2020 VISION
FOR FOOD, AGRICULTURE, AND THE ENVIRONMENT

Financial Literacy

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The global financial crisis has intensified the problems of over-indebtedness, especially for the poor. In this context, the microfinance industry is giving more attention to building their customers' financial capabilities, designing products that respond to their needs and preferences, and ensuring their protection as consumers.

In a world where financial products and institutions are expanding rapidly, deciding which services to choose and how to use them is an increasing challenge. That challenge is especially great for customers who are poor and have limited experience in the formal financial sector. While money-management strategies can be innovative, the financial choices they make are defined by environments where informal financial practices are dominant and the consumer is often uncertain about commercial products and services. In increasingly complex and competitive financial markets, consumers with low levels of financial literacy lack the information and tools necessary to make informed decisions. Building financial capabilities can help people move from being overwhelmed by their financial options to being empowered by them.

Why is financial education important?

People at all income levels may have different resources and opportunities, but they still typically share common goals: They seek to put food on the table, educate their children, own a home, and plan for the future. To set aside even small amounts of money, low-income families need to be careful spenders as well as skilled money managers.

Financial education provides a foundation for managing money, which is an indispensable skill in a world where microfinance products and services are proliferating at the same time that overly aggressive financial services providers are ever ready to pressure the consumer. Building consumers' financial capabilities is about doing more with the little at hand, readying the unbanked (people without access to conventional banking services) to enter the formal financial system and enabling the underbanked (people with limited access to conventional banking services) to do more with the financial services at their disposal. It is also about improving the performance of financial services providers. Findings from a randomized impact evaluation found that Self-Employed Women's Association clients who attended financial literacy classes took out twice as many loans as women who did not (Pande, Field, and Jayachandran 2009).

How does financial education work?

Financial education is the process of building knowledge and skills to enable people to make more effective financial decisions while changing behaviors to build confidence in financial empowerment. The core of a financial-education agenda includes budgeting, saving, and managing debt. It also involves managing financial products such as insurance or remittances and making use of bank services.

Designing a financial-education program begins with a good understanding of the market. This means knowing the financial-literacy levels of the target population and the most effective delivery channels to reach them. Identifying the most appropriate "teachable moments" for financial education—for example, when someone first opens a bank account, starts a business, or makes a transition to technology-enabled banking—makes the education relevant and reinforces behavior changes since people have an opportunity to apply what they learn in the context of real life.

How can financial education be successfully delivered?

An important debate among practitioners is how financial education can be delivered most effectively. Channels range from public campaigns and mass media to face-to-face communication and personal counseling, from small-group seminars to classroom-style workshops. Innovative delivery channels also include cell phones and other electronic media.

Experience has shown that there is no best way to deliver financial education; it depends on the target group, objectives of a financial-literacy initiative, and available resources. Mass media—including television, street theater, call-in radio, or printed materials, such as posters and comics—is being used increasingly to expose poor and often illiterate people to key financial messages. Its primary impact is to spread awareness, whereas the purpose of face-to-face training and counseling is to provide participants with hands-on experience, particularly with banks, which they tend to distrust and fear. More fundamental changes in attitudes and behaviors require reinforced messaging over time.

Providers of financial education have differing interests, which translates into a diversity of delivery approaches. Central bankers or regulators who wish to protect consumers from fraud and abuse tend to give priority to public campaigns focused on consumers' rights and responsibilities. Financial institutions that aim to increase adoption and use of their products and services may choose to integrate financial-education messages into their marketing agendas. Community-based organizations wishing to promote livelihoods and asset building for the poor may integrate financial education into a range of activities, including extension services, health education, business-development training, or mentoring. Consumer-protection organizations may embrace financial education as part of social-marketing campaigns, community-based training, or one-on-one counseling at debt advisory centers.

The choice of delivery systems is very much a question of resources. While tangible, direct training is expensive on a large scale, bundling delivery channels—for example, combining radio with some direct training offers—can help strike a balance between achieving both broad and focused impacts.

Outcomes and impact

Controversy surrounds the issues of what and how to measure the outcomes and impact of financial education. (See Figure 1 in Appendix A for one such approach.)

Currently, quantitative evidence of the positive outcomes and impacts of financial education is limited. This contrasts with affirmative anecdotal evidence from learners. Meanwhile, research shows that financially literate clients make better financial decisions and maintain a better overall financial well-being (Cole and Fernando 2008).

Recent research linking financial education to behavior changes among low-income microfinance clients in Bolivia and Sri Lanka provides insights into these contradictory impact-related observations. Two years after receiving financial education, clients increased their knowledge of loan products and debt capacity. Positive changes in savings behaviors included reducing expenses as well as recognizing the value of saving three times the amount of monthly income for emergency purposes. Those given budgeting training identified the primary function and different parts of a budget and were able to work within their own budgets. However, putting debt-management and savings behaviors into practice during the food and financial crises that affected these countries was a challenge. The new savings behaviors translated into reduced vulnerability (Gray et al. 2010).

To assess the outcomes of financial education, researchers must look beyond indicators of behavior change. They must recognize that financial behaviors are influenced by the context in which people live—both inside and outside the household—and thus are ever changing. According to Gray et al. (2010), the five elements of effective financial education are

- quality and frequency of education,
- relevance of the education to the target population,
- opportunity to use the education,
- context in which people can exercise their new financial behaviors, and
- appropriateness of the financial products offered.

Developing a financial education agenda

Since 2002, Microfinance Opportunities (MFO) has sought to put financial education on the agenda of microfinance institutions and other development organizations seeking to improve the financial lives of the poor. To this end, MFO partnered with Freedom from Hunger to develop a global financial-education curriculum that is targeted at those just above and below the poverty line in developing countries. Developed in partnership with nearly 20 microfinance service providers, the curriculum currently addresses ten themes. The core topics are budgeting, saving, managing debt, negotiating financial transactions, and using bank services. Each theme includes (1) a content note that provides a topic overview, (2) a trainer's guide with step-by-step instructions for conducting each learning session, and (3) a "training of trainers" manual to prepare financial-education trainers.

The trainer's guide, the cornerstone of the curriculum, has proven itself a valued reference tool. The curriculum itself is flexible and readily adaptable to longer or shorter learning activities, different contexts, and target populations, including people who are illiterate (Nelson and Wambugu 2008). The base curriculum has been expanded to encompass a number of specialized modules focused on particular financial products (including insurance, remittances, and housing loans), specific target groups (for example, adolescent girls) and consumer protection. By leveraging partnerships and using scalable delivery channels, Microfinance Opportunities is achieving significant levels of outreach; in less than three years, more than 500,000 consumers have received direct training. This figure does not include the enormous outreach achieved through the viral spread and adaptations of the MFO curriculum using mass media. For example, Makutano Junction, a televised series in East Africa, has incorporated the key messages into several episodes. Its viewers are in the millions.

Where do we go from here?

Financial education is beginning to get the visibility and interest it deserves. Attention is moving beyond the implementation of small-scale initiatives to the development of national financial-literacy strategies that straddle financial and social policies. Integration of financial education into cash-transfer programs and branchless banking are other emerging programmatic areas. Measuring how and when financial education translates into financial-behavior change remains difficult, but, among learners, it is valued and has emerged as a key—although often overlooked—component of economic empowerment.

Some see the challenge of scalability as an obstacle to a meaningful impact of financial education. It need not depend on stakeholders' objectives for financial education. Everyone can benefit from financial education: the banked, unbanked, or underbanked. Technology offers just one avenue to send key messages to large numbers of people; its spread therefore must not be restricted to users of formal financial services. Building financial capabilities among the low-income population is a win-win situation for the financial sector because it creates better-informed consumers. Financial education need not be a stand-alone activity. It is very effective when combined with other development interventions aimed at reducing vulnerability and food insecurity and expanding opportunities for the poor. ■

See more information at www.microfinanceopportunities.org.

For further reading: S. Cole and N. Fernando, "Assessing the Importance of Financial Literacy," *ADB Finance for the Poor* Vol. 9 (No. 3): 2008; B. Gray, J. Sebstad, M. Cohen, and K. Stack "Can Financial Education Change Behavior?: Lessons from Bolivia and Sri Lanka," Working Paper 4 (Microfinance Opportunities, Washington, D.C.: 2010); C. Nelson and A. Wambugu, *Financial Education in Kenya: Scoping Exercise Report* (Financial Sector Deepening Kenya, Nairobi, Kenya: 2008); A. Klincic, "Case Study of Opportunity Bank of Malawi" (Microfinance Opportunities, Washington, D.C.: Forthcoming); R. Pande, E. Field, and S. Jayachandran, *Business Training and MFI Client Behavior: Findings from a Randomised Impact Evaluation in Ahmedabad, Gujarat* (Institute for Financial Management and Research (IFMR) Centre for Micro Finance, Chennai, India: 2009).

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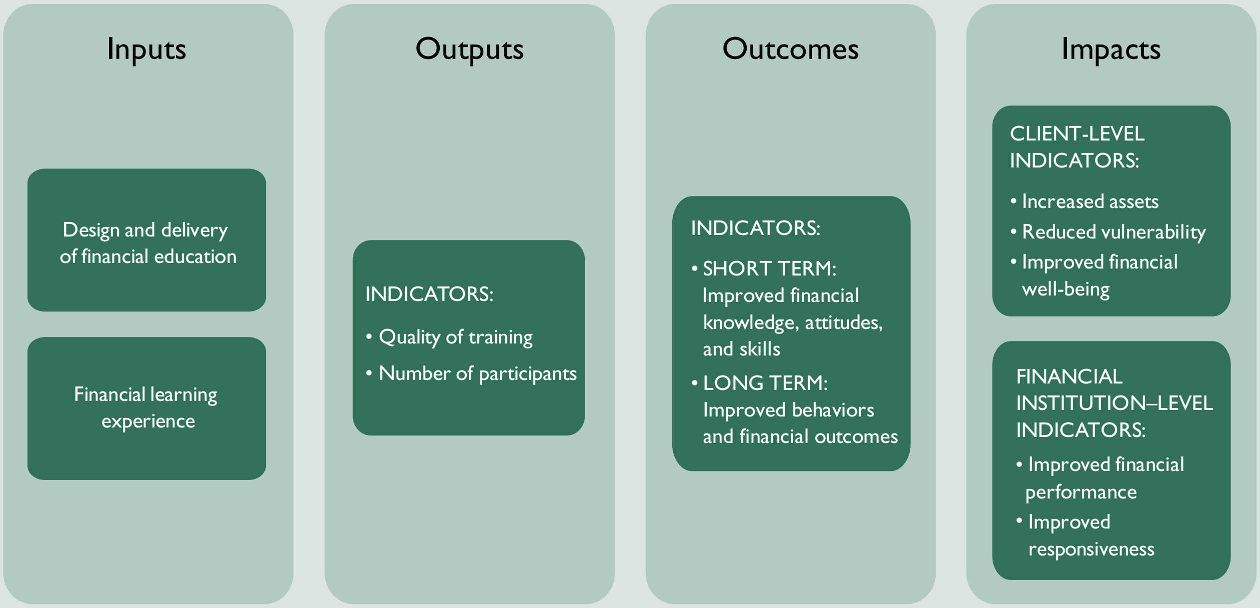
APPENDIX A: Supplementary Material

Brief 2, "Financial Literacy," by Monique Cohen

Figure 1—Impact framework for financial education

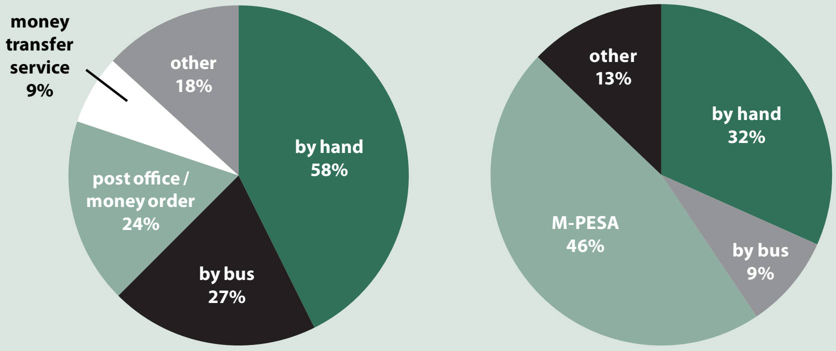


Source: B. Gray et al., "Can Financial Education Change Behavior?: Lessons from Bolivia and Sri Lanka," Working Paper 4 (Microfinance Opportunities: Washington, D.C.: 2010).

Brief 8, "M-PESA: Finding New Ways to Serve the Unbanked in Kenya," by Susie Lonie

Figure 1—FinAccess reports on how people in Kenya send money

First study prior to launch of M-PESA (multiple responses possible). Second study conducted two years post launch.



Source: FinAccess 2006

Source: FinAccess 2009