



# FINANCIAL LITERACY: A STEP FOR CLIENTS TOWARDS FINANCIAL INCLUSION

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# I. INTRODUCTION: FINANCIAL EDUCATION FOR FINANCIAL INCLUSION

These are tumultuous and exciting times for microfinance, marked equally by the stunning potential of the cell phone to change the face of financial services and disturbing reports of suicides linked to over-indebtedness. Against this backdrop, a shift in the industry is taking place, drawing our attention from the financial institution back to the client. Indicators of a renewed concern for clients include research to quantify the ‘unbanked’, rallying calls for consumer protection, and efforts to better meet customer needs with diversified products. A key driver of this change in focus is the now widely embraced goal of ‘financial inclusion’. Governments of developed economies, in G20 Summit agreements, have recognized financial inclusion and consumer protection as integral to achieving financial stability and integrity. Financial access has been highlighted as a ‘key accelerator’ to meet the Millennium Development Goals. Key to attaining this laudable goal is financial education (World Savings Bank Institute, 2010).

Financial inclusion is a multi-dimensional, pro-client concept, encompassing better access, better products and services, and better use. Herein lies its challenge – without the third element, use, the first two are not worth much. Technological innovations are bringing both new customers, potentially including millions of unbanked cell phone owners, and new service providers – a diverse array of retail outlets, telcoms and others – into the market. Diversification of products and services has already resulted in rich, and complex, choices for consumers, especially compared to the early days of one-size-fits-all working capital loans. Yet, increased access and better choices do not automatically translate into effective use. The path from uptake (i.e. opening an account) to usage is still an uncharted course. Effective use is hampered by asymmetries of information and power between financial institutions and poor consumers, an imbalance which grows as customers are less experienced and the products they can choose are more sophisticated, an imbalance which holds real potential for negative outcomes due to institutional abuses or ill informed client decisions.

Financial education is an important tool to address this imbalance and help consumers both accept and use the products to which they increasingly have access. Because it can facilitate effective product use, financial education is critical to financial inclusion. It can help clients to both to develop the skills to compare and select the best products for their needs and empower them to exercise their rights and responsibilities in the consumer protection equation. Properly designed, financial education is tailored to the client’s specific context, helping them to understand how financial instruments, formal or informal, can address their daily financial concerns, from the vagaries of daily cash flow to risk management. Its power lies in its potential to be relevant to anyone and everyone, from the person who contemplates moving savings from under the mattress to a community savings group, to the saver who tries to compare account choices offered by competing banks. As such it spans the informal and formal financial sectors, supporting clients’ access to, and more importantly, use of, diverse financial services.

Current developments in microfinance are both exciting and potentially perilous. To take advantage of the former and protect against the latter, those placing the client at the center of their efforts are embracing financial education. This paper will situate financial education in an evolving financial landscape, identify its stakeholders, and most importantly, summarize experience to date and explore how that experience is shaping the vision and agenda for its future.

## II. DEFINITIONS

The literature often uses three terms – financial literacy, financial education, and financial capability -- whose overlap can cause confusion. They are, however, distinct pieces of a puzzle, parts of the whole, or steps towards the goal of financial inclusion. *Financial literacy* is associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the contracts he signs. It incorporates knowledge, skills and attitudes. *Financial education* is a key tool to reach this multi-dimensional goal. *Financial capability*, on the other hand, is about the context; it engages the financial services sector in its responsibility to offer the right products to its various target markets. Financial inclusion implies an alignment of supply and demand, where financially literate consumers have opportunities to apply their knowledge in a marketplace of appropriate product options. These three terms are further clarified below.

**Financial literacy:** Definitions for this term vary by source and context. Most originate in developed countries where financial literacy has received far more attention than in the developing world. However, the common foundation is the importance of having the skills and knowledge to make informed financial decisions. The U.S. Government Accountability Office (GAO) offers a broadly applicable definition for financial literacy as:

“The ability to make informed judgments and to take effective actions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan for the future, spend wisely, and manage the challenges associated with life events such as a job loss, saving for retirement, or paying for a child’s education.”

Of course, financial literacy can mean different things to different people; in developed economies, being financially literate might require knowledge of tax codes, insurance requirements, and credit cards, while for the ‘unbanked’ in the developing world, financial literacy is more likely defined by basic concepts of safe and secure savings, budgeting and wise borrowing.

The U.S.-based non-profit, Jump\$tart, recognizes the dynamic, non-static nature of financial literacy:

“Financial literacy is not an absolute state; it is a continuum of abilities that is subject to variables such as age, family, culture, and residence. Financial literacy refers to an evolving state of competency that enables each individual to respond effectively to ever-changing personal and economic circumstances.”

Challenges of money management are never static, nor are the solutions. For the poor, the pressure of juggling money never abates as they deal with unpredictable and seasonal incomes, and the financial pressures of life cycle events. We also argue that ‘confidence’ must be added to ‘knowledge and skills’ in defining the core elements necessary to achieve financial literacy, as the poor often believe they are too poor to save or to have control over their finances or plan for the future.

**Financial education** is the process of building knowledge, skills and attitudes to become financially literate. It introduces people to good money management practices with respect to earning, spending, saving, borrowing, and investing. The role of financial education is to enable people to shift from reactive to proactive decision-making and work towards fulfilling their financial goals. By broadening people’s understanding of financial options and principles, financial education builds skills to use financial products and services, and promotes attitudes and behaviours that support more effective use of scarce financial resources. When linked to the financial inclusion agenda the implicit argument is that financial education will motivate the learner to adopt available formal financial services.<sup>1</sup>

Thus, financial education is a tool to achieve financial literacy and more; financial literacy is essential to both effective consumer protection and to our final definition – financial capability.

**Financial capability** includes the ‘use factor’ – the ability *and* opportunity to use the knowledge and skills implied in financial literacy. Financial capability is a broader concept that necessarily links individual functioning to the entities of the financial system. On the institutional side it assumes that financially literate individuals have access to:

- User-friendly financial service providers catering to the low-income consumer, and;
- Appropriate products and services.

Thus building financial capability -- the combination of knowledge, skills and attitudes with the opportunities to apply them -- requires input from multiple sources including those that educate the consumer and those that sell the products. As a result, the responsibility for wise decisions regarding financial strategies and tools does not lie solely with the individual client. We would argue that building financial capabilities is two directional: while consumers have a responsibility to inform themselves about the products they are ‘purchasing’, financial service providers have a responsibility to understand their market, and respond with a range of appropriate and affordable services, including savings and credit accounts, payment services, insurance products and the ability to send and receive remittance payments cheaply. In short, the financial institution needs to meet the customer where they are, not solely on the institution’s terms. They need to apply principles of transparency in a way that facilitates clients’ decision-making, and verify assumptions about what clients understand and don’t understand about their products.

In sum, **financial capability** is about bringing together informed clients with appropriate products in the marketplace (Cohen, 2010). Financial education targets behavior change; done

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<sup>1</sup> Financial inclusion is most often used in reference to bringing the ‘un’ and ‘under’ banked into the formal financial sector; however, the informal financial sector offers multiple options that effectively serve low-income consumers and those who opt for these should be considered financially included.

well, it provides opportunities for clients to *practice* new knowledge and skills. However, it is most effective when clients have real world opportunities to *apply* what they have learned over time. This is financial capability.

### III. STAKEHOLDERS

Embracing the related goals of financial capability and financial inclusion requires a multi-stakeholder framework built around consumers, the financial services industry and government. Financial education is the nexus linking their interests in these common goals. Non-governmental and community-based organizations use it to promote livelihoods and asset building for the poor, integrating it into a range of activities that includes extension services, health education, business-development training, or mentoring. Financial institutions use it to enhance their community profile, increase adoption and use of their products and ultimately, improve performance. Central bankers and regulators embrace financial education to protect consumers from fraud and abuse (Cohen, 2010).

To date, financial education programs have pursued three broad objectives that correspond to overlapping, inter-related interests of these three stakeholders.

1. Personal financial empowerment and improved welfare;  
These objectives target the consumer, the potential client who needs to know when and how to use appropriate financial services to save, borrow, invest and mitigate risk. Financial literacy varies significantly among the poor, especially in relation to a financial landscape that is rapidly changing. Financial diaries studies, as presented in *Portfolios of the Poor* (Collins et al, 2009) or in *Cash-In, Cash out: Financial Transactions and Access to Finance in Malawi* (Stuart et al, 2011), have demonstrated that most poor people are good financial managers in familiar environments where a majority of financial transactions occur either informally or involve money stored at home. However, with increased access to more service providers and more products, people confront options they don't always understand. When their existing knowledge and competencies are not applicable to an ever changing financial landscape, people are limited in their ability to act.
2. Product uptake or improved/increased use  
New accounts and increased account activity are obvious motivations for financial institutions to sponsor financial education. Taken in isolation, these goals admittedly blur the line between education and marketing. Yet, financial institutions have other reasons to support financial education such as meeting their social responsibilities and building client loyalty with popular services. Institutional efforts range from incorporating educational content into marketing materials to adding financial education delivery to the responsibilities of front-line staff.
3. Consumer protection and awareness;  
Consumer protection is a cornerstone of financial inclusion, levelling the playing field between suppliers and consumers of financial services (Alliance for Financial Inclusion, 2010). While both have their respective roles and responsibilities, government is the

ultimate third party protector, especially in the absence of effective consumer advocacy organizations. Public agencies such as central banks, superintendents of banks and policy makers must ensure the consumer voice is heard. In addition, government must provide the legal and enforcement muscle to supersede both financial institutions' advantages of power and their inherent conflict of interest in protecting consumers (Can financial institutions be really committed to educating and empowering consumers to compare and choose products across competitors?). Governments can embrace financial education in form of public campaigns to broadcast key messages about consumer rights.

Thus, financial education and the financial literacy it builds are a winning proposition at multiple levels, for multiple stakeholders. On an individual level, financial literacy helps households to use scarce resources more effectively, choose the financial products that best meet their needs and become pro-active decision makers. At the institutional level, informed consumers make better clients, lowering institutional risk and contributing to a stronger bottom line. At the market level, financially literate consumers are a key element in effective consumer protection; placing pressure on financial institutions for services that are both appropriately priced and transparent. (Nelson and Wambugu, 2008).

With multiple stakeholders, financial education is beginning to fill an heretofore empty space in the movement towards financial inclusion. Section IV examines financial education experience in developing countries around the globe, with examples of programs from all three stakeholder groups described above that show how program objectives shape the type of financial education offered.

## **IV. ELEMENTS OF EFFECTIVE FINANCIAL EDUCATION**

The compelling conceptual arguments supporting financial education aside, the most exciting part of promoting this new service is the reaction of the learners. Across age groups, genders, and geographies, people have been thrilled and grateful to experience the power and optimism that comes with learning how to manage their money better. We know we are onto something when poor people quickly seize the value of financial education. Yet, financial education in developing countries is far too young and diverse in its target group, content, and delivery methodologies to articulate best practices. In fact, that may be a long time coming given its broad and evolving objectives, relevance and reach. For example, when Microfinance Opportunities initiated its market research and curriculum development eight years ago, financial education was primarily focused on personal money management. Today, the same goals are framed around a broader agenda of financial inclusion. Therefore, we prefer to discuss emerging elements of effective education, drawing on experience to date in an admittedly sparsely populated space. Although the elements highlighted here reflect conventional educational wisdom – e.g. knowing the target group, assuring that content is relevant and incorporating practical application – drawing these lessons from the context of a changing financial landscape and the place of financial education therein is new and illuminating.

## IV.A. FINANCIAL EDUCATION HAS MANY AUDIENCES

As with any program, the target group determines financial education objectives and content. While many basic principles of money management are universal, financial knowledge, experience and behaviors vary widely across individuals, households and populations; therefore, programs will look very different depending on who the learners are. Target groups for financial education can be defined by age, gender, employment status or relationship to a specific financial product. Financial education targeted to youth is more likely to focus on negotiating with parents about spending money, the value of saving, and planning for the future than it is on investing. Migrant workers may need help budgeting new income sources and managing expenses as they move through the various stages of migration, from initial travel and settling expenses to sending remittances home and eventual return. Some learners are brought together by interest in a specific product like a home mortgage or insurance. In this field of limitless possibilities yielding impressive variety in both what is taught and how, there is still much to learn about which types of financial education are needed by whom, which methodologies are most effective in changing knowledge, skills, attitudes and practices, and how financial education can be combined with other opportunities to reinforce long-term behavior change.

### Never too young to learn about money

Aflatoun, an NGO headquartered in the Netherlands, has led the movement to make financial education available to school-age children. Active in 75 countries, it has developed curriculum and trained teachers in children centered methodologies involving art, games, and theater to make learning as enjoyable as it is effective. In each of these countries, Aflatoun works through local partners, typically child-focused NGOs. It has also had some initial success in advocating for the inclusion of financial education in national school curriculum (e.g. Egypt). Ministries of education are an important frontier for financial education; achieving financial literacy will take at least a generation and schools are an obvious channel for generational change ([www.aflatoun.org](http://www.aflatoun.org)).

### Road Shows for Migrant Workers

Overseas workers sent \$16.4 billion to the Philippines last year, over 10% of that nation's GDP. Recognizing that these nine million workers are important consumers of remittance services, the *Bangko Sentral ng Pilipinas* conducts its Financial Literacy Campaign through road shows in Singapore, Hong Kong and other countries, educating hundreds of Filipinos working abroad about financial planning, saving and investing (Alliance for Financial Inclusion, 2010).

## IV.B. EFFECTIVE ELEMENTS OF FINANCIAL EDUCATION: RELEVANCE, USE, AND QUALITY

### 1. *Relevance – Know the target group*

The basic tenets of money management-- save often, spend carefully, borrow cautiously and invest wisely -- may be universal, but to be meaningful to a given audience, they must be nuanced to respond to the specific needs or stresses that group faces. For example, the value of saving is foundational to many of the lessons of money management. However, for someone

operating outside the financial system, the relevant educational message may focus on the benefits of saving in a safe place. For someone who already saves, the relevant content may target the difference between a passbook savings account and a certificate of deposit and how to use each to meet different savings goals.

Ensuring the relevance of financial education necessitates understanding the financial behaviors of the target audience. What are their sources of income? How do they spend their money? What influences these expenditures? Who controls them? What beliefs or cultural practices shape their financial decisions? What is the context and what are the possibilities for changing behaviors that contribute to financial stress? Market research has been used effectively to gather data that sheds light on these questions; findings have been invaluable in informing the curriculum design of specific financial education programs.

- Research on remittance senders and receivers in Ecuador revealed that sender and receivers often pursue disparate goals with respect to remittance income. Receivers come to depend upon and use remittance income as if it were permanent. Failing to acknowledge its temporary nature, they relinquish other income streams, spend remittances for daily consumption, don't save and have scant contingency plans for any interruption in the flow. Over-indebtedness as a result of purchases of big ticket consumer items (e.g. appliances and electronics) on credit is common. Meanwhile, the sender makes sacrifices to send money intended to purchase land, invest in a business or accomplish other goals for the return home. As a result of these findings, curriculum on managing remittances included communication, goal setting and planning with senders and receivers.
- In the Dominican Republic, market research focusing on the financial circumstances of adolescent girls revealed that they typically don't save any of the money received from parents and part-time employment. Researchers learned that these girls' biggest expense is weekly visits to the beauty salon. In the financial education program that was designed for them, girls identified steps they could take – like exchanging services among friends that could cut in half their trips to the beauty salons -- to reduce these expenditures and have a little to save (Hopkins, 2007).
- In India, FINO provides technological and operational solutions that enable financial institutions to serve low-income populations. Its key product is the biometric smart card which can be used for opening and managing bank savings account. However, to date, usage rates among account holders are low (15%); instead, most frequently save at home in small amounts and invest in gold/jewelry as a hedge against emergencies. What explains these low rates of card usage? Market research provided the following answers. With respect to the new smart cards, clients:
  - do not trust that their money is secure
  - are not sure if the smart card is a debit or ATM card
  - do not know if it earns interest
  - Perceive that the cards are tied to a government program
  - Do not understand that the agent or 'bandhu' is linked to bank

Market research also revealed that there are many contact points with the agent or 'bandhu'. Each one provides an opportunity or 'teachable moment' to build the financial capabilities of the consumer. In this circumstance, the financial education product of choice is a 'flip book' that guides both the bandhu and customer along a conversation path (Microfinance Opportunities, 2010).

- For potential insurance clients, a significant misunderstanding lies in the need to renew the policy if no claims were made during the policy year. Some clients expect to get their premium refunded in the event of no claims. Curriculum to impart information about insurance therefore targeted the concept of pooled risk, starting with local mutual aid practices that operate on similar principles but may be more familiar to potential clients.
- Everywhere, the poor are vulnerable to unexpected events that unleash pressure to find a lump sum of money, but vary how they prefer to do this. For example, in Vietnam, people often purchase livestock to sell in times of need, and do not view selling assets as a strategy of desperation. In contrast, in Colombia, people would resist selling an asset, preferring to borrow money to cope with unexpected expenses (Sebstad et al, 2011).

Financial Diaries provide a new and novel form of market data that enable a deeper, more nuanced understanding of the financial behaviors that are the focus of financial education. They shed light on cash flow strategies, risk management practices, use of multiple, largely informal financial instruments, and gender-based control of income and expenses. Such data can be valuable in designing appropriate financial products. For example, Financial Diaries research in Malawi made it clear that rural consumers require wide, flexible access to financial products designed to provide access to lump-sums such as bridge loans, flexible lines of credit or contractual savings products that require small regular contributions (Stuart et al, 2011). It is a short leap from such products to the need for financial education to help consumers decide which would be their best choice.

Effective financial education is relevant; it addresses issues of critical and immediate importance to the learners in a way that acknowledges and incorporates their specific financial realities. Experience to date has shown the value of investing in some form of client-focused research to identify existing individual behavior and community practice; this is the starting point for financial education, the aim of which is to move from existing behaviors to desired behaviors, from passivity born of lack of confidence, information and opportunity to pro-active, informed decisions.

## **2. Use – Find 'teachable moments'**

The 'use' factor is an element of effective financial education because when the client applies new knowledge and skills, she increases her chances of retaining them. Therefore, some of the best opportunities for financial education occur when the target group faces new financial situations or decisions. These are 'teachable moments'; the learner might be in transition from the familiar to the unfamiliar, (e.g. the widow who loses her assets to her in-laws), or have an opportunity that will be enhanced with relevant information and skills (e.g. the student who joins an after-school savings club). Identifying these 'teachable moments' for financial

education—when someone first opens a bank account, transitions to mobile banking, or becomes a recipient of a government cash transfer program—makes the education relevant, immediately useful and reinforces behavior changes since people have an opportunity to apply what they learn in the context of real life. Four examples are presented below:

- **Technology** is creating perhaps the most widespread teachable moment. Around the world, cell phones are replacing landlines and substituting for bricks and mortar bank branches. Yet, older customers, intimidated by the technology, give their children access to their accounts and report theft or fraud. Young people, in contrast, are quick to master the technology's functionality, but understand little about the management decisions that the keypad contains. New access to convenient debit cards and ATMs presents challenges to those trying to control their spending (Nelson 2010).

FINCA Mexico introduced a financial education program to build clients knowledge and confidence about its pre paid card, and ultimately branchless banking. FINCA's comprehensive financial education program addresses the clients' level of technical knowledge and enhances their trust in mobile banking and other financial technologies. FINCA has reached 10,500 people with prepaid cards. All received financial education training. (Microfinance Opportunities and Genesis Analytics, forthcoming.)

Despite their great potential, the introduction of electronic cards and mobile banking without information, orientation, and education presupposes knowledge and experience that many low-income families do not have. This may explain why the level of bank transactions by the previously unbanked has not met expectations, with providers of cell phone banking reporting active usage rates of less than 30% over a 90 day period (CGAP, 2009). Through its research of mobile banking in four countries, Microfinance Opportunities found the reasons for low usage include mistrust of 'faceless' banking, confusion over the PIN, and a lack of knowledge of banking functions, off and on the cell phone. To date use of cell phone 'banking' is largely limited to money transfers and adding airtime. Financial education can bridge the gap between product marketing and effective product use (Cohen et al, 2008).

- The **feminization of migration** (for factory jobs, domestic work and the sex industry) provides teachable moments as these women struggle with a host of new financial opportunities and challenges. Despite exploitative working conditions, young women desire factory work for the income it brings at a time in their life when they are unencumbered by the roles and responsibilities of wives and mothers. The opportunity to work for wages exposes them to social, financial and educational experiences with positive outcomes -- including delayed marriage, increased mobility, strong peer networks of fellow workers seeking to 'modernize' and experience managing money -- that result in more empowered, capable young adults. However, such outcomes are often in conflict with family

Financial education should be tailored to the migrant worker's position in the migration cycle -- recruitment, pre-placement, during migration, post migration. Young female migrants typically sign on for repeated two-year contracts. During the first 6-10 months they pay off the loan to the recruitment agency or broker. Yet, despite earning a good salary during the remaining 14 – 18 months, they return home with no money. Due to lack of migration planning and family agreement on how to use their remittance, young women migrate multiple times. (Diaz, 2009)

expectations for the migrants' income that is needed for dowry, siblings' education or other family demands. Under pressure to send regular remittances, migrants often have to borrow at high interest rates in order to survive in their host country.

Designing financial education for migrant workers requires careful selection of target groups and solid understanding of how each confronts different financial stresses. A migrant worker who pays a broker to be smuggled into Thailand to work on a fishing vessel faces different financial pressures, risks and opportunities compared to one who migrates legally to Hong Kong to work as a garment factory worker or elderly care giver. Despite their diversity, financial education can address a host of significant issues that young migrant workers face, including:

1. Family decision-making regarding the goals and timeframe of migration;
  2. Analysis of migration costs and how to finance them;
  3. Balancing personal needs and goals with family pressure to remit income;
  4. Budgeting for the high costs of living in urban areas
  5. Managing fluctuations in income and expenses;
  6. Understanding financial products and how to take advantage of one's options.
  7. Learning to avoid high risk methods for sending remittances (Diaz 2009).
- Teachable moments for **youth** can be found in school and out. Youth are eager to save but typically don't believe it is possible; they don't believe that saving small amounts will add up to anything, or that banks are interested in their small deposits ; and they don't know how to resist the many temptations to spend. Financial education, along with the opportunity to save, can be a powerful combination in fostering confident young savers. Such opportunities can be created through after-school savings clubs, mobile banks that visit schools, special savings accounts or informal community-based savings groups for youth.

#### **Different approaches to help girls to save**

**The Nike Foundation** has supported a multidisciplinary approach to promoting girls' saving in the Dominican Republic, Mongolia, Burundi, Kenya and Uganda. In each country, a consortium of MFIs or banks, schools and NGOs collaborated to design and implement an integrated program combining financial education and savings opportunities. Microfinance Opportunities provided technical assistance in financial education for all teams, but in each location a slightly different approach was used. Financial education was offered to girls either in school or by NGOs outside of school, while a local bank offered a special savings account designed for them. However, in Burundi, girls got access to financial education as members of CARE sponsored savings groups which provided their vehicle for saving.

- **Cash transfer programs** offer teachable moments. They now exist in 45 countries and largely target women –as heads-of-household, caregivers, and elderly pension recipients. Their core purpose is to raise the income of the poor and protect vulnerable households. Conditional cash transfers (CCTs) use incentives and program conditions to link immediate economic assistance to long-term behavior changes (Nelson and Henderson, 2010). Those for whom access to a regular cash payment is a new experience may need to learn to manage this new resource – to balance competing

demands of risk protection, investment and consumption, as well as plan for longer term financial security and an “exit route” once the CCT program ends. Increased use of mobile banking and debit cards as a means for dispersing cash transfers as well as direct deposits in the new bank accounts of these ‘unbanked’ will require training to ensure participants’ use of not only the technology, but also the bank services to which it provides access. New program opportunities for financial education are emerging as policymakers explore the potential of CCTs to enhance economic inclusion through linkages to bank accounts and opportunities for asset accumulation.

### 3. *Quality – Don’t make any assumptions*

The two elements of effective financial education discussed above – relevance and use – are also defining criteria of its quality. Yet, the quality of financial education also depends on good trainers who can facilitate two-way dialogue with learners and engaging them actively in the content. To do this, they need to embrace a pedagogy that is significantly different from the traditional lecture method that still dominates formal educational systems and relies on one-way communication whereby the teacher/expert delivers the content to the passive recipient. While curriculum is now available to help trainers navigate through more participatory approaches, most of it needs some adaptation to respond to specific learners abilities (e.g. literacy levels) and the local context (reflecting local currencies, common businesses, place names and actual products offered by local financial institutions, etc.)

#### **Learning by doing**

**Free to Grow** offers financial education to low-income employees of large companies in South Africa. It uses metaphor, imagery, anecdotes and case examples to make abstract concepts easier to understand. Its *MoneySense* program provides learners with the opportunity to practise real-world applications through experiential learning. Participants’ are split into groups or “households” and given “Free to Grow” money and picture cards of monthly expenses (e.g. transport, food, clothing, entertainment etc.), and instructed to allocate money to each expense. Having done this, groups often find that their money is over-allocated to certain expenses, leaving nothing for school fees, after-school care and the like. Following this exercise, individuals are given budget sheets on which to plan their actual monthly expenditures. (Microfinance Opportunities and Genesis Analytics, forthcoming.)

#### **Simulations are worth a thousand words**

The **MFO** curriculum “Risk Management and Insurance” includes a simulation activity based on a group of people who share or ‘pool’ their resources to create a hypothetical funeral fund. Participants handle small objects that represent money (e.g. stones, bottle caps, buttons, etc.); they simulate paying into fund monthly and withdrawing from it as needed. They see what happens to their benefits when there are many funerals in members’ families, and discuss questions such as “How is the group able to give more to a member than she paid in? What do you think happens to your money if you do not have a death in your family during the year?” (Microfinance Opportunities, 2008)

We have found that a good investment in the quality of financial education is to offer it to trainers themselves. Realizing its relevance to their own lives, trainers become motivated to

share it with others. However, they have been challenged by the task of curriculum adaptation cited above, and we have learned by experience not to underestimate this part of the process.

Quality education also requires attention to the mundane – logistics, location, schedule. Getting these details wrong can easily sink a program. All aspects of an education program must reflect the participants' priorities.

#### **IV.C. DELIVERY CHANNELS**

The elements of effective financial education --relevance, quality and use -- have been presented largely in relationship to classroom, or in-person training. While valuable at conveying new knowledge, skills and attitudes to small groups of people, this dissemination channel confronts budgetary hurdles when the goal is to go to scale with financial education. There is growing evidence to suggest that a mix of dissemination methods -- print, mass media and technology -- is advantageous. In Mexico, a video on managing remittance income and debt now plays in US consulates and the bank lobbies of Bansefi, the country's state savings bank. In the Philippines and Uganda, potential insurance clients can read comic books that explain the benefits of insurance. In El Salvador and Nicaragua a radio mini-series on the topics of saving, budgeting and debt management targets female microentrepreneurs. A popular TV serial in Kenya has aired episodes focused on money management, each of which is accompanied by a brochure with more information. MFO has seen that its training modules, although originally designed as training tools for face-to-face delivery, have time and again provided the basic messages that are adapted to a wide array of dissemination channels.

These various channels can serve multiple program objectives, from raising awareness across a broad socio-economic range, to imparting specific content to a smaller target audience. Face-to-face, group based training is the most effective way to provide more in-depth content that engages people with the topic to promote behavior change. Mass media (eg. radio, TV or print) can broadcast simpler messages about a specific topic (e.g. tips for saving regularly) or financial product (e.g. a savings account) to many more people. Print lends itself to endless uses: financial education messages can be incorporated into bank statements; brochures can be widely distributed(e.g. in banking halls, taxi parks, grocery stores), and financial education campaigns can be mounted with billboards, posters and newspaper advertisements. The two approaches –interactive mastery of substantive content or massive outreach with 'headliner' messages – are not mutually exclusive, but each offers advantages and disadvantages that merit consideration, alone and together.

**Table 1: Comparing face-to-face training to delivery via mass media<sup>2</sup>**

Type of Delivery Channel	Advantages	Disadvantages
Face-to-face training	<ul style="list-style-type: none"> <li>• Delivers detailed content among peers who contribute different perspectives, skills and experiences</li> <li>• Opportunities for engagement with the material; participants reflect on content, personalize it, and take action. (e.g. put money aside regularly)</li> <li>• Easier to monitor quality and evaluate outcomes of financial education than through other channels</li> </ul>	<ul style="list-style-type: none"> <li>• Requires trainers with technical capacity and experience in participatory training methods</li> <li>• Need ready access to training participants that can be provided by diverse types of organizations including financial institutions</li> </ul>
Mass media, Print, Technology	<ul style="list-style-type: none"> <li>• Potential to reach large numbers of people</li> <li>• Potential to reach 'unbanked' and others not affiliated with a particular financial institution or organized group</li> <li>• Lower cost per person than face-to-face training</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to incorporate participatory component</li> <li>• Limited depth of content</li> <li>• Can require large up-front investment (e.g. TV, radio program or video)</li> <li>• Poses challenges to monitor quality and evaluate outcomes</li> </ul>

Delivering financial education messages through mass media be it radio, TV, video or print, calls on specialized skill sets. Experience has shown that collaboration between financial educators and media specialists can lead to excellent final products if the team respects conventional wisdom and establishes processes for product development. This involves careful selection of the messages that both support program objectives and are relevant to the target group; use local expertise to develop storylines (e.g. for radio or TV dramas) and adequately pilot test the material.

**Test materials!**

In Uganda and the Philippines, MFO contracted local firms to design comic books about insurance. Drawing on the content of MFO's module *Risk Management and Insurance: Protect Your Family*, each firm developed a storyline with realistic situations, recognizable characters and accompanying drawings. During pilot tests, participants related well to these features, with one exception. In Uganda, participants said that they would not trust the plump insurance agent in the illustrations because his heavy weight indicated that he was "eating" the profits from his work, and likely exploiting his clients for his own gain. The Ugandan design firm replaced the illustration of the short, plump insurance agent with a tall, lean agent.

<sup>2</sup> Table adapted from work of Danielle Hopkins and the staff of Microfinance Opportunities.

## V. SCALE, SUSTAINABILITY AND IMPACT<sup>3</sup>

Financial education interventions often have differing approaches to scale. The differences accord with each implementing organisations' financial education objectives and follow three main routes to reaching scale:

- *National/Regional Consumer Education Campaigns* – such initiatives benefit from low costs per person and the ability to expose large numbers of the public to key messages.
- *Financial Service Providers* – financial institutions, with access to their existing clients, offer an important base for rapid scale-up of financial education. From a client's perspective, having simultaneous access to financial services and financial education enables opportunities to exercise their learning, which is essential to the adoption of new behaviours.
- *School-based Programs* –the use of pre-existing platforms to reach groups of young people provides an opportunity to go to scale. Organizations like Alfatoun, PEDN and Junior Achievement Nigeria work through schools, leverage their networks, and use standardized content and delivery.

**Junior Achievement Nigeria** uses existing school and community groups as a platform to reach learners. JA Nigeria's strategy for scaling up its existing program within schools is three fold: to increase the number of students per class (up to a maximum number); to raise the frequency of classes held in the established schools; and finally to add new locations.

### V.A. WHAT FACTORS FACILITATE SCALE?

Further to the three routes to scale discussed above, a few key factors promote or influence effective upward-scaling.

- **Partnerships and Networks:** Experience suggests that stakeholder involvement is fundamental to scaling up. It may also improve efficiencies in financial education programs, as roles and responsibilities can be delegated to partners based on their comparative advantages. Beyond the benefits of networking and sharing information, partnerships between financial education providers and financial service providers can ensure participants

Using a partnership model, **SPEED Ghana** facilitated an extensive financial education initiative. The partners, including international donors, the Bank of Ghana, the Ghana MicroFinance Institutions Network (GHAMFIN) and the Ministry of Finance and Economic Planning (MoFEP), leveraged financial support, infrastructure, and human capacity to deliver quality financial education across the country. With time, there was convergence –as MFIs, government and public advocates began to convey the same financial education messages.

<sup>3</sup> This section draws heavily from the forthcoming paper, "Global Study of Financial Education" written by Microfinance Opportunities and Genesis Analysis and funded by The MasterCard Foundation.

will have the opportunity to apply new behaviours to accessing products and services.

- **Use of mass media and technology:** As discussed above, mass media and technology are becoming increasingly popular channels for wide dissemination of financial education content. The initial high costs of program development are offset by repeated use and substantial outreach. More specifically radio programs, especially when they are offered in the vernacular, can reach multiple and dispersed end users who are difficult to reach with traditional workshops, television or on-line formats. Moreover, as mobile banking expands throughout the world, we can expect to see mobile phone applications harnessed to support financial education goals.
- **Institutionalization:** The consensus among organizations that have embraced financial education to date is that it should be an integral component of an organization's regular interaction with its community (such as a client's relationship with the MFI/bank).

**Faulu Kenya** has recently embedded financial education in its business model. The Bank sees financial education as a way to assist their clients to use Faulu services – which now include savings and transactional products -- more appropriately and wisely.

Scale can also be achieved by diverse institutions adopting the financial education agenda. In Mongolia, XAC Bank began its financial education activities with a program focused only on adolescent girls. Today its program serves girls and boys, while the initiative has spread from the bank to non-financial institutions (Girl Guides, a TV series, Ministry of Education) and to delivery beyond the capital to rural areas.

## V. B. WHAT ARE THE COSTS OF FINANCIAL EDUCATION?

Generally the costs of implementation can be broken down into two main categories:

1. Product design and development (i.e. of financial education content, curriculum, etc.);
2. Dissemination (e.g. training, learning events, campaigns, radio programs, etc.).

The costs of financial education, particularly for organizations that incorporate financial education into a broader program, are difficult to quantify. Table 2 outlines the estimated cost per person based on available information. Ideally the total spent in each category should be divided by the number of people reached to arrive at the unit cost (i.e. cost per person receiving financial education). In practice however, this calculation is difficult; expenses specific to financial education can be challenging to isolate, or in the case of media campaigns, numbers of people reached are broad estimates.

**Table 2:** People Reached by Organisation and Cost per Person

Path to Scale	Organisation	No. Reached	Cost Per Client
Financial Service Provider	Opportunity International Bank of Malawi	230,000	US\$ 1.98
School Based Programs	Private Education Development Network (Uganda)	N.A.	US\$ 4.00
Personal Development & Training	Free to Grow (South Africa)	52,000	US\$ 500

To lower costs, organisations have used a range of strategies. Some have simplified the financial education materials they use; OIBM advocates the decentralization of delivery. In the future, technology based strategies will certainly enable a decrease in operating costs.

### V.C. HOW DO FINANCIAL EDUCATION INITIATIVES DEFINE SUSTAINABILITY?

Sustainability is defined both by funding and quality. Although the majority of organizations implementing FE initiatives currently rely on donor support, long term funding models are possible given that many organisations see financial education as either key to their business (MFIs/banks) or as core to their mandate (industry associations). Three funding models with inherent sustainability are:

1. Profit-driven products or services (e.g. Free to Grow sells financial education training sessions);
2. Financial education is a value added product that the business subsidizes (e.g. OIBM, Faulu, XacBank);
3. Financial education as a vehicle to influence the market (e.g., AMFIU, SPEED Ghana)

**Finlit Foundation**, a new organization in Uganda, sees target market analysis, program review, and impact evaluation as needed to ensure the long-term relevance and sustainability of their activities and organization. Finlit's constant surveying and market analysis has helped to make sure that the topics addressed by its program are always appropriate. Close attention to its market has resulted in a doubling of participation during Finlit's Annual Financial Literacy Week.

Although all three models can lead to long term sustainability, the evidence to date is limited. What is clear is that financial institutions overcome their initial scepticism of financial education with growing evidence of increased product uptake or an improved image of the institution. Faulu (Kenya) and OIBM (Malawi)) now embrace financial education as a service that adds value by boosting their existing businesses, increasing customer awareness and loyalty, and promoting increased client use of financial products.

Ultimately long-term sustainability, and the ability to demonstrate value, will depend on the effectiveness of a program. As discussed earlier in this paper, effective programs are relevant, practical and of high quality; achieving such programs begins at the inception phase, with information on potential participants' current financial behaviours and desired behaviours

gathered from market research, workshops, stakeholders' forums and informal discussions. Further, programs should be constantly reviewed and revised to ensure that the materials and curricula meet the changing requirements of the audience.

Sustainable programs are those designed around strong funding models, serving not only the needs of the participants, but ultimately adding value to all stakeholders. Achieving this means continuous commitment to learning, building capacity of staff and organizations, and nurturing partnerships.

## **V.D. WHAT DO WE KNOW ABOUT IMPACT - WHAT IMPROVES FINANCIAL EDUCATION UPTAKE?**

Implementers of financial education have attributed several changes in client behavior to their training. SPEED Ghana notes an increase in the number of bank accounts; AMFIU (Uganda) and OIBM (Malawi) attribute an increase in savers as well as changes in self esteem directly to financial education efforts.

A review of pre and post tests taken by participants in financial education training at two MFIs in Bolivia (CRECER and Pro Mujer) and one in Sri Lanka (SEEDS) indicated positive change in knowledge about managing debt (ability to calculate one's debt and identify causes of over-indebtedness and capacity. (Clients of CRECER jumped from 23% to 40% while those of Pro Mujer climbed from 45 percent to 79 percent.).

Clients of the three institutions also showed improvements in their savings behaviors. CRECER and Pro Mujer clients --post-post test-- both put more of their earnings into savings (31 to 47 percent for CRECER clients and 40 to 57 percent for Pro Mujer clients) and the number of SEEDS clients who indicated they saved more money in the current quarter compared to last quarter jumped by 16 percent (Gray et al, 2009).

While these outcomes are promising, many other factors could be influencing them. (See Table 3). For example, the increase in number of savers reported by AMFIU and OIBM could have been affected by aggressive marketing and product promotion efforts. In Bolivia and Sri Lanka, clients report that contextual factors such as inflation and rising food prices prevented them from saving regularly, even though they clearly understood the benefits of doing so. The same held true for managing their debt as Gray et al explain in their 2009 study:

- When clients from all three institutions were interviewed in FGDs about the challenges of debt management, all three cohorts indicated that the food and fuel crises that their countries were experiencing during this time period significantly inhibited their abilities to control their debt simply because everything was much more expensive and some were having to take out loans for basic needs such as food. They all appeared to understand and appreciate the concept of managing one's debt, but some had difficulty putting it into practice (Gray et al, 2009).

**Table 3: Impact Measurement following Financial Education**

Organisation	Objective	Indicators
AMFIU	Consumer Protection and Awareness Initiative	69.6% increase in number of respondents holding savings accounts 66.2% increase in the number of people reporting it is possible to save
OIBM	Product Uptake/Improved product Use	From 40,000 savers in 2005 to 70,000 in 2007
Free to Grow	Personal Skills & Development for Improved Livelihoods	54% increase in the number of participants who reported saving 96% of participants reporting that their financial situation has improved

Emerging evidence from financial education programs does point to changing behavior. Sometimes, as noted, context mitigates against results. Furthermore, behavior changes emerge over time and none of the impact studies to date have spanned a period of time long enough to capture the anticipated changes.

## **VI. FUTURE AGENDA FOR FINANCIAL EDUCATION**

The future of financial education is here today. The rapid evolution of stakeholders and the institutional landscape blurs the distinction between present and future. From an empty space a decade ago, financial education is surfacing on every agenda, and that points to exciting times ahead. A few hallmark changes within our sights are discussed below.

### **VI.A. CONSUMERS**

Financial education in developing country contexts was originally conceived of and introduced to the financial community as a service to its clients. Yet, because managing money is a skill that is in high demand and short supply, financial education is now and will continue to be embraced far beyond the financial services industry. Programs in health, agriculture, women's empowerment and many others will integrate basic financial management in their mix of services for the poor because the financial stability it supports is critical to their goals. Corporate employees, factory workers, union members, and farm workers are likely consumers of financial education in the future.

### **VI.B. SERVICE PROVIDERS**

The bottom of the pyramid is increasingly perceived as a new market. To sell products in this market, commercial financial institutions are embracing financial education as part of their business proposition. But beyond the financial industry, new technologies are enabling different actors to offer financial transactions to low-income markets. Telcoms, grocery chains, and superstores like Walmart and are moving into technology-enabled financial services. However,

this market is not just about the number of people it holds; to be effective in their outreach, these new players will need more than convenient ways for the poor to spend their scarce resources, including financial education.

The diversity of consumers and providers will support emerging efforts to deliver financial education messages through multiple channels including cell phones, radios, TV, and social marketing tools. New ways to stage and reinforce themes will be developed to foster continuous learning.

### **VI.C. SUPPORTERS**

To date, donors have largely supported financial education's research and development phase. Now, as discussed above, it is being adopted by diverse commercial and not-for-profit entities. The third leg of financial education's support is government. Over time, financial education will become a public good. Attention is moving beyond the implementation of small-scale initiatives to the development of national financial-literacy strategies that straddle financial and social policies and incorporate public and private stakeholders. Governments are beginning to look at integrating financial education into cash-transfer programs. Ministries of Education will gradually incorporate it into their national school curricula.

Government is also the key to effective consumer protection. In this rapidly evolving landscape that will engage thousands who have never used financial services with an array of entities that have never before provided them, the need for consumer protection is mounting. Government engagement can lend legal weight to transparency and truth-in-advertising. As consumer protection gains traction, so too will financial education as an important tool to enable consumers to carry out their roles and responsibilities in the consumer protection equation. We have made the case that consumers' access to services must be accompanied access to information in order for them to make the best choices for themselves. However, informed consumers are important for another reason: they can make demands on institutions, exerting pressure for good customer service, appropriate and transparent pricing and clear contracts.

While the dynamic nature of financial literacy and financial capability make it difficult to lend specificity to their future, we are encouraged by the concrete successes of other campaigns to change behavior. In the U.S., campaigns against littering and smoking have had a remarkable impact, but one that took a generation to achieve. It is possible to envisage building financial capability as a multifaceted campaign to promote better money management that is active over many years and across a broad swath of the population.

## **VII. CONCLUSION**

Fifteen years ago, 'financial inclusion' would likely have referred to an institutional issue such as portfolio growth, mirroring a common question "How many clients do you have?" Today the term is more centered on clients, encompassing both access (the institutional responsibility) and use -- clients' ability to choose and use the services available to them. It implies financial capability. Financial education is essential to both of these overlapping concepts. Yet, fifteen years ago, few in the developing world had ever heard of financial education. Today, it is coming to your TV; your bank will send text messages reminding you to save; local newspapers run

weekly financial advice columns; governments are mandating that financial institutions publish transparent product prices. The return of the consumer that these developments indicate is welcome. So too, are the ways to build their capacity to manage money that have not yet been invented but will be at our doorsteps next week.

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