also emerge from the World Bank's extensive work in financial sectors, including a regular FSAP reviews for its client countries.
- (c) *Instrument.* Experience in similar projects to date reveals that SIL is an adequate instrument to support the development of strategy for improving financial literacy, capacity building activities, and program delivery.
- (d) *Implementation arrangements.* Arrangements follow a common practice in Russian Federation projects to implement projects through the PIUs. The PIU will be selected through a competitive procedure. Potential candidate PIUs in Russian Federation have established their own management structure, implementation capacity and fiduciary arrangements for project implementation. The Project will also simplify disbursement categories and procedures.

9. **Safeguard Policies (including public consultation):** There are no social and environment safeguards risk; hence there are no special measures taken by the borrower to address safeguards policy issues. Criteria for selection civil society financial literacy and financial consumer protection initiatives and good ideas to be co-financed from the project will be developed under the project to assure compatibility of selected initiatives with the project and eliminate proposals which would raise the safeguards issues. Selection of initiatives will be conducted by the Expert Board, and approved by the Interdepartmental Project Committee. Government's Interdepartmental Project Committee, consisting of all project stakeholders, will be responsible for overall project supervision and would address any safeguard issues, if necessary.

#### 10. List of Factual Technical Documents -

Habschick, Seidl, and Evers: Survey of Financial Literacy Schemes in the EU27, VT Markt Final Report, Evers Jung, report prepared for the EU Commission, 2007;

MICEX: Sociological Research of Investment Culture of the Population, November 2007.

L. Mundell, Financial Literacy in Russia, Project Background Paper, 2008

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<sup>4</sup> Habschick, Seidl, and Evers, 2007: Survey of Financial Literacy Schemes in the EU27, VT Markt Final Report, Evers Jung, report prepared for the EU Commission.

<sup>5</sup> See OECD's financial education web site, <http://www.financial-education.org/>

<sup>6</sup> [Ibid.](#)

O. Mitchell: Implications of the Financial Crisis for Long Run Retirement Security , PRC WP2010-02, The Wharton School, University of Pennsylvania, 2010;

L. Willis: Against Financial Literacy Education, Penn Law, Research Paper 08-10.  
<http://papers.ssrn.com/abstract=1105384>, 2010;

World Bank: Diagnostic Review of Consumer Protection in Financial Services in Russian Federation, 2008;

World Bank: Good Practices for Consumer Protection and Financial Literacy for Europe and Central Asia, 2008;

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