Editorial: Broadening the financial literacy agenda

Financial literacy, financial education, and financial capabilities are currently 'hot' and are seen by many as integral parts of the financial inclusion agenda. The impetus behind this enthusiasm lies in the growing awareness in the financial services space of over-indebtedness lower than desired usage rates, particularly for branchless banking services; the Indian microfinance crises; and the widening interest in consumer protection. The sudden rise of personal financial management capabilities, however, should not blind us to the reality that this is a nascent field and we still have much to learn about not only good practice but also what is measurable in terms of impact.

I see the period of trial and error or 'let a thousand flowers bloom' coming to an end. We are well beyond being concerned with only training curricula and their broader role as industry resources. That was the focus of the Global Financial Education Program (GFEP) with its emphasis on personal financial management. As the interest in building financial capabilities has grown, we are entering a new phase of narrowing down the implementation options based on experience and cost-effectiveness. Our objective with this special guest-edited issue of *Enterprise Development and Microfinance* is to raise the issues that are coming to the fore as the field moves forward.

In 2003 when Microfinance Opportunities received its first grant to partner with Freedom from Hunger for the development of the GFEP – financial education for low-income populations in the developing world – they found little to build on. With a clean slate, the objectives of GFEP were:

- to develop a generic curriculum that could be picked up and used by microfinance institutions with their microfinance clients;
- to produce a compendium of documents of sufficient quality that developing country institutions could use them freely without extensive, if any, technical assistance.

Both have been achieved. The content of the GFEP curriculum has touched the lives of over 40 million people through direct training, comics, soap operas, radio, street theatre, and town hall meetings, to name a few channels.

The initial target population for financial education was microfinance clients, a reflection of the curriculum developers' backgrounds in microfinance. Now it is broader: the 'banked' and 'unbanked'. More recently, the impetus for financial literacy has come from other directions. Aside from the push factors mentioned above, the growing interest in financial inclusion as a development policy goal has brought long overdue recognition that many consumers are unaware of the added value of formal financial services and how to use them well. For their part, providers

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understand little about the financial behaviours and preferences of the low-income and 'unbanked' consumer.

As the field has evolved the sustainability of financial education has emerged as a key issue of concern for donors whose deep pockets are not bottomless, for providers who want to know if this is worth the investment, and for consumers who like the advice. *Crossfire* goes to the heart of this debate with two of the original GFEP developers addressing the question 'should financial education be product-led?' Among the thorniest issues is who should pay. Is financial education a public or private good or a combination? This debate, fuelled by the Citi Foundation-financed report 'Bridging the gap' (Deb and Kubzansky, 2012), favours financial service providers that have much to gain if building financial capabilities increases regular usage of their financial instruments and improves their bottom line. Kathleen Stack and Jennefer Sebstad clarify the points being made by both sides and remind us that this is more about resources than issues of right or wrong. As the debate shows, there is still little consensus. The positions taken reflect very different institutional interests.

As the interest in building financial capabilities in the context of financial inclusion increases, the number of national financial education strategies either in development or just completed is growing rapidly. The paper by Manje, Munro and Mundy offers a road map for this task, including insights into the challenges of bringing a diversity of stakeholders to work together. While the lead institution in the formulation of a strategy is a government agency, the authors note that it need not be the central bank. Government ministries and regulatory agencies also find themselves in charge of this agenda. The authors argue that a strategy is essential to generating both private and public resources to implement an agenda. They emphasize the role of the private sector in terms of corporate social responsibility. Using the public purse to fund financial education requires clarity and prioritizing who should be reached with financial education, why and how.

Zambia, like Uganda and Ghana, supports offering financial education in schools. Conventional wisdom states that targeting school children is a most effective approach as it facilitates reaching large numbers of people at a time when they are eager to learn. In the many countries where school enrolment rates drop significantly at the start of secondary school, limiting attention to only those in school excludes those who may need it most. It also excludes a population segment at an important 'teachable moment', their entry into the labour market. What is still untested is the larger question of what is retained and for how long, when informed children have no opportunity to use what they have learned.

Child Youth Finance International (CYFI) emphasizes a school-based approach to financial education founded on the belief that children need to learn financial skills early; and that financial education is most effective when combined with livelihoods and social education, and when it engages the collaboration of the central government (both regulators and ministries such as finance and education) as well as the banking sector which, to date, has been reluctant to view the youth sector as viable. Billimoria, Penner and Knoote describe an ecosystem reflective of this thinking that is the basis for the growth of the global child and youth finance movement. CYFI is a non-governmental organization that brings pressure to bear on the ecosystem stakeholders, externally and globally, to achieve their goal of economic citizenship of 100 million children and youth by 2015.

Through the convening of the above stakeholders at the international, regional and national levels CYFI seeks to build momentum for its movement. CYFI works at many levels:

- developing policy briefs;
- offering banks certification for delivering child-friendly products;
- developing a generic curriculum which targets all age levels;
- contracting evaluations to build the evidence base.

Experience has taught CYFI that access to financial services is essential if financial education is to stick.

CYFI operates at the macro, meso and micro levels. The last paper on financial literacy has a micro focus. Julie Lee and María Jaramillo report on their client-centred work developing cutting-edge approaches to financial education for branchless banking, cell phone banking and electronic cards. Product-led, they sought to answer the question, can financial education increase usage rates of these new technologies? Technology and banking are new to those at the bottom of the pyramid. Overcoming the barriers to transacting money virtually is addressed by building the financial capabilities of potential users with content that is broader than personal financial management, and includes building consumer trust and confidence in the new delivery systems. They identify a key role for frontline staff, agents and bank officers, as facilitators in catalysing the use of these technologies and banking products and services. The authors argue for a mix of consumer education tools that can be used by clients and frontline staff as well as a combination of activities that reinforce each other. An important challenge is making this work within the time constraints of agents who may have less than five minutes to communicate a key message.

Manje et al. have noted that there is some consensus on financial literacy content areas such as money and transactions, planning and managing finances, debt management, risk management and the financial landscape. Lee and Jaramillo's insights introduce not only new ways of delivering financial education but also new issues to the financial capabilities agenda. Cohen's recent review of Microfinance Opportunities' branchless banking experience reminds us that managing and mitigating risk are important drivers of financial decision-making. Building trust and confidence offers valid strategies for addressing these uncertainties. The goal of building financial capabilities is to assist people in assessing financial options to support planning for the future. Building trust and confidence also offers an approach that can help to bring about such a change.

The growing importance of evidence-based programming raises the question of what has been the impact of financial education; is it a good investment? To date, the findings using randomized controlled trials and other evaluation methods are inconclusive, though results of savings education suggest positive outcomes. Meanwhile, financial education is still in its infancy and there is no consensus on best practice. Indeed, many evaluations ignore the quality of the financial literacy offered, or whether it is appropriate for the target population; many programmes are designed without clearly defined outcomes and impact.

The goal of financial education is most often stated as behaviour change. This takes time and reinforcement of messages. In the rush to make a pronouncement on outcomes and impact, we should advance with caution. We must seek to avoid putting the cart before the horse by attempting to prove an outcome without knowing whether the inputs are well designed to deliver quality financial education and achieve the desired outcomes. We also need to give attention to process evaluations so we can learn how to get the inputs right.

Another related issue involves institutional measures of impact. They are not the same as a client's assessment of success. The institutional bias is to see financial education as part of the financial inclusion agenda and to focus on the number of accounts opened. This indicator of use does not necessarily affect the bottom line if dormancy is high. Sustained usage is the preferred measure. Lee and Jaramillo indicate that consumer education can increase the number of transactions but present the findings cautiously.

Meanwhile, if behaviour change is the goal, should we be looking elsewhere? Anecdotal evidence suggests that behaviour change takes time and is incremental. As we encourage the 'unbanked' to leapfrog into formal financial services, this shift involves a multi-stage process that requires building confidence in one's saving capabilities, from keeping money under the mattress or hidden at home, to joining a savings club, to depositing it in a formal financial instrument, an e-money wallet or a bank account. It is time to move beyond the conventional wisdom and re-examine what knowledge, skills and attitudes building financial capabilities requires.

In one of two non-theme articles this issue, O'Brien and Haruna discuss the emergence of SENDFiNGO in Ghana as an apex organization for credit unions in rural Africa. Flavian Zeija's study of the sustainability of MFIs in Uganda provides a window onto how illiteracy and a lack of a level playing field between lender and borrower can lead to the exploitation of clients and abuse by service provider staffs. He makes an important pitch for a client-sensitive approach to consumer protection.

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