



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC

ied | e+i | fsd

inclusive economic development
employment + income
financial sector development

Guidance Sheet

Financial Education



Financial Education

This guidance sheet is part of a series of tools developed to support SDC staff and partners in designing and implementing projects aiming at financial inclusion. This specific guidance sheet introduces the concept and key aspects of financial education. It provides guidance on how to tackle financial education in the design, implementation, monitoring, and evaluation of SDC project interventions.

Key issues

Formal financial inclusion

Research by the World Savings and Retail Banking Institute (2009)¹ indicated that one of the main constraints on poor people's access to the formal financial sector is their lack of financial education. Where clients are new to formal products, consumer education and financial education may be necessary to help poor clients understand products, weigh up the risks of available options, and use them to manage household finances more effectively. It also lowers the risks taken by financial services providers as it explains duties and responsibilities regarding the use of financial products.

The gender gap

1.7 billion adults lack a bank account. The gender gap has not narrowed. It remains unchanged at 9 percentage points, and 56% of all unbanked adults are women². Focusing on financial education is important to increase financial inclusion. It is especially important for women as they disproportionately experience poverty, stemming from limited opportunities for educational attainment, employment outside of the household, asset and land ownership, the inheritance of assets, and control over their financial futures in general.

Unmet financial needs

Low-income populations have numerous financial needs. In 2009 a study³ was conducted revealing that poor people have surprisingly sophisticated financial lives, saving and borrowing through complex 'financial portfolios' of formal and informal tools. This means that they need sound financial education to manage and understand a range of financial products and services.

1. What is financial education?

Financial education (FE) is the process of building knowledge, skills, and attitudes to improve the financial literacy of a person so that they can take the right decisions concerning their financial resources. It teaches people money management practices related to earning, spending, saving, borrowing, insurance protection and investing. It aims to increase their ability to make financial decisions, to plan, to spend responsibly and to manage the challenges associated with life events such as job loss for example.

2. Why is financial education important?

Financial inclusion is relatively low (1.7b are still unbanked⁴). As mentioned above, one of the main constraints for financial inclusion is insufficient financial education. A lack of financial literacy leaves people ill-equipped to make appropriate financial decisions, which can in turn have tremendous adverse effects on both personal and, ultimately, global financial resilience. As a result, financial literacy is now considered an essential skill. Targeted FE programmes constitute an important element of economic inclusive development. Financial literacy is increasing, especially among young people, thanks to growing mobile and internet penetration and access to digital financial services. The SDC has thus become increasingly aware of the importance of ensuring that people on low incomes are financially literate.

3. How to plan projects on FE

The SDC builds on good practices learned through several projects both by the SDC and by international organisations aiming at increasing financial literacy via financial education training.

3.1 FE within a market systems development (MSD) approach

The SDC uses the MSD approach when planning a project in order to support the development of inclusive, self-sustaining market systems in partner economies, in order to progressively decrease their dependence on external aid. The focus of this approach is to identify and consider underlying

1 The contribution of financial education to the enlargement of access to finance, (2009) [Microsoft Word - 0064.doc \(wsbi-esbg.org\)](#)

2 The Global Findex Database 2017 [Findex full report_chapter2.pdf \(worldbank.org\)](#)

3 Portfolio of the poor (2009)

4 [Financial Inclusion Overview \(worldbank.org\)](#)

causes hindering market systems development and financial inclusion, to ensure that FE is addressed from the beginning and throughout the project cycle.

As an illustration, the results chain below (see Figure 1) shows how FE programmes can be embedded in a market systems development approach. It also highlights the overall impact of FE on increased income and inclusion. Taking an MSD approach to FE, it is crucial to understand the target groups and the systemic constraints that cause the low financial literacy of these target groups. These aspects are further explained in the following sections.

3.2 Understanding the target groups

a. Women

Financial literacy is relevant for anyone who takes decisions about money and finances. However, women in particular often assume responsibility for household cash management in challenging circumstances, managing scarce financial resources with limited available knowledge. Financial education can prepare them to anticipate specific needs and to deal with unexpected emergencies without incurring unnecessary debt.

FE programmes should adopt a gender lens to ensure full inclusion of women and girls while encouraging policy makers and

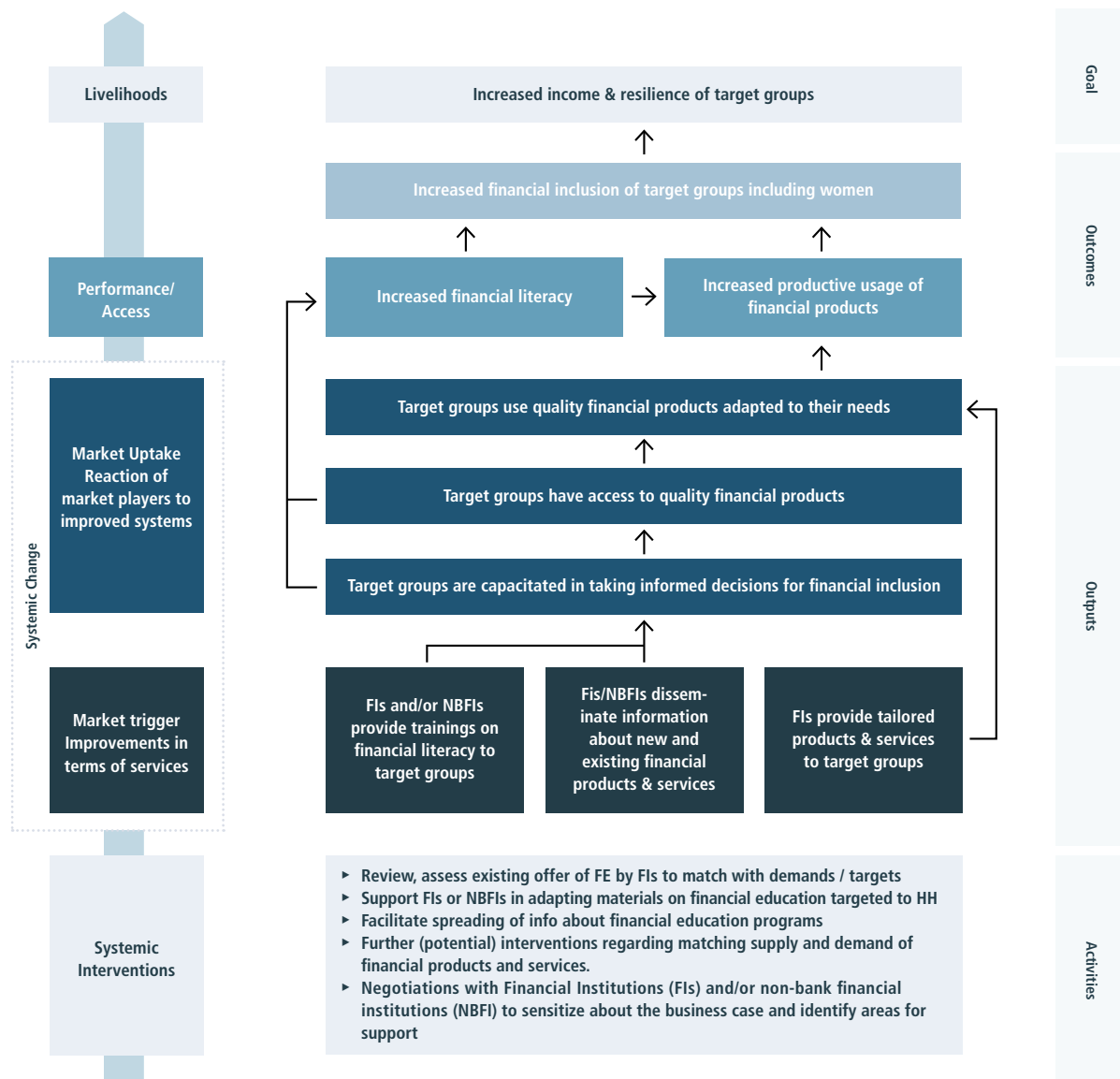


Figure 1 Typical Results Chain for interventions in FE

stakeholders to acknowledge the need to address gender differences in financial literacy and to start developing targeted financial education initiatives addressing the needs of women and girls.

b. Children

Studies show that financial skills that are acquired early in life may translate into sound financial behaviour in later years. However, financial awareness among the young is low. The recommendation from experience is to invest in children as young as 10; this is where there is greater potential for intergenerational poverty reduction and women's economic empowerment.

c. Migrants and their families⁵

While remittances in general contribute significantly to low-income economies, the majority of migrant workers and their families, especially those from rural areas, do not manage to lift themselves out of poverty. One of the prevalent reasons is that they have not used their remittances for the desired purpose, but rather for unproductive expenses. Therefore, sound financial literacy including setting financial goals and planning for future expenses and savings has the potential to help migrants and their families to jointly work towards a common goal and sustainably improve their livelihoods. While the migrant is hard at work far away for the sake of their family, financial education allows the members left behind to support the migrant in meeting shared household objectives.

3.3 Analysis of constraints

It is important to analyse the constraints in the financial systems related to FE particularly. These include lack of access to basic education for women especially, owing to social norms. One way to proceed is to map relevant actors and identify existing financial opportunities and needs among the target groups, and determine what they would have to do to gain further financial inclusion. Drawing on the market system analysis undertaken within the MSD approach, project implementers engage with local system actors who are (or may be) motivated and have the capacity to provide FE in the long run. The identification and implementation of such partnerships is explained further in the following section.

4. How to implement projects on FE

4.1 Identification of partners and raising awareness of the business case

In order to foster sustainable provision of FE, projects may partner with local financial sector actors such as NBFs, banks, cooperatives and microfinance entities. These types of entities are neutral and have a clear business case to promote financial education so that women and men can access financial products and services in line with the demand and needs. In addition to their core credit products, financial institutions serving the poor could offer financial education alongside a range of savings, insurance and credit options. Bundling these products into one packaged sale is a cost-effective distribution strategy and a risk mitigation measure. A practical example is given in the following box:

Good practices on delivery and learning methodology – an example⁶

In Central America, the SDC supported FE through PROMIFIN between 2003 and 2013. Its FE programme was delivered to 10 Latin-American countries through microfinance networks, public financial institutions, bank regulatory commissions, microfinance institutions, credit unions, press, specialised radio and TV programmes. PROMIFIN designed a FE board game allowing households to learn by playing a 'monopoly-type game' which simulated real life financial situations and decisions. The game helped the participants to learn how money decisions impacted their results.

In 2018 a study was conducted to identify the results of the programme, which revealed important changes: increased savings through reduction of unnecessary expenses and increased involvement of family members in financial decisions.

Two types of project intervention typically support these partners. Firstly, projects may draw actors' attention to the fact that they have a business interest in engaging in financial education by demonstrating the potential for growth. This awareness-raising process requires the development of sharing and socialisation events with the presence of the various actors identified in each sector and territory. Secondly, projects may support partners in designing good quality, inclusive FE programmes – this is further explained in the following section.

⁵ [Financial Literacy for Migrant Workers and their Families in Sri Lanka.pdf \(helvetas.org\)](#)

⁶ [Transforming the Lives of the Poor through Financial Education - Case Study no18 \(shareweb.ch\)](#)

4.2 Support design, development or improvement of FE programmes

When projects support the design of FE programmes in collaboration with local system actors, the programmes should emphasise the building of capacities and skills in the following areas:

Controlling expenses

Participants in FE training are taught about budgeting. A budget is a spending plan which helps to manage and control expenses. It is an essential tool for handling finances by controlling the family's expenditure so that there is enough money for paying bills now and in the future. It is ultimately a tool for effective saving and for achieving specific financial goals.

Savings

Participants are taught that savings unlock wealth potential when an amount of unspent income is put aside for later use. They are also taught that savings are crucial to 1) ensure money is available to pay for daily needs, 2) have money for emergencies, 3) increase future spending capacity, and 4) accumulate capital for investment.

Credit

Participants are taught how to borrow responsibly, taking into consideration two critical questions: When is borrowing a good idea? And when should borrowing be avoided?

It can be a good idea to borrow if your finances are healthy and you need additional funds for investments e.g., to expand a business or acquire productive assets. If you are in a critical financial situation, taking out a loan to cover unproductive needs is risky and could lead to over indebtedness.

To ensure that people borrow responsibly, prospective borrowers must receive a proper explanation of the object of the loan and its terms and conditions (amount, interest rate, repayments, fees etc.). Understanding the loan's terms is critical to avoid delinquency and/or repayment default. It is primordial that beneficiaries/ credit clients: 1) commit to use the loan for its intended purpose, 2) prioritise loan repayment, 3) maintain communication with the lender in case of a missed payment, and 4) do not borrow to repay another loan.

Insurance

The concept of insurance is a bit more complex, so financial education plays an important role in helping participants to make appropriate choices with respect to insurance. In many countries, consumers have a low level of awareness of their risk exposure, do not sufficiently understand the concept of insurance and strongly distrust insurance service providers and products, largely due to the intangible nature of insurance products.

Insurance education serves a dual purpose. It helps raise awareness of risks and create realistic expectations of how insurance can help cover those risks. In addition, it helps develop the knowledge, skills and confidence that individuals need to adopt proactive and responsible behaviour regarding their risk exposure.

A discussion of insurance terms and descriptions of the features of different types of insurance can enable participants to understand and determine which insurance products would be appropriate for their individual situation.

EDUFINA – A financial education programme providing education on financial and insurance mechanisms

Inclusive Insurance and Life without Violence, two Swiss-backed cooperation projects implemented by the PROFIN Foundation and Solidar Switzerland, launched an innovative financial and insurance education programme which uses new information and communication technologies (ICT) as an interactive tool to economically and technologically empower women in vulnerable situations and help reduce gender-based violence in Bolivia.

An application was developed in which fictional characters provide easy-to-understand information through playful interactive animations in six interconnected modules. The modules focus on topics such as women's rights, micro insurance as a protection mechanism for oneself and the family, the importance of preparing a budget, the benefit of formal savings, the usefulness of credit, and rights and financial obligations.

The EDUFINA app is available from the Play Store and works without an internet connection.

5. How to monitor and measure the results of FE projects

In order to assess the changes which result from project interventions, the following are key considerations for monitoring and evaluation throughout the project cycle:

- ▶ Develop intervention results chains that include expected results in terms of FE explicitly (see figure 1 for an illustration of a typical results chain in FE).
- ▶ Ensure inclusion of indicators specific to FE (e.g. number of participants (m/f) in FE programmes, number of new clients (m/f) of financial institutions as a result of participation in FE trainings etc.), establish a baseline and set targets.
- ▶ Use communication for development as an important tool to support the FE process.

References

Collins D., Morduch J., Rutherford S. & Ruthven O. (2009). *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton University Press.

Helvetas (2018). Financial literacy for migrant workers and their families in Sri Lanka. [Online]. Available from: [Financial Literacy for Migrant Workers and their Families in Sri Lanka.pdf \(helvetas.org\)](#)

SDC (2018). Transforming the Lives of the Poor through Financial Education. [Online]. Available from: [Case Study no.18 \(shareweb.ch\)](#)

World Bank (2017). The Global Findex Database. [Online]. Available from: [2017 Findex full report chapter2.pdf \(worldbank.org\)](#)

World Bank (2020). Financial Inclusion. [Online]. Available from: [Financial Inclusion Overview \(worldbank.org\)](#)

World Savings Banks Institute (WSBI) (2009). The contribution of financial education to the enlargement of access to finance. [Online]. Available from: <https://www.wsbi-esbg.org/SiteCollectionDocuments/0064.pdf>

Bibliography

All, Access to Insurance initiative, (2016), *Financial Education: Challenges, Trends and Measures of Success in Supporting Financial Inclusion in Sub-Saharan Africa*. [Online]. Available from: [Financial Education: Challenges, Trends and Measures of Success in Supporting Financial Inclusion in Sub-Saharan Africa | Access to Insurance Initiative \(a2ii.org\)](#)

CGAP, Financial Inclusion and Education. Blog Series. [Online]. Available from: [Financial Inclusion and Education | CGAP](#) and [Financial Education | FinDev Gateway](#)

Education Development Center (EDC) (2008). *Youth Livelihoods Development Program Guide*. [Online]. Available from: [Youth Livelihoods Development Program Guide.pdf \(inee.org\)](#)

Fundación Profin, (2021), *Educación financiera. EDUFINA. Tool and app*. [Online]. Available from: [Iniciativas - Fundación PROFIN \(fundacion-profin.org\)](#) or [downloadable the Play Store as EDUFINA](#)

Hung, A., J. Yoong & E. Brown (2012). *Empowering Women Through Financial Awareness and Education*. OECD Working Papers on Finance, Insurance and Private Pensions, No. 14. [Online]. Available from: [OECD iLibrary | Empowering Women Through Financial Awareness and Education \(oecd-ilibrary.org\)](#)

Microfinance Opportunities (2005). *Assessing the Outcomes of Financial Education*. [Online]. Available from: [Assessing the Outcomes of Financial Education.pdf - Microfinance ... \(yumpu.com\)](#)

OECD (2013). *Addressing women's needs for financial education*. [Online]. Available from: [OECD_INFE_women_FinEd2013.pdf](#)

SDC (2018). *Women's financial inclusion*. [Online]. Available from: [https://www.shareweb.ch/site/EI/Documents/Topics/SDC%20-%20Guidance%20Sheet%20-%20Women%20Financial%20Inclusion%20-%202019\(en\).pdf](https://www.shareweb.ch/site/EI/Documents/Topics/SDC%20-%20Guidance%20Sheet%20-%20Women%20Financial%20Inclusion%20-%202019(en).pdf)

Editor Swiss Agency for Development and Cooperation SDC, 3003 Bern

Authors Main author
Siham Boukhali, Financial Inclusion Advisor,
Helvetas Swiss Intercooperation

Commissioned and overseen by
Philippe Sas, Senior Policy Advisor
SDC Inclusive Economic Development

Design sags GmbH

Cover photograph @ Fundación Profin

This publication can be downloaded from the Shareweb of the SDC's
Employment and Income Network <https://www.shareweb.ch/site/EI>

Bern, November 2021, © SDC