



## Case Study no. 18

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This case study is based on the experience of PROMIFIN (2003 – 2013), a programme promoting the access to financial services for the low-income populations in Central America, financed by the Swiss Agency for Development and Cooperation (SDC) and implemented by TRIODOS FACET. It forms part of a series of thematic case studies of SDC's Employment + Income Network.

# Transforming the Lives of the Poor through Financial Education

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### 1. What is Financial Education (FE)?

“Financial education” is the process of building knowledge, skills and attitudes to improve the financial well-being. It teaches people money management practices related to earning, spending, saving, borrowing, inflation, insurance protection and investing.

It includes the ability to make financial decisions, to plan for the future, to spend responsibly and to manage the challenges associated with life events such as job loss, retirement, inflation, and a child's education.

### 2. Why is FE important for the poor important to improve their livelihood?

Proper understanding of money and financial services can help low-income people to better face frequent liquidity shortages and improve their decision-making process.

The educational system in developing and industrialised countries alike fails in offering appropriate FE. “Even well-educated consumers also need flexible and transparent financial products, access to credit at fair prices, good advice; appropriate legislation and regulation and effective debt relief and rehabilitation [...] Financial education can contribute to the prevention of financial exclusion in its capacity and to prevent over-indebtedness, which in turn also represents an

important cause for financial exclusion.”<sup>1</sup> Furthermore, the education systems do not reach impoverished people, the economically inactive or those living in remote rural areas, representing around 40% of the population in Central America.

### 3. Rationale for donor intervention

FE is partially a public service. Not only it contributes to reducing the vulnerabilities of low-income people, but it also contributes to prevent or mitigate over indebtedness and financial sector crisis.

The over-indebtedness crises of poor borrowers in Nicaragua, India (Andhra Pradesh), Bosnia & Herzegovina and elsewhere – caused by excessive growth of micro credit combined with a lack of clients' financial knowledge and unfavourable political interventions – have put on the stand the importance of supporting FE for donors<sup>2</sup>. In line with its financial sector development policy, SDC is strengthening FE of low-income and vulnerable people with a focus on women.<sup>3</sup> In Central America, SDC supported FE through PROMIFIN.<sup>4</sup> Its FE programme was

<sup>1</sup> Country report: Germany a - debate on financial exclusion/inclusion under: <http://www.fininc.eu/gallery/documents/country-reports/country-report-germany-ii-stage.pdf>

<sup>2</sup> Taking stock- Financial education initiatives for the poor. Master Card Foundation – Microfinance Opportunities, under: <http://www.microfinancegateway.org/library/taking-stock-financial-education-initiatives-poor>

<sup>3</sup> SDC FSD Policy Page 5, under: [https://www.eda.admin.ch/content/dam/deza/en/documents/themen/privatsektorentwicklung/159783-policy-financial-sector-development\\_EN.pdf](https://www.eda.admin.ch/content/dam/deza/en/documents/themen/privatsektorentwicklung/159783-policy-financial-sector-development_EN.pdf)

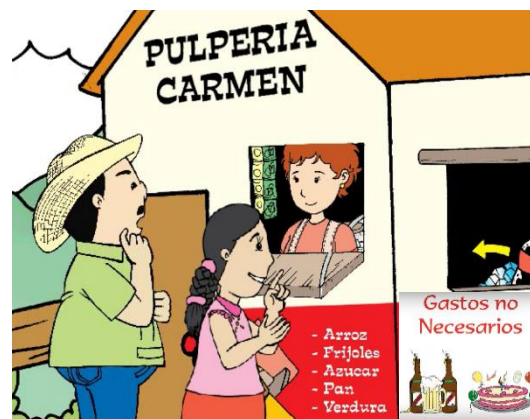
<sup>4</sup> Promifin 2003 – 2013 was an SDC programme <https://www.eda.admin.ch/deza/en/home/sdc/organisation.html> implemented by Triodos Facet oriented to promote the enhancement of financial services and financial education in Central America <http://enclodesolutions.com/engagements/promifin/>

delivered through alliances to 10 Latin-American countries<sup>5</sup> through microfinance networks, public financial institutions, bank regulatory commissions, microfinance institutions, credit unions, press, specialized radio and TV programs. Its FE toolbox was adapted, improved with interactive eLearning and implemented in four African countries and two Asian countries (2014-2017<sup>6</sup>). The FE toolbox comprises radio programs, animated video cartoons, a financial education booklet (formats) and a FE board game.

#### 4. FE through massive edutainment<sup>7</sup> and key messages.

PROMIFIN promoted FE by raising the interest of the executive management of partner institutions, showing them the experiences and expected costs and benefits of FE. Specialized local trainers trained the staff of microfinance institutions on the FE methodology developed by PROMIFIN. The trained staff of the partner institutions offered to their clients practical FE based on real-life stories, games and rules of thumb/key messages. Travelling in order to participate in FE courses is costly, especially for poor people in remote rural areas. Given the need to assure high quality standardized FE training, PROMIFIN developed standardized edutainment tools, like games, radio programmes, animated video cartoons (set in the rural area with funny / educational stories<sup>8</sup>) as well as specialized television programmes (see image below) that were broadcasted on local and national communication networks accessible to rural communities.

#### Financial Education Video Cartoons



The FE stories provided “easy to remember rules of thumb” that enabled people to think about the consequences of their financial behaviour, motivating them to develop attitudes to take better financial decisions.

To demonstrate to illiterate people the effects of financial decisions on savings, investment and quality of life, PROMIFIN designed a **FE board game** allowing households to learn by playing a “monopoly type of game” which simulated real life financial situations and decisions. The game helped the participants to learn how money decisions impacted their results.

Month: ___	Expense Record				Expense Target: \$	Achieved? (Yes/No)
Week: ___	Necessary Expenses	Unnecessary Expenses	Debt Payments	Business Expenses	TOTAL EXPENSES	
DAY						
Monday						
Tuesday						
Thursday						
Wednesday						
Friday						
Saturday						
Sunday						
TOTAL WEEK						

#### Financial Education Board Game

An intuitive Financial Pocket Booklet helps improve the financial decision-making process in everyday life. It records the daily details of budget, expenditures and revenue. It

<sup>5</sup> Nicaragua, Honduras, El Salvador, Costa Rica, Panamá, Dominican Republic, Guatemala, Bolivia, Ecuador and Peru.

<sup>6</sup> Ethiopia, Rwanda, Tunisia, Egypt, Pakistan and Laos.

<sup>7</sup> Content designed to provide educational value and incidental entertainment value.

<sup>8</sup> The “It’s Up to you (to improve your life)” cartoons hosted in YouTube can be seen in Spanish under:

<http://www.123libertadfinanciera.com/porqu-.html>

is similar to a “financial diary” where incomes and expenses can be clearly identified and better understood with a simple revision.

### **Financial Education Pocket Booklet**

Key messages and graphically categorizing expenses into necessary and unnecessary, push people to decide if they really need to buy an item when the opportunity arises and to realize how much money they spend in such “unnecessary expenses”, motivating them to take better control of their financial decisions.

Each day people can verify whether they met their savings goals, how much they invested in productive assets and how much they spent in non-essential purchases.

At the end of the year, they can check a graphic summary that shows whether they have met their yearly financial goals; the changes in assets they aspired to; how their debt has evolved; and whether or not they have improved their quality of life (housing, education, health, etc.).

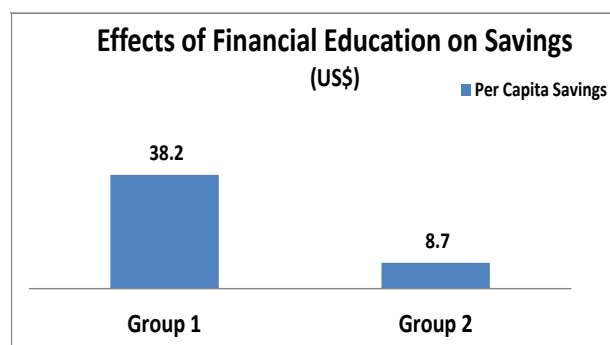
### **5. Results of FE on rural households**

As of July 2013 PROMIFIN had invested around US\$ 500'000, reaching out to 100'000 people trained directly (in situ) under the FE programme. A similar amount has been invested by the financial partner institutions. A bigger audience was outreached with FE through mass media (radio, television, press). Studies using focus groups, surveys, and participant observation, to identify changes in attitude and behaviour concerning money management revealed important changes observed in rural households as a result of FE:

#### ➤ **Increased savings through reduction of unnecessary expenses:**

Statistics from the Rural Credit Fund in Nicaragua<sup>9</sup> on the results of FE on saving levels revealed the impact of FE on savings comparing two groups of women:

a) Group 1 with FE, and b) Group 2 without FE.

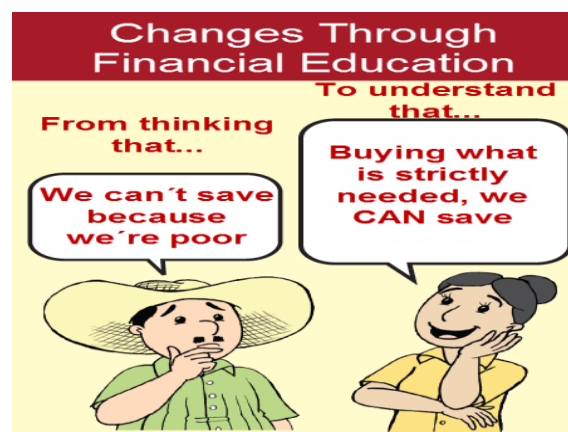


Source: Elaborated based on information provided by the Rural Credit Fund of Nicaragua

The annual per capita saving was 4 times higher for group 1 that received FE compared to group 2 without FE (US\$ 38 compared to US\$ 9, respectively).

Multiplying the difference in savings between the two groups (29 US\$) by PROMIFIN’s direct outreach (100.000 people trained), it can be estimated that the project contributed to almost US\$ 3 million additional savings per year.

Focus group discussions carried out with participants of the Zero hunger plan, showed that the main mind-set change emerging from the FE was the understanding that even poor people can increase their savings by reducing unnecessary expenses.



While participants from the Zero Hunger plan that completed the FE training clearly showed the relevance of FE on savings, the end-of-project impact study of PROMIFIN did

<sup>9</sup> The study compared the saving pattern of two groups in 19 departments, one with 21.377 women (of whom 10.354 trained in FE) and the other with 17.274 women without training in FE. Both groups were beneficiaries of the *Plan Hambre*

*Cero* (Zero Hunger Plan, the biggest plan for rural subsidy in kind and promotion of rural saving, carried out by the Government of Nicaragua). The only relevant difference between the two groups was the financial education provided to Group 1.

not verify conclusive effects of FE on savings. The main reasons were that loan officers of some MFIs did not offer a complete FE curricula training to their clients, and in other MFIs the trainings took place too recently to measure effects. An independent evaluation<sup>10</sup> four years later revealed positive results with MFIs in Nicaragua, Dominican Republic and Honduras still applying the FE methodology with the following improvements in money management skills and saving levels of learners.

1) The majority of respondents have changed their attitudes and perceptions towards money management. They have changed their behaviours in terms of day to day expense prioritization which induced better discipline towards savings.

The survey showed that 85% of clients who benefited from PROMIFIN increased their savings (46% of the clients were not savers before PROMIFIN; 54% were savers before PROMIFIN and subsequently increased their savings by over 50%).

3) The debt management learning tool of PROMIFIN was the main reason for increasing savings (approx. 75% learned to reduce their costs by prioritising spending).

4) All respondents have shared and would recommend further such programmes to their social and family circle.

5) About a third of interviewed institutions saw room to further improve FE programmes. Suggestions included adapting FE programmes to the digital revolution, e.g. by developing smartphone applications. It was also suggested to produce more board games and making them available to a wider audience, including at school level.

It is also worth noting that the survey revealed that the interviewed institutions are still carrying out FE programmes four years after PROMIFIN ended.

In sum, the experience by PROMIFIN shows that high quality and relevant FE can effectively promote clients' savings. MFIs are willing to engage in delivering FE if they see that

benefits outweigh costs. It is therefore important to quantify benefits by measuring the effect of FE on financial and social indicators.

➤ **Increased involvement of family members in financial decisions**

Thanks to the edutainment and immersive FE content (videos, games, etc.), the FE was frequently attended by several members of the household (parents and children). Focus group discussions revealed that, after the training, family members were more involved in their financial decisions.



➤ **Benefits for the MFI's staff**

One common risk identified by PROMIFIN through the 100 MFIs involved in the programme was the risk of over indebtedness of the MFI's staff. Therefore, the programme promoted the vision of "teaching first the staff of the MFI, before teaching to the clients".

Loan officers sharing their own practical learnings on the benefits of the FE on their own lives hold more "moral authority" and convincing power with both other staff of the MFI and clients that learn FE. Those loan officers expressed that by teaching FE and following up on the application of the FE learnings, they were able to better understand the cash flow of their clients and therefore carry out better credit appraisals.

<sup>10</sup> Carried out by Helvetas Swiss Intercooperation with a sample size of 8 institutions, out of which an elementary school, the others being financial institutions,

interviewing directly 13 stakeholders (45% women) and indirectly 33 clients (62% women).

### Case study Nicaragua

*"It is better to know what to do with its income or it will be devoured by rising prices."*



Marilu Membreño, on the picture above is showing the small oven built with her first micro credit, thanks to what she learned through FE. Marilu is an illiterate single mother of four children living in the poor rural community of Teustepe in Nicaragua. She was jobless with no access to education and financial services. She was overwhelmed by her concerns on how to provide a better future for her children. FE changed her behaviour and confidence, as it helped her to access her first \$70 village-banking loan.

She is now financially independent; she invested part of her loan in a small oven in which she bakes pastries that she sells at bus stops.

Her four children go now to school regularly, and they have their own beds bought from her bakery income. Marilu is even transferring her knowledge on financial management into her community.

Significant results in people's lives are difficult to measure and quantify. However, improved self-esteem can be read in the brightness of her eyes and the pride with which she tells how she has changed from severe poverty to financial independence.

Marilu is currently saving money to reach her next financial goal: to purchase a mill that will enable the community to grind the grain they produce where they live, instead of spending money and time to travel far away.

## 6. Lessons Learned

The main lessons learnt are:

1) The main risk is the sustainability of FE given the cost/time required to deliver the FE. To mitigate this risk, PROMIFIN emphasised two aspects:

- Work to get the involvement and support of the CEO of the MFI.
- MFIs can be motivated to continue providing training on FE if they understand that the benefit for their business is greater than the training costs.

2) The success of FE depends on the quality and adequacy of 4Ts: **Trainer-Training-Tools - Trainee**; the motivational follow up and regular feedback retrieved from the users (during and after the training) and on the motivation and discipline of the trainee, to apply the FE learning.

The tools need to be adapted to the users' realities and to be practical, useful, simple to apply and easily understandable (graphically-intuitive).

3) For the FE learning process to be effective, one should understand the financial reality and main interests, fears and motivations of both the trainees and the trainers (MFIs), and provide a motivational follow up and support structure to promote a responsible and sustainable FE.

➤ Select the right trainer: S/he must be a person with listening capacity, patience, respect for the trainees, empathy, passion, and ease in expressing him/herself and handling groups of learners. S/he must also be results-oriented and willing to play the role of an authentic facilitator in the learning process.

4) Training materials have to be adapted to different contexts. To deliver effective FE, one has to adjust the modules and topics to teach them in the simplest possible way and language.

*Golden rule: If a group of 10-year-old kids cannot understand the tools; you probably have to redesign them.*

5) Combine mechanisms of monitoring and datamining to receive feedback and provide motivational follow up (during and after the training) from users and staff, and to periodically check the outcomes of teaching, learning limitations, need for adjustments, behavioural changes in money-management habits, and changes in savings, investments, indebtedness, and quality of household members' lives.

6) The implementation of a follow up structure (call centre and in situ visits) to provide motivational follow up, advice (help desk) to promote the application of learnings after the trainings can contribute to sustainability and effects of FE.

7) Offer FE training on regular basis; i.e. combining the use of video cartoons on expenses, savings, and debt management, reflections and key FE messages around the learnings.

The lessons learned by PROMIFIN were consistent with other experiences with FE:

“When FE is developed with input from the participants themselves, it can improve their knowledge of debt management, savings and budgeting and can influence positive change in those behaviours as well... Outcomes of FE in general requires understanding of the context of people’s lives as well as five factors that make FE most effective”:

- Quality and frequency of the education;
- Relevance of the education to the target population.
- Opportunity to use this education.
- Context in which people can exercise their new financial behaviours.
- Appropriateness of the financial products on offer.”<sup>11</sup>

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<sup>11</sup> Can FE Change Behaviour? Lessons from Bolivia and Sri Lanka, Prepared by Bobbi Gray, Jennefer Sebstad, Monique Cohen and Kathleen Stack 2010