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Financial Education: Challenges and Lessons from Significant Experiences Around the World[1]

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The increasing importance of financial education

The widespread interest that financial education (FE) has recently attracted thorugh out the world is undeniable and can be put down to a number of factors, two in particular. First, especially in the case of developed countries, to the international financial crisis caused by significant information asymmetries among the various economic agents involved in the complex processes of financial intermediation.

Second, in the case of developing countries, to the rapid increase in the number of microfinance institutions (MFI), which has led, on one hand, to a wider diversification of products, such as microinsurance, microsavings and transfers, as well as to the appearance of new sales channels, such as mobile banking, branchless banking, the Internet, etc.; and, on the other, to problems due to overborrowing and to the increasing lack of market transparency.

Under these circumstances, FE has emerged as a tool that could help build or restore

1. The reviewed financial education programs were as follows: "Global Financial Education Program", "Habitat" (Latin America); "Tomorrow Project" (India); "Enrich" (Philippines, Cambodia and Hong Kong), "a+b=3" (Hong Kong); "Educación Financiera" (El Salvador); "Total Solution" (Sri Lanka); "ABC of Finances" (Russia), "Ahorremos por un futuro mejor" (Costa Rica), and "Mas allá del dinero" (El Salvador).

* The complete document is available at The Capital Project web page: http://proyectocapital.org/index.php?fp_verpub=true&idpub=115

confidence in the financial system; ease the bancarization process by means of publicizing new financial products and mechanisms offered by MFIs; limiting the risk of overborrowing, and providing valuable information enabling, therefore, customers to know their obligations and uphold their rights as financial consumers.

Financial education also appears as a useful instrument for encouraging a better management of household economies, hoping it will eventually encourage a tendency towards savings. However, in the case of poor households achieving this goal might not be feasible –at least, not through financial education alone– given their characteristic subsistence consumer levels. Instead, it would be more realistic to believe that such households would be more likely, based on better knowledge of and greater confidence in the financial system resulting from FE, to transform part of their informal "savings" (animals, seed, jewelry, etc.) into financial savings in the regulated system.

Although FE, as mentioned, can serve different purposes, its effectiveness depends, to a large extent, on having clearly defined goals and, at the same time, on those goals being set bearing in mind the limitations of financial education.

So what is financial education?

According to the Global Financial Education Program (GFEP), FE "transmits necessary knowledge, skills and attitudes for people to adopt best money management practices in relation to income, expenditure, saving, borrowing and investment. It provides the poor with tools to make better financial and risk-management decisions".[2]

For its part, the OECD defines FE as "the process whereby financial consumers and investors improve their understanding of financial products and concepts through information, training and/or objective advice; develop skills and confidence to identify better financial risks and opportunities, make informed decisions, know where to get help, and take other effective decisions by which to improve their financial position".[3] These definitions agree that financial education consists of transmitting knowledge and developing skills in order to encourage a change in the behavior of economic agents, enabling them to better their financial resources.

Financial education programs can be classified according to the age groups they target: adults, youth or children. In view of the fact that most of the programs are designed for adults, this document focuses mainly on them. However it is important to mention the huge potential offered by programs targeting young people in the measure that they can encourage a change in their parent's behavior. Furthermore, adopting new technologies is much more effective when young people lead the way. On its own side, the obvious advantage of programs for children is that it is easier to induce a change in behavior at an early age; nevertheless, their real impact can only be assessed in the medium to long-term.

2. Microfinance Opportunities, "Market Research Program", Working paper No. 2, 2005.
3. OECD, "Improving Financial Literacy: Analysis of Issues and Policies," p. 13, Paris, 2005.

Challenges and lessons of FE programs

Bringing financial education to populations traditionally excluded from the formal financial system presents many obstacles. In addition, given that FE programs are a recent development, the lessons they have to offer are still very few. The reviewed experiences reveal a number of difficulties that FE programs targeting poor adults in developing countries have encountered and overcome or, at least, they have provided suggestions for possible ways to tackle them.

The biggest challenge: mass implementation

A common feature in the adult programs reviewed is that they are recent creations; which is consistent with the upsurge in awareness of this issue in recent years. The eldest of the analyzed programs is the Tomorrow Project launched by SEWA Bank in India in 2002. Another noticeable characteristic of the programs examined is their low coverage. With the exception of the Global Financial Education Program, which claims to have reached 10.8 million people through its multiple forms of dissemination (training workshops, advertising, theatrical productions, etc.), the other three programs on which information was available have provided training to no more than 40.000 individuals in approximately three years of operations.[4] Their hitherto short existence partly explains their low coverage but, at the same time, it is undeniable that the obstacles described above have hindered a more rapid expansion.

In light of this performance, one wonders about the basic conditions that programs must meet in order to expand and attain good coverage. This is no idle question given that, in addition to the challenges already mentioned, budget constraints are an ever-present consideration. However, based on the experiences on which we have information, a number of points can be mentioned that help us, at least in part, to answer this question.

* FE must have a very specific and realistic goal. An overly ambitious goal pretending to accomplish something that is not feasible through financial education alone might only cause a marginal impact on the targeted variables, incurring, thereby, in unnecessary expenses.
* The contents of training materials should be designed strictly to address the set goal and the "audience's" needs. A "minimalist" goal helps to keep the costs of materials and of the overall program low.
* Courses should be short, which is not to say superficial. If a goal is specific and its materials suitably targeted, it will be achievable. As a reference, the total length of the two evaluated courses was around seven hours.
* Harnessing the institutional infrastructure of social assistance programs, such as conditional cash transfers, to impart training can significantly reduce costs.
* Short training courses or workshops

4. "Habitat" (2006), "Tomorrow Project" (2002) and "a+b=3" (2005).

Obstacles	Lessons
The target group is illiterate, functionally illiterate, or has trouble speaking the predominant language.	Materials are highly visual and lessons encourage student participation. Many activities are used, such as simple role-playing games, working in groups and pairs, etc., rather than reading and writing. PowerPoint presentations are not commonly used.
The basic level of education does not allow the use of technical terms or sophisticated financial calculations.	Courses are divided into levels, usually two: basic and advanced. Most start with a basic course. Trainers use language familiar to participants.
The many, often survival-related, economic activities that people with limited resources have to pursue prevent them from devoting time to training (high cost of opportunity).	To be effective, the training must be short and concise, so that people realize that learning about money management is an investment whose benefits can be perceived almost instantly.
Heterogeneous groups regarding financial skills, education, economic activities, interests, ages, etc.	Training materials should be simple and accessible to all. They should also be flexible enough to let trainers adapt them to the context where lessons are imparted. Materials should distinguish, as well, between age groups (children, young people, adults) and, if possible, between settings (urban and rural). The trainer's profile is essential for successfully adapting the materials to every audience.
People mostly associate finance with mathematics, which are considered boring and difficult.	The program should be practical and enjoyable. Materials should be designed bearing in mind the principles of adult education and experience-based learning.
Some say that because they are poor they do not need to learn about managing something they do not have, i.e., money.	An introductory talk should be given before or at the beginning of the course, emphasizing that by managing their money properly they can increase their assets. The practical nature of the course and positive experiences of other participants help discourage this point of view.

Obstacles	Lessons
The multitude of microcredit sources available, may in some cases, make people believe that they now have less incentive to learn about how to manage their personal finances. The predominant male-chauvinist culture, particularly among the poor, makes it difficult to introduce lasting changes to the way in which families manage their money.	On the contrary, people should be shown that the multiple sources of credit are actually a potential risk for overborrowing. FE is, therefore, essential in order to mitigate this risk. Training should adopt a gender approach. Evidence suggests that households' funds are managed better when women's interests in their role as mothers are taken into consideration.
Reaching scattered populations in rural areas is expensive.	Platforms offered by social assistance programs, in particular conditional cash transfer programs, may be used in order to reach the most isolated areas.
In some cases lack of coordination between various organizations interested in implementing EF programs with different objectives causes slow progress.	Some experts recommend drawing up a map of possible strategic partners before commencing the task, so that parties involved those share the same objectives.
It is necessary to have greater knowledge about the behavior of the poor, regarding their financial decisions: asset accumulation; strategies for facing risks; choice between informal, semi-formal, or formal savings mechanisms, etc.	Designing a course should imply carrying out a market study in order to understand the specific needs of the poor. Simply reapplying materials used in developed countries to a different reality is unlikely to succeed. In such circumstances, it will be difficult for poor countries to reap the "benefits of backwardness".

should be accompanied by supplementary instruction sources. For example, the Peruvian experience has demonstrated that guided visits for workshop participants to financial institutions are extremely valuable.[5] In addition, the learning process can be reinforced by having a permanent source of consultation available for a certain period of time after training.

* A cascade or pyramid training system contributes to a program's rapid dissemination. When applying a pyramid system with many levels, care should be taken in order to avoid distortion of the message the program seeks to convey. Another necessary precaution is to ensure that trainers reaching the bottom of the pyramid have the ability to communicate properly with course participants. It is advisable for trainers to come from the same background, so as not to create communication barriers. If possible, trainers who are not familiar with the "milieu" in which the target group being trained exists should be avoided. Failing that, they should receive the necessary training to enable them to transmit adequately the message to the end users.

* The sheer scale of the task and the results sought to achieve through FE, such as stimulating saving and financial intermediation, make it essential for the State to be directly involved in providing this service to the public in general, and to the poor in particular. Private sector actors, such as financial intermediaries, should also be involved, not simply as an exercise in social responsibility but as a medium-term investment.

The mass implementation of any service is always a major challenge. Nonetheless, it is worth considering that in the case of FE a big push is needed early on and for a limited time, until those traditionally excluded from the financial system absorb the basic concepts. The hope is that for future generations this type of training will be included in school syllabuses.

Observations on FE research

FE research has mainly focused on determining the impact these programs have in terms of producing behavioral changes in participants, particularly concerning savings. Studies carried out by the institutions involved, based on post-training follow-up surveys, indicate that participants have expressed great interest in continuing with more advanced training courses and that it is possible to accomplish changes of behavior. Other, more elaborate studies hold that the impact regarding the propensity to save can be small and that it depends on individual spending habits.[6]

Other researchers say that, to be effective, training courses must be relatively short -no more than 12 hours in total- and that a longer training period could be counter-productive.[7] Innovations for Poverty Action (IPA) is

5. Trivelli, C. and Yancari, J. (2008) Las Primeras Ahorristas del Proyecto Corredor. Instituto de Estudios Peruanos, Documento de trabajo, No. 153, Lima.

6. Chow, E. (2008) "Is Increasing Financial Literacy Enough? Applying Behavioral Economics to Program Design." Paper submitted at the Financial Education Summit, Beijing, China, November 2008.

currently conducting research in the Philippines where, through random experiments, it is evaluating the impact of FE and business training on FAIRbank customers.

Research on financial education for the poor is also relatively new and, therefore, it is not easy to find impact studies that have been conducted with the requisite methodological rigor.[8] However, growing interest in the issue, the maturation of existing programs, and the launch of new ones, suggest that research will likely gather pace over the upcoming years. The results of this research will help to improve the design of programs and shape new policies to facilitate the dissemination of this important issue.

7. Clancy, M. Grinstein-Weiss M. and Schreiner, M. (2001) "Financial Education and Savings Outcomes in Individual Development Accounts". Center for Social Development, Washington University.

8. Atkinson, A. (2008) "Evidence on Impact: An Overview of Financial Education Evaluations", prepared for the Financial Services Authority. Personal Finance Research Centre, University of Bristol.

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