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**Bringing Financial Literacy and
Education to Low and Middle
Income Countries:
The Need to Review, Adjust, and Extend
Current Wisdom**



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Road Map

- Background
- Lessons and Issues from High-Income Countries (HICs)
- The Background for Financial Literacy in Low- and Middle Income Countries (LICs/MICs)
- Developing Instruments to Measure Financial Capability and the Effectiveness of Interventions in LICs and MICs
- Conclusions

Lessons and Issues from HICs

- Progress on National Actions and International Sharing
- Broadening the Concept of Financial Literacy and Measurement
- Toward Establishing an Evaluation Results Framework et al.
- Financial Education, Behavioral Finance, and Alternatives to Impact Outcomes

Broadening the Concept of Financial Literacy and Measurement

- From financial literacy to financial capability
- Assumed cognitive chain:
knowledge, skills, attitudes, behavior
- FSA operationalization of capability with content domains of universal appeal
 - Keeping track
 - Making ends meet
 - Planning ahead
 - Choosing products, and
 - Staying informed

Establishing an Evaluation Results Framework et al.

- Objectives of financial understanding (FL/FC) and outcome indicators: Partial progress
- Linking objectives and interventions: Modelista versus Randomista
- Rigorous M&E for Financial Education: A long way to go

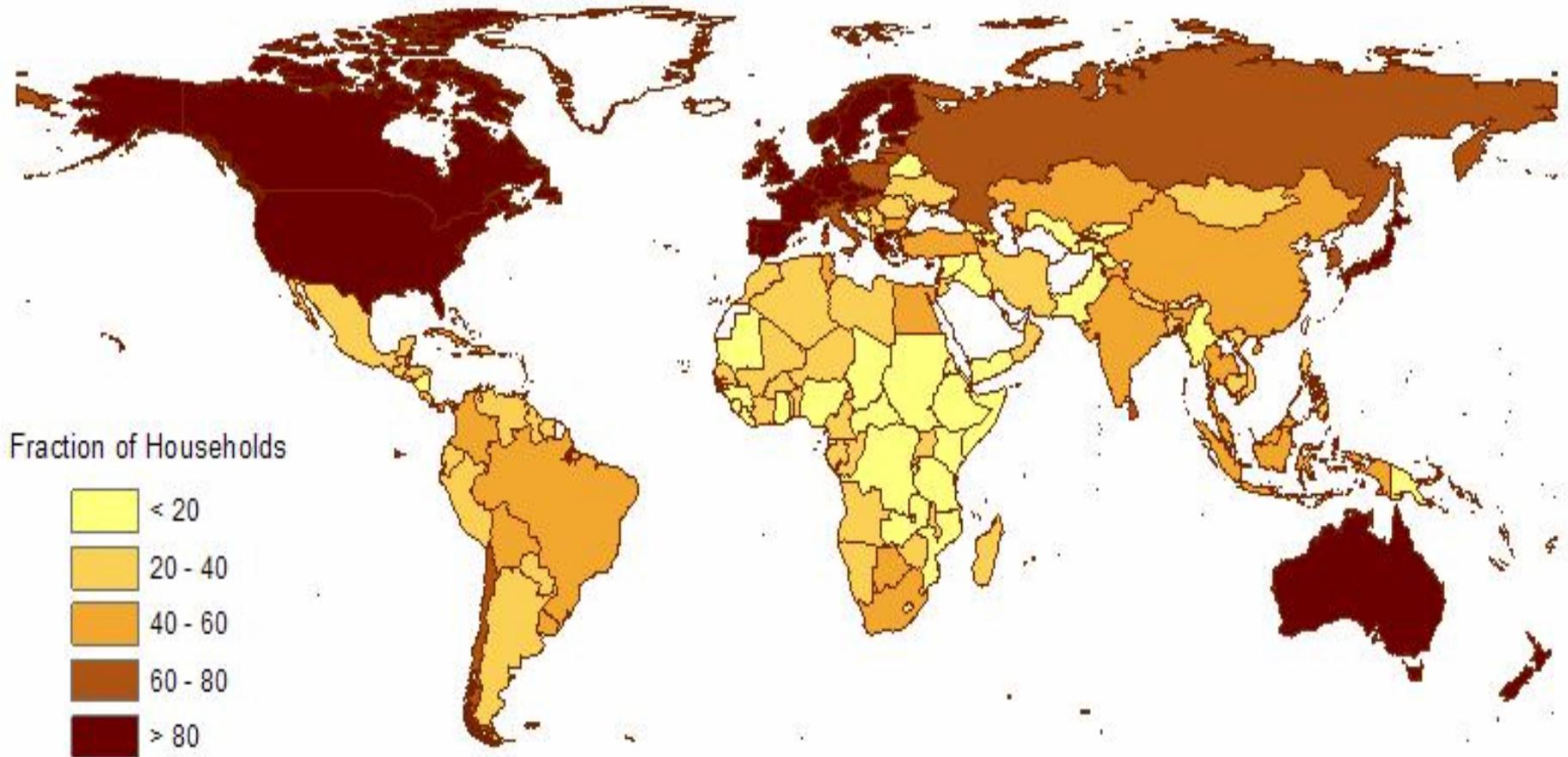
Financial Education, Behavioral Finance, and Alternatives

- No robust international evidence that financial education generally works
- Strong indications that much of financial behavior is determined by psychology
- Behavioral economics/finance to identify more effective interventions to influence outcomes?
 - Nudging
 - Social marketing ...
 - Propaganda to change cultural norms

The Background for Financial Literacy in LICs and HICs

- Definition of LICs and MICs
- Common characteristics of LICs relevant for FC measurement
 - Access to financial services
 - Poverty levels
 - Rural dominance
 - Informality as normality
 - risk management under special risks
- MICs as combination of LICs and HICs with high heterogeneity

Figure 1: Financial Access/User Map: Percent of Households with an Account in a Financial Institution



Idiosyncratic characteristics that may matter for measuring FC and interventions

- Why and what
 - Business education
 - Weak regulation of financial services
- For whom: Gender issues
- How to do it:
 - Event specific interventions (e.g. remittances, conditional cash transfers,)
 - Community structure to teach and influence
- Cultural hysteresis: Sharing and savings behavior

Developing FL&E Measurement Instruments for LICs and MICs

- Trust Fund by Russian Federation (with background in G8 presidency in 2006)
- Overall goal: Empower LICs and MICs to develop better informed national strategies on financial literacy and education
- Joint and individual programs by OECD and WB according to comparative advantage
- WB focus on developing methodologies and operational instruments for FC surveys and measuring impact of FE et al interventions

Assessing Financial Capability in LICs and MICs

- Building from scratch or borrowing from HICs? Decision to adjust FSA approach in multi-staged process
- **Stage one:** Review of content domains, questions and coding in 6 pilot countries through
 - Focus groups, in depth interviews, cross country sharingto derive revised draft questionnaire

Assessing capability – cont'

- **Stage 2:** Testing revised questionnaire in prior pilot and other countries at national level (self standing or module)
- **Stage 3:** Taking stock of experience of stage 1&2, presentation to and discussion with academics and experts in fora, and producing an operative survey toolkit and making it available as public good

Assessing the Effectiveness of Financial Education et al. Interventions

- Three interrelated components
 - M&E toolkit for FE providers
 - FE specific approach (examples and results matrix)
 - To motivate and empower providers
 - Financial support for M&E pilot countries
 - To compensate for externalities/overcome resistance
 - To influence areas of focus and delivery mechanism
 - To learn and test for toolkit
 - Financing integrated impact evaluation of FE et al interventions

Selection criteria of M&E pilots

- **Topics:**
 - Day-to-day financial management (personal finance)
 - Planning for the long-term (budgeting, savings, investments, retirement, education planning)
 - Planning for the unexpected (budgeting, savings, insurance)
- **Target groups:** Low-income consumers in low and middle income countries: school children, people working in the informal economy, farm households, micro-enterprise owners, recipients of government-to-people transfers.
- **Delivery mechanisms:**
 - Formal financial education (one-to-one and classroom based): targeting school children, people working in informal economy, or generally low-income consumers.
 - Social marketing/edutainment:
 - Financial education for micro-enterprise
- **Opportunities provided by government-to-people transfers:**
 - Conditional cash transfers (CCTs)
 - Matching defined contributions (MDC) savings arrangements, and
 - Other government-to-people transfers
- **Evaluation:** Rigorous quantitative and qualitative methods

Summing-up and Conclusions

- Bringing FL&E to LICs and MICs requires review, adjustment and extension of current wisdom
- Financial capability approach has universal appeal but needs to be adjusted and tested in LIC and MIC environment
- Financial education may often not work and behavior more efficiently influenced by other interventions to be tested
- Both require methodological reviews and innovations as well as operational toolkits for implementation developed by work program
- Multi-year work program in progress: Interaction with and feedback by international research community crucial

Further work program information

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