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Bridging the Gap:

THE BUSINESS CASE FOR FINANCIAL CAPABILITY

MONITOR

Bridging the Gap: **THE BUSINESS CASE FOR FINANCIAL CAPABILITY**





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Citi Foundation





As a global financial institution, Citi embraces its responsibility to help expand financial inclusion to reach the 2.5 billion people in the world with no access to formal financial services. We believe that when individuals have access to and are able to effectively use formal financial services they will increase their economic opportunities and financial resiliency.

The Citi Foundation plays an important role in this commitment by making philanthropic investments that drive global thought leadership, promote knowledge and innovation, and support partner organizations at the local level. Central to our mission of economic empowerment and financial inclusion is enhancing access to and use of formal financial products and services by the unbanked and underbanked. For more than a decade, the Citi Foundation has focused extensively on making grants to support organizations that increase access to financial products, complemented with financial capability programs to ensure that clients are able to responsibly and effectively use those products.

The Citi Foundation commissioned this report by the Monitor Group to identify and evaluate the myriad efforts to enhance client capability in financially sustainable ways in the microfinance sector. We learned several critical lessons that give those working to expand global financial inclusion a profound sense of urgency about the need to better connect access and capability:

- Of the roughly 500 – 800 million people that have some form of access to formal financial services, only 25% have had even the most basic financial education—a figure that is dwarfed by the estimated 2.7 billion people who are unbanked or underbanked.
- Focusing on microfinance clients addresses a singular population of people who use financial services. This is a starting point but we now need to broaden the scope to include remittance senders and recipients, government-issued conditional cash transfer recipients and mobile money users.
- More research is needed to better understand the impact of financial education on low-income consumers.
- Governments and financial services institutions that invest in efforts to strengthen client capabilities must improve coordination to increase impact and resource efficiency.

The research and analysis contained here resulted from interviews with more than 90 organizations involved in financial capability; site visits to six countries; extensive secondary research; and the critical input of 30 key stakeholders whom we convened in Madrid in November 2011 to discuss how to strengthen the provision of financial capability and make it more scalable. We are grateful to all those who contributed their data and experiences to inform the conclusions.

The result is a current snapshot of the field, including costs, provision models, attitudes and preferences of financial services providers, as well as key trends affecting the future evolution of capability-building. In the final chapter of the report, a set of recommendations are offered for a shared action plan that can guide all stakeholders forward in more coordinated ways.

Much remains to be done. We hope the findings of this report lead to the necessary conversations on what various actors in the field—including MFIs and their networks, commercial banks, NGOs, policy advocates, central banks and regulators, apex groups, and donors and funders—can and must do to improve financial capability for low-income households around the world.

The Citi Foundation looks forward to working with our fellow stakeholders to develop a set of solutions that further expand financial inclusion.

Sincerely,

Pamela P. Flaherty
President & CEO
Citi Foundation

Between 500 million and 800 million of the world's poor now have access to finance—yet our research suggests that only 110 million to 130 million of that number have received any sort of financial capability training.¹

In other words, only 25% of these many millions have been taught how to use their newfound access to the world of formal finance wisely and to their advantage. That leaves 75%—a staggering 370 million to 690 million individuals—out in the dark, forced to make decisions about their borrowing, their savings and their entire financial future with little help and little instruction.

This is the **financial capability gap**—a chasm that exists between those who have been given the skills and knowledge to responsibly engage with a formal financial system that is utterly new to them and those who have not.

The gap is set to widen—driven by the boom in access to “new” financial services (beyond microfinance) reaching the poor, from mobile banking to conditional cash transfers (CCTs) and remittances—and will likely become increasingly difficult to plug. And the gap matters, both because addressing financial capability is a moral imperative, and because the risks of *not* addressing it can prove costly not only to customers but to a range of actors in the financial services system.

For years, governments, central banks, NGOs and financial services providers have been funding and experimenting with a range of approaches for addressing this widening gap. And yet while doing so, these practitioners too have been operating inside a dangerous kind of gap of their own—in this case, a *data gap*. Even as financial capability efforts and experiments have expanded, data on their cost, outcomes and impact has not. Critical questions—What works? What does it cost? What is the impact on low-income clients?—have not been answered and in some cases have not even been addressed.

ABOUT THIS PAPER

This paper is an attempt to begin to survey the evidence base on the scope of the financial capability issue, the different financial education models that are being tried and the economics of various leading and emerging approaches. Specifically, it focuses on the financial education programs being delivered by **MFIs and other financial institutions**—including commercial banks, mobile banking operators and

others—that are targeted at low-income segments in emerging markets. Our analysis mainly focuses on the **delivery model, cost structure and cost recovery model** of these programs, and largely stays away from commenting on financial education content, curricula and pedagogy choices. The models selected for analysis are those that focus mainly on the individual or the household level; the report only peripherally covers models targeted at SME or business customers.

¹All statistics included in this introduction are explained (and sourced) later in this paper.

Finally, because this paper is primarily concerned with product-linked financial education programs delivered by or on behalf of financial institutions and their partners, it *does not* focus on the financial education models offered independent of financial services—for instance, school-based financial literacy training offered by the public sector—although this too is an area that requires further rigorous research.

Six chapters follow this introduction:

Chapter 1 provides a broad overview of the boom in access to finance, the lag in providing financial capability, and the resulting financial capability gap—how large it is, why it matters and what it will cost to address.

Chapter 2 looks at financial education in context, examining where it fits as one of many levers among the suite of levers used by a wide range of stakeholders to promote financial capability. Each of the levers is elucidated with examples. We also examine the existing evidence base on whether financial education is—or is not—effective.

Chapter 3 provides an overview of the changing landscape in financial education, surveying both traditional, dominant models and newer, more experimental ones. We introduce the dominant financial education models, breaking down the costs associated with their delivery and demonstrating why the cost of providing financial education in the absence of a business case is prohibitive. We also introduce some of the newer, experimental models that are emerging to challenge the field's dominant ones—and introducing innovation along key dimensions such as cost, reach and point of engagement.

Chapter 4 closely examines five financial education models—two traditional group-based models and three newer, more narrowly focused models—to determine whether there exists a cost recovery rationale, and therefore a business case, for any of them. We then compare and contrast the features and benefits of all five models, resulting in key insights about their strengths, weaknesses and viability.

Chapter 5 shares a set of key observations, insights and cross-cutting themes for the field, distilled from our research and analysis.

Chapter 6 lays the groundwork for a field-wide shared agenda for action that can guide all stakeholders forward in more coordinated and effective ways. It outlines four major initiative areas and offers detailed recommendations for how the field might go about implementing them.

This paper is not meant to be a comprehensive study, but rather is aimed at providing a common understanding for the field on the current state of activities, the size of the problem to be solved, how it is evolving and some of the ways it is being—or might be—addressed. Its ultimate intent is to catalyze a necessary series of conversations on what various actors in the field—including MFIs and their networks, commercial banks, NGOs, policy advocates, central banks and regulators, apex groups, and donors and funders—can do to improve financial capability for low-income households around the world.

RESEARCH AND METHODOLOGY

The extensive research efforts underpinning this paper's findings included interviews with more than **130 individuals representing approximately 90 organizations** in the financial education ecosystem. As Figure 1 shows, about half the people we interviewed work for financial institutions that deliver financial education programs or specialist financial education providers. Through these interviews, we attempted to gather real-life examples and real data on a range of financial education models currently in practice. We also interviewed key individuals from funding and donor organizations; NGOs, regional associations, and network owners; regulators and central banks; and researchers and think tanks. Across all of these interviews, we tried to ensure ample diversity in country and regional coverage, stakeholder type and points of view.

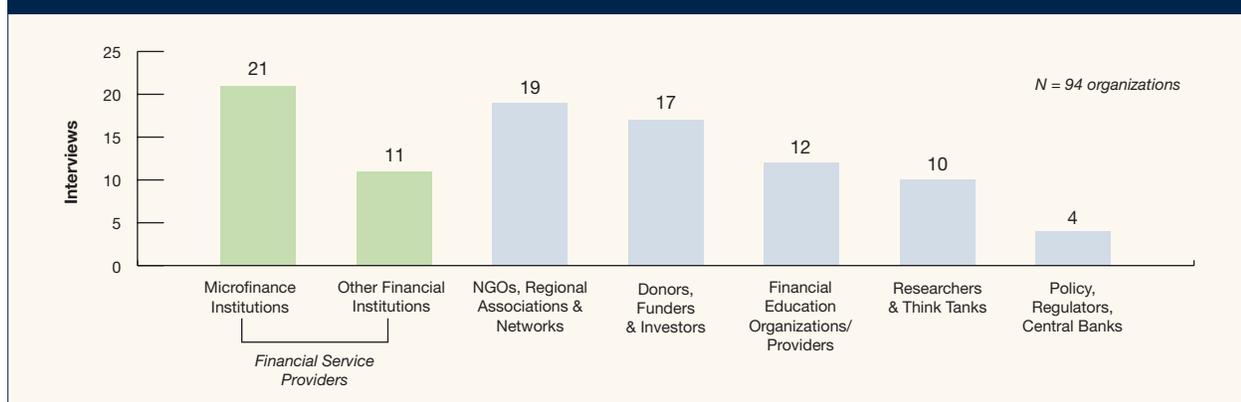
In addition to these primary interviews, we also conducted **seven site visits in six countries** in order to examine financial institution-delivered education models *in situ*. Our experiences and observations from these visits deeply informed the economic analysis presented in Chapter 4. During each visit, we interviewed management to understand the objectives, delivery and performance of their financial education programs; we also held meetings or conducted interviews with branch managers, trainers, loan officers and others to hear their experiences and perspectives. Finally, we spoke to customers about their experiences with financial

education training, their willingness to engage in it and what they perceived as its benefits or problems. In total, we conducted **interviews and focus-group discussions with more than 80 customers** in five locations. We interviewed customers in a qualitative fashion to understand their interactions with the financial system and their experiences with financial education training (if any). Questions probed the willingness to engage in, the perceived benefits of and challenges with the various programs. See Appendix A for a full list of individuals interviewed for this paper, and for a list of our site visits.

Third, we conducted a thorough secondary **literature review** (bolstered by interviews with several key study authors) on the current state of the evidence base in financial education. This included a review of existing academic and evaluative literature as to “what works,” a review of other reportage of the financial education landscape, and other impact data on current models. See Appendix C for a full bibliography.

Finally, we convened a select number of field leaders and key stakeholders in Madrid in November 2011, spanning several types of organizations, to engage in a discussion around the findings and implications of the research, and jointly participate in creating a shared priority action agenda for the financial education field. Chapter 6 reflects the outcomes of this discussion, for which we are deeply grateful to the participants. See Appendix A for a full list of participants.

FIGURE 1. Overview of Organizations Interviewed



The Financial Capability Gap

Of the 500 million to 800 million low-income earners who now have access to formal financial services, only an estimated 110 million to 130 million have had exposure to financial capability building.

That means **370 million to 690 million** low-income earners—75% of those with access to finance—have not been offered the skills and knowledge they need to make informed financial decisions. Welcome to the financial capability gap. The current gap could take as much as \$7Billion to \$10Billion to address using current education models. Moreover, this gap will only expand as access to finance accelerates. In this chapter, we detail the gap, outline why the gap matters and talk about how costly it will be to address the gap using only current models.

With around half of the world's population still living on under \$2 per day,² **financial inclusion remains a key political and social imperative.** Access to the formal financial system, and to the suite of products and services that goes with it, has long been considered essential to a range of outcomes for low-income earners—from smoothing consumption and mitigating risks to building savings and assets, enabling entrepreneurial businesses to grow, and ultimately improving incomes. As CGAP's 2010 Annual Report states, the inability to use formal financial services by the poor:

“... is a problem because poorer households in the informal economies of the developing world need financial services as much as wealthier families—actually more so, for two reasons. First, their income streams and bigger outlays tend to be irregular and unpredictable, and their income and expenses do not sync up as neatly as wealthier peoples' monthly paychecks and mortgage payments. Second, poor people obviously have less of a cushion to absorb economic shocks to begin with.”

But expanding the poor's access to financial products and services is only half of the challenge

of achieving financial inclusion—and, indeed, some would say is the easier half to tackle. In recent years, the field has begun to both realize and emphasize that **full financial inclusion actually has two distinct components:** (1) access to finance and (2) financial capability (see Figure 1.1).³ The former refers to both the availability and usage of financial products and services. The latter refers to the ability to make informed judgments and effective decisions about the use and management of one's money—which includes financial skills, knowledge, and understanding as well as awareness of rights and responsibilities and grievance channels.

Indeed, there is growing consensus that efforts to simply improve financial access without also improving financial capability are inadequate at best, and unsustainable and potentially harmful at worst. Without the skills and knowledge to make informed financial choices, it can be difficult if not impossible for low-income earners using financial products for the first time to understand the full implications—including both the short-term and long-term risks—of their choices and actions.

²Source: The Bill and Melinda Gates Foundation (BMGF) “Financial Services to the Poor Fact Sheet,” 2009, which puts the number of poor at 2.5 billion. Latest World Bank Development Indicators suggest that more than 40% of the world lives on less than \$2 a day.

³These terms have traditionally lacked tight definitions, been used interchangeably or used to mean different things in different contexts. For example, there is a debate about the distinction between “access to” and “adoption and usage of” financial services. This is elaborated by institutions such as FinScope in their arguments for judging product availability for the poor by actual usage patterns. While we recognize this is an important argument in certain contexts (e.g., *mzansi* accounts in South Africa), we have adhered to the CGAP definition of access to finance throughout this paper. The definition of full financial inclusion we use through the paper comes from Scottish Executive, Social Inclusion Division, Financial Inclusion Action Plan, 2005. (See the following links: <http://technology.cgap.org/2010/05/07/branchless-banking-and-the-financial-capability-of-a-customer/>; http://www.cgap.org/p/site/c/template.rc/CGAP_GlossaryofTerms_FinanceMap/). Accion offers this definition of financial inclusion in its “Opportunities and Obstacles to Financial Inclusion Survey,” 2011: “A state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients.... These services are provided by a range of institutions, mostly private. And, reflecting the results of [the new] survey, it hereby expands its definition to note that full inclusion requires the clients of these services to be financially literate.”

FINANCIAL INCLUSION:

“Access to individuals to appropriate financial products and services. This includes people having the skills, knowledge and understanding to make the best of those products and services.”

Scottish Financial Services Authority, 2005

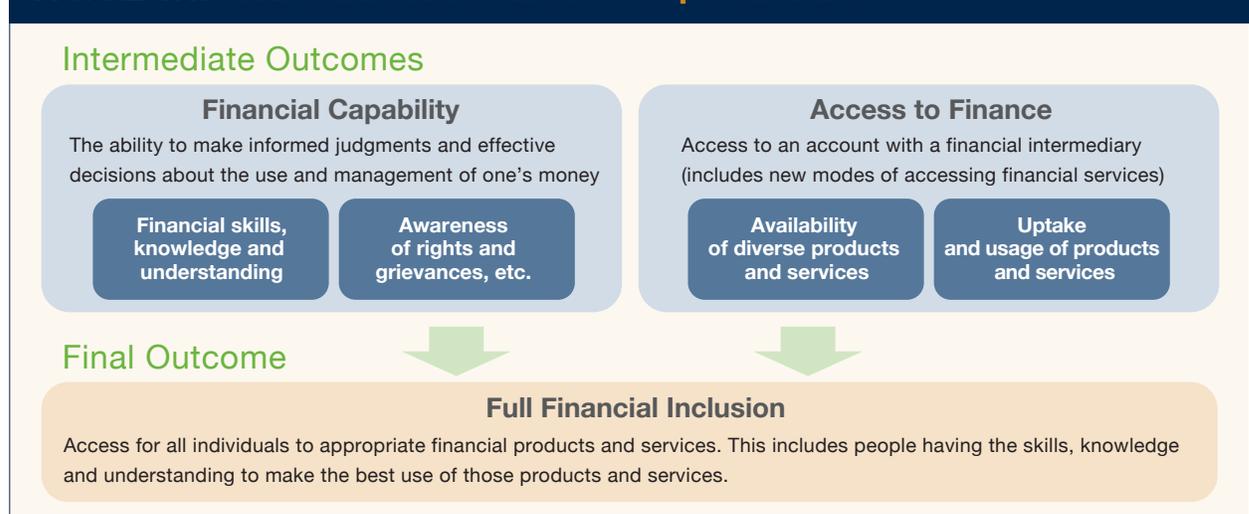
Dr. Duvvuri Subbarao, governor of the Reserve Bank of India, offered this view in 2010: *“Financial literacy and awareness are thus integral to ensuring financial inclusion. This is not just about imparting financial knowledge and information; it is also about changing behavior. For the ultimate goal is to empower people to take actions that are in their own self-interest. When consumers know of the financial products available, when they are able to evaluate the merits and demerits of each product, are able to negotiate what they want, they will feel empowered in a very meaningful way.”*⁴

And yet while access to finance is expanding by leaps and bounds, financial capability is not advancing at a similar pace. This lack of synchronicity has created a dangerous gap—the financial capability gap—that we introduce below.

A Boom in Access to Finance

Practitioners in the private, NGO and donor sectors have been working to improve low-income earners’ access to credit, savings, insurance, money transfer and other critical financial services since at least the early 1970s. These efforts have focused primarily on developing and deploying appropriate products for low-income customers that are affordable, convenient and relevant. Worldwide, these efforts have yielded impressive results. Over the last few decades, basic financial services and products have become ever-more available to an ever-wider swath of the world’s population. While an estimated 2.7 billion⁵ people remain unbanked—still a serious and significant number—the growth in access to finance for low-income consumers in recent years has been

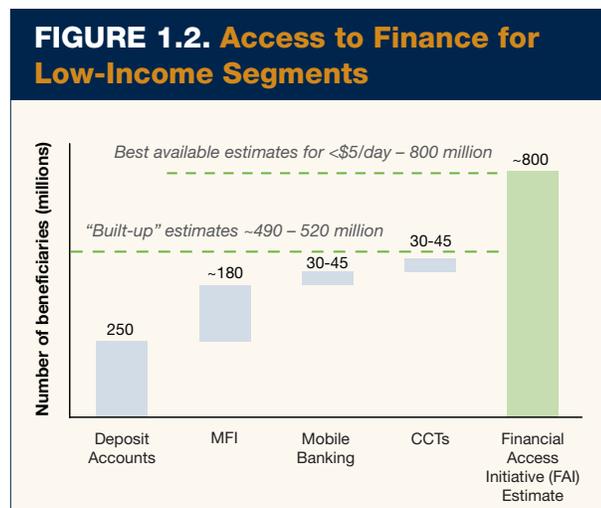
FIGURE 1.1. Financial Inclusion and Its Component Parts



⁴“Financial Education: Worthy and Worthwhile,” speech by Dr. Duvvuri Subbarao, delivered at the Reserve Bank of India-OECD Workshop in Bangalore, March 2010.

⁵That is, they have no interaction with or usage of the formal financial system. CGAP puts this number at 2.7 billion. (See CGAP’s *Financial Access Report*, 2009.) Meanwhile, the Financial Access Initiative’s report, *Half the World Is Unbanked*, puts the number slightly lower at 2.5 billion.

unprecedented: An estimated **500 million to 800 million low-income earners now have access to formal or quasi-formal financial services** (see Figure 1.2).⁶



About 250 million of these earners now hold deposit accounts in regulated financial institutions. Anywhere between 120 million and 190 million have borrowed from microfinance institutions (MFIs).⁷ From 30 million to 45 million low-income earners now use mobile banking—and the same number are recipients of conditional cash transfers (CCTs).⁸ Meanwhile, countless millions are engaged in the \$346 billion formal remittance economy.⁹ This suggests not only that the numbers growing at a rapid pace, but that the modes of access to financial services are also changing to more diversified forms—diversifying from brick-and-mortar, high-touch relationship services to more transactional, shallow-touch relationships.

⁶We created the low estimate—500 million—based on four types of relationships: deposit accounts at regulated financial institutions, microfinance accounts, mobile banking, and CCTs. These numbers are not exhaustive and therefore are likely to be understated. The higher number of 800 million comes from the Financial Access Initiative report, *Half the World Is Unbanked*, 2010.

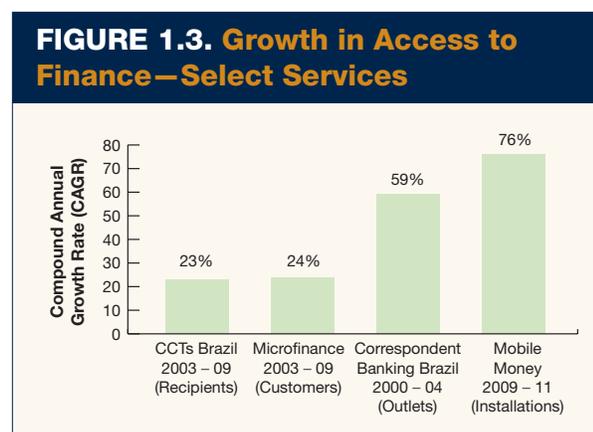
⁷Estimates of the number of microfinance borrowers vary by source and study. For a comparative look at estimates, see CGAP: <http://www.cgap.org/p/site/c/template.rc/1.11.1792/1.26.1301/>. For this paper we have used the number from the Microcredit Summit Campaign's report published in early 2011 (Larry R. Reid, *State of the Microcredit Summit Campaign Report*), which put the total number of microcredit customers at more than 190 million, with 184 million of those coming from the developing world. MixMarket reports ~90 million current customers on its website, though CGAP puts the estimates at between 120 million and 190 million (CGAP, *Credit Reporting at the Base of the Pyramid*, September 2011).

⁸M-banking estimates are based on a survey conducted by McKinsey & Company in cooperation with GSMA and CGAP (*Mobile Money for the Unbanked: Unlocking the Potential in Emerging Markets*, McKinsey & Company, 2010). CCT estimates are based on a study done by *Proyecto Capital*—a collaboration of Fundacion Capital and the Instituto de Estudios Peruanos—which put the number of families using these services in Latin America at 27 million, along with evidence of nascent programs in Asia and South Africa (*Conditional Transfer and Financial Inclusion Programs: Opportunities and Challenges in Latin America*, Proyecto Capital, 2011). See also: <http://www.proyectocapital.org/index.php/en/>

⁹Remittances sent home by migrants to developing countries are three times the size of ODA. In 2010, remittances recovered to the 2008 level of \$325 billion; flows are projected to rise to \$346 billion in 2011 and \$374 billion by 2012. For more, see: World Bank *Migration & Remittances Factbook 2011*.

¹⁰M-banking estimates are based on *Mobile Money for the Unbanked* statistics by GSMA.

Furthermore, forecasts suggest that these **already high numbers will continue to grow at a very healthy rate** in the future. Between 2003 and 2009, both microfinance and CCTs grew at a compounded annual rate of roughly 24%—and mobile banking grew even more substantially. M-Pesa, the Kenya-originated mobile banking and cash transfer service, grew at a rate of roughly 88% per year between 2008 and 2011, albeit in smaller markets. The number of live deployments of mobile banking systems (number of mobile money offerings launched) has grown from less than 20 in 2009 to more than 100 today (see Figure 1.3).¹⁰



But this is only the tip of the iceberg: Indeed, there is tremendous opportunity for these and millions more low-income customers to deepen their engagement with formal finance. CCT data, for example, suggest that only 28% of individuals receiving money transfers own a deposit account into which the money can be transferred; the other 72% receive their cash transfers via electronic card or in cash

and are not “formally included.”¹¹ M-Pesa is actively bringing more and more of the traditionally excluded (“unbanked”) into its fold. In 2008, about 25% of M-Pesa’s new customers were unbanked. In 2009, that number had doubled to approximately 50%.¹² In the coming years, these and other opportunities to deepen and diversify low-income consumers’ access to and usage of formal finance will only expand. The boom in access is hardly over—indeed, it’s just beginning.

The Financial Capability Gap: Massive and Growing

And yet even as access to finance continues to expand, a second critical ingredient of full financial inclusion—financial capability—continues to lag

further and further behind. Systematic efforts to develop financial capability among low-income earners have reached only a small subset of those who have achieved financial access. Of the **500 million to 800 million** low-income earners who now have access to formal or quasi-formal financial services, only an estimated **110 million to 130 million** individuals have participated in any deliberate capability or financial education program (see box: **Coverage by Financial Education Programs**). This means that between **370 million and 690 million** low-income earners have not been provided skills, knowledge or understanding that would contribute to building their financial capability. Put another way, **more than 75% of low-income customers engaged with the financial system have had no exposure to financial capability building.**¹³

COVERAGE BY FINANCIAL EDUCATION PROGRAMS

As the figure below shows, most of the 110 million to 130 million individuals who have participated in financial education programs have done so through **induction training** by MFIs. By virtue of it being a deliberate and standard part of most MFI group-lending practice, we estimate that induction training has reached between 80 million and 100 million individuals.

Group-based trainings offered by MFIs and their partners are another prominent model—although obviously far less pervasive than induction training. According to our estimates, group-based programs have reached 4 million to 5 million people.

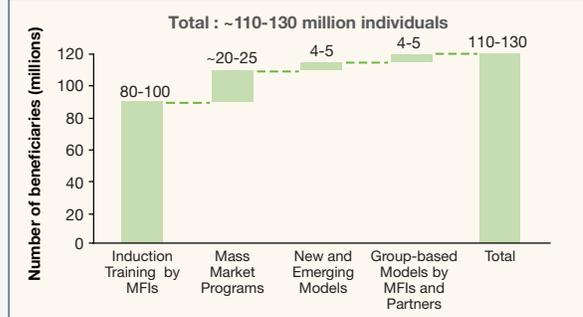
Also significant among financial education programs are **new and emerging models** that are being developed to provide targeted product-linked education to customers who are using newer modes of access to finance.

Examples include individual intercept models that are being applied to CCT recipients, mobile banking users and remittance receivers.

Finally, **mass-market programs** include a variety of awareness activities that do not fall into the three categories above. Such training is typically divorced from any financial product or

service delivery per se and therefore usually delivered by NGOs, FE trainers or education specialists. Mass-media channels (television, radio, billboards) are often used to target recipients in a particular community; it is also delivered through school curricula. While it’s difficult to quantify how many individuals this type of programming has reached, some estimates show that 20 million to 25 million have been reached by this broad-based messaging.¹ Chapter 3 covers this ground in detail.

Estimated Financial Education Coverage



¹**Induction Training** estimated on the basis of Monitor analysis, MIX market data, feedback from practitioners at market level, etc.; **Group-Based Models** include reported estimates from GFEP-FFH, ACCION and CCT linked education estimates. **New and Emerging Models** includes CCTs, Mobile Money, Branchless Banking, etc. **Mass Market Programs** numbers are based on GFEP estimates of numbers reached through NGOs, government partners and others using mass-media, curricula and broadcast channels—but does not include the national government programs outlined later in the document; Given sparse availability of data, all numbers are estimates derived by Monitor, based on secondary research with available numbers, primary interviews and Monitor analysis. Actual numbers are likely to be lower in some cases.

¹¹BMGF, news reports, Proyecto Capital, Monitor analysis.

¹²*Expanding Customers’ Financial Options Through Mobile Payment Systems: The Case of Kenya*, BMGF paper, November 2010.

¹³This does not even touch on the issue of the effectiveness, if any, of the financial capability building that the other 25% have participated in. See Chapter 2 for more on the effectiveness of existing programs.

This disconnect between access and education has thus resulted in what we are calling the “**financial capability gap**”—a massive chasm that must urgently be addressed. Unfortunately, this gap may be even larger and more complicated than our estimate suggests, for several reasons:

- **Data are limited.** Data on financial education efforts are difficult to assemble, thus throughout this paper we have erred on the conservative side. More precise estimates of financial access would likely skew to the higher end of the range presented here.
- **The gap is set to widen.** Access to finance is accelerating rapidly in comparison to education efforts. Efforts to expand access also scale more easily than those to advance financial capability, for a host of reasons.

- **Capability is complex to instill and/or to measure.** Our calculation of the gap is predicated on the assumption that a one-time financial training can in and of itself build financial capability—though there is little evidence either way on this point. If one assumes that in order to be effective, financial education may need to be repeated, then the gap would expand exponentially.
- **The gap is likely to become increasingly difficult to plug.** New forms of financial access, such as conditional cash transfers (CCTs) and mobile money, are challenging the traditional classroom-based group training models for financial education. As the supply and range of accessible financial products increases, the learning curves for customers could pressurize and steepen.

FIGURE 1.4. The Financial Capability Gap



Why This Gap Matters

There are several reasons why financial service providers and others now share a fundamental interest in increasing financial capacity—chief among them being the considerable risks of not doing so:

- First, there is simply the **moral imperative** for the global community to empower low-income clients to take control of their own financial needs. Providing low-income earners with access to finance is wonderful—but not also giving them appropriate instruction in how to use financial products and services and manage key financial needs leaves them at a dangerous disadvantage.

Increasing the appropriate use of savings, insurance and other products can potentially also improve development outcomes—if done well.

- If access to finance continues to outpace financial capability, then low-income markets could easily—and quickly—become saturated or near-saturated with products and services that an increasingly shrinking proportion of people fully understand how to use. If increasing numbers of low-income customers who lack financial capability adopt these products and services, the results **could be dangerous**. Risks to customers include over-indebtedness, inadequate cushioning from shocks and loss of income and assets.

- *Not* addressing the gap is potentially an **enormous missed opportunity** for financial institutions and low-income individuals alike. The widespread uptake of financial products like micro-insurance, pension and mutual funds, and mobile banking will depend—at least to some degree—on the ability of customers to understand and comprehend the features and benefits of these services and products. The uptake and usage of these offerings will be limited if their intended customer base does not know what they are or how to use them. Developing new and better ways to deliver financial capability could be a major engine of scale that leads to retention, reduced risk, the cross-selling of important services like savings or insurance, or other commercially viable outcomes.

The risks of not adequately addressing the gap are perhaps best illustrated by the recent crisis in Andhra Pradesh (and other parts of India) where portfolio repayment rates slumped as low as 10% and bad debt write-offs increased significantly, much to the detriment of MFIs and other supporting financial institutions. Having a customer base unfamiliar with basic financial principles can result in exposure to greater levels of risk among lenders—and less tolerance for such lending on a societal level.¹⁴ In the case of Andhra Pradesh, it has led to political backlash, tougher regulations and a questioning of these institutions’ “social license to operate.”

In the wake of the global financial crisis and these more recent microfinance-related events in India and elsewhere, the importance of addressing the financial capability of low-income segments has come into sharper focus and has moved up the priority list of financial institutions, NGOs, policymakers, regulators, and others. Many actors in the field,

including financial services providers themselves, now believe that it is inadequate and unsustainable to simply improve access without capability. In 2011, a CFI/Accion survey of more than 300 MFI industry participants ranked “financial education” as the top opportunity to achieving full financial inclusion—with 66% selecting the issue as the No. 1 enabler. Meanwhile, 57% listed “limited financial literacy” as the top barrier to financial inclusion—also the top choice for those surveyed (see Figure 1.5).

FIGURE 1.5. Opportunities and Barriers to Financial Inclusion¹⁵

Top Opportunity for Financial Inclusion	% respondents (n=301 MFIs)
Financial Education	66%
Expanding the Range of Products	65%
Credit Bureaus	60%
Mobile Banking	59%
Client Protection Regulations	56%
Top Barrier to Financial Inclusion	
Limited Financial Literacy	57%
Limited MFI Institutional Capacity	54%
MFIs’ Single Product Approach	52%
Limited Understanding of Clients	52%
Political Interference	51%

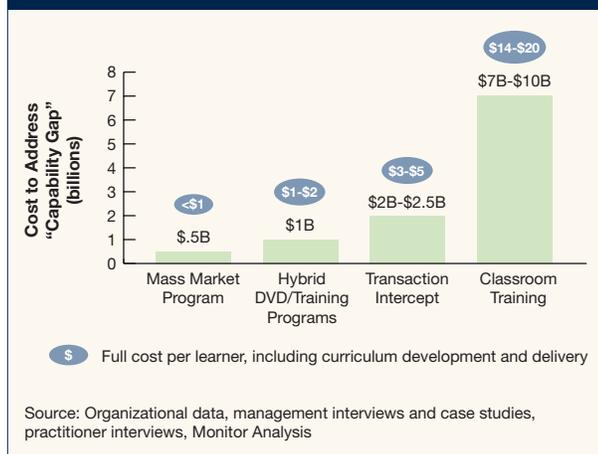
The extensive field interviews conducted as part of our research for this paper also pointed to the urgency of addressing the financial capability gap—particularly through financial education, which is the main focus of this paper. Of the 32 financial institutions we interviewed about this topic, 75% reported having ongoing financial education programs either at pilot or program stage.¹⁶ This finding was consistent across microfinance institutions and commercial banks, including some larger ones like Standard Bank of South Africa.

¹⁴Dinesh Unnikrishnan, “MFIs Hit as Repayment Rate Slumps in Andhra Pradesh,” *Mint Newspaper* (India), December 2010.

¹⁵Center for Financial Inclusion Publication 12, *Opportunities and Obstacles to Financial Inclusion*, July 2011 authored by Anita Gardeva and Elisabeth Rhyne, CFI at Accion International.

¹⁶From field interviews. For a full list of interviewees and the organizations they represent, see Appendix.

FIGURE 1.6. Cost to Address Capability Gap using different methodologies¹⁷



The Costs of Addressing the Gap

The costs associated with tackling the financial capability gap will be covered in far greater depth in Chapters 3 and 4. But it is important to highlight here that just as the financial capability gap is massive, so potentially is the cost to address it.

As we'll discuss throughout this paper, the primary tool for boosting financial capability is financial education, usually delivered through classroom-based group programs. However, the **cost of addressing the gap using the financial education models that have been dominant until today will be prohibitive**. Financial education has historically had

a high cost per learner, with dominant classroom-based models costing anywhere between \$14 and \$20 to deliver, if not more, on a full cost basis. Depending on the combination of models used, Monitor estimates suggest that it could cost from \$7 billion to \$10 billion to provide financial capability *just to those who already have access to finance*—a sum that is 10% to 15% of the total current asset base of microfinance institutions worldwide.¹⁸ If access to finance were extended to include the world's 2.7 billion unbanked, the cost of building financial capability would rise further by a factor of at least three.

Clearly, these figures are too high—and yet the need is too urgent to be left unaddressed. Indeed, determining how the field might go about lowering the costs of financial education while also boosting their reach and effectiveness is the primary goal of this paper.

Depending on the combination of models used, Monitor estimates suggest that it could cost from \$7 billion to \$10 billion to provide financial capability just to those who already have access to finance.

¹⁷Costs developed using estimate of 500 million people to be addressed.

¹⁸MixMarket reports the total assets held by MFIs to be \$62 billion to \$66 billion for 2011.

Financial Capability Today: The State of the Field

In this chapter, we look at financial education in context, examining where it fits among the suite of tools used by a wide range of stakeholders to promote financial access, capability and inclusion.

After looking at each of the six primary levers in turn, we briefly explore why there is currently little if any coordination among them. Next, we examine the *social case* for financial education by surveying the current state of the evidence base—in other words, whether financial education has actually been shown to achieve its social and behavioral objectives, namely, improving financial outcomes for the low-income customers to whom it is provided. Finally, we argue that the field must urgently begin studying and evaluating the *business case* for financial education in order to identify cost-effective models capable of operating at scale.

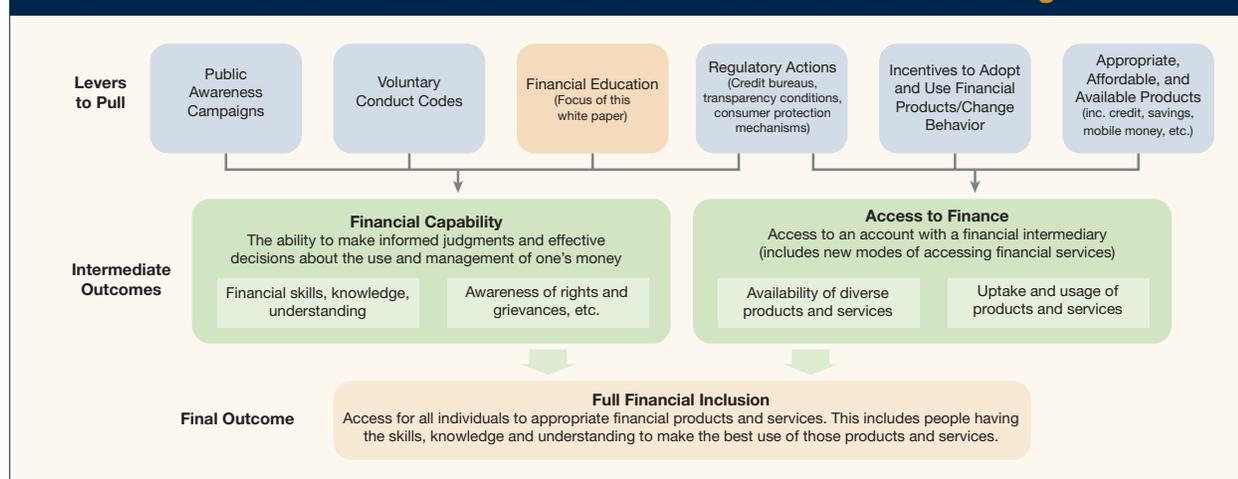
The Six Levers for Change

While financial education—specifically, that offered by financial institutions to their low-income customer base in emerging markets—is the focus of this paper, it is important to understand the larger context in which it operates. Although financial education has arguably been an important and powerful lever for increasing financial capability, it is not the only one. Indeed, it is one of a suite of levers that are all critical to increasing financial capacity, access to finance and, ultimately, full financial inclusion (see Figure 2.1). Below, we briefly look at each of the six primary levers in turn—and why there is currently little coordination among them.

Lever A: Public Awareness Campaigns

Governments, central banks, NGOs and others design these campaigns to create or increase awareness among low-income individuals of their financial rights and responsibilities, the grievance channels and redress mechanisms available to them and how to get more information about these topics. These public awareness campaigns tend to be standalone projects, unconnected to particular financial products and services. For example, Central Bank of Malaysia offers financial education information and teaching aids for adults and youths online. Reserve Bank of India's Project Financial Literacy makes resources and tutorials available to the broader public—including school

FIGURE 2.1. Financial Education in Context: The Six Levers for Change



and college-going children, women, rural and urban poor, defense personnel and senior citizens. The Government Savings Bank in Thailand runs recurring mass-media campaigns and community financial education campaigns to make its citizens aware of their rights and to promote sound financial practices.

Lever B: Voluntary Conduct Codes

The microfinance field in particular is starting to embrace a proactive “responsible finance” agenda. Industry bodies, regional networks and associations, MIVs and funds, and many financial service providers are now putting self-regulation at the core of their efforts to advance consumer protection. These efforts have the potential to affect client capability at least indirectly through voluntary minimum standards.¹⁹ For example, the industry-wide Smart Campaign, launched in 2009, outlines seven principles for providers to follow: appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful treatment of clients, privacy of client data and mechanisms for complaint resolution.

The microfinance field in particular is starting to embrace a proactive “responsible finance” agenda

The Pakistan Microfinance Network has launched a consumer protection initiative that aims to improve practices through a voluntary code of conduct and related measures. As part of its efforts in Bosnia to prevent and correct client overindebtedness, the Partner Microcredit Foundation now conducts internal audits, has loan officers visit and analyze borrowers, gives financial education training to both

staff and clients, and conducts regular surveys and focus groups to ensure that institutional behavior is client-centric. Efforts such as the drive for greater credit information reporting and sharing by the MFIN, a microfinance industry association in India, and the multi-pronged, mass-media consumer protection and awareness campaign deployed by AMFIU, the MFI industry organization in Uganda, allow financial institutions to do better while also sharing costs.

This landscape of levers comprises multiple efforts aimed at different objectives with relatively little common underlying, explicitly articulated theory of change.

Lever C: Financial Education (FE) Programs

Because this lever is the focus of this paper, we only briefly introduce it here; Chapter 3 has a much more detailed survey. A range of actors—including commercial banks, MFIs and NGOs—are now engaging in the programmatic delivery of financial education through trainings that cover financial concepts and products, household and personal budgeting, financial management and other relevant topics.²⁰ As this paper will illustrate in some depth, training is often offered to low-income individuals via their financial institutions, many of which provide broad-based financial lessons delivered in group settings. The goal of these programs is typically to have consumers who are more literate and well informed about financial concepts—on the assumption that this translates into better financial behavior.

¹⁹Examples come from *Responsible Finance: Putting Principles to Work*, Consultative Group to Assist the Poor (CGAP), September 2011.

²⁰Many players have recently increased the attention, spending and methodologies aimed at increasing financial education and capability. Private foundations have made some landmark investments in building the financial capability of low-income individuals, including Citi Foundation's ten-year, \$200 million commitment to financial capability and BMGF's Financial Services for the Poor Program. In 2010-11, MasterCard Foundation invested \$30 million to \$50 million in capability efforts; portions of Nike Foundation's \$100 million investment in the empowerment and well-being of adolescent girls worldwide address capability. Some notable public sector programs and partnerships are also making a difference, such as the Russian Government-World Bank Trust Fund (\$15M). These and many other initiatives signal commitment to funding and building financial capability.

Lever D: Regulatory Actions

As Figure 2.1 illustrates, regulation is one of the most powerful levers because it has profound effects on both access to finance *and* financial capability. Regulatory actions cover a wide range and include transparency mandates, consumer protection campaigns, universal credit reporting requirements and other measures implemented to protect consumers, ensure better information and standards and create a well-regulated and diverse marketplace. Given their diffuse nature, it is no surprise these actions—which can even encompass education funding and support—can often act in a manner divorced from the other levers. Both India’s regulator, the Reserve Bank of India, and Bangladesh’s Microcredit Regulatory Authority have recently imposed interest rate ceilings for personal loans in microfinance; in India, this has been combined with restrictions on the income levels of target clients, loan amounts and repayment periods (following the Andhra Pradesh crisis and the Malegam report’s recommendations). In many Latin American markets, consumer protection mechanisms, grievance channels and redress mechanisms have now been established.²¹

Recently, the Alliance for Financial Inclusion—a network of central banks, supervisors and other financial regulatory authorities—released the *Maya Declaration on Financial Inclusion* following a conference in Mexico. In it, attendees pledged to put in place financial inclusion policies and sound regulatory frameworks to promote financial inclusion; recognize consumer protection and empowerment as key pillars of financial inclusion; and make evidence-based financial inclusion policy a priority by collecting comprehensive data.²² However, none have, as of yet, mandated that financial institutions provide direct financial literacy or education.

Lever E: Incentives

While a relatively new lever in this space, incentives hold the potential to change customer behavior without also requiring financial education or better products. In general, incentive programs are designed to reward good financial behavior. For example, Low Interest for Timeliness (LIFT), a pilot project launched in 2010 by Filene Institute with CGAP funding in the U.S., rewards customers who make on-time payments with interest-rate reductions. Similarly, an incentive program offered by Payperks, an U.S. social venture company, offers cash and other rewards to customers who demonstrate desired card usage behavior (e.g., paying bills on the card, depositing more money onto the card) or complete financial education modules online. While most of these experiments are taking place within the OECD countries, this lever has the potential for high impact in developing markets as well.

Lever F: Appropriate, Affordable and Available Products

Offering clear, simple products to low-income consumers has long been the field’s central lever for increasing access to finance. Indeed, advocates of this lever sometimes deprioritize the financial education lever, arguing that easy-to-use financial products, paired with reliable grievance and recourse mechanisms, could potentially replace the need for induction or classroom training. Beyond microcredit, examples abound of new products that are affordable, easily accessible and available to the poor, and have been designed with the goal of broad uptake and sustained usage.²³ M-pesa, a Safaricom product, is probably the best-known example of a simply designed, mobile-enabled cash transfer and banking system. The Nicaraguan bank Banpro offers an “express savings accounts” targeted at

²¹Examples include programs in Peru and Colombia. For more information about interventions by countries, both with regard to protection mechanisms and education, see the OECD’s webpage for the International Gateway for Financial Education: <http://www.financial-education.org>

²²*Maya Declaration on Financial Inclusion*, Alliance for Financial Inclusion, September 2011.

²³There is a debate about the distinction between “access to” (on the one hand) and “adoption and usage of” financial services (on the other). This is elaborated by institutions such as FinScope in their arguments for judging product availability for the poor by actual usage patterns. We recognize that this is an important argument in certain contexts (e.g., *mzansi* accounts in South Africa).

low-income recipients of remittances; the accounts have no opening or maintenance fees, no minimum balance, no transaction fees and cost \$1.50 per month to operate. Similarly, Eko, a mobile banking and money transfer service in India, has designed a mobile bank account with no minimum balance and no balance checking fee. FINO, founded in 2006 in Mumbai, has emerged as a leader in branchless banking in India, delivering “doorstep banking” and leading-edge solutions for reaching the poor. Hollard in South Africa sells a no-frills funeral cover product via Pep stores that can be activated at the retail till. And Standard Bank, also in South Africa, has designed a transactional banking product using over 8,000 informal retailers as correspondents to provide local, low-cost services to township residents. But recent events in Andhra Pradesh and elsewhere have reinforced the message that access to appropriate products alone does not create full financial inclusion, and can have negative side effects if not managed well.

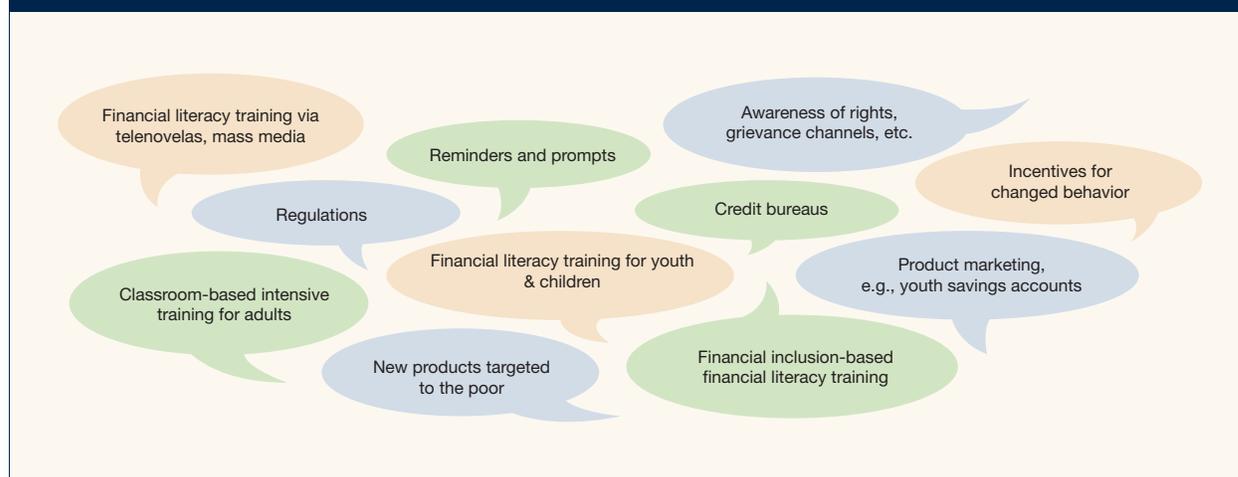
So Many Levers— So Little Coordination

Looking across the full range of levers, a few central observations stand out. First, this “lever landscape” **comprises multiple efforts aimed at**

different objectives with relatively little common underlying, explicitly articulated theory of change or even baseline definitions against which to judge progress. Even within the narrower confines of financial capability there are a wide variety of views on its scope and objectives. Is it to produce financially literate consumers who can handle, say, household budgeting and saving? Or just literate enough to use a specific financial product? Is it to produce consumers who are aware of their rights and responsibilities vis à vis the financial system? Or is the objective to provide financial security through more ambitious yardsticks such as improved incomes and better risk resilience?

Second, providers of financial access and capability usually **pull only one lever or occasionally several levers, but rarely all levers together**. This lack of coordination is not terribly surprising—new fields and efforts in most inclusive business areas typically go through a phase of “uncoordinated innovation.”²⁴ Financial capability for low-income households is no exception (see Figure 2.2). At present, holistic approaches that look across the six primary levers and consider how they might work in conjunction are highly exceptional—and yet that kind of coordination could go a long way toward erasing redundancies and greatly improving outcomes for all. (We consider the issue of coordination in more depth in Chapter 6.)

FIGURE 2.2. Uncoordinated Innovation Characterizes the Field



²⁴Monitor Institute, *Investing for Social and Environmental Impact: A Design for Catalyzing an Emerging Industry*, p.12.

Third, while addressing the capability gap will require all of these levers to work in concert, **financial institutions serving low-income consumers are probably in the best position to pull multiple levers at once.** Specifically, they are best placed to both improve consumers' access to products and improve their financial capability simultaneously—since they are at the frontline during direct-access, “teachable moments” (financial occasions).²⁵ They can develop models that align the interests of the business with the interests of the customers, and can achieve scale through this alignment.

Finally, there is a considerable argument to the effect that the capability gap could be addressed sans any traditional financial education. This position, which argues that easy-to-use financial products, paired with reliable grievance and recourse mechanisms, could potentially replace the need for induction or classroom training, is yet to be proven out but is the focus of much experimentation and effort.

The Social Case for Financial Education

Without a doubt, financial education offered by financial institutions holds great promise for bolstering financial capability—at least in theory. But does it actually work? What is the “social case” for financial education—in other words, what is the evidence that it achieves its social and behavioral objectives (namely, improving financial outcomes for low-income customers)? Unfortunately, to date, only sporadic efforts have been made across the field to answer these questions.

Some financial institutions have held off on creating or delivering financial education programs because of uncertainty about whether they deliver results.

About one in five MFIs contacted for this research

suggested that they were reluctant to invest more in capability work because they were uncertain that it even changed anything. Indeed, one of the major obstacles to the adoption of financial education models is that very limited data exist about their effectiveness.²⁶ This is particularly true when it comes to group-based training models. According to a recent World Bank study:

“The limited empirical evidence does not lend strong support that financial education is effective, i.e., that it has documented and consistent positive impact on financial knowledge and/or behavior. Most international reviews of the sparse evidence come to similar conclusions as Atkinson (2008): ‘There is little in the way of robust evidence to show the overall effect of financial training.’ This conclusion is valid across different types of intervention from more academic training in schools to more ad hoc training at the work place.... This calls for caution and not pushing for more of the same until better evidence is at hand.”²⁷

One of the major obstacles to the adoption of financial education models is that very limited data exist about their effectiveness.

On the one hand, the field is admittedly still in its “uncoordinated innovation” phase, as mentioned above—which in part explains the lack of rigorous studies charting the effectiveness of various financial education delivery models. But on the other hand, it makes little sense not to accelerate the evaluation of these models, so that the institutions creating or delivering them are not flying blind.

²⁵By financial “occasions,” we mean any instance where a customer is interacting with the financial system. This particular instance—the point of sale of a service, the disbursement of a loan or any transacting moment—can be seen as an opportunity for the delivery of financial capability—in other words, a teachable moment

²⁶In addition, the evidence base is completely underdeveloped on customer preferences and viewpoints, or even their willingness to engage in or pay for financial education.

²⁷Robert Holzmann, *Bringing Financial Literacy and Education to Low- and Middle-Income Countries: The Need to Review, Adjust and Extend Current Wisdom*, World Bank, July 2010.

At an overall level, data are incomplete and do not cover the range of approaches being tried, especially newer ones. The same World Bank study mentioned above continues:

“While the number of [financial education] interventions to improve financial literacy has increased dramatically, a rigorous monitoring and evaluation of such interventions is still the exception and not the rule, particularly with regard to the measurement of impact.”

Moreover, there has been **no standard template for outcome reporting** in the field to date, or even standardized metrics. Outcome studies range from self-reported organizational evidence and administered qualitative surveys all the way to randomized controlled trials testing for very particular outcomes. Many studies measure against one of the outcomes listed in Figure 2.3—for instance, did the education program lead to better-informed customers?—but few if any have been able to establish any causality or link between financial education training and these outcomes. This is emblematic of the **lack of emphasis in the field thus far toward measuring outcomes rigorously.**²⁸

Early financial education program evaluations focused largely on output metrics like reach (number of trainers or customers trained), and to some extent on the cost to train each customer. To the extent that there was any other evaluation, it was primarily

through qualitative surveys on increased levels of literacy and self-reporting on changed usage behavior. Indeed, there is an emerging consensus that both output and impact metrics are important to measure—but that they must be linked.²⁹

There is not much evidence to support in any major way the relative success or failure of financial capability-building efforts so far. The major studies and literature on the field, and the evidence of what works—or what does not—have primarily focused on results at two levels: (a) improving consumer knowledge; or (b) instigating behavior change and—by extension—better financial inclusion and outcomes.³⁰ Below, we summarize these early findings.

Question: Does Financial Education Catalyze Behavior Change?

Studies with a high degree of certainty, based on randomized controlled trials (RCTs) or third-party evaluations:

- IPA concluded that Banco Adopem’s simplified rules-based training, delivered in a classroom setting, was more effective than standard classroom-based accounting principles training. The simplified “Rules of Thumb” training led to good business practices like keeping accounts and maintaining separate books for business and home; it also resulted in increased sales for Adopem borrowers with retail businesses.³¹

FIGURE 2.3. Implicit Results Chain in Financial Education



²⁸The Russia Financial Literacy and Education Trust Fund, in association with the World Bank, is funding a series of meta-studies to contribute toward building the evidence base for the field. The first study explores how to recognize and measure in a standardized way a person’s “financial capability.” The second will offer a set of standardized evaluative guidelines for impact assessment.

²⁹Of course, the same outcome can be measured in different ways. For example, changes in savings behavior can be measured qualitatively (through survey evidence or customer reporting) or quantitatively (through tracking individual savings account usage and transaction patterns).

³⁰Appendix C contains a detailed list of major studies and data sources considered for this report.

³¹See: Drexler A., Fischer G., Schoar A., *Keeping It Simple: Financial Literacy & Rules of Thumb*, J-PAL, IPA, 2010. The study demonstrated on multiple levels that simplified rules-based training was more effective than standard rules-based training, especially when reinforced with follow-on training, with proof of behavior change in the 6% to 10% range. Note, however, that the study only tracked results over a limited time period.

- De Janvry et al worked with a Guatemalan MFI to test the effects of educating customers about the existence and functions of credit bureaus, linked to the introduction of a bureau. They found evidence of a significant decrease in arrears for individual loan customers (67.2% to 52.8%) and improved repayment rates for some groups.³²
- FINCA-Peru conducted a study of targeted entrepreneurial skills training delivered to business customers. They found that the training demonstrated “mild positive behavioral and business outcomes.”³³
- Cole and Fernando reviewed the broad literature on classroom-based financial education in 2008, summarizing the various efforts to assess its value. They found little in the way of hard evidence: “While many organizations have provided documentary evidence suggesting that financial literacy education is effective, there is surprisingly little rigorous, academic evidence. Indeed, we are aware of no completed study in emerging markets testing the value of financial literacy education.”³⁴

Studies with a lower degree of certainty, based on focus group discussions, qualitative surveys or self-reporting:

- A report by Proyecto Capital on the usage of CCTs as a mechanism to enforce behavior change suggested that CCTs can have a positive effect on behavior change, leading to asset-creation by improving savings through CCTs.³⁵

Question: Does Financial Education Catalyze Improved Knowledge Of Basic Financial Principles and Concepts?

Studies with a high degree of certainty, based on RCTs and third-party evaluations:

- No documented evidence (although one might assume that the behavior change studies listed above also imply that those who changed their behavior did so as a result of improved knowledge).

Studies with a lower degree of certainty, based on FGDs, qualitative surveys or self-reporting:

- A GFEP research report evaluating group classroom-based training in Bolivia and Sri Lanka found that financial education training increased participants’ financial knowledge, as demonstrated in their answers to a test on financial concepts and principles. The report concluded that training increased the probability that the trainee would adopt positive financial behavior but did not establish that a strong change in behavior can be attributed to financial education training.³⁶

Question: Does Financial Education Catalyze Improved Uptake or Opening a Savings Account?

Studies with a high degree of certainty, based on RCTs and third-party evaluations:

- **Positive effect:** A Grameen Foundation mobile phone financial literacy pilot in Uganda tested the effect of SMS-based savings reminders and showed no direct causal link between financial

³²Some of this is due to better customer selection by credit officers using credit bureau information; and the second result is due to shedding bad members and the increased reputational risk felt by remaining members. See: A. de Janvry, Luoto J., McIntosh C., Rafert G., and Sadoulet E., *Better Lending and Better Clients: Credit Bureau Impact on Microfinance*, University of California, Berkeley, 2006.

³³Study showed that financial education translated into better business practices like budgeting, maintaining business records, reinvesting profits into the business and planning for fluctuations in revenue post-training. See: D. Karlan and M. Valdivia, *Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions*, J-PAL, IPA, 2006.

³⁴See: S. Cole and N. Fernando, *Assessing the Importance of Financial Literacy*, ADB Asia, 2008.

³⁵See: Barbara Rosen, *The Experience of Participants in Both an Incentivized Savings and CCT Program in Rural Peru*, Proyecto Capital. (<http://www.proyectocapital.org/downloads/documento/Final%20Report%20BR.pdf>)

³⁶Qualitative study based on the financial education programs of CRECER and Pro Mujer in Bolivia and SEEDS in Sri Lanka, conducted by MFO and FFH on behalf of GFEP. See: Gray B., Cohen M., McGuinness E., Sebstad J, and Stack E., *Can Financial Education Change Behaviour? Lessons from Bolivia and Sri Lanka*, 2009, GFEP.

literacy training and the opening of a savings bank account. However, 88% of customers who activated the SMS service noted that the SMS reminders helped them to structure their savings.³⁷

- **No effect:** Cole and Sampson’s random controlled trials in India and Indonesia found that financial literacy education had no effect on the probability of opening a bank savings account. They found in contrast that modest financial subsidies, in the form of cash incentives, had large effects, significantly increasing the share of households that opened a bank savings account.³⁸

As these studies (and their small number and narrow coverage) suggest, whether financial education delivered to low-income customers effectively expands their financial capability is vastly underexplored territory. Major questions about what works and what doesn’t remain. For example, does classroom-based training—beyond “rules of thumb” training—result in any proven behavior change? If so, over what time period? Do incentives improve outcomes, and if so, under what circumstances? Do mass-media financial education models work,

and if so, in combination with what? Which models produce results for which customer segments? What is the full census of activity being undertaken by MFIs and other providers?

On the plus side, the field is beginning to increase its efforts to address these and other core questions. Several new studies have been commissioned to rigorously analyze the results and effectiveness of a variety of financial education programs currently being delivered—with early results expected in the near future.³⁹ These studies encompass but are not limited to:

- Mass-media models that deliver financial education programs through video and radio
- Models that target particular customers (e.g., migrant workers)
- Peer-based models that link financial education and remittances
- Savings product-linked models and matched-savings incentive models

FORTHCOMING ADDITIONS TO THE EVIDENCE BASE

Results are expected on a number of experiments that should add to the current evidence base on what works and what doesn’t in financial education, including:

- Russia-World Bank Trust Fund for Financial Literacy and Education <http://sitesources.worldbank.org/>
- Results from 14 experiments the Department for International Development (DfiD) Financial Education Fund conducted in Africa www.financialeducationfund.org/
- Forthcoming results from various evaluations and trials conducted by the Poverty Action Lab (J-PAL) and Innovations for Poverty Action (IPA)³⁹

³⁷Morawczynski O., Ghosh I., and Matovu J., *Financial Literacy Pilot Report*, Grameen Foundation, AppLab, 2010.

³⁸Moreover, an increase in the incentive from \$3 to \$14 increased the share of households that open a formal savings account from 3.5% to 12.7%, an almost threefold increase. See: Cole S., Zia B., and Sampson, T., *Financial Literacy, Financial Decisions, and the Demand for Financial Services: Evidence from India and Indonesia*, Harvard Business School, 2009.

³⁹Several forthcoming studies of note including: Shawn Cole, Jeremy Shapiro, and Bilal Zia, *Video-Based Financial Literacy: Experimental Evidence on Savings, Credit, Insurance, and Budgeting from India*; Dean Karlan and Martin Valdivia, *Using Radio and Video as a Means for Financial Education in Peru*; Shawn Cole, Jeremy Shapiro, and Bilal Zia, *Evaluating the Effect of Financial Literacy Workshops for Migrant Mineworkers in South Africa*; Rashmi Barua, Dean Yang, and Bilal Zia, *Evaluating the Effect of Peer-Based Financial Education on Savings and Remittances for Foreign Domestic Workers in Singapore*; Dean Karlan, Edward Kutsoati, Margaret McMillan, Christopher Udry, Shawn Cole, Jeremy Shapiro, and Bilal Zia, *Savings Account Labeling and Financial Literacy Training in Ghana*.

The Business Case for Financial Education

As the above section illustrates, much of the debate about the value of financial education models has focused on the comparative effectiveness of their curricula and pedagogy. The guiding question informing these debates has been: How successfully have they brought about behavior change in the low-income consumers they target?⁴⁰ This is an important question—but it is not the only one worth asking. How about costs? Indeed, evaluations in the field thus far have almost completely side-stepped critical questions of cost and scale.⁴¹ There has been little discussion or analysis of how models compare when evaluated in terms of the cost per customer for delivering financial education, the cost of developing the various methodologies, whether they have a cost recovery rationale and the extent to which scale

delivery will have an impact on these two questions, e.g., will delivery at scale in fact lower the cost per customer, as many programs claim.⁴²

To some degree, the matter of costs has gone unexamined because of the field's historic overwhelming reliance on outside funding for its financial education programs; indeed, many of the largest and best-known programs have been entirely grant-funded. Until very recently, the general default framing even for MFIs has been to treat most financial education as a cost center—and we found multiple examples of grant-funded financial education programs that were discontinued once funding expired. Only **about 35% of the MFIs and other financial institutions interviewed for this project viewed financial education for low-income consumers as a potential strategic asset to be invested in** versus a perpetually grant-funded program or cost center.⁴³

⁴⁰For the most part, third-party impact evaluations are only about seven to ten years old.

⁴¹Recent reports have pointed to the need for a fuller consideration of these sets of issues. See, for example, the Microfinance Opportunities and Genesis Analytics report, *Taking Stock: Financial Education Initiatives for the Poor*, 2011. (<http://www.themastercardfoundation.org/pdfs/TakingStockFinancial.pdf>). See also *Financial Literacy: a Step for Clients Towards Financial Inclusion*, authored by Monique Cohen and Candace Nelson specifically for the 2011 Microcredit Summit (<http://microfinanceopportunities.org/docs/Microcredit%20Summit%20Paper%20Final.pdf>)

⁴²As is claimed by many programs which have programs operating at early and pilot stages, including from our conversations: Proyecto Capital, Aidha, Cambodia's ILO pilots, etc.

⁴³Note also that in the recent MasterCard-funded study of 12 models around the world, the vast majority of models relied on outside funding, though seven of them saw a potential "investment case" for financial education versus considering it purely as a cost center. See: *Taking Stock: Financial Education Initiatives for the Poor*, 2011.

The Changing Financial Education Landscape

In this chapter, we offer a brief overview of the three primary categories of financial education models—mass-market, individual and group-based—looking at three examples of group-based financial education training in slightly more depth.

We then share the results of our analysis of the costs associated with various financial education delivery models, which range from \$0.15 to more than a staggering \$20 per learner, and demonstrate why the cost of providing financial education in the absence of a business case is prohibitive. Finally, we introduce some of the newer, experimental models that are emerging to go beyond the field's dominant delivery models.

Sitting just to the side of the 370 million to 690 million individuals with access to finance but not to financial education are the roughly **110 million to 130 million low-income consumers to date who have formally engaged in some kind of financial learning**. Yet the form and the nature of the education these consumers have experienced has been highly variable. In the course of our research, we interviewed leaders and staff from more than 90 organizations involved in the financial education ecosystem, documenting scores of programs and models being implemented by a host of providers. Indeed, 75% of the financial institutions we contacted reported that they were engaged in some form of financial capability building. Currently, these and other financial institutions are utilizing a wide variety of models for delivering financial education to low-income customers. And while these various models share the common goal of building and increasing consumers' financial knowledge and awareness, they often do so by different paths and according to different priorities.

At the most general level, there are three primary types of models for delivering financial education training: mass market, individual and group-based.⁴⁴ Because our focus in this paper is not on models targeting the general public—but rather on efforts by financial institutions to provide customers with

financial education as either part of, or a prerequisite to, their financial deals—we only briefly cover mass-market models below.⁴⁵

Mass-Market Models

Mass-market financial education most often takes the form of awareness campaigns. Typically conducted by central banks and governments and delivered via mass-media channels, these campaigns strive to create broad awareness of financial principles, make people aware of their rights as consumers or reinforce key messages provided elsewhere. They can play a helpful role, among other things, as a trusted voice that delivers important protection messages about fraudulent behavior, like Ponzi schemes, etc. Examples of mass-market approaches include efforts by the Central Bank of Malaysia to disseminate financial education information, as well as teaching aids for adults and youths, online; the Reserve Bank of India's "Project Financial Literacy," which makes resources and tutorials available to the broader public, including students, women, rural and urban poor, defense personnel and senior citizens; and the Central Bank of the Philippines's efforts to familiarize the public with various banking products and services they may encounter.

⁴⁴While this paper does not document all financial education models, it does capture a meaningful cross-section of efforts and the majority of group-based and individual programs that various financial institutions provide. Though our coverage of mass-market models are brief—since they are rarely product-linked or delivered by financial institutions—we recognize their importance in the landscape as delivering key messages and/or reinforcing messages delivered in group or individual settings.

⁴⁵While we map a wide variety of models that are currently in the provision landscape—from mass-media-delivered public awareness training to individually provided credit counseling for existing customers of MFIs and banks—we are primarily focused on financial education models that are delivered with a product linkage. This naturally emphasizes delivery of financial education training by financial institutions (or their partner NGOs) targeted at potential, new or existing customers.

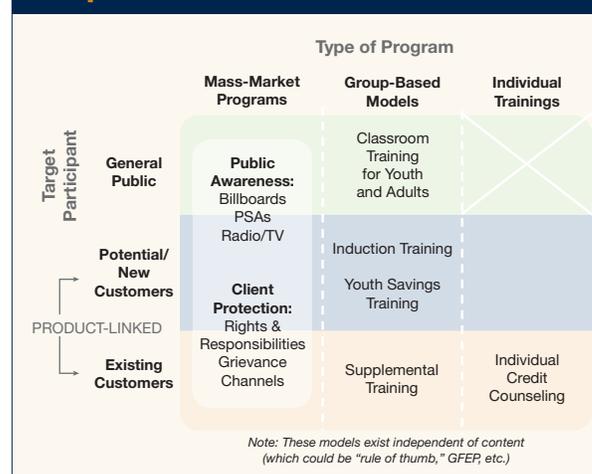
Individual Models

Because of the prohibitive cost of delivering detailed financial education on a one-on-one basis, the field has not focused extensively on building out individual models—although with the advent of technologies like mobile messaging, this is now changing. The strongest example of an individually targeted financial education model is credit counseling, or individual financial counseling, which typically provides consumers with an individual needs assessment combined with appropriate products at various stages. For example, SEWA Bank in India offers individual counseling through “bank saathis” (relationship managers) at the time of product sale. While SEWA Bank’s experiences suggest that such individually delivered, customized counseling may be optimal for improving the financial lives of low-income consumers, it has historically proven much too expensive to provide.⁴⁶

Group-Based Models

The vast majority of financial education to date has been delivered through group-based training, usually conducted in a classroom setting. Across those we spoke to and covered in desk research, we found that most current financial education models are group-based programs featuring one-time training, usually held in classroom settings. Some of these, especially those delivered by financial institutions, are product-linked, but many are delivered on a standalone basis by NGOs, central banks, government schools and development institutions. Broadly speaking, then, there are two general categories of group-based training: (1) training delivered and funded through NGOs/ grants and aimed broadly at the general public and (2) training funded by financial service providers and targeted to existing or new financial services customers. Both are considered below.

FIGURE 3.1. The Traditional Landscape of Financial Education Models



1. NGO- and Grant-Funded Group Models

Like the mass-market approaches mentioned above, NGO- or grant-funded group-based models do not attempt to differentiate consumers or cater to particular segments; they are either aimed broadly at the general public or target youth or adults as a broad group, and all of these programs are at least nominally divorced from efforts to market specific—or any—products and services.⁴⁷ These models are typically led by an NGO or youth-based savings programs and are sometimes funded by central banks and delivered directly by schools or government. They might also be delivered by the NGO wing of MFIs or by NGOs funded by commercial banks.

Example: Classroom Training for Youth and Adults

Classroom-based financial education training is dictated by the preferred curriculum of the NGO or other organization delivering the training. For example, Aflatoun is a Netherlands-based NGO that focuses on providing social and financial education to children around the world. Its activity-based curriculum—which teaches school-going children about saving, spending and budgeting—has been implemented in 80 countries and reached an

⁴⁶Interviews with SEWA management, 2011.

⁴⁷Exceptions include some new youth-based programs that pair opening a savings account with training. Mia by Banco Adopem and Sofea by BRAC both provide training programs on personal development, life skills, and household finance and budgeting to young girls who are encouraged to save as a part of the program. Training can even occur at bank branches so that the girls may open accounts onsite.

estimated 1 million children. Another example is Nigeria's version of the Junior Achievement Program, which provides primary- and high-school students with training on personal development for improved livelihoods.⁴⁸

A few commercial banks and other financial institutions with programs in this area have tended toward efforts of this sort, aiming not specifically at customers but at the broader community of customers' families or potential future customers of the financial services sector. South African Standard Bank's program, featuring a competitive board game designed to teach children in government schools about financial literacy and management, has already reached 1,800 schools.⁴⁹ In Peru, the Superintendency of Banking and Insurance (SBS) has introduced an aggressive program in conjunction with the Ministry of Education to embed financial literacy in schools at the secondary level across Peru, reaching more than 200,000 students in 2010.

2. Financial Service Provider Group Models

Below we take a closer look at two examples of the second kind of group-based training: that offered by financial service providers to active or prospective low-income customers. Most of these models have been pioneered by MFIs:

Example: Induction Training for MFI Borrowers

Within MFIs, the main mode of delivering financial education has been induction training—a specialized training delivered by loan officers to new MFI customers. Induction training has long been a standard part of MFI lending practice. Indeed, some **80 million to 100 million** low-income customers have had some form of induction training prior to

receiving a loan from an MFI. Induction training is typically delivered to groups of customers at once and usually as a precondition to becoming a customer or gaining credit approval. By and large, induction training has tracked to the growth of the microfinance industry in most places. Although not explicitly designed to deliver a heavy program of financial education per se, it has traditionally been built into the cost structure of most MFIs; they have usually covered the costs—at about \$0.50 per customer—out of operating revenues.

Because MFIs have invested in induction training as a cost-embedded risk management tool, the cost is usually recovered through lending and other operations.

However, in certain mature markets, MFIs report that induction training is under severe pressure. In Bangladesh, India, the Dominican Republic and Peru, multiple MFIs now compete for the same client, and banks are moving down-market to reach the same customer base. In Bangladesh, BRAC used to provide eight to ten hours of financial literacy training spread out over four to five weeks, combined with group and credit discipline processes like mandatory deposits for every new customer. But then it began losing potential customers to newer or more flexible organizations with fewer entry requirements.⁵⁰ It was forced to reduce its

⁴⁸*Taking Stock: Financial Education Initiatives for the Poor*, Microfinance Opportunities and Genesis Analytics report, 2011 (<http://www.themastercardfoundation.org/pdfs/TakingStockFinancial.pdf>).

⁴⁹The Winning Teams Programme is a schools-based initiative that uses an interactive board game to teach learners about money management, banking, entrepreneurship and the economy. It is aligned with outcomes-based education and taught as part of Life Orientation, Economic and Management Sciences or Mathematics Literacy subjects. As of 2010, Winning Teams reached 1,832 public high schools across all nine provinces in South Africa, costing about USD2.6 million. In certain schools, where the board games are branded, the program requires that all players open bank accounts with Standard Bank (part of the SA *mzanzi* program). See: <https://sustainability.standardbank.com/socioeconomic-development/inclusive-banking/consumereducation/>.

⁵⁰Organizations like FINCA and Banco Adopem reported similar experiences and pressures in interviews with Monitor. On the other hand, in Kenya, a less mature market, KWFT has been able to impose an eight-week introductory training period, suggesting that the role of market maturity and competition on induction training should be explored further.

upfront training not because competitors offered better training but because they offered no training at all.⁵¹ In response to these new pressures, some organizations like BRAC have scaled down to more low-cost, spare versions of the same training, whereas others like BRI in Indonesia have done away with induction training altogether. Others have shifted to programs that selectively target customers to improve repayment or retention.

Example: Supplemental Training for Existing Customers of MFIs or Banks

Supplemental group-based training includes a wide variety of training delivered to groups of existing customers at an MFI or in some cases, at a bank. Training typically covers a range of financial topics, including household financial management, debt management, asset creation and cash flow management. These group-based programs are typically delivered by MFIs or other financial institutions to their existing base-of-pyramid customer base. In sum, grant-funded, supplemental training programs have managed to reach more than 5 million customers directly, and more via indirect means (see Chapter 1).

Supplemental training is often driven by specialists—third parties or MFI networks—who design and develop the curricula for MFI staff trainers.⁵² During our research, we observed at least four different examples of supplemental training, each using different curricula, timetables, delivery methods, and trainers. Two organizations in particular—

On average, supplemental training programs delivered by MFIs required four to ten hours of customer time.

Microfinance Opportunities and Freedom from Hunger—are responsible for many of the curricula used by MFIs in these trainings. In 2006, the two organizations joined forces to launch the Global Financial Education Program (GFEP), which to date has trained more than 350 trainers globally and more than 300,000 consumers through partner organizations. GFEP has also reached approximately 20 million people through other channels and is considered a hallmark in this space.⁵³ Some commercial banks have also gone down the supplemental training route, though more recently and not to the same extent. An example is Standard Bank of South Africa, which conducts two programs on financial literacy using workshops and classroom training: one targeted at community members covering the basics of banking, savings, budgeting and credit, but taught by community facilitators and master trainers recruited from the communities and trained by Standard Bank; and a second for informal businesses in South Africa, combining six weeks of classroom-based and on-the-job training in financial literacy, personal financial management and business financial management.⁵⁴

⁵¹It is not clear, however, that reducing induction training time affects portfolio at risk (PAR) or other key metrics of performance for MFIs or consumers. No one has systematically collected the data to answer this question.

⁵²This has the significant benefit of sharing the basic curriculum development and research costs across multiple institutions, reducing the cost to the MFI.

⁵³ For a full list of programs, partners and funders that are part of the MFO-led Global Financial Education Program, see: <http://globalfinancialed.org/index.html>.

⁵⁴See: <https://sustainability.standardbank.com/socioeconomic-development/inclusive-banking/consumer-education/>.

SUPPLEMENTAL TRAINING: SOME NOTABLE EXAMPLES**• Specialized, trainer-provided classroom-based training:**

e.g., *Microfinance Opportunities (MFO)* offers structured modules on accounting principles, better management of credit and savings products, household budgeting, etc. It is delivered in classrooms by specialists trained by MFO, partners and affiliates, etc.⁵⁵ These programs are usually run for six to 12 hours spread over three days (or weekly two-hour classes over five to eight weeks).

• Loan officer-provided, group meeting-based training:

e.g., *Freedom from Hunger (FFH)* offers interactive, dialogue-based or role play-focused situations for discussing accounting principles and management of credit and savings products. Training is usually delivered in group meetings to clients by loan officers trained by the NGO partner (FFH). They last 20 to 30 minutes per meeting over five to 12 weeks.

• Training of trainer plus loan officer-provided product training:

e.g., *Opportunity International (OI)* offers modular curriculum focused on increased product understanding and greater uptake and usage of savings and insurance products. It is delivered through a “train the trainer” model to MFI staff trainers and loan officers, who in turn train customers. Sessions for MFI clients usually last one to two hours, though can be longer.

• Trainer-delivered, simplified “rules of thumb” training:

e.g., Various experimental trials by groups such as *Jameel Poverty Action Lab (J-PAL)* and *Innovations for Poverty Action (IPA)* have also collaborated on other group-based approaches that feature different content. One experiment consisted of practical application-based training using simplified “rules of thumb” to convey decision rules and principles for basic enterprise management, cash-flow accounting, the deduction of fixed-salary payments, etc., and was delivered by specialist trainers to groups of MFI clients in sessions of one to three hours each.

⁵⁵Examples of other partners delivering training include classroom training programs using multimedia and financial literacy tools at Faulu, a deposit-taking MFI in Kenya. See: Microfinance Opportunities and Genesis Analytics report, *Taking Stock: Financial Education Initiatives for the Poor*, 2011. Additionally, MFO is able to leverage their content and curriculum to nonclassroom formats as well (extending to portable multimedia, flipcharts and comic books, etc.) (<http://www.themastercardfoundation.org/pdfs/TakingStockFinancial.pdf>).

The face-to-face nature of these supplemental models makes them time-intensive for trainers and customers alike. On average, such programs required four to ten hours of customer time. There is also a significant cost to designing and developing curricula, and to adapting them to local contexts.⁵⁶ A few MFIs, such as KWFT in Kenya, are experimenting with cost-recovery and partial-charging models, but for the most part these programs are run purely as cost centers.⁵⁷

Current Models: Cost to Deliver

As Figure 3.2 shows, the dominant models in the field today range widely in their cost per learner. Financial education delivery costs when delivered in a group setting by a financial institution (e.g., induction and supplemental training) can range from about \$0.15/client to *more than* \$20/client; especially when the initial curriculum development cost is included. Given the paucity of impact data (as described in Chapter 2), it is difficult to say conclusively if these expenditures are wise or unwise. But even if they delivered known, stellar outcomes, most delivery methods remain far too expensive.

Indeed, while one could spend ample time comparing the educational merits and relative efficacy of these dominant delivery models, a key issue is cost. To date, the **cost of providing financial education, whether classroom-based or individual, in the absence of a business case, has proven prohibitive**—so much so that few, if any, courses or programs have scaled beyond 350,000 customers.⁵⁸ As Figure 3.2 suggests, it would be extraordinarily expensive to try scaling these current models to cover the 370 million to 690 million individuals who are currently part of the financial capability gap (with access to finance but not to financial capability). Attempting to bring these millions of individuals to full capability via supplemental training, for example, which costs roughly \$14 to \$20 per customer (on a fully loaded basis), would run \$7 billion to \$10 billion. Moreover, to reach the goal of full financial inclusion by 2020 would require providing some form of financial education to an additional 2.7 billion currently unbanked people—the costs of which, under current models, would be absolutely staggering.⁵⁹

⁵⁶The *full* cost to develop and deliver these programs typically ranges anywhere from \$14 to \$20 per customer, although some examples are even higher. The cost for delivery only—i.e., the marginal cost to the MFIs—ranges from \$1.50 to \$2.00 per customer.

⁵⁷More than two-thirds of the MFIs and financial institutions we spoke to considered financial education to be a cost center and preferred to depend on grant funding (versus viewing financial education as a strategic asset or differentiator and exploring the possibility of a business case).

⁵⁸This does not include induction training, which has reached a much higher number, but on the back of a business case for the MFI providing it.

⁵⁹We do not mean to imply either that it is necessary—or even desirable—to cover the 370 million to 690 million individuals in the gap today with classroom-based or even other models of financial education. One of the key points we make is that this is prohibitively expensive using current models. It is far more likely that some form of capability will be delivered to them through a mixture of different capability tools and levers (see Chapter 2) including incentives and better, simpler products with recourse mechanisms, regulatory action, etc.

FIGURE 3.2. Select Current Models: Characteristics, Cost and Reach

Select Models	Delivery Model	Training Duration	"Fully Loaded Cost"/ Customer ⁶⁰	Number Reached
Public Awareness	Mass Market: Billboards, TV and Radio, Web	N/A	<\$1	Millions ¹
Induction Training	Group: Loan Officers	60-120 minutes ²	<\$0.15 ²	~80-100 Million
Youth Savings Training	Group: (MFI/NGO) Special trainers	15 hours over 3 days ³	\$24 ³	At least 15,000
Supplemental Training	Group: Special trainers	150-600 minutes over 5-12 weeks ⁴	\$14-\$20 ⁴	~5 million ⁴
Individual Credit Counseling	Individual: MFI trainers	Varies	\$20+	N/A

¹It is very difficult to derive accurate estimates for public awareness programs, since they often utilize mass-media and broadcast channels. It is certain to be above 20-25 million, the figure estimated by GFEP for just mass-market programs and included in our earlier estimates.

²Figures are derived from MFI examples; can go as high as 480 minutes over eight weeks and \$0.56 per customer (as in the case of BRAC).

³The "Number Reached" figures are taken from adding BRAC SoFEA, Adopem MIA programs, GFEP and XAC Bank estimates. Training duration and cost to deliver estimates are from BRAC example. Please note these are not included as Supplemental training since they are delivered to non-customers and without a product linkage.

⁴Durations are taken from FFH and MFO programs. According to anecdotal evidence, cost figures may be even higher than these numbers; reported costs are from Monitor interviews and analysis.

These significant cost issues make the development of more cost-effective delivery models imperative.

The only way that the financial capability gap can be filled—even just partially—is to have a large portion of it covered by self-sustaining efforts for which there is a compelling business case, incentivizing financial institutions to build capability among customers. In an environment in which government budgets are shrinking and NGOs and nonprofits are similarly resource-constrained, there will never be enough capital to extend financial education—of unknown effect—to billions of people if it is nothing more than a cost center.

Emerging Experiments

Yet these older, more traditional models of financial education are now being augmented, updated or even bypassed, either due to effectiveness concerns or crowding out by competition. Designed for a world in which customers accessed finance via "brick-and-mortar" deposit accounts or high-touch microfinance relationships, these traditional models have not kept pace with new and fast-growing modes of access to finance. Low-income customers increasingly access formal finance, or have the opportunity to do so, through transactional touch points—government-to-person payments, remittance collections,

mobile-enabled or "branchless" banking—that are growing at 24% to 76% annually. These new modes of access place a significant premium on new and diverse approaches more geared to individual, shorter interactions.

Traditional financial education models have not kept pace with new and fast-growing modes of access to finance

Given the costs associated with these dominant delivery models and the fact that their value remains unproved, it is no surprise that new models are emerging to compete with or even replace them. Indeed, much of this experimental innovation is being driven by concerns over both the cost and the effectiveness of existing delivery models. Many of these new experiments are being developed to squarely tackle some of the shortcomings of the more-established classroom models outlined above: lowering the duration of the training time required; providing incentives for training completion; or moving training out of classroom and group-based settings.

⁶⁰Fully loaded costs include not only the marginal cost of delivery, but also take into account costs related to content design and development, and management overheads. As reported to Monitor during primary interviews.

WHY OUR RESEARCH CENTERED ON MFIs

MFIs are the only financial institution “purpose-built” for low-income consumers. In recent years, they have been at the forefront of the charge to increase access to financial services for the “unbanked poor”—and, with 24% annual growth, they have reached impressive scale. According to the *State of the Microcredit Summit Campaign Report 2011*, MFIs served over 190 million customers in at least 100 countries (http://www.microcreditsummit.org/SOCR_2011_EN_web.pdf) and about 180 million in developing countries.

MFIs today present the most advanced crucible for testing and tailoring financial services for low-income earners. They have also been the main institutional channel for the delivery of financial education to low-income customers, and therefore are critical to the success of these efforts. In many markets, they are characterized by deep penetration into the poorest households and comfortably broker multiple products (including credit and deposits, but also a host of other financial and nonfinancial services). Their relationships are characterized by their sophistication and level of “high touch”; loan officers know and interact with their customers frequently, at group meetings, branches and doorsteps. Finally, recent developments in the industry underline how critical it is to pay attention to MFIs given their potential impact—both positive and negative—on the low-income market.

At the same time, this flurry of experimentation is also being driven by considerable new opportunity:

- As mentioned, the **touch points** between low-income consumers and the financial system have expanded dramatically in recent years, creating many new channels for communication and learning. For example, some financial institutions are experimenting with using CCTs, remittances and other nontraditional touch points in the financial system to address potential customers and give them short-format, individually delivered training.
- **Technologies** like mobile phones and point-of-sale devices are radically lowering the costs of financial services and financial education delivery. Instead of relying on intensive, face-to-face programs, some financial institutions are delivering training through technology and mass media. For example, Opportunity International Bank of Malawi now offers financial training to customers on DVD rather than in the classroom (described further below).
- Financial institutions are also now able to **target** customers in new ways, which is creating opportunities to tailor financial education training to specific customer segments. For example, some

financial institutions are beginning to narrowly segment customers by a particular business issue or financial occasion and target their training accordingly (e.g., providing basic training for potentially delinquent customers or retention-oriented training for promising customers who could potentially borrow more or deepen their relationships).

Indeed, the landscape of financial education models is expanding rapidly thanks to these and other driving forces—and some of the resulting experiments are quite promising. A few in particular are worth mentioning.

- Opportunity International Bank in Malawi (OIBM) started offering financial education in 2004, just a year after it started operations, and quickly recognized that it needed to be demand driven. Its financial education program consists of **a mix of multimedia information delivery (DVDs and radio) and one-on-one coaching**. While a thorough analysis of the cost recovery potential or the broader business case for these trainings has not been conducted, anecdotal evidence from interviews with customers suggest that they find it useful in helping them to budget and use money

more wisely. OIBM believes that these efforts will help to boost client loyalty over the long term, thus creating a business case for continuing this investment.⁶¹

- Similarly, Faulu Deposit-taking Microfinance Ltd (Faulu) in Kenya launched a financial education program in 2010 that uses a mix of face-to-face training with **DVDs, comic strips and financial education booklets**. To ensure the sustainability of the program, Faulu charges customers for the program.⁶²
- Recently, some financial institutions have started experimenting with **incentive-based** programs that reward good financial behavior. Indeed, incentives can be an effective lever because in and of themselves, they hold the potential to directly change financial behavior without necessarily requiring additional financial education and awareness. For example, in 2010, U.S.-based Filene Institute, along with CGAP funding, launched a pilot project called Low Interest for Timeliness (LIFT), which incentivizes better financial behavior by rewarding on-time payments with interest rate reductions. Meanwhile, U.S.-based Payperks now offers **a rewards platform that makes financial education an intrinsic part of the offering**; customers who complete education modules online and demonstrate desirable card usage behavior (e.g., paying bills on the card, depositing more money onto the card, etc.) can earn rewards, including cash rewards. Although we found scant evidence of incentive-based programs in the developing world, these and other promising pilots in the OECD countries are worth following.
- In the Philippines, a **mobile wallet program** offered by Globe, called GCASH, was originally designed to carry out bank transactions, but rural customers began using it primarily to send money to family members instead. To address this, the bank developed a consumer education campaign to encourage clients to more fully use its available services. After finding that client misunderstanding was a driving force behind the limited usage, Globe and its partners developed publicity tools that combined basic financial education with product marketing. Bank staff and merchants were also trained in these tools so that they could help customers use the service.
- Financial Information Network and Operations (FINO) in India, the owner of a **banking technology platform and service delivery channel that links customers to formal financial services**, wanted to encourage the more than 40 million customers registered for its service to use FINO smart cards. FINO's training program—designed in partnership with MFO—has two components. First, FINO's existing network of business correspondents, trained by MFO—delivers two-day training workshops to customers in their local communities. In these workshops, correspondents educate customers on money management skills (e.g., savings and budgeting, how to use FINO's smart card as a tool to manage money). In repeat visits and interactions with the customers, a portable, illustrated flip-book enables correspondents to deliver short, sharp messages that reinforce the earlier training program. The projected cost per learner is \$6, not including product development.

⁶¹ *Taking Stock: Financial Education Initiatives for the Poor*, report from the MasterCard Foundation, Genesis Analytics and Microfinance Opportunities, 2011.

⁶² *Ibid.*

- **Kshetriya Gramin Financial Services (KGFS)** in India is a rural-focused financial institution primarily serving low-income customers. They consider a household to be the unit of analysis—and through a sophisticated process of needs-analysis and budgeting, **deliver an escalating suite of financial services backed up by financial education**—all provided through **individual counseling** which is embedded in the product promotion process. Aims to cross-sell a portfolio of financial products include credit, insurance, pension, etc.—but ensure that their frontline agents are not incentivized solely for sales, but rather for assisting a household to meet their financial planning, income generation and risk management targets.

These and other experiments with financial education models are still in their early days, and it is clear more will need to be done to better understand and test their full impact. While some of these emerging models may have a business case for the financial institution delivering them, most are still to be proven out. Indeed, there is no certainty about which models and programs—old or new—will dominate in the future. But one thing is certain: As the financial education field looks for better answers to the question of which models can scale cost-effectively, it will be critical for these and other models to have a clear business case.

TEN TO WATCH: INNOVATIVE EXPERIMENTS FROM THE FIELD

Mass-Market Programs

- Telenovelas and soap operas with FE messages directed at mass audiences (e.g., KASHF in Pakistan and Banco Adopem in the Dominican Republic)
- TV broadcast of FE documentary on local city cable network (e.g., Ujjivan, India)

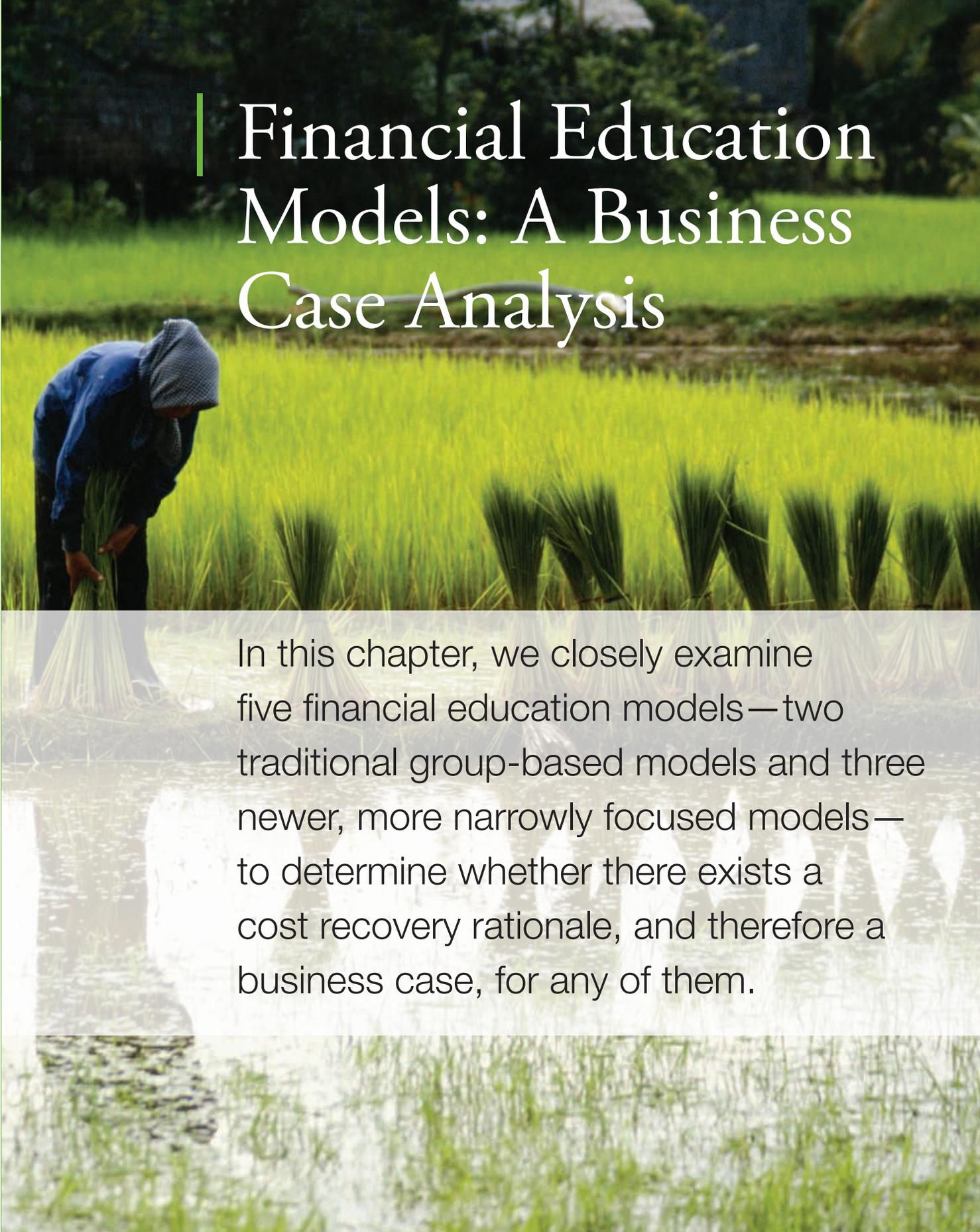
Group Programs

- Narrow selection of at-risk customers to provide targeted “delinquency management” training (e.g., Banco Adopem, Dominican Republic)
- Narrow-selection of “star performer” microentrepreneur customers to provide advanced-level FE on business-related topics (e.g., Shakti Foundation, Bangladesh, KWFT, Kenya and Mann Deshi Mahila Bank, India)
- DVD-based financial education screening at branch/village node followed by trainer-led Q&A session (e.g., OI Bank of Malawi, Malawi)

Individual Programs

- FE training alongside offer of savings account-linked conditional cash transfer (CCT) programs (e.g., Proyecto Capital “Juntos” program in Peru)
- Training to unbanked remittance/money transfer recipients plus offer of “no frills” savings accounts (e.g., Inter-American Dialogue Program in multiple countries with commercial banks)
- Incentives providing reward opportunities for completing education modules online plus demonstrating desired card usage behavior (e.g., PayPerks, USA)
- Mobile banking product plus SMS-based savings reminders (e.g., Grameen Foundation-AppLab pilot, Uganda and IPA experiment in Philippines, Bolivia, & Peru)
- Customized financial counseling plus suite of multiproduct offering (e.g., KGFS, India)

Financial Education Models: A Business Case Analysis



In this chapter, we closely examine five financial education models—two traditional group-based models and three newer, more narrowly focused models—to determine whether there exists a cost recovery rationale, and therefore a business case, for any of them.

Next, we compare and contrast the features and benefits of all five models, resulting in key insights about their strengths, weaknesses and viability, and lessons for scaling up financial education efforts.

In the previous chapter, we looked broadly across the range of financial education models—from the dominant older models to newer experimental ones—in order to convey the full diversity of approaches that characterize the current financial education landscape. We concluded with the supposition that in order to address the very real and very large capability gap, the financial education field will, at minimum, need to create or adapt training models that (1) are more demonstrably effective and (2) offer a compelling business case to the financial institutions that use them.

Below, we take a closer look at five financial education models—all delivered by or through financial institutions and linked to products—with an emphasis on whether there exists a cost recovery rationale, and therefore a business case, for any of them. Specifically, we examine two group-based models briefly introduced in the last chapter—induction training and supplemental

training—through which the vast majority of financial institution-led training currently gets delivered. We then introduce and examine three newer, more narrowly focused models—delinquency management, star performer and transaction intercept—and consider the business case for each of these as well.

Model 1: Induction Training

Induction training has been built into lending operations since the inception of the microfinance industry—and it is by far the financial institution-delivered model with the greatest coverage. Induction training has reached an estimated 80 million to 100 million clients to date, which constitutes an impressive coverage of the addressable market of MFI borrowers.⁶³ In addition, it has been for the most part embedded into the MFI model in a manner that allows full cost recovery.

FIGURE 4.1. Overview of Models Profiled in Business Case Analysis

Model	1. Induction Training	2. Supplemental Training	3. Delinquency Management	4. Star Performer/Retention	5. Transaction Intercept Training
Model Type	Group	Group	Individual or Group	Individual or Group	Individual
Relevant Financial Services	Credit, savings	Credit, savings, insurance	Credit	Credit, savings, insurance	Remittance, CCT, savings
Audience	New and potential customers	Existing customers	Existing customers	Existing customers	New and potential customers
Offered By	MFI	MFI, banks	MFI	MFI	Banks, NGOs
Description	Training delivered by loan officer on basic financial issues; offered by MFIs to new customers upon entry	Training delivered by loan officer or specified trainer on specific financial literacy topics (e.g., household budgeting); offered to existing customers	Training and counseling by loan officer on specific credit management and financial literacy issues; targeted at select borrowers at risk of default	Training by specialized trainer on financial literacy and business-building skills; offered to well-performing customers with potential to borrow more	Introduction by trained agent to basic financial literacy issues (e.g., value of savings); provided at point of contact with financial system (e.g., cashing remittance check)
Targeted To	Broad-based	Broad-based	Targeted	Targeted	Targeted

⁶³MixMarket website (<http://www.mixmarket.org/>).

Education Program

For MFIs, induction training serves as a means to mitigate the risks associated with the lending process, the rationale being that product-literate and group-disciplined consumers are less likely to miss repayments or be aggrieved about terms and conditions post-purchase.

Induction training is delivered by a loan officer to new MFI customers prior to their loan. It is almost always mandatory and usually covers topics like credit product features, repayment expectations and cycles, and group discipline. Across the four induction training programs we studied (see box, “Induction Training: Examples Studied”), the basic structure was similar, though there was some variation in the length of the training. In most markets, induction training lasts roughly one to two hours per session, although it can be longer. BRAC, for example, used to offer a four-week, eight-hour mandatory induction training period, during which new customers were expected to make deposits and build credibility before they could become credit eligible.⁶⁴ KWFT still practices an eight-week induction program.

Cost Economics and Business Case

Induction training is surprisingly inexpensive, with costs ranging from about \$0.07 to \$0.54 per customer. This variation is a function of the duration of the training program and other factors.⁶⁵ In other words, the costs of providing induction training at scale to all new customers of an MFI is not prohibitive. Each of the four examples studied also presented a strong business case.

Additionally, our analysis suggests that induction training has minimal impact on the profitability of MFIs (see Figure 4.3). At an average customer acquisition growth rate of 24% (pegged to industry growth figures), the cost of training all new

INDUCTION TRAINING:

Examples Covered

- **BRAC (Bangladesh).** BRAC previously offered basic induction training to customers during a mandatory four-week waiting period before they could become eligible for credit. Credit officers delivered eight hours of modular training to new members of its microcredit program.
- **KASHF (Pakistan).** Pakistan’s first specialized MFI, KASHF, focuses solely on women. It provides 45 to 60 minutes of induction training to all new microcredit customers on the productive use of loans, timely repayment, avoiding of overindebtedness, increasing savings and consumer rights.
- **KWFT (Kenya).** The sixth-largest MFI in Africa, KWFT, has an intensive induction program featuring eight weeks of customer training. New customers are trained on product features, repayment schedules, fiscal discipline and the formalities of group lending in eight one-hour sessions.
- **Mann Deshi Mahila Bank (India).** This rural credit union cooperative for women in India offers a two-hour basic financial literacy induction training.

customers at KASHF, KWFT and MDMB is between 0.2% and 1.3% of annual profits.⁶⁶ For BRAC, the total cost for all new customers is about 4.3% of profits, which is still modest. Given the relatively low expense ratio, it is not surprising that the induction training model has offered a good business case to MFIs for the last two decades.

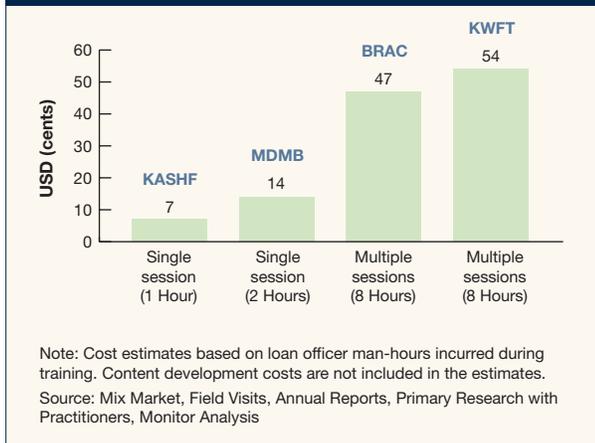
⁶³MixMarket website (<http://www.mixmarket.org/>).

⁶⁴This program has been discontinued by BRAC due to competitive pressures.

⁶⁵Cost estimates are by Monitor, and based mainly on cost data of loan officer time used in training. Content development costs and management costs were not included in these estimates. The estimate range is due to factors like regional variation in loan officer salaries, length of the training program, etc.

⁶⁶The key assumption in this analysis is the estimation of the rate of new customers that an MFI inducts every year. We pegged customer growth rate against two benchmarks: the global industry growth rate for microfinance (24%) and a slower growth scenario of 10% (taking into account the relatively mature markets in which key players operate). Costs are also low for this model because a baseline of clients has already received induction training, so the cost is primarily a reflection of the cost to add new customers.

FIGURE 4.2. Marginal Cost to Deliver Induction Training for a New Customer



Issues and Challenges

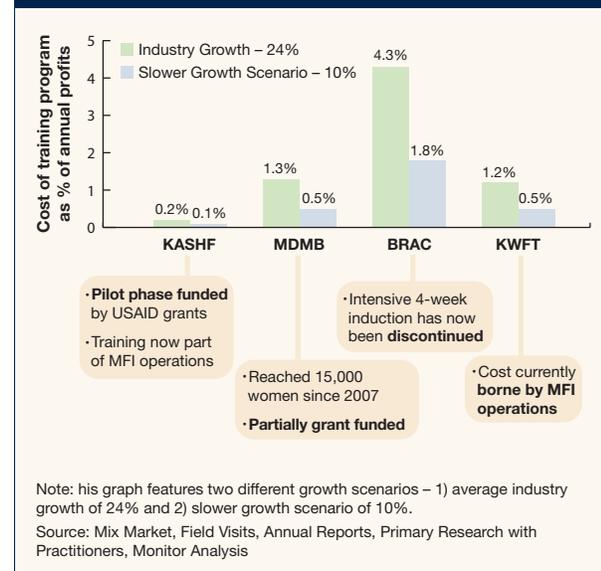
However, the induction training model is **under threat from competitive pressures** in mature MFI markets, because newer providers are willing to offer credit without induction training. As a result, even some MFIs with long-established induction training programs are rethinking their use of this model. The experience of BRAC in Bangladesh is instructive in this regard. BRAC's model, predicated on a certain waiting period and correspondingly a minimum amount of vetting and training, is being challenged by newer and more flexible providers willing to offer customers credit without these procedures. Citing competitive pressures, BRAC has since discontinued its previously mandatory four-week induction training.⁶⁷ This retreat from induction training, based not on cost or business case but on competitive pressures, creates a risk in these markets of a “race to the bottom” resulting from lower standards or lack of customer entry requirements for credit accounts.⁶⁸ Mandatory training and related requirements have been part of the risk management paradigm for MFIs for so long that their removal could present some risk to the microfinance model itself. However, no one

⁶⁷This resonates with interviews with FINCA (and in Latin America in general) and Banco Adopem (Dominican Republic) about operating in markets where customers have access to multiple sources of credit and are thus unwilling to wait for credit.

⁶⁸The elimination of induction training—and the waiting and vetting period that usually accompanies it—undermines the risk management mainstay of MFIs. Organizations in markets like Bangladesh, Peru and the Dominican Republic are responding to this competitive threat by either drastically scaling down or eliminating their own programs—and doing so without providing a replacement by way of new financial capability-building activities. Such a limbo is precarious, and poses a risk of a downward pressure on the risk management floor of the entire industry.

has yet collected data on the performance of MFIs that have dropped induction training to see what has changed as a result.

FIGURE 4.3. Impact of Induction Training Program on Annual Profits of MFI



Model 2: Supplemental Training

Supplemental training refers to any model that provides additional financial education to customers already engaged with a financial institution, usually delivered in group-based classroom settings. Supplemental training is one of the most prevalent financial education delivery models and, as discussed in Chapter 3, has many variants (e.g., different curricula, durations, delivery methods and trainers). There is also a reasonable level of evidence to suggest that supplemental training, when well delivered and adapted to local circumstances, improves customers' awareness and knowledge of key financial concepts. For example, customers of the microfinance organization FINCA reported that its

supplemental training on “branchless banking” tools (how to use ATM machines and bank cards) was very useful and helped them better understand these concepts.⁶⁹

Education Program

The curricula for supplemental training programs are developed by specialist organizations such as Freedom from Hunger, Microfinance Opportunities and Opportunity International. Typically, the groups funding these programs “train the trainers” rather than train customers directly.

Most programs feature modular content provided by the specialist bodies and modified or adapted for the local delivery and operating context. Training is often run at branch offices or weekly credit meetings. Attendance is voluntary, although customer incentives—from compensation for transport costs all the way up to certification for completion of the coursework—are provided.

Cost Economics and Business Case

On a certain level, there is a business case for supplemental training: Even if it does not lead directly to improved repayment rates, it does enhance the “social license” for MFIs. But because many supplemental training programs are grant funded, the financial institutions delivering them have largely not had to consider the business case for these programs—and the field has not historically collected, reported on or discussed the cost of delivering this model of training. Some program-level data do exist in the public domain—but there is usually no requirement to isolate design and development costs from overhead and delivery costs. That being said, our research suggests that supplemental training programs can cost anywhere from \$0.50 to \$2.10 per learner if looking only at delivery cost per customer, and roughly \$4 to \$20 per customer if taking into account overall content development costs.⁷⁰

SUPPLEMENTAL TRAINING:

Examples Covered

- **SEWA Bank (India)** uses a life-cycle-based approach to FE using adapted GFEP curriculum.¹ It has multiple delivery methods including classroom, mobile van and community film screenings.
- **Vision Fund (Cambodia)**'s new program is a combination of a recently concluded ILO-funded pilot and an original GFEP program, and features eight weeks of training by loan officers.
- **Pro Mujer (Bolivia)**, a GFEP partner, organizes financial education workshops at select branches for existing borrowers.
- **Promifin (Nicaragua and Honduras)** partners deliver mainly classroom-based training, sometimes using multimedia as a tool.

¹GFEP—Global Financial Education Program—is a collaboration between Microfinance Opportunities and Freedom from Hunger, and is a pioneering partnership responsible for many of the curricula used by MFIs in supplemental training. To date, it has trained more than 350 trainers globally and more than 300,000 consumers through partner organizations, as well as reached approximately 20-25 million people through other channels. See <http://globalfinancialied.org/>.

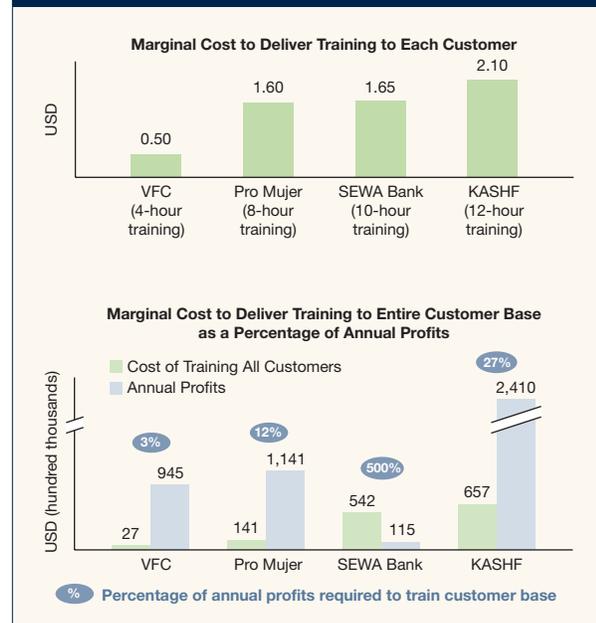
⁶⁹*Taking Stock: Financial Education Initiatives for the Poor*, report from the MasterCard Foundation, Genesis Analytics and Microfinance Opportunities, 2011.

⁷⁰Examples include Promifin Partners in Central America, whose three-day program is estimated to cost \$13.50 per customer, and KASHF in Pakistan, which puts its total program cost (fully loaded) at \$3.50 per customer—as low as we came across. We found multiple programs in the \$14 to \$20 range, reported in Chapter 3.

Our field analysis focused on delivery cost per customer, based on estimates of the man-hours required to deliver training at each of the four MFIs included in the analysis. These costs, as shown in Figure 4.4, can appear to be very low on a per-customer basis. For example, Vision Fund's loan officer-led training program is \$0.50 per customer, which puts it in the same cost range as induction training. ProMujer, SEWA Bank and KASHF show slightly higher but similar costs, ranging from \$1.60 to \$2.10 per customer trained.⁷¹ In terms of size and scope, the most extensive of these programs has trained about 350,000 customers.⁷² This suggests that supplemental training is still only reaching a small portion of the potential target audience.⁷³

Moreover, these costs per learner, while they may appear low on a unit cost basis, would have a substantial impact on MFIs' profits if training were provided to all customers instead of the relatively small subset receiving it currently.⁷⁴ Based on our research and analysis of four MFIs, investing in supplemental training at scale using the "training of trainers" model **would require an MFI to invest between 12% and 500% of its annual profits**, though costs would be substantially lower if training were delivered by loan officers. Though more evidence is needed to demonstrate effectiveness and viability, it appears that this model will be difficult to scale because it has no recovery rationale.

FIGURE 4.4. Economics of the Supplemental Training Model



⁷¹Marginal cost of delivery estimates are based on field data and interviews regarding number of man-hours used for training preparation and delivery, but not including costs of curriculum design, development or management. The cost to reach the entire customer base for an MFI is calculating using the marginal cost of delivery.

⁷²The Global Financial Education Program, a collaboration between Freedom from Hunger and Microfinance Opportunities, has delivered direct classroom-based financial education to more than 350,000 low-income customers through their ToT model. They have reached more indirectly.

⁷³Monique Cohen from Microfinance Opportunities also points out that most such training is only provided one time, and it may well be the case that to be effective such training has to be provided on a repeating basis. For figures on individuals reached, see Global Financial Education Program's update report: http://www.globalfinancialied.org/documents/fin%20ed%20update_volume%203_issue%203.pdf.

⁷⁴This does depend somewhat on the profitability of the MFI. For example, SEWA has virtually the same cost per customer as KASHF and ProMujer but a radically different scale cost for training. But even at this understated cost per customer (as we are considering only delivery cost) the cost to train all customers would require somewhere between an eighth and a quarter of annual profits.

Issues and Challenges

Supplemental training evaluations have been able to prove with some degree of rigor that MFI customers who experience this training show an improved ability to master financial content. However, evaluations have not been able to show that training creates behavior change over time or improves customers' ability to accumulate assets.⁷⁵ There have also been no studies done to demonstrate—or disprove—that the financial education offered through supplemental training improves the business case for the MFIs involved, in terms of retention, cross-selling or other activities.

Secondly, to scale supplemental training at a field-level is simply unaffordable. These programs have traditionally had outside funding. A few MFIs, like KWFT in Kenya, are experimenting with cost-recovery and partial-charging models, but for the most part these programs are run as cost centers with no view toward cost recovery. At current provision costs, it would be impossible for financial institutions to invest in this training. Indeed, to do so would severely affect annual profits. Besides, most MFIs we interviewed currently think of this as a cost center to be covered by grant funding—and like Shakti of Bangladesh, terminate the training programs once the funding runs out.

One option for lowering cost is to use loan officers instead of specialized and more costly trainers to deliver the training. Cambodia's Vision Fund is planning to do just this. However, past research has suggested that loan officer incentives typically provide little reward for conducting trainings compared to loan origination and servicing.⁷⁶ Al Amana's experiment with this model in Morocco was unsuccessful; it piloted an extensive supplemental training program delivered by loan officers, ending the program because loan officers preferred to spend their time on more traditional activities such as finding new customers.⁷⁷ If the incentives were

changed to make it as worthwhile for a loan officer to provide financial education as to originate loans or collect payments, then perhaps this would become a viable model for reducing risk or increasing cross-selling. However, analysis suggests that the provision of incentives in line with a loan officer's current earning and compensation structure would be likely to reduce annual MFI profits by between 6% and 10%. Vision Fund puts this number even higher, estimating an investment of profits of between 9% and 13% for a loan officer-led program to be successful.⁷⁸ Nonetheless these costs could prove worth incurring if there were a business case based on other factors, such as retention.

A final issue with the supplemental training model is customer mobilization and attendance. The significant time commitment required by customers (usually between four and ten hours) and the lack of direct incentives or tangible benefits from undertaking the training both act as barriers to participation.

Indeed, this last issue is true across most models and will be discussed further in the comparative analysis section below.

Model 3: Delinquency Management

The delinquency management model represents a departure from the “one size fits all” approach seen in most group-based financial education programming because it is deliberately aimed at a specific customer segment—in this case, customers judged to be at-risk of sustained delinquency or default on their loan repayment. Because there is a clearly defined economic rationale for the financial institution to offer this training, and for the recipient to engage with it, there is a compelling business case for the model: The MFI or financial institution can potentially lower default rates, improve

⁷⁵See section on the evidence base in Chapter 2. The exception is the “rules of thumb”-based training results documented in: Drexler A., Fischer G., Schoar A., *Keeping It Simple: Financial Literacy & Rules of Thumb*, J-PAL, IPA, 2010.

⁷⁶See: *Stretching the Fabric of MFI Networks*, Monitor Group, 2010.

⁷⁷Based on interviews conducted by Monitor with Al Amana management, Morocco, July 2011.

⁷⁸Monitor analysis based primarily on interviews with Vision Fund.

portfolio performance and increase client retention. Customers, meanwhile, retain access to credit and face better repayment prospects.

Education Program

Delinquency management training typically involves targeted group training (or sometimes individual counseling) for customers identified as at-risk. The training is provided by either loan officers or specialist trainers and usually occurs at or after a specific financial “delinquency moment”—e.g., a missed loan payment, continued high risk of default or imminent foreclosure. The model is aimed mainly at credit sustenance; while it emphasizes the importance of savings, it is not directly linked to savings or other products.

As with supplemental training, most delinquency management programs are subsidized by grants. Nonetheless, our analysis indicates that MFIs can recover their investments through improved earnings resulting from better client repayment—typically in the form of fewer late payments and/or lower default rates. This model has not been widely adopted to date, but both Banco Adopem in the Dominican Republic (the anchor case example for this model) and SEWA in India utilize this model.

Adopem’s program consists of eight hours of training delivered in two-hour sessions twice a week for two weeks. Trainings are delivered by specially trained, nationally certified employees of Adopem NGO. The “students” are primarily borrowers who have been identified by their loan offices to have missed loan payments.⁷⁹ To incentivize participation, the sessions are pitched as celebrations and social events, and small rewards (e.g., meals or a savings wallet) as well as travel allowances are provided. At each session, a group of 20 to 25 customers receives modular education on consumerism, tracking expenses (especially separation of personal and business accounts and expenses), debt management and basic accounting. The curriculum emphasizes practical knowledge and requires about the same time commitment as supplemental training. Although attendance for a particular session is optional, on average, 75% to 80% of customers attend the first session to which they are invited. Loan officers follow up with those who miss this first session to ensure they attend at another time. Ultimately, nearly 100% of customers identified as potentially delinquent receive financial education training.

DELINQUENCY MANAGEMENT:

Examples Covered

- **Banco Adopem (Dominican Republic).** Banco Adopem, one of the Dominican Republic’s largest MFIs, has been using the delinquency management model since 2007, with the objective of improving loan repayment and other financial behaviors among its poorest-performing customers. Banco Adopem considers financial literacy and education a priority; in addition to delinquency management, it also supports financial literacy telenovelas and a savings initiative aimed at young women.
- **SEWA Bank (India).** SEWA believes that individually customized financial counseling targeted at those at risk of or experiencing delinquency is the “answer” to behavioral change. SEWA collaborates with the Indian School of Microfinance for Women to develop certified financial counselors who provide individual counseling to customers. SEWA Bank’s training materials can be found online at: <http://www.sewabank.com/images/financial%20counseling.pdf>.

Note: Banco Adopem was the anchor case example from which most of the data is derived.

⁷⁹Adopem NGO has trainers available to provide instruction on financial education and other topics. These trainers are certified by national “train the trainer” sessions sponsored by larger multilaterals like the World Bank and the Inter-American Development Bank. They are often professors or educators by background.

FIGURE 4.5. How the Delinquency Management Model Works at Banco Adopem

Cost Economics and Business Case

Since 2007, the Adopem program has reached 6,029 customers—about 10% of its overall customer base—at an annual cost of \$28,104 (roughly \$14 per recipient).⁸⁰ Given Banco Adopem’s default rate of about 2.25% and average borrower numbers, we estimate that the program has reached about 75% of its most at-risk customers. Banco Adopem annually contributes a minority of the program costs, usually in the form of a \$5,000 to \$8,000 grant to its NGO; the majority of the funding is provided by Citi Foundation.

Adopem collects only anecdotal data on client repayment improvement rates resulting from delinquency management training; interviews with managers and loan officers suggest there is roughly a 40% improvement in loan performance. Monitor analysis indicates that the program cost of \$28,000 can be recovered if the loan repayment behavior of customers receiving training improves their credit repayment rate by 21%.⁸¹

Issues and Challenges

There are a number of issues and challenges associated with this model, the first of which is the lack of rigorous data on actual impact of the financial education program. Though anecdotal evidence suggests that targeted financial education training achieves its objective of improved loan repayment behavior, little is known about whether the curriculum and training sessions are directly responsible for behavior change over the longer term or the extent of the changed behavior they promote.⁸² Further evaluation of program impact and the follow-on effects on Adopem’s financials could help identify key issues for replication and scale.

The delinquency management model is also relatively expensive per person compared to other models due to its selective targeting, the length of training and the issue-based approach. But given that it also generates an intervention that improves the financial performance of the MFI, it is also potentially subject to full cost recovery. In other

⁸⁰See Heidi M. Sumser, *ADOPEM Bank: Microfinance in the Dominican Republic: A Case Study*, Tufts University, 2008 (<http://repository01.lib.tufts.edu:8080/fedora/get/tufts:UA015.012.074.00014/bdef:TuftsPDF/getPDF>).

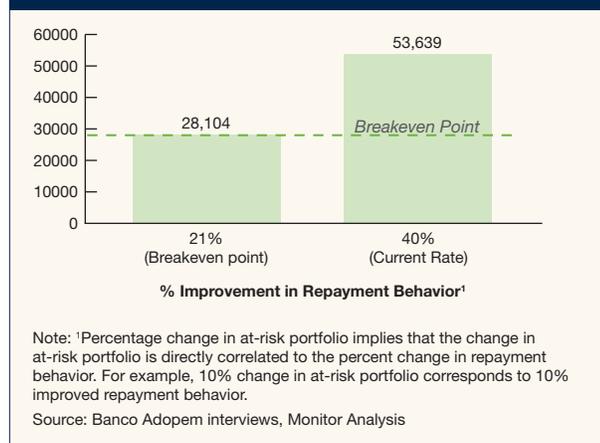
⁸¹Assumptions include a ~50% loan outstanding (\$217) at the default stage, thus putting the value of Banco Adopem’s at-risk portfolio at ~\$245,000. Percentage change in at-risk portfolio is directly correlated to percentage change in repayment behavior (e.g., 10% change in at-risk portfolio = 10% improved repayment behavior). Figures based on interviews with Adopem management and MixMarket data.

⁸²Scholars from the Poverty Action Lab at MIT conducted a random controlled study on the differences in financial education methodology; they used a sample of Adopem clients but did not assess Adopem’s existing program. The study (*Keeping It Simple: Financial Literacy & Rules of Thumb*, Drexler A., Fischer G., Schoar A., 2010, J-PAL, IPA) compares the efficacy of two types of content for entrepreneurs: a “rule of thumb” training that relates to the experiences of clients and standard accounting rules training. Their findings demonstrated that the simplified training was more effective than the standard classroom-based rules training.

words, while the model has yet to be proven and propagated, the business case is likely to be strong based on the estimates provided above.

A final issue around this model's potential is the addressable market. MFI repayment rates are usually above 95%—meaning that at best the delinquency management model will only cover 3% to 5% of any MFI's clientele.⁸³ In other words, by its nature, this model cannot address most of the unfilled gap described in Chapter 1. However, the model does reach the most immediately vulnerable members of an MFI's customer base, which is no small matter.

FIGURE 4.6. Recovery Rate of Delinquency Management Program (Banco Adopem Pilot)



Model 4: Star Performer

Like the delinquency management model, the star performer model also targets a specific segment of a lending organization's customers, only in this case, it's customers with stellar track records—typically higher-ticket and/or mature borrowers with stable business activity and a strong repayment history.⁸⁴ Star performer training (also known as retention

training) focuses on providing business management training to this profitable segment of customers, in part to mitigate the risks of providing them with even larger loans and in part to help financial institutions retain these customers and dissuade them from moving on to other sources of credit.⁸⁵

Education Program

Star performer programs are classroom-based and typically offer modular training on financial principles and business management skills, delivered by a specialist trainer over multiple sessions. Training sessions usually last two to three hours and are conducted over a designated period of time; they can either be delivered continuously over several days or spread over a much lengthier time period. Mann Deshi Mahila Bank's program, for example, is spread over a year. The content of these programs usually focuses on business-related principles, such as accounting, product marketing, pricing, sources of capital and reinvestment of earnings for growth. Trainers can either be full-time professionals or, as with the Shakti Foundation, individuals from within the borrower community trained to do the job. In some long-duration programs, mentorship by experienced entrepreneurs, exposure visits and market-linkage activities are offered as an added incentive to entrepreneurs.

Cost Economics and Business Case

The cost recovery rationale for this model is based on the expectation that the costs incurred in delivering financial education to star performers can be recovered through additional loan income generated by graduating attendees to larger loans—or by moving these customers to qualify for loans from financial institutions' MSME divisions. In theory at least, offering such training—and boosting customers' business acumen—also holds the

⁸³MixMarket reports that the average write-off ratio for customers was around 2.3%, with only a few MFIs reporting write-off ratios above 10%. Based on 2010 data.

⁸⁴Monitor's research suggests that 2% to 5% of an MFI's borrower base would qualify as star performers.

⁸⁵In mature markets especially, MFIs risk losing these customers to other MFIs and also to MSME lending facilities.

potential to lower the risks of increased lending. Our analysis of the star performer programs offered by KWFT, Mann Deshi Mahila Bank and Shakti Foundation⁸⁶ suggests that the delivery cost⁸⁷ can be potentially recovered if income from these customers can be increased by 3% to 12%.⁸⁸ This is true even of Shakti, whose program costs about \$2.90 per learner. However, delivery cost is only a component of the overall cost of creating and running a financial education program. Extrapolating from other financial education models, the total cost of star performer training is likely to be much higher, more in the range of \$8 to \$10 per customer. In that case, to recover the costs of the program, MFIs would have to be able to provide star performers loans that were on average 20% to 50% higher as a result of the training.⁸⁹

Issues and Challenges

This model presents stronger opportunities for cost recovery than most models, in part because of the “star” nature of the customer segment it targets. The financial institutions offering these programs need to be fully alert to the possibilities of cost recovery through several means, including graduating star performers to higher-ticket loans and cross-selling other services such as insurance. Given the potential alignment of incentives in this model, user-paid fees are another potential way to offset some or even all program training costs. KWFT and MDMB found customers willing to pay a fee of \$1 to \$2 per course for such training programs, which could cover 10% to 20% of the fully loaded costs of these courses.

STAR PERFORMER/RETENTION:

Examples Covered

- Shakti Foundation (Bangladesh).** Shakti Foundation is a mid-size microfinance organization with an active borrower base of about 495,000 customers. Shakti piloted its star performer program—focused on business skill development—over a period of two years (2007 – 8). The three-day program, conducted by trained peer trainers from within the community, targeted mature borrowers who had applied for a small enterprise development loan, typically in the \$1,000 to \$7,000 range. A total of 2,350 customers participated in the program. However, once grant support ran out, Shakti discontinued the program.
- Mann Deshi Mahila Bank (India).** Mann Deshi Mahila offers a star performer program designed to help women entrepreneurs grow a microenterprise into a small business. Promoted as an MBA/entrepreneur certification program, the “Deshi Business School” program has so far trained 273 customers. The goal is to train 1,000 women entrepreneurs over a period of two years. The program is run by Mann Deshi Foundation with the help of grant support from HSBC.
- KWFT (Kenya).** KWFT offers targeted financial education on business-related issues to micro-entrepreneurs. Select customers are encouraged to participate in the program, though actual participation is completely voluntary. Interestingly, attendees are also required to pay a nominal fee to attend the training program. Trainings are conducted by specialist trainers or external consultants.

⁸⁶We included Shakti’s programs in the business case analysis, although the program has now been discontinued due to lack of funding.

⁸⁷Delivery cost estimates are based on man-hours incurred in providing training and do not include content design, development, the cost of incentives or other management costs. These ranged from \$1.20 per customer for KWFT to \$2.90 per customer for Shakti Foundation.

⁸⁸Income generated by a 3% to 12% increase in average loan portfolio per customer. Analysis is based on the profitability ratio of selected MFIs and the average large-ticket loan of star performers.

⁸⁹That is, an MFI would have to believe that star performer training led to an increase in ticket size of between 20% and 50%. In interviews, Shakti claimed a 20% to 40% increase in average loan size to star performers after training.

As with the other models, there are almost no data about customer preferences, their willingness to pay or other key metrics around customer participation—and far more data about all aspects of the delivery and experience of these programs are needed. Finally, given that the uptick in interest in financial education is at least in part a response to over-indebtedness issues in some markets, the business case for a model like this will need to be built around more than simply larger loan sizes. Otherwise, it might be difficult to generate wide support for this model, even if there is a strong business case.

Model 5: Transaction Intercept

Unlike the four models discussed above, all of which offer group training, this model offers *individualized* training—specifically targeted to underbanked and low-income customers. Also unlike the other four models, transaction intercept training is not classroom based; rather, it targets individuals at the precise moment they are interacting with the financial services system, providing short-format, one-on-one education sessions to customers while they are waiting to conduct a transaction such as collect a remittance, CCT payment or money transfer.⁹⁰ Sessions usually last between 25 and 60 minutes and are sometimes repeated.⁹¹ Transaction intercept training provides target customers with a brief financial education session, the aim of which is to encourage them to convert some amount of the cash transaction into assets, typically savings. As such, it operates on the blurry line between financial education and product marketing.

Education Program

Training usually occurs at the financial institution where an un- or underbanked individual is conducting a transaction and is delivered by an agent of that institution. Sessions cover basic financial principles, as well as product literacy and information on, for instance, how to open a savings

TRANSACTION INTERCEPT MODEL:

Examples Studied

- **Banpro (Nicaragua).** Banpro, a commercial bank in Nicaragua, sees the transaction of remittances as a potential entry point in providing financial literacy training for the poor. The pilot program it launched in 2010 serves as the anchor for most of our analysis of this model. IAD has run similar experiments in eight countries.
- **Fundacion Capital (Peru and other countries).** The Proyecto Capital project is working on the design, implementation and evaluation of savings account-linked conditional cash transfer (CCT) programs (e.g., the “Juntos” program in Peru, which has reached more than 200,000 people).
- **KWFT (Kenya).** KWFT’s program targets poor migrant customers through mobile banking products, financial education and mobile money through promoters and/or customer service partners who sell no-frills savings accounts in formal banks.

account; indeed, these sessions are typically linked to a savings account product.

Transaction intercept training is still quite new and has been funded through both internal resources and external grant funding. On the surface, the model seems to have many promising elements: It reaches individuals at a “teachable moment”; it is linked to an appropriate and low-cost product designed for this segment; it does not require a substantial time commitment on the part of the trainer or the learner; and it has the potential to break even or cover its costs.

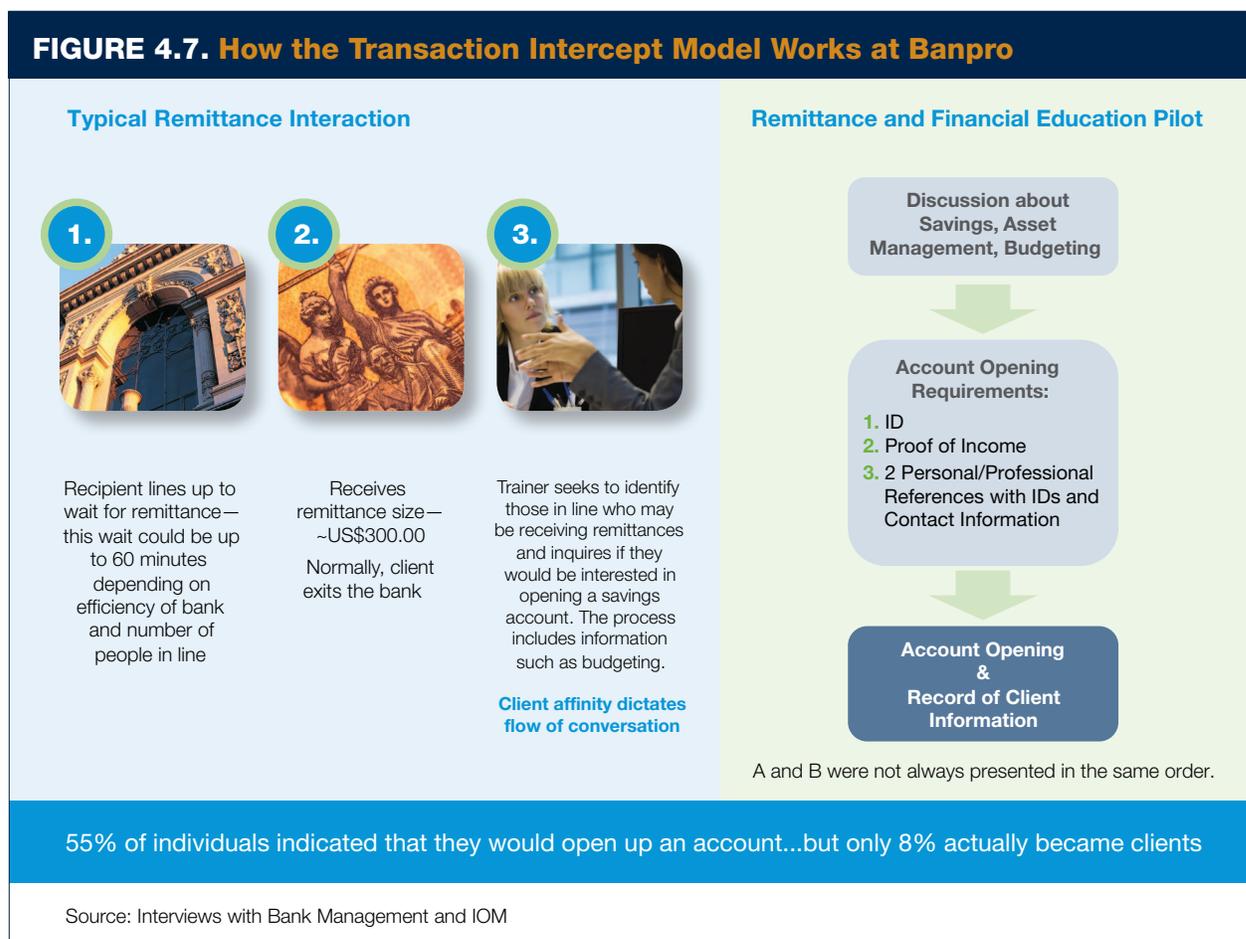
⁹⁰These sessions are generally trainer taught. A variant on this model is showing financial education videos or telenovelas in the bank lobby for customers waiting in queue, followed by a personal Q&A session with a trainer. Opportunity International Bank in Malawi is currently trying this variant.

⁹¹Some formats use hybrid models—like FINO (see Chapter 3) which uses individual “intercept-style” training in five- to ten-minute packages to reinforce earlier group training messages.

Banpro, for example, identified the transaction of remittance receipts by the unbanked as the best moment to offer financial literacy training to low-income customers.⁹² In October 2010, it initiated a pilot program—in partnership with the International Organization for Migration (IOM) and Inter-American Dialogues (IAD). Individuals cashing remittances at Banpro would be provided with a short financial education session of about 25 minutes. Led by trained specialists, sessions introduced customers to

the formal banking system and encouraged them to open a specially designed, no-frills savings account. The “express savings bank account” had several features: It required no initial deposit; it had no bank fee and no minimum balance requirement; and it accrued 1% annual earnings on savings. Individuals who expressed an interest were asked to provide ID, two references with corresponding IDs and a telephone number.⁹³

FIGURE 4.7. How the Transaction Intercept Model Works at Banpro



⁹²In a country in which only 13% of the population has access to the formal banking system, Nicaraguan bank Banpro (part of the regional banking group Grupo Promerica) is a dominant commercial player with ~36% market share. Banpro offers its 190,000 customers a portfolio of services ranging from savings and loans to insurance products and has 26 branches. Its mission is “to be a bank for all Nicaraguans.” By its estimates, Banpro currently handles about \$180 million in remittances annually. According to Luis Rivas, the bank’s general manager, focusing on the unbanked provides an alternative to its two traditional growth options: capturing clients from existing banks or increasing the wallet share of current clients. He also cited the additional social benefit of providing greater services to the poor.

⁹³Initially, only a landline telephone number was accepted. However, some branches began accepting mobile numbers. This (and similar KYC principles) was cited as a possible reason for the lower-than-expected conversion rates in Nicaragua, and came up in our interviews with customers and with Dr. Manuel Orozco, of the Remittances and Development Program at Inter-American Dialogue, who has designed this program.

IOM provided 41% of the funding for the pilot program, Banpro the remaining 59%. IAD trained the trainers and developed the curriculum. The goal was to reach 10,000 unbanked Nicaraguans over a period of six months.⁹⁴ Trainers were placed at eight branches in or close to Managua, the capital city of Nicaragua and the bank's headquarters. Trainers, who were not bank employees, identified individuals who were waiting in the queue to get their remittances, and approached them with an offer to educate them about financial budgeting principles and the possibility of opening a no-frills bank account.⁹⁵ When individuals opened accounts, trainers recorded all data so that IOM and Banpro could analyze the results for future pilots.

Cost Economics and Business Case

The pilot generated mixed results. Data captured by IOM and Banpro show that out of the 10,000 remittance recipients who received intercept-based financial education, 55% expressed interest in opening up an account—but only 791, or approximately 8%, actually opened savings accounts.⁹⁶ The costs of the pilot are shared in Figure 4.8.

FIGURE 4.8. Pilot Cost Breakdown	
Total Pilot Cost Breakdown at Banpro	
Total Pilot Cost	\$42,164
Total Training & Salaries	\$34,500
Salaries (14 Trainers)	\$21,000
Training Program	\$13,500
Account Opening Costs	\$1,582
Technology Costs	\$6,081
Total Banpro Cost (50% training + salaries, plus tech, accounts)	\$24,913

Source: Banpro

Though Banpro envisages that the program will eventually be sustainable from a cost recovery perspective, the pilot was not. The 8% conversion did not bring in enough deposits to cover program costs. Further analysis of a savings-based business case (as outlined in Figure 4.9) indicates that to break even on the full cost of a transaction intercept program, the conversion rate would need to be at least 28%, or 3.5x the pilot conversion rate.

Alternatively, efforts could be made to get customers who open savings accounts to set more money aside, but for the bank to break even the money saved by customers would have to amount to more than 50% of earnings, a prohibitively high amount for anyone to save.⁹⁷

While it has not done so yet, Banpro could explore another pathway to breaking even: cross-selling credit, insurance and other products to these customers in order to generate additional revenues. The case for cross-selling to small savers has been well articulated by CGAP in its 2010 study of Centenary Bank in Uganda and Banco Adopem in the Dominican Republic, where they found that the vast majority of the earnings from cross-sales to small savers accrued from credit products (as high as 90% in the case of Banco Adopem).⁹⁸ Adding on credit sales to converted customers in this scenario (assuming 25% of customers with express accounts are cross-sold a one-time loan of \$214, the average for an MFI loan in Nicaragua), Banpro would still need to convert 25% to 49% of pilot customers to break even. Analysis clearly shows, therefore, that while cross-selling has a role to play in hastening cost recovery, the real driver of breaking even is the conversion rate to low-cost savings accounts (as shown in Figure 4.9).

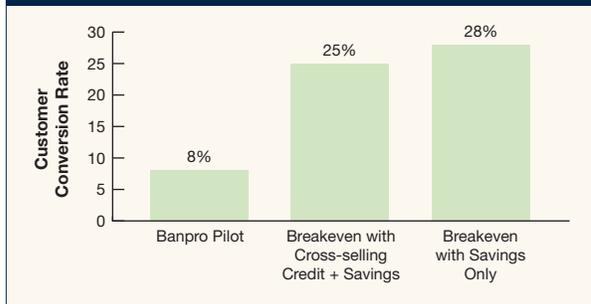
⁹⁴IOM provided technical assistance and coordination, while IAD provided the financial education methodology and trained Banpro's 15 agents. Additionally, Dr. Orozco and his team taught the trainers how to interact with remittance customers.

⁹⁵Not all targeted customers were unbanked; some had a previous relationship with Banpro. Of those who opened accounts, 50% were age 26 to 47 and 25% already had some type of banking relationship with Banpro.

⁹⁶There are a number of reasons for this lower-than-expected conversion rate. One possible factor is the short duration of the pilot, which did not allow for much "repeat intercept" training. Another is customer willingness to take the time to open an account. A third is the onerous KYC rules required by Banpro. Early comparative data from other countries shows higher conversion rates: for example, Azerbaijan, 12%; Georgia, 13%; Guatemala, 20%; Paraguay, 24%. Only Moldova has a lower conversion rate at 5%. Source: Manuel Orozco, Financial Education Project, Inter-American Dialogue, 2011.

⁹⁷Analysis assumes the following: annual remittance receipt of \$3,000 (\$300, 10x a year); customer savings rate of ~15% (as per IFAD data; see <http://www.ifad.org/pub/factsheet/remittances/e.pdf>); 2% to 4% profit margin on deposits lent out after accounting for a 16% reserve ratio.

⁹⁸CGAP, *Is There a Business Case for Small Savers?* 2010 authored by Glenn D. Westley and Xavier Martín Palomas.

FIGURE 4.9. Customer Conversion Rates from Financial Education to Savings**Issues and Challenges**

The Banpro example points to a number of issues that need to be resolved before the transaction intercept model can break even, scale or demonstrate social impact.

The first issue is the business case. The pilot's current conversion rate of around 8% of customers is too low to sustain the business case—thus while the model has potential, its cost recovery potential is not proven out. While cost recovery can be hastened by cross-selling credit or insurance, **the real determinant of this model's commercial viability is the conversion rate of customers to basic savings accounts.** Our analysis suggests that breaking even in just over one year would require a 40% conversion rate and cross-selling loans to about 25% of those who open an account (see Figure 4.10). IAD is running similar pilots in other countries, and though it may be some time before robust data exist on the business case, the higher conversion rates seen in nearby countries, like Guatemala at 20% and Paraguay at 24%, show promise.

FIGURE 4.10. Sensitivity of Intercept Model's Cost Recovery

Credit Cross Selling Rates	Recovery of Financial Education Costs	
	8% Conversion Rate	40% Conversion Rate
0% (no cross-selling)	~6.9 years	~1.4 years
50% cross-selling	~5.4 years	~1.1 years
Total Program Cost per Client Served	\$52.71	\$10.54

A second issue is the social case for this model. It remains unclear at this point if a brief intercept training session creates improved financial awareness and/or enhanced financial capability (the latter being particularly hard to measure). There is also, as yet, no data to suggest that intercept training leads to behavior change over any period past the opening of an account. Of course, it may be that adoption and usage of a savings account will eventually be sufficient proof of social impact. But as models develop, these kinds of data will need to be captured.

Finally, this model raises the question of striking the right balance between financial capability and product marketing—something the field has long grappled with. Anecdotal evidence from our Banpro field visit and customer interviews⁹⁹ suggests that financial education training can potentially default to simple product marketing; indeed, some customers were not even aware that they had just received “financial education.” Training sometimes devolved quickly into a conversation about a savings product rather than about budgeting, rules of thumb or other more purely “educational” topics.

⁹⁹Customer feedback was instructive. All interviewees noted that training began with an introduction to the bank and the express savings account. Many individuals confessed to a general distrust of the banking system overall; some complained about the additional burden on time required by training. All indicated an interest in further product education, but some preferred group sessions where they could also learn from other people's experiences with managing their finances.

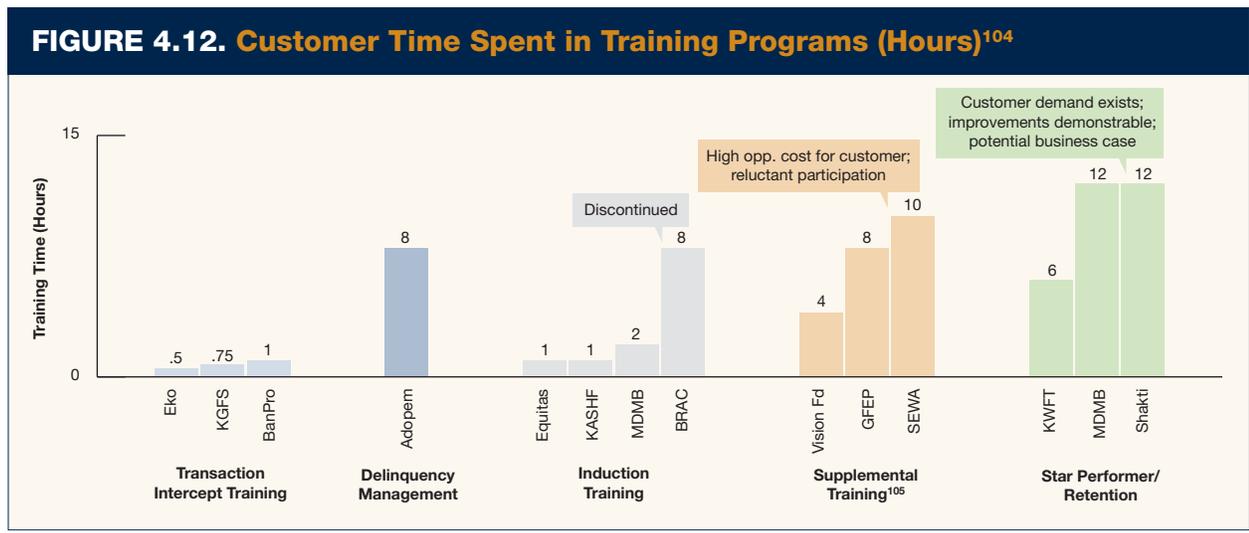
Banpro is not alone in this challenge. For example, Standard Bank in South Africa has faced similar issues in rolling out its community banking model to townships through more than 8,000 spaza shops.

Standard Bank has invested heavily in training its agents on a set of financial literacy issues, counting on them to describe the broader financial literacy principles behind the bank’s product,

especially around savings. But trainers are also well incentivized to convert these conversations to account openings—creating a tension between education and sales that is difficult to resolve.¹⁰⁰ This tension will be a central question for any ongoing efforts by financial institutions to provide product-linked financial education.

FIGURE 4.11. Comparative Table of Case Study Models

Model	1. Induction Training	2. Supplemental Training	3. Delinquency Management	4. Star Performer/Retention	5. Transaction Intercept Training
Duration	60-120 minutes	240-600 minutes	480 minutes	360-720 minutes	25-60 minutes
Connected to Event in Customer Financial Life Cycle	Yes	No	Yes	No	Yes
Incentives for Customers	Yes	No	Yes	Yes	No
Marginal Delivery Cost per Learner ¹⁰¹	\$0.07-\$0.54	\$1.60-\$2.10 ¹⁰²	~\$14	\$1.40-\$2.90	~\$3.35-\$4.21 ¹⁰³
Business Case?	Yes	No	Yes	Maybe	Maybe



¹⁰⁰The potential focus on cross-selling is consistent with recent conclusions in CGAP’s *Annual Report* and Accion/CFI’s recent report suggesting that many MFIs and observers believe microfinance, to respond more fully to the needs of its customers, will need to diversify and add service offerings.

¹⁰¹Cost estimates include training delivery costs (trainer costs + incentives + materials) only. Content development and infrastructure costs are not included. In each case, we have used conservative estimates.

¹⁰²Full-cost estimates for supplemental training range from \$14 to well above \$20.

¹⁰³Data ranges are based on interviews with Banpro and IAD and documentation from these parties; only delivery costs are included.

¹⁰⁴Though these can vary by practitioner, it is possible to come up with a set of meaningful ranges for each model. Induction training is an example: BRAC used to provide up to eight hours of induction training, but most MFIs provide one to two hours.

¹⁰⁵GFEP time based on an average of the range of trainings done by partner; all others from primary interviews with practitioners by Monitor.

Comparative Analysis Across Five Models

In this section, we look across these five models, comparing and contrasting their features and benefits. Figure 4.11 on previous page summarizes our comparison of these models across five factors: duration (opportunity cost), association with customer's financial life cycle, customer incentives, delivery cost and the presence/absence of a business case. Each of these factors is explored in more depth below.¹⁰⁶

Costs and Incentives for Customers

A key variable in each model is the **training time commitment** required. The duration of, and number of sessions included in, training differs widely across models. The star performer model, for example, runs six to 12 hours across multiple sessions, while the transaction intercept model requires a single training session of an hour or less. Two related issues to the time requirements are (1) the cost to the customer of undertaking a training program and (2) customer demand for a training program.

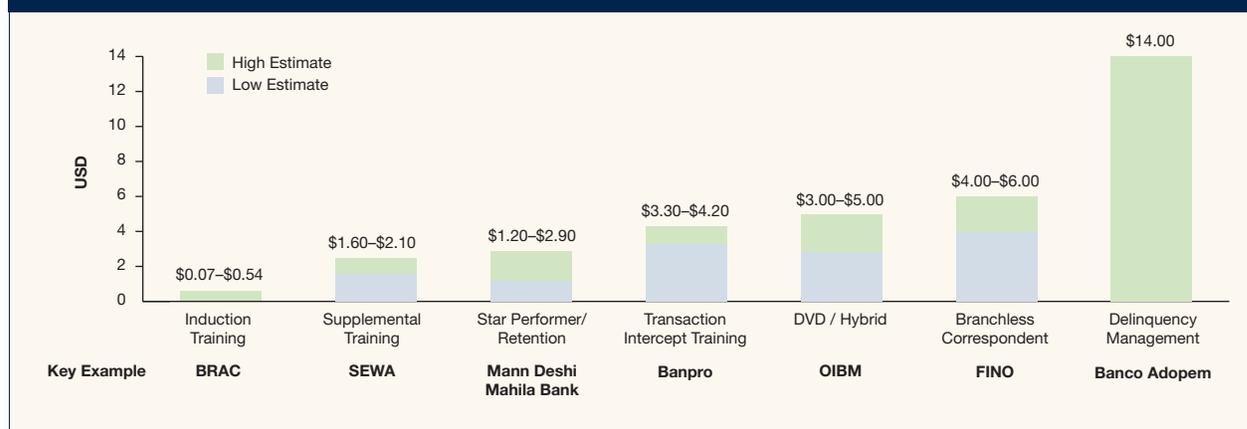
Cost to the customer. There are at least two components to this cost: *transaction cost*, which includes the time and cost of transport to and from

the training site; and *opportunity cost*, or the income lost from time spent at a training program versus working. In some cases, financial institutions tackle these cost issues head-on, lowering the burden of the disruption by combining training with already-occurring events like group or village meetings.

Some MFIs schedule training at times that do not disrupt customers' work schedules, such as early in the morning. Others provide compensation or rewards for attendance. Shakti and SEWA both provide transport reimbursement to and from training sessions; Shakti and KASHF provide refreshments and door prizes. Still others increase attendance by disguising the training; for instance, Banco Adopem frames the intervention as a social event.

Consumer demand. At least in the cases of induction and star performer training, consumer costs are somewhat mitigated by consumer demand: Induction training creates access to credit, while star performer training makes customers eligible for larger-ticket loans (a desirable enough perk that some consumers were even willing to pay for it). Training or counseling aimed at potential at-risk customers also aligns well with customer incentives, allowing participants to remain active borrowers despite sometimes precarious track records.¹⁰⁷

FIGURE 4.13. Marginal Cost of Delivery on a Per-Customer Basis (USD)



¹⁰⁶The cost to the provider is an important corollary as well, but we deal with this separately below.

¹⁰⁷There are no data from those providing training to this segment on longer-term behavior change, although such data should be available by looking at repayment of these clients over time (as one indicator).

WHAT DO CUSTOMERS SAY ABOUT FINANCIAL EDUCATION?

Our interviews with customers yielded some interesting and important insights:

- Customers **cited a variety of issues for which they felt targeted training could be useful**, including cash flow management, income and expenditure calculation and tracking, and transparency on products and services. A smaller segment of customers suggested more help with microenterprise planning and development.
- For **induction training**, customers reported finding the training useful, citing timely repayment, productive use of debt, importance of savings and having a safe place to save as the key benefits. However, they also stated the importance of refresher courses and recurring training, and indicated no willingness to pay for training.
- Customers receiving **supplemental training** complained about the duration of training, the “intangible” benefits and the opportunity cost of losing income while sitting in a classroom; providers corroborated that customer mobilization and attendance are issues.
- For the **narrow selection models**—both delinquency management and star performer training—customers had more positive feedback.
 - **Delinquency management training** recipients were appreciative of the practical applicability of the training and reported anecdotal evidence of improved behavior as a result. However, they wanted course material to be more customized according to level of literacy and numeracy or business acumen.
 - **Star performers**—who were generally micro-entrepreneurs—perceived better business outcomes, citing the mentorship program and market linkages as useful. A majority of recipients were willing to pay a partial amount for the training.
- Customers **repeatedly cited several major concerns** regarding training: lack of direct applicability to daily life and daily decisions; training time (including travel and transport); and the transaction costs of attending training.

Note: The research effort underpinning this paper’s findings included interviews and focus-group discussions with 80+ customers in five locations. We interviewed customers in a qualitative fashion to understand their interactions with the financial system and their experiences with financial education training. Questions probed the willingness to engage in, the perceived benefits of and challenges with the various programs.

Incentives are a powerful motivator—albeit one that has not yet been well examined in this field.¹⁰⁸ Currently, neither supplemental training nor intercept training models offer much in the way of incentives. In fact, by adding time to a consumer’s branch visit, there is a potential disincentive for participation in current models.

Financial Institution Delivery Costs

As we’ve mentioned throughout this paper, delivery cost is one of the key obstacles to the adoption and scaling of financial education programs. To close the capability gap worldwide, even the least expensive financial education model would cost \$500 million to \$900 million. The lower figure assumes using

¹⁰⁸See http://esa.un.org/iys/docs/san_lib_docs/WSP-Community%20Led.pdf for a description of the mixture of incentives, community mobilization and other factors involved in changing sanitation behavior in South Asia.

¹⁰⁹See: Opportunity International Bank of Malawi’s case study on the use of DVD-led training in banking halls and group sessions, in *Taking Stock: Financial Education Initiatives for the Poor*, 2011.

unproven mass-media models that cost less than \$1 per client; the higher figure assumes the use of hybrid DVD or multimedia models that lower the cost of one-time group training to \$1.80 to \$1.90 per customer.¹⁰⁹ Indeed, cost remains the most central question for the field. Figure 4.13 offers a direct comparison of the **per-customer cost of delivery only** of the different models.

The numbers in Figure 4.13 reflect only the costs of on-site delivery; they do not account for either program administrations costs or, more significantly, the expense of designing, developing and piloting these programs. And, as we mentioned earlier, there is general agreement that these latter costs are the more significant portion of most program costs.¹¹⁰ Yet costs must also be factored against the business case. Although the delinquency management model is the most expensive to implement, it also has the most direct cost recovery logic.

However, our cost estimates are probably understated for another reason. There is significant literature on behavior change communications suggesting that repeated multiple messages are required in order to generate behavior change—yet we are basing our cost analysis primarily on the one-time delivery of training.¹¹¹ Most costs are assumed to be one-time costs and reflect an expectation that a given client will receive financial education only once. As such, our cost data are potentially dramatically underestimating the true cost of delivering real financial capability and changed behavior.

No matter the model, most financial institutions still categorize financial education training as a cost center

Looking across the five models examined above, several additional insights jump out:

- **Loan officer-delivered financial education tends to be less costly.** But there are tradeoffs. In Morocco, Al Amana ceased its extensive supplemental training program primarily because loan officers preferred to pursue the credit side of the business. For loan officers to remain a prime channel for the delivery of financial education, significant issues with incentives and opportunity costs will need to be addressed.
- **Individual models are more costly to deliver than those that are group based.** However, these models have fewer piloted examples. Newer individual models could arise that are configured differently and therefore cost less.
- **The delinquency management model is among the most expensive.** Yet this model also has the most immediate social case—and business case. As such, the pros and cons of this model cannot be determined by costs alone.
- **No matter the model, most financial institutions still categorize financial education training as a cost center**—rather than a business driver—to generate loyalty, improve compliance and cross-sell.

¹⁰⁸See http://esa.un.org/iys/docs/san_lib_docs/WSP-Community%20Led.pdf for a description of the mixture of incentives, community mobilization and other factors involved in changing sanitation behavior in South Asia.

¹⁰⁹See: Opportunity International Bank of Malawi's case study on the use of DVD-led training in banking halls and group sessions, in *Taking Stock: Financial Education Initiatives for the Poor*, 2011.

¹¹⁰For instance, supplemental training delivery costs are in the range of \$1.50 to \$2.10 (not counting Vision Fund Cambodia, whose program is yet to begin). If full curriculum development and program administration costs are factored in, the cost rises to the \$14 to \$20 that we cited earlier. The latter figures represent fully loaded costs.

¹¹¹See, for example, Ram, Pavani K; Luby, Stephen P.; Halder, Amal Krishna; Islam, M. Sirajul; and Granger, Stewart, *Improving Measures of Handwashing Behavior*, Technical Paper from the Water & Sanitation Program, May 2010.

The cost comparison discussion is complicated by several factors—though none greater than the fact that it simply has not been the norm for the field to collect, report and discuss the costs of providing financial education. We encountered a significant shortage of reliably collected data at anything beyond the program level; a more sophisticated economic analysis of these models can only be achieved if more field studies are conducted and made available.¹¹²

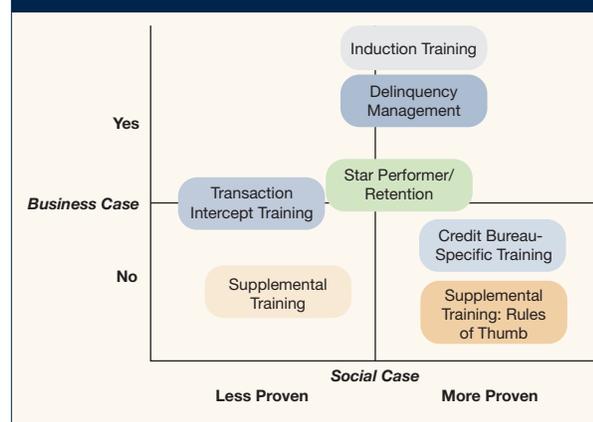
Finally, a common claim of programs—especially those in their early or pilot stages—is that the current costs of the program are not reflective of the “at-scale” cost. Their logic is that the costs of development and design can be amortized as the scale of the program grows to reach a greater number of customers.¹¹³ As so few programs have truly achieved scale, it is difficult to verify this claim. Most likely these programs will increasingly amortize their development costs over larger numbers of learners, but the marginal delivery costs will not drop dramatically.

Cost Recovery and the Business and Social Case

Beyond the discussion of cost is the more critical discussion of the **cost recovery potential** of different provision models, as well as whether they work to change behavior. Figure 4.14 provides a simplified view across each model’s ability to recover costs (the business case) and to deliver its desired good (the social case). Only two models currently have a clear business case: delinquency management (despite its high costs) and induction training. Others, like star performer training, show strong promise, and to a certain extent, so does intercept training. Each of these models still have much to prove, including on the social case.

Supplemental training, however, does not recover its costs—at least for the financial institution sponsoring it.¹¹⁴ Although the marginal cost of delivering training is as low as \$1 to \$3 per customer, full program costs range from \$14 to \$20 per customer. Most of the financial institutions we talked to viewed their supplemental training programs as one-off programs funded by grants that ended when the grant funds expired. In general, supplemental training was viewed as something important to their social mission but ultimately external to their business, with no articulated rationale in terms of customer retention, reducing risk, increasing cross-sell or other potential commercial consequences. In other words, cost recovery was not a built-in priority when it came to this model of training program.¹¹⁵

FIGURE 4.14. Potential for Business and Social Case of Different Models



¹¹²There are some notable exceptions—FAI/IPA studies; Proyecto Capital; Promifin; etc. To be fair, part of the reason for this is the way the field and funders have usually required budgeting; most funders have historically only tracked budget and provision metrics at a program or grant level, being far more concerned with curriculum, pedagogy and reach. There is usually no requirement for the tracking, reporting or reduction of cost at a per-customer level. Nor is there explicit separation of the design and delivery cost of financial education programs, especially at a pilot level. This is changing. Many funders are starting to require this tracking and reporting, and discussions about business case and sustainability are starting to gain momentum.

¹¹³Field interviews conducted by Monitor, 2011

¹¹⁴There is, however, some experimentation, most notably in Kenya (KWFT, Faulu and Equity Bank), where at least partial cost recovery is achieved by charging customers.

¹¹⁵Many financial service providers with whom we spoke did not provide supplemental group training. Rather, they focused on schoolbased financial literacy training for youth or other programs unrelated to their client base or business.

FIGURE 4.15. Cost to Address the Capability Gap Using Different Methodologies

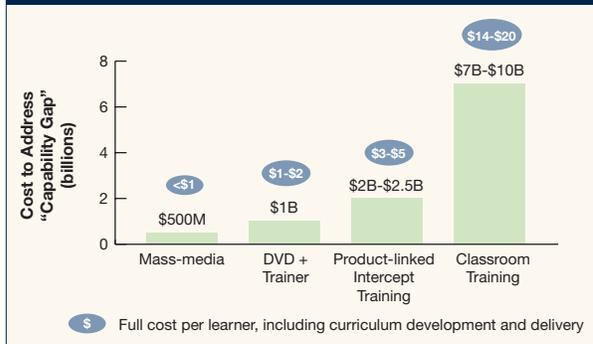


Figure 4.15 restates the relative cost to address the gap using different types of training programs—and in doing so shows the sheer magnitude of the task at hand. The cost to close the capability gap using the most prevalent current model (supplemental training) is conservatively in the \$7 billion to \$10

billion range. That sum is equivalent to about 15% of the total assets of all microfinance institutions worldwide.¹¹⁶ Indeed, this is why it is imperative for the field to find new models for financial education training that:

- are attuned to the new ways in which access to finance is spreading—including but beyond MFIs—and can reach individuals as well as groups;
- cost less; and
- can be proven to have high effectiveness in changing customer behavior.

This is one of the most significant and serious takeaways from our study of current models. In the forthcoming section, we share the full range of cross-cutting themes and field-wide observations that emerged from our research.

¹¹⁶MixMarket reports that in 2011, total assets of all reporting MFIs were roughly \$62 billion.

Cross-Cutting Themes and Implications

In this chapter, we share a set of key insights for the field, distilled from our research and analysis.

We outline key cross-cutting themes and implications: the need to lower costs, prove out the business case and build the evidence base for financial education models; how models will need to evolve to reflect new services, better customer understanding and the effect of competition; and what these trends mean for the roles of various stakeholders, especially regulation and coordination.

If the field is going to markedly increase financial capability, financial education will need to be delivered cost effectively, at scale and with impact. To do this, financial education providers must take into account both **what works** (effectiveness of a model in promoting behavior change) and cost recovery (the extent to which there exists a business case for that model).¹¹⁷ Indeed, models that offer benefits and incentives to *both* provider and recipient have the greatest chance of becoming sustainable and creating social impact at scale.

Of course, even in the best of worlds, financial education cannot close the capability gap entirely on its own; and nor should it. Greater transparency, clearer grievance channels, easier-to-use products and other enhancements of low-income customers' experience of finance will be needed if the gap is ever to truly disappear. But financial education is arguably in the best position to both address and narrow the gap that currently exists. Perhaps the key insights uncovered through our research—distilled and shared below—can help the field move more strongly in that direction.¹¹⁸

1. A Business Case *Does* Exist for Financial Education.

A major finding of this paper is that financial education models that present a solid business case for the financial institutions delivering them do indeed exist. Among these models is induction training—a rudimentary financial education program in which MFIs have been investing for decades and delivering at the low cost of about \$0.50 per customer. We also found at least three other models that are potentially sustainable. The two models we studied that narrowly target particular customer segments—at-risk customers and star performers—have a business case. Additionally, there is reason to believe that the intercept training model also has strong potential for breaking even, as do other interventions delivered at the time of a transaction (e.g., FINO's correspondent banking model). It must also be recognized that for these latter models, there is an inherent blurry line between providing financial education, on the one hand, and engaging in product marketing, on the other. Newer models, such as incentives-led efforts and mobile phone-based reminder models, also hold breakeven potential.

Importantly, our research found no evidence of a business case for the legacy classroom- or group-based supplemental training model. This is not to say that a business case for this model is impossible, but we observed no current variation of this model that had one.

¹¹⁷The gap, we recognize, will never be filled just by financial institutions providing financial education. But it certainly won't be filled without it.

¹¹⁸The implications shared in this section are based on the extensive research and analysis that underpins this paper, including interviews with more than 90 organizations involved in the financial education space and eight practitioner site visits to six countries on three continents. While this list is neither exhaustive nor final, we hope that it has a role in advancing the financial education and financial capability discussion.

2. More Needs to Be Done to Further Develop, Test and Scale Models That Have a Business Case.

As outlined above, several models have the potential to provide financial education in a way that also benefits the financial institution that delivers it. But even in the case of models with a more advanced claim to a business case, there is still work to be done. Aside from induction training,¹¹⁹ many of these models are still in their pilot phase or are being run on a very small scale. Very few of the institutions delivering these programs systematically capture either social impact or commercial business data, and very few models are based on customer segmentation of any kind. For any of these models to scale further, all of these missing pieces of information will be needed. We also need to see more experimentation around curriculum, incentives to participate and other aspects of training. Current and new models will also require testing in different situations and contexts—with appropriate evaluations that track their effects on social and economic criteria—before they can be scaled up. Finally, models for which there are, in theory, both a business and social case will need to show documented outcomes in order to prove to potential deliverers of those models that they do indeed work in practice.

Models that in theory have both a business and a social case will need to show documented outcomes in order to prove that they do indeed work in practice.

3. Delivery Costs Must Be Reduced—for Models with and Without a Business Case.

The top priority for models without a business case should be to provide better evidence of their impact—especially given that their ability to deliver such change is a criteria to their funding. And across the board, the field must find ways to lower the delivery costs of standard, group-based models of financial education. This could mean sharing costs across funders or financial institutions. Developing shared curriculum that can be adapted and used in different contexts could bring down the cost of this model significantly (given that these costs account for the majority of the bill). Technology or automation might also help scale down the cost structure of delivery on a per-customer basis, though this may or may not improve effectiveness. Early pilot experiments in delivering training through both trainers and DVDs have shown that such an approach can lower delivery cost by two thirds.¹²⁰ Charging customers at least partially for training is another option just beginning to be explored.

¹¹⁹No one has yet documented the effects on financial capability, if any, of moving away from induction training.

¹²⁰Overall cost per customer rose from \$1.30 to \$1.86 because more was spent on product development costs. The marginal delivery costs actually declined the second year from \$0.38 to \$0.13. See Microfinance Opportunities and Genesis Analytics report, *Taking Stock: Financial Education Initiatives for the Poor*, 2011. (<http://www.themastercardfoundation.org/pdfs/TakingStockFinancial.pdf>)

4. The Frontier for Innovation Lies in New Models That Meet Customers Individually at a Financial “Occasion.”

The intercept training model targets low-income consumers individually as they’re interacting with the financial system, when they may be more open to, or in need of, financial capability. Such occasions offer an opportunity to deepen a banking moment from a simple transaction to something more significant like the opening of a savings account. Given that in the future, the majority of the growth of financial access is expected to come from services other than microfinance, which are each characterized by such individual transactions (be it when an individual uses a mobile banking platform, accepts a remittance at a location or engages in correspondent banking), this is an important frontier for experimentation and refinement. As the Banpro example demonstrates, there is a potential business case for the transaction intercept model, which uses these very transactions to deliver education, but it still needs developing and refining. More and different experiments in intercept training—including the model offered by FINO and various institutions’ attempts to “teach” through mobile banking—will further everyone’s knowledge of this model’s full potential. Additionally, it will help to make the case for individually targeted models of financial education.

It will also be important to document and study the impact, if any, of these models in terms of usage and, ultimately, behavior change. By its nature, providing education during a financial “occasion” walks a fine line between financial instruction and product marketing; studying how this balance gets

handled—and to what effect—will yield critical knowledge about what works (or does not work) about this model, and what other conditions—including regulatory ones—need to be in place. The intercept model may be ideally suited to capitalize on regular and repeated but shallow touch points (“teachable moments”) within the financial system, and its flexibility may meet an individual’s specific skill needs better than a group-based training. But the answers to these questions will only come through further research and experimentation.

5. For MFIs, Pressure to Drop Induction Training Altogether Could Set Off a “Race to the Bottom” in Mature Markets.

As we mentioned earlier, the legacy induction model is being threatened by the proliferation of newer financial providers willing to offer credit without these procedures, particularly in more competitive markets. The elimination of induction training—and the waiting and vetting period that usually accompanies it—undermines the risk management mainstay of MFIs. Organizations in markets like Bangladesh, Peru, and the Dominican Republic have usually responded to this competitive threat by either drastically scaling down or eliminating their own programs—and doing so without providing a replacement by way of new financial capability-building activities. Such a limbo is precarious, and poses a risk of a potential “race to the bottom” that can affect the risk management floor of the entire industry. In competitive MFI markets, in other words, we see a need for a new approach that reflects competitive realities, or “MFI Financial Education 2.0.” to effectively counter this phenomenon.

6. There Needs to Be More Support for Models That Pull Multiple Levers.

Most approaches to financial capability pull just one lever of change, or sometimes, a few of them—but very rarely all levers at once. Simply put, pulling single levers in isolation cannot bring about comprehensive outcomes, and this increases the premium on innovation to provide offerings that span the levers of capability—simple and easy-to-use products delivered with education and even incentives that meet transparency and recourse targets, for example. After all, providing financial education without a product linkage is the mirror image of providing unfettered access to products without any capability provision—a situation that the field recognizes as suboptimal. So, once we recognize the need to pull multiple levers, financial institutions serving low-income consumers probably become the single-most critical set of actors, since they are the ones best placed to present consumers with both products and capability. There are some examples of multiple-lever offerings, such as KGFS in India, which deliver a suite of different products as per customer need, delivered by frontline agents who build upon an assessment of customer needs to do so. The agents are incentivized to both provide education and help customers meet these needs (as opposed to purely being incentivized to deliver sales).

One key lever not receiving much coverage or activity is the incentives lever, which has the potential to make direct behavior change happen,

sometimes without recourse to financial education. Some financial institutions have experimented with incentive-based programs that reward good financial behavior (e.g., rewarding on-time payments with interest-rate reductions)—but even these have not been provided with other levers, and to date, have occurred in higher-income and developed markets. And none that we came across focus on actually incentivizing the attendance or uptake of capability or education programs.

7. We Still Don't Know What Works.

It is now widely agreed that there is not enough rigorous impact assessment or reporting in the field as to what works and what does not. At an overall level, data are incomplete and do not cover the full range of approaches being tried, especially those that are new or emerging. Moreover, little of what does exist is standardized; time horizons are short, and methodologies, burdens of proof, metrics and the outcomes being tested for are widely varied—making it difficult to evaluate programs and even more difficult to conduct field-level evaluations.

One reason for this dearth of data is that most funding for financial education programs (which comes via grants) is not results oriented and outcome dependent. Indeed, surprisingly little information is known or available about the effectiveness of financial education training. To remedy this, funders need to task their grantees and practitioners with a higher burden of proof and fund more studies and impact results. Recently, the

Russia Trust Fund for Financial Literacy at the World Bank set out to create a baseline understanding of the effectiveness of financial education and attempt to develop standard metrics for the field. More efforts of this kind could have a profound impact on what is known about how (and if) financial education training truly works.¹²¹

Finally, questions remain about whether the field can even absorb the level of rigor and expense that is required to make these sorts of judgments. This is still a nascent and evolving field in its uncoordinated innovation phase—and it may be far too early to raise the costs of pilots by requiring randomized controlled trials.

8. Financial Education Must Be Anchored In An Understanding of Customers.

To a large extent, financial education has been supply-driven—both in its content and curricula and in the broad-based formats in which it gets delivered. But the field has done very little work to understand financial education from the demand side: What do customers want? What are they willing to pay for? What tradeoffs do they see for that use of time? What might incentivize them to behave differently or participate in training? What occasions do they see as most auspicious for engaging with financial education?¹²²

Even if the customers are not directly paying for financial education in cash, they are often paying in opportunity cost and time. Yet most providers have adopted broad-based, unsegmented training approaches—whether it's educating youth in classrooms or targeting all customers of a particular MFI with the same messaging in group settings.¹²³ Efforts to segment customers and tailor specific financial education to them (e.g., the delinquency training and star performer models) are the exception, not the norm, in this field. Yet the opportunities to tailor training to particular segments—defined by income and education level, (self-) employment status, or another dimension—are considerable.

Serving customers according to their particular needs will require a degree of customer research and understanding that is currently absent in the collective knowledge of the field. To be sure, some steps have been taken—both in the financial diaries literature in countries like South Africa and the USA; in the study of financial capability conducted by Financial Sector Deepening Kenya (FSDK) in Kenya; and also in the new behavioral research being undertaken by organizations like FAI, IPA and J-PAL—to explicitly test how customers react to financial education, incentives and products.¹²⁴ But much more needs to be done. The field must make efforts to better understand its customers, then ground its future offerings in this understanding. This, more than anything, will enable the field to move away from the current, dominant approach of “one size fits all.”

¹²¹This is not the only such effort. There have been various baseline studies conducted that collect evidence on the state of financial capability for the poor and their interactions with the financial system—both formal and informal—which have added tremendous value to the field. Select efforts include those of FSDK in Kenya (see: <http://www.fsdkenya.org/financialcapability/index.php>) and the Financial Diaries in South Africa (see: <http://www.financialdiaries.com/>) and the USA (see: <http://financialaccess.org/node/3739>).

¹²²To be sure, financial education programs today—like those of MFO, OI and FFH—have been anchored in good customer research on how people learn, appropriate content and needs, etc. But these organizations do not gather data on other dimensions that would organize them into segments—like the ones mentioned in this section—because that has not been their mandate.

¹²³Bringing financial education into the schoolroom, as Peru currently does, may not require sophisticated customer segmentation if the goal is to provide it as part of a general school curriculum.

¹²⁴For a list of research and publications, please see: <http://www.poverty-action.org/microsavings/about>; <http://financialaccess.org/research/areas>; and <http://www.povertyactionlab.org/search/>.

9. To Truly Develop Financial Capability, Customers May Need More Than a One-Off Training.

Most of the literature on behavior change suggests that messages must be repeated—sometimes frequently—before individuals will take an action toward change. Yet most group-based training models operate on the implicit assumption that financial capability can be delivered as a result of a single training program, or at most two interventions. There are some notable exceptions. SEWA has developed an individual counseling and advocacy-based model that attaches importance to the events in a customer's life that may require the need for training and advice. Such models are more expensive than standard training. But given what we know about behavior change, their effectiveness could be profound. As such, these models merit further exploration.

10. The Field—and Its Bottom Line—Will Require Coordinated Action.

There are multiple potential benefits to collaboration across the field. Perhaps the greatest one is lowered costs: Rather than reinventing the wheel, those who create and/or deliver financial education could learn from their peers, sharing what works and what doesn't and saving significant development and delivery costs in the process. Similarly, creating shared curricula would lower development costs and make the delivery of training more affordable. As outlined above, shareable baseline data on metrics, evaluations and definitions comprise an opportunity for sharing and lowering costs. A second benefit is relevance. Most “public good” campaigns run by regulators and NGOs operate independently not

just of other financial education activities but also of products offered by financial institutions; even some financial institution-funded programs delivered in classrooms and schools operate independently from their own product-related activities. Creating a closer relationship between education and offerings could help customers apply their learnings to the real world. Third, as mentioned above, there are currently no common or shared metrics for the field—and no agency exists that can link and advance knowledge across the full spectrum of financial education providers, researchers and funders. But a commitment to greater coordination could change that.

11. There Is An Important Regulatory and Policy Role If the Field Is to Progress.

Although this paper has not focused on the role of the public sector or regulators, its finding suggests that there are at least four areas where regulators and policymakers should play a role.

a. Product Marketing-FE Framework. First, and perhaps most importantly, more should be done to establish a broad policy framework for product-linked FE that blurs across lines into product marketing. There will undoubtedly be policy concerns about individually targeted FE efforts and the fact that in many cases it could appear to be product marketing. However, given the size of the problem, the incentives for FIs and the evolving modes of access to finance, there will need to be broad regulatory leeway for such efforts if they are to succeed in building capability for low-income consumers. The increase in mobile banking, correspondent banking models, cash transfer and remittance intercepts all suggest that individually targeted modalities are going to rise in importance. M-Pesa in Kenya succeeded in part because of a regulatory environment that did

not attempt to place too many strictures before the product or approach could be developed.¹²⁵ A regulatory response in this case should likewise allow sufficient room for experimentation in new forms of FC tied to products without placing undue strictures on an area in need of a strong dose of experimentation.

Rather than lament the overlap between FE and product marketing—or proscribe it—policymakers would do well to recognize and support this as a key mode of building capability. In doing so, they should focus on setting up a regulatory framework that allows vibrant experimentation, and also installs the required surrounding protections for low-income consumers engaging with financial institutions who are offering products and some education: grievance channels and rights of recourse, transparency norms, consumer protections and awareness building, information relevancy guidelines and other measures that ensure consumers are empowered to make smart decisions. These policy actions will be helpful beyond just framing the product marketing-FE intersection—they can support a range of other capability-building activities that do not entail direct financial education at all, and even create incentives for both providers and individual consumers. Such a framework, combined with industry self-governing norms like the SMART Campaign, can help to channel individual-targeted FE more productively.

b. Sharing costs. Central banks and others already invest heavily in youth-targeted or school-based financial capability building; for example, Peru's central bank spends \$1 per student to provide basic financial literacy training to all Peruvian children.¹²⁶ As a consequence, regulators in Peru do not look to financial institutions to provide financial education, because the public sector has taken upon itself the full cost of financial education for all. This suggests a potential division of labor:

Financial institutions could take on financial capability building for those segments and areas where a business case makes it feasible, while the public sector takes on less targeted (but still coordinated), more general financial education that is more in the realm of a public good. Central banks, finance ministries and other public actors can also share costs of developing new, innovative models.

c. Coordination. Several countries have initiated (or are developing) a “national strategy” for financial education, in the belief that the public sector can play a strong role in the broader dissemination of capabilities to households. In addition to this, central banks and regulators in various countries already provide some kind of financial education through school systems and mass-market public awareness campaigns. Yet for the most part these efforts are not coordinated with the similar efforts spearheaded by financial institutions. As noted in #10 above, this is a missed opportunity: Such campaigns could be much more powerful if they are done across public and private boundaries, and roles allocated efficiently to avoid duplication and redundancy.

d. Standards and social license to operate. Our research did not encounter any examples of regulators requiring financial institutions to offer financial capability building, although some, as in South Africa, have considered the idea. Nonetheless, given recent events in Andhra Pradesh and elsewhere, MFIs and others can expect increased regulatory scrutiny. Regulators might require providers to engage in financial education—which could lock providers into models that are either expensive, ineffectual or both. A proactive dialogue with policymakers and regulators could usefully touch on what standards or guidelines for financial capability ought to be in place. This will be particularly important in countries that are rolling out new credit bureau regimes.

¹²⁵See Fengler, Joseph, and Vaughan, “Disruption and development: How mobile money reshaped the financial sector in Kenya”, paper in Brookings Institution's forthcoming book on scaling up aid, to be published September 2012.

¹²⁶Monitor interview, September 2011.

A Shared Agenda for Progress



In this chapter, we lay the groundwork for a field-wide shared agenda for action that can guide all stakeholders forward in more coordinated and effective ways.



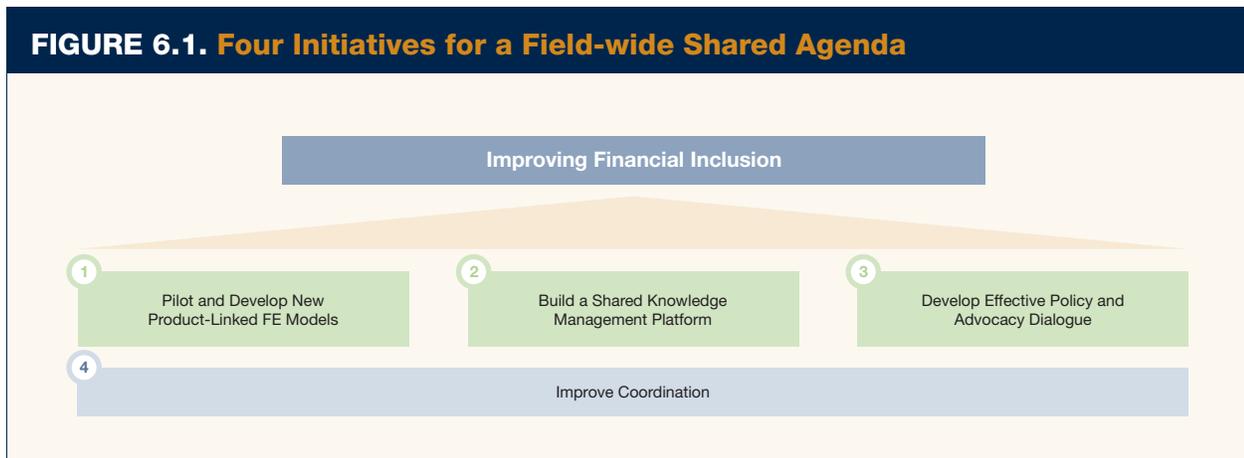
Specifically, we outline four initiatives and offer recommendations for how the field might go about implementing them.

The field of financial education and financial capability is still in its early days. As this paper has pointed out time and again, much research and experimentation remain to be done to figure out which kinds of financial education programs and interventions work and which do not in terms of both cost and effectiveness. Given the sheer magnitude of the task ahead, it seems unreasonable to expect—or to encourage—the various and numerous actors in this field to continue working in isolation toward this goal.

Rather, going forward, we strongly suggest that the field’s many stakeholders develop and subscribe to a shared agenda—a set of priorities for action that can serve as a road map guiding the field forward. Below, we suggest four initiatives for this shared agenda and offer recommendations for how to put each of them into practice. These initiatives and recommendations were derived from two sources: (1) the findings and analysis shared in this report and (2) a set of discussions held at a convening in Madrid, Spain, in November 2011 with some of the key actors and stakeholders in the field (see Appendix B for a full list of participants).

1. Pilot and Develop New Models of Product-Linked Financial Education

It is critical that the field step up its efforts to better understand the effectiveness and the business case of the existing financial education models already in practice. But it is equally essential for the field to use the lessons it has *already* learned (and continues to learn) about what works best—and why—to create new pilots and program innovations that capitalize on this important emerging knowledge. One of these key lessons now known in the field is that there is a demand for, and a strong business case behind at least some, financial education models that link teachings to real-world financial products like correspondent banking, remittances, cash transfers, mobile money, basic savings, insurance and, of course, credit (as well as bundles of these products). More experimentation and testing in this area will ultimately enable better allocation of funding toward models that are cost recoverable and can effectively scale up to include the large number of individuals who are not being reached by current financial education models. Experiments should focus on non-classroom models or on classroom models that offer hybrids with other formats.



Recommendations

- **For MFIs and their clients: Invest in financial education models that better align with credit and other financial services,** beyond the current induction and supplemental training models. MFIs already consider developing a diversified suite of products and services a high priority, according to a recent CFI/Accion survey.¹²⁷ Efforts should focus on the development of product-linked capability models, particularly those that take into consideration the financial life cycle of clients or particular financial “occasions,” as well as wider testing and deployment of existing or new narrow-selection models like delinquency management and star performer training.
- **For other financial service providers (of mobile money, remittances, microinsurance, CCTs, etc.): Develop new product-linked financial education models that tie to formal financial services.** New financial products and services are changing the modalities of access. Providers should develop financial education models that are centered on current and evolving customer needs and preferences. Models should be linked to products that are simple to use, affordable to maintain and trustworthy; they should also make grievance channels and recourse mechanisms for customers very clear. Providers should then test these models for their business case and their effect on changing customers’ financial behavior.
- **Establish a financial capability innovation fund with a mandate to source, develop and finance new and better financial education models.** Such a fund could incentivize and finance the development of new models that hold promise of being both effective and cost recoverable. These efforts could be modeled on existing examples that built evaluation into the funding (e.g., DFID’s Financial Education Fund) so that learning can be shared field-wide.¹²⁸

2. Build a Shared Framework and Knowledge Infrastructure

There are significant costs attached to implementing current financial education models, piloting new ones and conducting the research and evaluations necessary to test and/or prove the value and effectiveness of both. It is also true that every single stakeholder in the field could benefit from knowing the outcomes of others’ programs, experiments and evaluations. Indeed, the costs of redundancy and wheel-reinvention could be greatly reduced if the field committed to sharing and standardizing its data—and aligning its work around a shared understanding of the field’s basic terminology. This shared framework might include: (1) a standard definition of what constitutes financial capability; (2) clear, shared outcomes guidelines; (3) shared baseline data on levels of financial capability to enable future evaluation such as provided by FSDK in Kenya; the Financial Diaries in South Africa and the USA; and the World Bank-Russia Trust Fund;¹²⁹ (4) documentation of the business case for financial education to be shared with both financial institutions and nonfinancial institutions; (5) a platform for sharing R&D costs in content development; and importantly (6) a view of customer segments, needs and preferences in relation to financial capability services to be shared across providers. Such a framework could greatly improve the ability of organizations to measure their progress, take advantage of the efforts of other actors and help prevent duplications and misunderstandings.

¹²⁷Center for Financial Inclusion Publication 12, *Opportunities and Obstacles to Financial Inclusion*, July 2011, authored by Anita Gardeva and Elisabeth Rhyne, CFI at Accion International.

¹²⁸See: <http://www.financialeducationfund.org/>.

¹²⁹See: FSDK in Kenya (see: <http://www.fsdkenya.org/financial-capability/index.php>); Financial Diaries in South Africa (see: <http://www.financialdiaries.com/>) and the USA (see: <http://financialaccess.org/node/3739>); and the Russia Financial Literacy Trust Fund Program at the World Bank.

Second, it will be critical to ensure that the knowledge, information and lessons generated by such efforts are housed in one place—a central knowledge management hub to which everyone has access. As new models are developed and tested, organizations will need a way to quickly and effectively share the lessons being learned; meanwhile, funders should require information sharing for any pilots supported. This will help the field as a whole understand which models work and if they don't then why. It will also help stakeholders fill in existing gaps and enhance collective understanding through, for example, more sophisticated analysis of customer needs and preferences and how they differ across different geographies, income levels and life stages. Such a knowledge management infrastructure could be part of the mandate of any coordinating body (see below).

Recommendations

- **Create a single shared definition of “financial capability” and its key indicators.** A clearer definition of what exactly constitutes a “financially capable” person, as well as what does or does not qualify as financial education, will help organizations develop new and better ways to help low-income consumers meet these indicators.
- **Develop a clear outcomes framework that is appropriate for the field’s stage of development.** This would include an understanding of what would constitute proper evidence, what should be documented and reported in evaluations and who should fund such evaluations.
- **Document and disseminate the business case (where there currently is one) for financial education to both financial institutions and nonfinancial institutions.** This would help to accelerate the development of new models and get more institutions to undertake efforts with a cost-recovery rationale for financial education.
- **Create a platform to share R&D costs in curriculum development.** This would include tackling issues such as: creating effective curriculum and manuals; training loan officers and other instructors; developing training programs for “touch-point providers” whose primary focus may not be financial education but who provide products that affect customers’ financial management capabilities; innovating new models that cater to multiple modes of repeat touch-point transactional services (e.g., remittances, correspondent and mobile banking); and properly incentivizing agents (e.g., trainers, loan officers) who deliver training to customers.
- **Improve understanding of customers’ needs and preferences so that the field can design more “customer first” programs.** Research on willingness to pay (both direct fees and time/income lost) and other customer preferences and segments will improve providers’ ability to better target their financial education programs. It would also improve the field’s understanding of what sorts of products, incentives and education programs will actually change customer behavior.
- **Develop a shared master database of knowledge, outcomes and activity across the field.** This would include an inventory of all programs and models, an evidence-based clearinghouse that collects evaluation results and outcomes and links to other field-relevant repositories of information and knowledge (e.g., agriculture, financial services, health services).

3. Develop Effective Policy and Advocacy Dialogue

Regulators and policymakers are central to the discussion of who provides financial education. Ensuring that financial institutions are having a productive dialogue with regulators and policymakers will create more effective coordination of effort and keep public/private redundancy and confusion to a minimum—while also making clearer where and for whom financial education still needs to be provided. As we mentioned in Chapter 5, regulators and policymakers play critical roles in the financial education landscape. Opening clearer communication channels among providers, policymakers and regulators on a number of key topics—including the demarcation between product marketing and financial education efforts—will ensure that all parties are working together to achieve the common goal of increasing financial capability.

Recommendations

- **Broaden the stakeholder dialogue with central banks and governments** to include a wider set of critical topics, such as:
 - The combination of industry associations and regulators that have a role in enforcing rights, responsibilities and standards on client protection, and how they should do so;
 - Coordination within national boundaries. Regulations differ from country to country; within national boundaries, regulators or policymakers could play a coordinating role for mass-market financial education campaigns and activities;
 - Sharing costs. For instance, the private sector could fund financial education efforts when there is a business case that makes it feasible, while the public sector could provide financial education as a social good where costs are not recoverable; and
 - Managing the blurry line between financial education and product marketing. Establishing a policy framework that recognizes this as an inherent aspect of this mode of financial education delivery, and installs the required protections, incentives and openness to innovation.
- **Advocate that policymakers and regulators provide a clearer framework** within which financial institutions can operate, including on the following issues:
 - Creating a wider definition of financial inclusion that includes consumer protection and transparency and access to finance and financial capability, with a goal toward asset building. This should be done with a concrete goal and timeline, for instance getting onto the G20 agenda and establishing a definition within two years.
 - Linking financial education programs provided by the public sector to actual financial products being provided by the private sector. This might include, for example, embedding financial education programs in schools that demonstrate how to open a savings account.

4. Improve Coordination

The financial education field is still in a state of uncoordinated innovation. In order for the field to articulate and implement a set of shared priorities, formal mechanisms for coordination will need to be established. The field should consider creating a dedicated “institutional home” to loosely coordinate, oversee, track, and occasionally direct the shared agenda for the financial capability field. Such a home could serve a number of functions:

- Share information about the innovation and development of new models.
- Establish and manage a robust knowledge management system, including a shared database or website where practitioners and researchers can access information about what is happening in the field, what has been successful in areas around the world, what standards and indicators should be used to evaluate programs, etc.
- Establish and disseminate industry “best practices” and standards.

- Act as a unified voice and forum for practitioners and customers when it comes to developing multi-stakeholder dialogue and advocating for particular policies and regulations (e.g., appropriate rules on product diversification and division of responsibilities in providing financial capability-building programs).

Recommendations

- **Establish an “institutional home” that will be responsible for coordinating and driving the shared agenda for the field.** Its mandate should include: knowledge management, knowledge sharing and research reporting; coordination of advocacy for policies and regulations; acting as a voice for practitioners (and being attentive to customers); aggregating funding and marketing for “issue campaigns” affecting the industry as a whole; and managing and leveraging online portals, resources and capacity.

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We would like to extend a special vote of thanks to those who participated in the convening held in Madrid, Spain, in November 2011 (see Appendix A: Part 3). Their expertise and experience provided early feedback on our research findings and this report, and their discussions and recommendations were instrumental in shaping the shared agenda for the field we present here. Their participation lends this report diversity of perspective—being leaders from many parts of the financial inclusion agenda—and a real sense of priorities. We also thank all of the individuals (also listed in Appendix A) who generously agreed to be interviewed—on the phone, in person and during site visits—over the course of our research. Their insights and commentary were invaluable to this report.

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Many provided valuable review- and commentary-shaping drafts of this paper, including Evelyn Stark of BMGF, Daryl Collins of Bankable Frontiers, Owen Stearns and Harvey Koh of Monitor and Tom Blathwayt. Jenny Johnston's editing was excellent and much needed.

As always, full responsibility for the content, including any errors, is strictly attributable to the authors and to Monitor Group. We are indebted to all of you for your contribution to this report, and hope that we will get a chance to work with you in the near future.

Anamitra Deb and Mike Kubzansky

Appendix A: List of Interviews, Site Visits and Convening Participants

Part 1: List of Organizations and Persons Interviewed

Microfinance Institutions

Organization	Name	Location
Al Amana*	Ether Lalla	MENA
Banco Adopem*	Lic. Mercedes Canalda de Beras-Goico Claribel Diaz	Latin America
Banco Compartamos	Yerom Castro Eloisa Romero Ayleen Sandoval	Latin America
Banco Procredit	Urania A. Cellejas-Vidaurre	Latin America
BRAC*	Ishtiaq Mohiuddin	South Asia
BRAC Sofea Program	Farzana Kashfi	South Asia
BRAC International	Shahid Ahmed Choudhary Susan Davis	Global/USA
CARD Bank	Lorenza Bañez	East Asia
Equitas	Alex John	South Asia
Fair Finance	Faisal Rehman	UK
Faulu Microfinance	John Mwara	Kenya
KASHF Foundation	Roshaneh Zafar	South Asia
Kenya Women Finance Trust (KWFT)*	Elina Mutuku Grace Nzou	Africa
Mann Deshi Mahila Bank*	Vanita Shinde Cheta Gala Sinha	South Asia
Pro Mujer	Jana Smith	Latin America
Promifin	Juan Vega	Latin America/USA
Self Employed Women's Association (SEWA)	Jayshree Vayas	South Asia
Shakti Foundation for Disadvantaged Women*	Syeda Obaida Haque	South Asia
Swadhaar	Veena Mankar Preeti Telang	South Asia
Ujjivan	Carol Furtado Apartijita	South Asia
Vision Fund	Sam Chum Veasna	East Asia

*Spoke to multiple personnel including field officers and local staff during site visits (see Site Visits in Part 2).

Other Financial Institutions

Organization	Name	Location
Allianz	Martin Hintz	Europe
Banamex	Carlos Ramirez Bracho	Latin America
Banpro*	Mario Granja Luis Rivas	Latin America
Eko India Financial Services	Mugdha Bhargava	South Asia
IFMR Rural Channels (KGFS)	Anil SG	India
Fundacion Paraguaya	Martin Burt	Latin America
National Bank for Agriculture and Rural Development (NABARD)	Yashwant Thorat	South Asia
Proyecto Capital (Juntos)	Yves Moury Sylvia Ruiz	Latin America
Root Capital	Saurin Nanavati	Latin America
Standard Bank	Coenraad Jonker	Africa
Western Union	Talya Bosch	USA

*Spoke to multiple personnel including field officers and local staff during site visits (see Site Visits below for details).

Financial Education Organizations/Providers

Organization	Name	Location
Aflatoun	Jeroo Bilimoria	South Asia/Europe
aidha	Nicola Pocock	East Asia
CARE-Peru	Alejandro Rojas	Latin America
Freedom from Hunger	Chris Dunford Lisa Gray Kathleen Stack	USA
Habitat for Humanity	Mario Moran	Latin America
Indian School of Microfinance for Women (ISMW)	Vijay Lakshmi Das Mr. S. Jha Pradeep Kshirsagar	South Asia
Microfinance Opportunities	Monique Cohen Leslie Barcus	Global/USA
Microsave	Manoj K. Sharma	South Asia
Proliteracy	Lynn Curtis	Latin America/USA
Saath	Rajendra Joshi	South Asia
Toynbee Hall	Sian Williams	UK
Tsao Foundation	Susana Concorde Harding	East Asia

Ngos, Associations & Networks Owners

Organization	Name	Location
ACCESS Development Services	Radhika Agashe Brij Mohan	South Asia
Accion	Elisabeth Rhyne	USA/Global
Asia-Pacific Economic Cooperation Business Advisory Council (ABAC)	Gary Judd	APAC
Asomif	Alfredo Alaniz	Latin America
FINCA	Bob Price Paul Hamlin	USA/Global
Grameen Foundation	Camilla Nestor Kate Griffin	USA/Global
GSM Association	Lawrence Yanovitch	UK
Indonesia Microfinance Association	Frans Purnama	East Asia
IPC/ProCredit Bank	Dörte Weidig	Europe/Global
Microcredit Summit	Sam Daley-Harris	USA/Global
Microfinance Center (MFC)	Monika Milowska	Europe
Microfinance Innovation Center for Resources and Alternatives (MICRA)	Bonifacio Belen	East Asia
Microfinance Institutions Network (MFIN)	Alok Prasad	South Asia
Opportunity International	Deborah Foy Rebecca Ngo Gareth Simpson	UK/Global
REDCAMIF	Allan Perez	Latin America
SA-DHAN	Matthew Titus	South Asia
Small Enterprise Education & Promotion (SEEP) Network	Jenny Morgan	USA/Global
Women's World Banking (WWB)	Inez Murray Ben Shell Cathleen Tobin	USA/Global
World Savings Banks Institute (WSBI)	Anne-Françoise Lefèvre	Europe/Global

Donors, Funders and Investors

Organization	Name	Location
Asian Development Bank	Kelly Hattel Qifeng Zhang	East Asia
Bellwether Microfinance Fund/India Financial Inclusion Fund (IFIF)	Shilpa Sudhakar	South Asia
Bill and Melinda Gates Foundation (BMGF)	Evelyn Stark	USA
Department for International Development (UK)	Claire Innes	UK
Ford Foundation	Frank de Giovanni Jean Paul Lacoste	USA
IFC	Peer Stein	Global
International Labour Organization (ILO)	Valerie Breda	East Asia

Organization	Name	Location
KfW Bank Group	Monika Beck	Europe
Lok Capital	Gaurav Shah	South Asia
Master Card Foundation	Ann Miles Rewa Misra	USA
Michael & Susan Dell Foundation (MSDF)	Geeta Goel Rajiv Chegu Srikrisha K. R.	South Asia
PLAN International Thailand	Sunan Samriamrum	East Asia
Prudential Corporation Asia	Chad Harris Tandler	East Asia
Russia Financial Literacy and Education Trust Fund	Richard Hinz	Europe
Society for International Cooperation (GIZ)	Karen Losse	Europe
UN Development Programme	Henry Jackelen	USA
VISA	Jason Alderman	USA

Policy, Regulators & Central Banks

Organization	Name	Location
Bank of Zambia	Musapenda J Phiri	Africa
New Zealand Retirement Commission	Diana Crossman	APAC
Superintendency of Banking, Insurance, and AFP, Peru	Giovanna Prialé Reyes	Latin America
CFED	Andrea Levere	USA

Researchers & Think Tanks

Organization	Name	Location
Bankable Frontier Associates	Daryl Collins David Porteous	USA
Center for Financial Services Innovation (CFSI)	Jennifer Tescher Sarah Gordon	USA
Consultative Group to Assist the Poor (CGAP)	Tilman Ehrbeck Anyia Maria Mayans Margaret Miller Aude de Montesquiou Alexia La Tortue	USA
CGAP Africa	Dijibril Maguette Mbengue	Africa
Financial Access Initiative (FAI)	Dean Karlan	USA
Genesis Analytics	Alyna Wyatt	Africa
Instituto de Estudios Peruanos (IEP), Peru	Carolina Trivelli	Latin America
Inter-American Dialogue	Manuel Orozco	USA
Kenan Institute Asia	John DaSilva	East Asia
Microfinance Transparency	Alexandra Fiorillo	USA

Part 2: List of Site Visits—Organizations And Locations

Organization	Location
Al-Amana	Africa (Morocco)
Banco Adopem	Latin America (Dominican Republic)
Banpro	Latin America (Nicaragua)
BRAC	South Asia (Bangladesh)
Kenya Women's Financial Trust	Africa (Kenya)
Mann Deshi Mahila Bank	South Asia (India)
Shakti Foundation for Disadvantaged Women	South Asia (Bangladesh)

Part 3: Convening Participants, Madrid Nov. 16–17, 2011

(This list does not include Citi and Monitor attendees)

Microfinance Institutions

Organization	Name	Location
Banco Compartamos	Yerom Castro	Latin America
Banco Adopem	Lic. Mercedes Canalda de Beras-Goico	Latin America
BRAC	Ishtiaq Mohiuddin	South Asia
Mann Deshi Mahila Bank	Chetna Sinha	South Asia
SEWA	Jayshree Vyas	South Asia

Other Financial Institutions

Organization	Name	Location
Western Union	Talya Bosch	USA
Fundacion Paraguaya	Martin Burt	Latin America
Proyecto Capital (Fundacion Capital)	Yves Moury	Latin America
Allianz	Martin Hintz	Europe
Banamex	Carlos Ramirez Bracho	Latin America

Financial Education Organizations/Providers

Organization	Name	Location
Microfinance Opportunities	Monique Cohen	USA/Global
Microsave	Manoj K. Sharma	South Asia
Freedom from Hunger	Kathleen Stack	USA

NGOs, Associations, Network Owners

Organization	Name	Location
Opportunity International	Deborah Foy	UK/Global
APEC Business Advisory Council	Gary Judd	APAC
Women's World Banking (WWB)	Inez Murray	USA/Global
Grameen Foundation	Camilla Nestor	USA/Global
Center for Financial Inclusion, Accion	Elisabeth Rhyne	USA/Global
GSM Association	Lawrence Yanovitch	UK

Donors and Funders

Organization	Name	Location
KfW	Monika Beck	Europe
Michael & Susan Dell Foundation (MSDF)	Geeta Goel	South Asia
Russia Financial Literacy and Education Trust Fund	Richard Hinz	Europe
DfID	Claire Innes	UK

Research, Innovation and Coordination

Organization	Name	Location
CFED	Andrea Levere	USA
CGAP	Aude de Montesquiou	Europe
Inter-American Dialogue	Manuel Orozco	USA
Center for Financial Services Innovation (CFSI)	Jennifer Tescher	USA

Appendix B: Sample Training Materials¹³⁰

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¹³⁰Part of the table of contents from *Budgeting: Use Money Wisely*, part of the MFO-FFH Financial Education for the Poor Project training guide, 2006.

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