

## Can Financial Education Change Behavior? Lessons from Bolivia and Sri Lanka



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The last few years have seen a growing interest in financial literacy. Changing economic contexts and fortunes have exposed poor people's continued economic vulnerabilities. While poor people's access to financial services has grown dramatically, pressures on incomes and rising costs make repaying loans on time an ongoing challenge. Aggressive lenders impose another set of pressures, bombarding many with temptations at a time when the need for cash to manage shortfalls is great. Financial education is no panacea for addressing these financial pressures. However, it does provide a means to help poor people more effectively manage their money and financial services, in both good times and bad.

The objective of financial education is to raise financial literacy levels by teaching new knowledge, skills and attitudes that can bring about changes in money management behaviors. It is also a tool of financial inclusion, enabling people to take greater advantage of the financial services available to them. This Brief presents examples of how financial education can translate into such actions and offers insights into the role it can play in the lives of low-income populations; in particular, microfinance clients.

Many basic principles and concepts of money management are universal. At the same time, financial knowledge, experience and behaviors vary widely across individuals, households and populations, and are strongly influenced by context. For example, young people have much less experience to draw on than older people; wage employees with a regular flow of income may be more regular savers, or rural populations may have much less exposure to formal banking institutions. There is still much to learn about; which types of financial education are needed by whom; which methodologies are most effective in improving knowledge, skills, attitudes and practices; and how financial education can be combined with other opportunities to reinforce long-term behavior change. To date, most of the experience with financial education has been in the developed world, and the jury is still out on whether financial education leads to positive behavior change.

In 2003, when Microfinance Opportunities and Freedom from Hunger partnered to develop a financial education curriculum for the microfinance industry, there was very little experience with financial education for low-income populations in developing countries—and most specifically, for microfinance clients. Microfinance Opportunities joined with Freedom from Hunger to launch the Global Financial Education Program to respond to this gap. The process was a grassroots effort that started with market research in which clients shared their financial goals and challenges, and their current knowledge, skills, attitudes and practices as related to managing money and financial services. As a result of this program, a unique curriculum tailored to low-income populations in developing countries was developed. Within three years, approximately 350,000 microfinance clients have received training in financial education, and 19 million have had access to some of the key education messages presented through mass media such as radio, television, print and street theater. These statistics show the demand for financial education in developing countries, and the potential for delivery through a variety of delivery channels. But what has been the effect of this three-year investment in financial education? What difference does it make in people's lives? Did behavior change and were there measurable changes in savings, budgeting and debt management practices by those who were exposed to financial education? In the absence of substantive literature in this field, this Brief reports on an exploratory study that highlights the lessons from financial education programs of three microfinance organizations: CRECER and Pro Mujer in Bolivia and SEEDS in Sri Lanka.

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## **Methods**

All three partners offered financial education to their clients in three areas: budgeting, debt management and savings. They employed qualitative and quantitative methods to assess client outcomes as a result of this education. Qualitative methods consisted of focus-group discussions organized with clients prior to the training sessions and again several months after the completion of the education. Quantitative methods consisted of very short quantitative surveys that evaluated the key knowledge, attitudes, skills and behaviors promoted in those modules. Pre-tests and several post-tests were conducted immediately following the completion of the training as well as three, six or twelve months after the completion of the training (depending on the partner). Analysis of the quantitative data consisted of simple comparisons of averages. Data analyzed with CRECER also utilized t-tests to evaluate the statistical differences in means. The qualitative data was used to amplify our understanding of outcomes and the processes of change to help in interpreting the quantitative results.

## **Results**

Results from the quantitative and qualitative data from the three partners suggest that knowledge and behavior change did occur. We saw increases in knowledge regarding the product characteristics clients should understand when evaluating their loans as well as how to calculate their debt capacity. There were increases in client knowledge regarding strategies to save, such as reducing expenses as well as understanding the need to save three times the amount of their monthly income for emergencies. In addition, clients who participated in budgeting education were able to identify the parts of a budget as well as its primary function. Putting debt management and savings behaviors into practice were challenged by the food and financial crises experienced in these countries—even when clients aspired to manage debt and increase savings. The only challenge to improving budgeting behaviors was self-discipline; identifying and finding ways to cut costs was the most successful behavior put into practice by these clients.

## **Analysis**

The results suggest that budgeting behaviors are much easier to put into practice compared to savings and debt-management behaviors. This is because the latter two are influenced by many internal and external factors, whereas budgeting behaviors are more influenced by the discipline of the client. Clients wanted to put saving and debt management behaviors into practice, but felt that the food and economic crisis experienced in their countries made it particularly difficult because of fluctuating and uncertain incomes and expenses.

It is important to acknowledge that the poor use multiple formal and informal financial instruments to meet their needs; thus, our understanding of any changes regarding debt management and savings behaviors are restricted to their use of formal financial instruments or formal linkages to those products. Even where we did see increased frequency of savings as reported by the clients, we only asked about savings held with or facilitated by the microfinance institutions. We may have missed changes in savings behaviors as they apply to other or more informal behaviors.

Future assessments of financial education should take into account the formal and informal financial instruments and behaviors that might be present as well as look more deeply into the intricate day-to-day behaviors to really detect whether positive change is occurring. In addition, assessing both internal and external factors that influence decision-making and behaviors are also important when interpreting results and considering impacts

## Conclusion

Our research suggests that when financial education is developed with input from the participants themselves, it can improve their knowledge of debt management, savings and budgeting and can influence positive change in those behaviors as well. Financial education in conjunction with the opportunity to immediately put new relevant knowledge and skills into practice can lead to more effective financial behaviors.

The results suggest that industry's lack of confidence in financial education's impact on a person's financial behaviors and long-term influence on a person's financial risk and cash management behaviors can be premature. The limited evidence of positive influence more likely reflects a lack of coherence of the goals of financial education, the limited number of studies and inconsistent and sometimes questionable research methods, and the timing of when assessments are completed. In addition, studies that are limited to looking at the influence of financial education on the uptake of a particular financial product are often missing a crucial piece of information: client satisfaction with the product being offered. This implies that the design of the financial education and the design of the financial product have to be examined when evaluating the influence of financial education on financial product uptake. We need to recognize that financial behaviors are fluid, ever-changing, influenced by both internal and external factors. It is risky to assume that financial education as a concept is ineffective when research shows that the more financially literate the clients are, the better their financial decisions and overall financial well-being are compared to financially illiterate clients.

The lessons from this study suggest that assessing the outcomes of financial education requires paying attention to more than just indicators of behavior change. It requires an understanding of the context of people's lives as well as five factors that make financial education most effective:

- Quality and frequency of the education
- Relevance of the education to the target population
- Opportunity to use this education
- Context in which people can exercise their new financial behaviors, and
- Appropriateness of the financial products on offer.

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