Do Financial Literacy Skills empower the Poor?

Minutes of the Savings and Credit Forum, Friday, 13th May 2011, SDC Bern

The objective of the Savings and Credit Forum of 13 May 2011 was to provide an overview and case studies of different initiatives, which promote financial literacy. The forum was opened by Peter Tschumi, head of SDC's focal point Employment and Income, who emphasised the importance of financial literacy for financial sector development and institution building. Hans Ramm, responsible for Financial Sector Development within SDC, presented the speakers, the programme and moderated the discussions during the day.

The **thematic introduction** of the forum was prepared by Monique Cohen from the Global Financial Education Programme of Microfinance Opportunities and presented by Franziska Huwiler from Intercooperation. Financial education communicates the knowledge, skills and attitudes that poor people need for good money management. Ms Cohen put much emphasis on the fact that financial education needs to induce behaviour change in order to be successful. The most common topics in financial education are savings, budgeting and debt management. Financial education can be delivered through direct trainings and through magazines, posters and mass media. Despite the increasing importance given to financial education, its impact remains controversial: several studies using randomised control trials found limited impact. Concrete examples show however the effectiveness of financial education increases with the quality and frequency of education, with the opportunity given to the poor to use their new skills, and with the availability of adapted financial products. Nonetheless, the effectiveness of financial education still faces many challenges: in particular, the cost-effective delivery and, linked to this, the sustainability and outreach of financial education remain open issues.

The second presentation was given by Sabrina Beeler from Fides, who presented a case study on **financial literacy of active poor promoted by Fides Bank Namibia**. Ms Beeler pointed out that financial literacy is not only about teaching clients, but also about understanding the financial experience of the poor in order to develop financial products that can be integrated in their financial strategies. She highlighted that economically active poor all have practical experience with financial management, which is illustrated through different coping strategies to mitigate the impact of negative shocks. When designing the financial literacy programme, Fides Bank pays attention to providing information in local language. In addition, training is given to loan and savings associations and through group meetings and dialogue. Financial education is thus integrated into interactions of loan officers with clients. Although Fides is convinced that profitability and financial literacy complement each other, the initial investment to introduce a systematic financial literacy programme, the difficulties to find staff and the increased complexity of new financial products remain challenges to be addressed.

Mr Bat-Ochir Dugersuren, CEO of **XacBank Mongolia**, presented the second case study on a savings **product combined with a financial education programme for girls** between fourteen and eighteen (now also existing for boys). The programme was introduced with technical assistance from Women's World Banking and Microfinance Opportunities. Trainings to girls are delivered in schools as an "after-school" activity through local NGOs and branch staff of XacBank. The bank emphasises the inclusion of vulnerable groups, i.e. children who dropped out of school. The promotion of the savings product is done through mass media, event sponsorship, and in particular through incentives for the children when they open accounts, as well as through cross-selling to adult clients. The programme has some positive outcomes in terms of changes in knowledge, attitude and behaviours: all girls save more than before the program, 12 percent have opened a bank account, and 35 percent more girls know the amounts of their income, savings and expenses.

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The next case study was presented by Renata Rego, of the microinsurance unit of **Zurich Financial Service**. She presented a pilot of **introducing legal assistance insurance through mobile distribution channels in South Africa**. The distribution and payments were done through a mobile bank (WIZZIT) using mobile phones. Financial education was included on two levels: first, training for the distributers of the insurance, developed through Swisscontact. Second, financial education for the end customers was conducted through a well-prepared product presentation by the distributers.

The discussion following the presentations allowed specifying several issues. It was concluded that there is no clear distinction, but rather a continuum between financial education, financial literacy and client education. However, financial education should go beyond company or product specific trainings and the public sector has a role to play to introduce broader financial education. The difficulties to explain the concept of insurance to clients were highlighted: trust is normally only created through efficient delivery and effective demonstration.

The afternoon session was opened with two announcements: first, a microfinance course organised by the Centre for Microfinance of the University of Zürich in collaboration with SDC will take place in November 2011. Second, the Swiss Capacity Building Facility for income and employment creation was launched to mobilise Swiss competence to provide technical assistance to partners in the South. For more information: www.scbf.ch

The last case study was presented over skype by Juan Vega Gonzales of **Promifin, an SDC financed financial sector programme in Central America**. Promifin includes financial education to support the poor to make informed decision and hence reduce exclusion, poverty and overindebtedness. Financial education is promoted through mass media, a booklet to register expenses and a board game, as well as through trainings via credit unions, NGOs and public programmes. Outcomes of financial education are increased savings and investments, as well as behaviour change. A remaining challenge is the open issue of “who pays” for financial education. Financial education is partly a public good, but financial institutions should be expected to contribute. The role of governments should be to raise awareness, improve regulations for clients’ protection, strengthen incentives to create a market for financial education and include financial education in the national education system.

The case study presentations were followed by a panel discussion with all speakers. Solutions were proposed to the sustainability problem: introducing financial education in the educational system, as well as covering some costs by financial institutions due to a direct link between financial education and reduced default rates and thus improved financial benefits.

Hans Ramm concluded the forum with a **summary of the day**. Financial education, aiming at behaviour change, is a public good and thus a responsibility of the public sector. But private financial institutions have also a role to play: there is a positive correlation between social and financial performance. By designing products that fit, delinquency rates can be reduced and financial performance improved. The case studies have shown that five main challenges remain: 1) the mode of communication between financial service providers and clients; 2) the communication media; 3) the understanding of financial needs of poor households in order to offer multiple choices of formal and informal financial services; 4) cost effective delivery of financial education by reducing transaction costs through improved technology to increase outreach; 5) and the responsibility of the financial sector to provide financial education on a cost covering basis.

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