MicroSave Briefing Note # 141

Breaking Free from the Myths of Financial Education

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Damodar, Umakant and Kailash live in Bhadrak district in Orissa, India. They received financial education from a respected NGO in the area. The education programme aimed to build savings skills among participants, and also to help by linking participants to financial services. At the end of the training, all participants opened a bank-account through a business correspondent (agent) of a bank. They were pleased that the programme made them aware of a new banking channel. Unfortunately, this knowledge was short-lived as the bank's agent became inactive and seldom visited the village. And they did not get the smart-cards required to carry out transactions.

Damodar and his friends also have an MFI loan. Their wives attended an exclusive training to use this credit product from the service provider. Damodar and friends get regular information about the product from their spouses as well as the MFI's staff. They know that they have to consider loan amount, interest rate, repayment period, and fees while deciding to take loan.

Building people's knowledge and skills is challenging. While access to information may lay the foundations of basic knowledge, access to and regular use of products helps to develop both knowledge and skills. At the same time, imparting knowledge alone cannot ensure that it will be retained and put to action. It takes time to build knowledge and skills, and (at the beginning at least) the support of the financial service provider in the learning process is likely to be crucial.

Financial education programmes based on the premise of just imparting knowledge rarely deliver impact unless they are backed by a suitable product, including the support to use the product. A recent *MicroSave* survey for UNDP-India on financial literacy programmes in India revealed that in areas where a service provider was involved in the programmes, the participants had better understanding of products and they had been using the products regularly. In Kenya, Equity Bank uses a decision tree to help customers open the saving accounts that match their needs. The process of going through the decision tree in itself leads to understanding of improved product features by customers.

This highlights one common experience – the instances where financial education programmes have achieved success are the ones where the service provider is actively involved. Two corollaries to this are that: 1. the involvement of service providers also ensures that customers have access to real products; and 2. the programmes are more likely to be sustainable. This Note examines myths around the design of financial education programmes, and discusses the KSAP framework for designing these programmes.

Myth #1: Poor people do not understand how to manage their money

There is increasing evidence that the poor are good financial managers.[1] They manage cash flows so well that within their scarce and unpredictable financial stocks and flows, they are able take care of family's expenses. They are largely rational decision makers and use both savings up and savings down methods[2] to manage the cash-flows of the household. The list of the varied and creative ways that poor people use to save highlighted by *MicroSave*'s research over the years is extraordinary. The use of each savings system was driven by specific purposes.[3]

MicroSave explored the decision making processes of the poor while exploring what drives use of financial products in eastern Uttar Pradesh, India. We found that most respondents apply the principles of savings, budgeting and financial planning. As we probed further on decision making, we recognised that it is influenced by (i) their existing knowledge and experience of using similar products; (ii) the knowledge they gain from within the village; and (iii) the knowledge they get from the service provider.

The availability of a product allows customers to experience the product, as well as explore their questions arising from their experience around the product and its delivery processes. It also allows them to consider these products while taking decisions on how to manage their finances.

Myth #2: Poor people's lack of knowledge is the reason for low use of products

There was another interesting learning from the relative risk study that *MicroSave* conducted in India. There was one common feature in all the systems that poor people used to save – all were easily accessible to them.[4] It is clear that knowledge in of itself does not lead to use of products. Quite the opposite: knowledge is built as products are used. In fact the financial concepts of money and budgeting are created and confirmed as financial products are explored and used. If products are not available, any knowledge cannot be put to use or even tested. The NEFT money transfer product in India

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[1] Noteworthy readings include Portfolios of the Poor, Poor and Their Money, More Than Good Intentions. Please visit *MicroSave*'s website for more details www.*MicroSave*.net for literature on low income households' financial management.

[2] See *MicroSave* Briefing Note # 13 "Money Managers: The Poor and Their Savings"

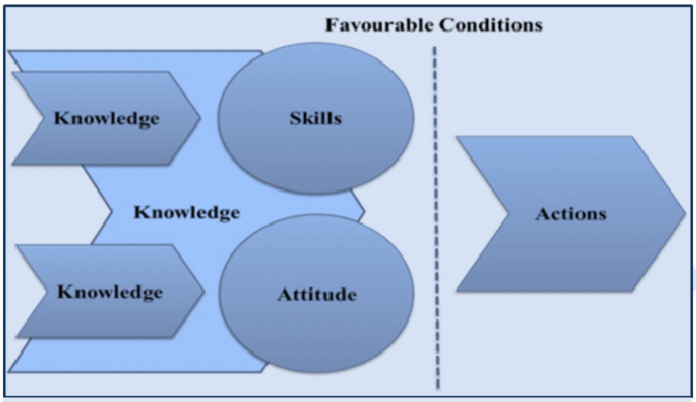
[3] See for example *MicroSave* study on ""Relative Risk to the Savings of the Poor"

[4] See *MicroSave* research entitled "Use and Impact of Savings Services among the Poor in Uganda"

provides an excellent example of this observation. NEFT was launched by the Reserve Bank of India in 2005.[5] Migrants however, only started using NEFT product, when business correspondent agents of banks present in areas where migrants lived and worked started to offer it – thus providing access to the product. It is now one of the most popular methods of sending money home for migrants.[6]

Safe and Smart Savings Products for Vulnerable Adolescent Girls in Kenya and Uganda provides access to products to ensure knowledge is translated into practice. It targets young females living in urban slums and provides them with weekly group meetings with their savings group and a female mentor; training on financial education; and access to an individual savings account at local financial institutions. Initial results indicate that girls are saving more in terms of amount and frequency than they used to prior to opening formal savings accounts.[7]

Products are required to educate people - really?
MicroSave uses the KSAP approach to design financial capability programmes. **Knowledge** entails awareness of the features of products and the benefits that they bring.



Knowledge is created by a variety of information sources. These may include: own experience or the experiences of others – particularly community leaders and other respected peers; anecdotal evidence; and targeted marketing campaigns. These information sources that build knowledge then influence the skills or attitude (or both) of an individual. **Skill** refers to the ability to use the products and **attitude** refers to the commitment and motivation to use the product. Skill and attitude development is not necessarily a linear process. That is, it is not necessary that skills lead to attitude or vice versa. For example, if an agent of a financial service provider informs an individual about the key features of a savings product then it can change his knowledge of the product, but not necessarily change his attitude towards buying the product. However, if the same individual learns about a savings product from a friend who has already used it, this is often more likely to lead to a change in their attitude towards the utility of the product and convince them to use it. These skills and attitudes lead to action or practice by an individual if external conditions, such as availability of the product, are favourable.

Myth #3: Curriculum (theoretical) approaches work best
We all learn in schools where the education paradigms are based on curriculums. But this approach might not be the best when we aim to build capabilities of people to take sound financial decisions. In Briefing Note 112, Wright et al. discuss that product-based, experiential financial education as part of a well-designed product marketing strategy is likely to be the way ahead for delivering financial education on a sustainable basis. Fischer et al. found that during a financial education training simple, direct, and actionable points have larger impact than sharing of theoretical concepts.[8] People learn best by learning and doing. In experiential learning one makes discoveries and experiments with knowledge first-hand. According to David A. Kolb, an American educational theorist, knowledge is continuously gained through both personal and environmental experiences.

Opportunity International Bank of Malawi (OIBM) offered financial education aimed at improving the money management skills of its clients and use of the Bank's products and complemented it with a primary financial product. There were improvements in portfolio quality indicators and increase in the use of the products and services. The number of savers increased from 40,000 in 2005 to 70,000 in 2007. Similarly, in Zambia, Camfed undertook a project to deliver financial education training to young women in rural communities through a cascade training model where core trainers trained peer educators, who in turn trained community members.[9]

These examples provide evidence that there is indeed a reason to not approach financial education using theoretical approaches but rather a model that involves experiential learning and use of products.

Conclusion
This Note provides a clearer understanding of the basics for starting a financial education programme. Design of a financial education programme that leads to changes in action or practice, however, will need to incorporate the much more complex issue of financial decision making, including information sources and socio-economic conditions of the target group. Nevertheless, sticking to the principles outlined in this Note and avoiding the myths will ensure that the programme is at least designed in the best possible manner in terms of content, approach, and action opportunities.

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[5] NEFT (National Electronic Funds Transfer) is nation-wide payment system facilitating one-to-one electronic funds transfer in India
[6] Yes Bank's facility of NEFT using business correspondents recently won NASSCOM IT USERS AWARD. This details the exponential growth of the programme.
[7] Please see *MicroSave* Briefing Notes 112, 117, 118 to learn more about this programme.
[8] Greg Fischer, Alexandro Dexler, Antoinette Schoar, "Keeping it Simple: Financial Literacy and Rules of Thumb"
[9] "Financial Education Initiatives for the Poor – A report", The MasterCard Foundation, Genesis and Microfinance Opportunities and http://www.financialeducationfund.com/storage/files/Summary_Document_FINAL(elec)-18-5-2012.pdf