

Facilitating Client Protection, Financial Literacy, and Consumer Awareness

Expanding Access to Sustainable Finance in the West Bank and Gaza

This “FIELD Brief” is part of a series produced by the Financial Integration, Economic Leveraging and Broad-Based Dissemination (FIELD)-Support Program. This Brief discusses practitioner learning from a cross-cutting initiative to strengthen consumer protection and financial literacy in the West Bank and Gaza, under the Expanded and Sustained Access to Financial Services (ESAF) program. The initiative was led by FHI 360 with support from implementing partners CHF International, Development Innovations Group, and Making Cents International. ESAF, an Associate Award under the FIELD-Support LWA, is a three-year US\$36 million program, funded by USAID, designed to build a more inclusive financial sector for Palestinian households and enterprises.

Managed by FHI 360, FIELD-Support represents a consortium of leading organizations committed to advancing the state-of-the-practice of microfinance and microenterprise development through innovation, learning and exploration. FIELD Briefs support this objective by sharing what we have learned and fostering dialogue on key issues. This brief was written by Obed Diener of FHI 360 with contributions from Timothy Nourse and Annie Belt of Making Cents International and Donna Stefano of CHF International. For more, visit microlinks.kdid.org/field-support.

Introduction

In recent years, financial crises in both developed and developing economies have demonstrated that efforts to expand financial access are

incomplete and can in fact be harmful in the absence of corresponding measures to enhance financial consumer protection and awareness. Prior to the start of the global financial crisis in 2007, an estimated 150 million new consumers were entering the global financial services market annually.¹ However, that growth was not matched by an equivalent improvement in financial literacy or regulatory protection measures, particularly with respect to clients with lower income and education levels, who are generally more vulnerable to fraud and abuse.

Perhaps the most infamous illustration of the trend was the subprime mortgage crisis in the U.S., which resulted from the provision of millions of mortgage loans to borrowers who could not afford to repay them and triggered a meltdown in the secondary market for complex securitized mortgage products, thereby threatening the stability of the global financial system. In response, national legislatures and regulatory authorities worldwide have enacted an array of reforms seeking to improve the transparency and fairness of financial products.

Within the global microfinance industry, recent repayment crises in areas such as Nicaragua, Pakistan, and the Indian state of Andhra Pradesh have raised concerns about client over-indebtedness from a consumer protection perspective. In those areas, the popular perception of unscrupulous lending by microfinance providers has in some cases contributed to a political backlash damaging the industry’s standing and reputation.²

Recognizing the importance of a strong foundation of consumer protection and financial literacy for a stable, efficient, and fair financial sector, the USAID-funded **Expanded and Sustained Access to Financial Services (ESAF)** program in the West Bank and Gaza implemented a major cross-cutting initiative in response to identified weaknesses in the West Bank and Gaza. ESAF's approach has been to support regulatory and industry bodies to set up new regulations and mechanisms for protecting consumers, while also educating the public about rights and responsibilities as well as smart financial practices. The initiative has been implemented in close partnership with local institutions including regulators, industry associations, financial institutions, and the public school system. Though a modest investment on the part of ESAF, its various components have yielded lasting impacts.

This brief presents ESAF's activities and results according to three thematic areas:

- A) Formative Research
- B) Client Protection
- C) Consumer Awareness and Financial Literacy

ESAF Key Achievements:

- Creation and launch of a central **Consumer Relations and Market Conduct Department**, with a strong mandate for consumer protection in the banking and microfinance sub-sectors.
- Supported the Palestinian Insurance Federation to develop and launch an **internal dispute resolution mechanism**, including a hotline and website for handling consumer complaints.
- Carried out a **national media campaign** to promote financial consumer awareness.
- Introduced an interactive and practical **financial literacy companion curriculum**, reaching over 48,000 public school 11th graders annually, with the Ministry of Education and Higher Education.
- Produced and disseminated the first comprehensive **Home Buyer Education Manual** in the Arab World, tailored to the local market.

The Link to Financial Sector Growth and Development

Among the intended outcomes of ESAF's consumer protection and financial literacy initiative was to contribute to and support efforts to promote growth in the financial sector, which faced serious headwinds at program start. The formal financial sector in the West Bank and Gaza is still relatively young, having only been established following the signing of the Oslo Accords in 1993. In the decades prior under direct Israeli administration, non-Israeli banks were not permitted to operate. At the time, most Palestinian households' financial practices were highly informal and the sector was dominated by moneychangers engaged in unregulated lending and deposit-taking, among other activities. ESAF's research on financial capabilities indicates that the legacy of this period continues to shape consumer attitudes and practices (for more, see text box on p. 4).

At the end of 2008, the banking sector's loan to deposit ratio was less than 30%, far below global and regional norms, and banks held 56% of deposits abroad. The insurance industry mainly sold vehicular insurance policies, which are compulsory for automobile owners. Stakeholders in both the banking and insurance industries sought to encourage rapid growth. For example, in late 2008 lead banking regulator the Palestine Monetary Authority began enforcing a 55% ceiling on bank deposits placed abroad in order to encourage domestic investment. A key reason for stakeholders to embrace ESAF's initiative was that they saw that in order to achieve the desired growth they would need to boost demand by building consumers' confidence and knowledge.

ESAF's activities supported rapid growth in both industries. Since the end of 2008, the volume of lending in Palestine nearly doubled, from \$1.8 billion to \$3.5 billion, with notably strong growth in credit to the private sector (in the West Bank, primarily). During the same period, deposits rose from \$6.27 billion to \$7.25 billion. As a result, the loan to deposit ratio increased from around 30% to over 50% in less than three years. In insurance, though vehicular coverage remains predominant, the value of non-mandatory policies increased 19% from 2008-2010.

A) Formative Research

To better inform program activities, ESAF began by mobilizing expert knowledge and conducting survey research to thoroughly understand the state of consumer protection and financial literacy in the West Bank and Gaza. These assessments provided the evidence base for developing interventions to address the most prominent gaps.

In 2009, ESAF retained international consultants from Development Innovations Group (DIG) and the local legal firm Equity Legal Group (ELG) to perform a comprehensive assessment of consumer protection and financial literacy.³ The study assessed the state of consumer protection in the West Bank in comparison with best practices as defined by the World Bank for the banking, microfinance, and insurance industries.⁴ The methodology comprised document review, in-person interviews, and a workshop with key industry stakeholders. The latter included regulatory bodies such as the Palestinian Monetary Authority (**PMA**), which supervises the banking sub-sector and soon will also supervise microfinance, and the Palestine Capital Markets Authority (**PCMA**), which supervises insurance, securities, and leasing. Other important participants were leading industry associations the Association of Banks in Palestine (**ABP**), the Palestinian Insurance Federation (**PIF**), and the network of microfinance institutions (MFIs), Sharakeh.

Principal components of the assessment included a full review of laws and regulations relevant to consumer protection, an analysis of the institutions that protect consumers of financial services (including the financial services industry and its regulators, as well as the judicial system and consumer advocates), and a review of practices in the financial services industry that impact consumer protection. The assessment was organized around eight thematic areas, following the World Bank's model:

- 1) Institutions Supporting Consumer Protection
- 2) Disclosure
- 3) Customer Account Handling and Maintenance
- 4) Privacy and Data Protection
- 5) Dispute Resolution Mechanisms
- 6) Guarantee and Compensation Schemes
- 7) Financial Education
- 8) Competition

Findings indicated that financial consumers are at a severe information disadvantage in relation to financial institutions, thus researchers recommended that consumers' financial capabilities be improved, particularly with regard to knowledge of the opportunities and risks associated with financial products and services, as well as consumers' rights and responsibilities.

The assessment yielded recommendations for a range of specific short-term and medium-term interventions for ESAF partner institutions, discussed in more detail below. Two overarching interventions stood out as immediate priorities. The first was to conduct two financial capabilities surveys, one each for the banking and insurance sub-sectors, to better understand the current state of consumers' knowledge, attitudes and

Core Principles for Consumer Protection

From the World Bank's Good Practices for Consumer Protection and Financial Literacy:

- Consumer disclosure should be simple, easy to understand, and comparable.
- Abusive business practices by financial service providers should be prohibited.
- Consumers should have an easy, inexpensive and speedy method of resolving disputes with financial institutions.
- Financial education should be available to consumers so that they can understand financial services and products and make informed decisions.

From Rutledge, Susan, "Consumer Protection and Financial Literacy: Lessons from Nine Country Studies," World Bank, June 2010.

practices. The second was for the regulatory bodies and industry associations to collaborate on a financial literacy campaign to enhance consumers' financial capabilities.

In response to the report and with the support and participation of partners, ESAF hired a local firm to conduct two baseline household-level surveys to better understand financial capabilities. One covered the banking subsector in collaboration with the Palestine Monetary Authority (PMA) and the other covered the insurance subsector with the Palestine Capital Markets Authority (PCMA). Both surveys studied consumers' understanding and behavior pertaining to financial services in the West Bank and Gaza.

The studies targeted adults ages 25 and above through random in-person household surveys, achieving a statistical confidence level of 96%, with a margin of error of 2.8%. Results (summarized in the box at left) pointed to prominent gaps in knowledge that could be addressed through financial literacy interventions. Most strikingly, few respondents had even heard of the PMA and PCMA, much less understood their roles as regulatory bodies supervising the financial sector.

Results were presented to the regulators as well as banking and insurance industry stakeholders, and ESAF established a partnership with the PMA, PCMA, ABP, and PIF, to collaborate on a national media campaign (described further below).

B) Client Protection

In response to the recommendations from the formative research, ESAF developed a consumer protection action plan for both regulators (PMA and PCMA) and one industry association (PIF). Among the other two industry associations, the ABP did not view consumer protection as a high priority, and Sharakeh did not have the capacity to take on significant new commitments, at the time. Interventions and results are summarized below.

Highlights from ESAF's Financial Capabilities Baseline Surveys (Fall 2009)

Banking:

- 56% of respondents had heard of the PMA; 25% knew its basic functions as the banking sector regulator and emerging Palestinian central bank.
- Only 38% had a bank account. Of those, 80% had checking accounts and 39% had savings accounts.
- 49% preferred to keep their savings at home, rather than at a bank.
- 50% said their families maintain a monthly budget.
- 42% expressed a preference for Islamic banks over commercial banks, although only 18% reported doing business with an Islamic bank
- 18% had taken a bank loan; of those, 85% reported that the bank provided adequate explanation of the terms and fees
- 97% knew that failure to repay loans could affect ability to borrow in the future, and 70% knew it could affect the ability to borrow from another bank
- 39% used ATMs, 15% phone banking, and less than 2% electronic banking.
- 43% knew what fees banks charge for various services
- 80% felt confident in dealing with banks

Insurance:

- Only 10% had heard of the PCMA, and only 7% knew it regulates the insurance industry
- 30% had a private insurance policy; of those, 74% had vehicle insurance (mandatory for vehicle owners under Palestinian law) and 33% had health insurance.
- 40% trusted insurance companies to compensate them fully for claims.
- 8% had been compensated for a claim in the past, and only 53% of those were satisfied with the compensation.

1) **Banking and Microfinance:**

Supported by ESAF's extensive technical assistance over the past three years, the PMA has substantially strengthened consumer protection regulations and their enforcement and is now on its way to becoming a regional leader on consumer protection issues among banking supervisory authorities. Most recommendations from the initial assessment report were followed and successfully implemented (see table below).

"ESAF's technical assistance helped us a lot, especially in areas like conducting surveys and developing our five-year strategic plan, and we are continuing our efforts to enhance the financial capabilities of the people of Palestine."

-- Ali Faroun, Director, PMA Department of Consumer Relations and Market Conduct

Perhaps the most consequential development, addressing a central recommendation from the assessment report, was the PMA's opening of a new Consumer Relations and Market Conduct (CRMC) Department in 2011, which enforces consumer protection regulations for the banking industry, manages the national credit registry, handles consumer complaints, and promotes financial education. The Department opened a public Consumer Relations Hall, which serves as a hub for disseminating credit reports to consumers, handling complaints, and offering financial literacy materials.

In preparation for the establishment of the new Department, and in response to ESAF's recommendations on a grievance policy, the PMA took a series of noteworthy actions to support and develop its capacity to handle complaints. The agency first developed a complaint handling system and process, including an automated system to handle a large volume of complaints. At the same time, it issued instructions and circulars to guide banks on how to handle consumers' complaints, and to ensure that banks have appropriate structures, staff, and capacity to address them in a professional and timely manner. As part of the national awareness campaign (see next section), the PMA has widely distributed information stands that include a brochure providing detailed information on how consumers can officially file complaints regarding banks and their services. The stands remain on prominent display at many bank branches.

Promoting Regulatory Reform at Palestine's Emerging Central Bank

In September 2011, the International Monetary Fund (IMF) reported its view that, *"Following steady institutional reforms since 2007, the Palestine Monetary Authority (PMA) is ready to carry out the functions of a central bank."* Among those reforms, the IMF cited three consumer protection-related achievements supported by ESAF: formation of the Consumer Relations and Market Conduct Department, development of a national credit scoring system, and the development of new regulations for lending and finance companies including MFIs. (From the IMF's "Recent Experience and Prospects of the Economy of the West Bank and Gaza," Staff report prepared for the meeting of the Ad Hoc Liaison Committee, New York, September 18, 2011, p. 11.)

In line with the report's recommendations, the PMA has established a Non-Banking Financial Institution Unit to supervise MFIs and other non-bank financial services providers. The PMA will enforce existing consumer protection rules among MFIs, once PMA supervision of the microfinance industry takes effect. The necessary regulations have been developed and are only awaiting final approval from the PMA Board, which is expected by early 2012.

Table 1: Progress against Recommendations from the Initial Assessment, Banking and Microfinance

| Partner | Time Frame | Recommendations | Status |
|----------|-------------|---|--|
| PMA | Short-term | <ul style="list-style-type: none"> • Ensure banks disclose regulator contact information to consumers in ads, agreements. • Establish and enforce a standard APR calculation to enable consumers to compare products among providers. • Formalize a regulatory level grievance process for handling consumer complaints. • Extend existing Fair Lending Instructions to MFIs.⁵ | <ul style="list-style-type: none"> • Achieved • In progress, expected in 2012 • Achieved • Pending, expected in 2012 |
| | Medium-term | <ul style="list-style-type: none"> • Establish deposit insurance. • Establish a separate unit to supervise MFIs. • Establish a consumer protection unit with redress, research and financial literacy responsibilities. | <ul style="list-style-type: none"> • In development, expected in 2012⁶ • Achieved • Achieved |
| ABP | Short-term | <ul style="list-style-type: none"> • None | |
| | Medium-term | <ul style="list-style-type: none"> • Revise industry code of conduct to strengthen consumer protection provisions, with an enforcement mechanism. | <ul style="list-style-type: none"> • Not addressed due to other priorities. |
| Sharakeh | Short-term | <ul style="list-style-type: none"> • Educate MFIs on Fair Lending Instructions so that they can quickly become compliant. • Revise industry code of conduct to include issues such as truth in advertising. • Establish industry level grievance process. | <ul style="list-style-type: none"> • Achieved. • Not addressed. • Not addressed |
| | Medium-term | <ul style="list-style-type: none"> • Coordinate with MFI regulator once MFIs are supervised by PMA. | <ul style="list-style-type: none"> • PMA supervision not yet in place. |

In a related intervention, ESAF supported the PMA in strengthening the national credit registry and developing a new credit scoring system for consumers, incorporating data from credit accounts with financial institutions as well as, notably, utility providers and several MFIs. The variety of providers ensures that a broad range of financial consumers are included. In addition, the PMA now makes credit reports available to consumers, whereas in the past they were previously shared only with financial institutions. ESAF supported two MFIs to upgrade their management information systems (MIS) capabilities in order to meet the technical requirements for joining the registry, and provided advanced training to the PMA and participating MFIs on credit scoring, through international firm CreditInfo.

According to the IMF, the credit registry has been an important factor in encouraging recent growth in credit to the private sector (29% year over year increase in the West Bank and 38% in Gaza, as of June 2011). The IMF also notes that increasing domestic credit opportunities have led to steady declines in bank deposits invested abroad (foreign deposits have decreased from 56% to 42% from 2008-11).⁷ It is widely acknowledged in recent microfinance literature that effective credit reporting systems are a crucial tool for helping to prevent collection problems, whether due to over-indebtedness or strategic default.⁸ Credit reporting informs loan origination by financial institutions and provides a strong incentive for repayment.

Future PMA plans, in line with ESAF’s recommendations, include requiring financial institutions to use a uniform methodology for calculating Annual Percentage Rates (APR) in advertisements and contracts, which will enable consumers to easily compare offerings. In addition, the PMA’s CRMC is collaborating with the Ministry of Education and Higher Education to further enhance financial education in schools and universities. The CRMC will review curricula to identify opportunities to strengthen financial education, and has already begun facilitating presentations on financial literacy topics at local schools. The PMA also intends to require banks to offer all consumers access to a “Basic Account,” a savings account with low or no minimum balances or fees, which would particularly benefit low-income households, youth, and other underserved groups.

2) Insurance

Consumer protection has also gained traction in the insurance industry under ESAF, although there has been less emphasis at the regulatory level. One constraint is that the PCMA is a very young regulatory body, having only been formed in 2005. Unlike the PMA, which has been in place since the early 1990s and is now among the most established public institutions in Palestine, the PCMA is still developing its systems and core capacity. Another major factor is that the legal environment for insurance is outdated, and does not currently provide a solid foundation for consumer protection at the regulatory level. A draft insurance law—as well as several other priority pieces of legislation to modernize governance of the financial sector—remains pending due to the inactive state of the Palestinian Legislative Council.

As a result, the recommendations around strengthening disclosure requirements and issuing instructions on the fair treatment of insurance consumers remain unfulfilled. The recommendation to establish an arbitration process was not taken up by the PCMA, on the grounds that such disputes should be handled through the courts. Accordingly, ESAF sought to partner with non-regulatory industry stakeholders for immediate and effective impact, and the PIF as the leading industry association proved to be a strategic partner. The most significant outcome of this process was the establishment of an industry level internal dispute resolution process, with buy-in from the PCMA and individual insurance companies. In addition, the PIF launched a website and hotline for handling consumer complaints. The PIF’s consumer protection activities were supported by a capacity building grant from ESAF.

Table 2: Progress Against Recommendations from the Initial Assessment, Insurance

| Partner | Time Frame | Recommendations | Status |
|---------|-------------|--|---|
| PCMA | Short-term | <ul style="list-style-type: none"> Establish regulatory level grievance process for insurance industry complaints. Ensure companies disclose regulator contact information to consumers. Establish the equivalent of Fair Lending Instructions for insurance companies. | <ul style="list-style-type: none"> Not achieved due to lack of legal foundation. |
| | Medium-term | <ul style="list-style-type: none"> Establish arbitration unit, or appoint an independent ombudsman, to provide faster resolution of claims. | <ul style="list-style-type: none"> PCMA believes this is the role of the courts. |
| PIF | Short-term | <ul style="list-style-type: none"> Establish industry level grievance process | <ul style="list-style-type: none"> Achieved; process dev’d; complaint website /hotline launched. |
| | Medium-term | <ul style="list-style-type: none"> Revise industry code of conduct. | <ul style="list-style-type: none"> Pending |

➤ **Lessons Learned**

- ✓ Although consumer protection issues are familiar to industry stakeholders, educating them on the potential consequences of poor practices is fundamental to obtaining buy-in.
- ✓ Understand that while the regulators are perhaps the most important actors, each stakeholder can play a role and overall consumer protection can be enhanced by actions at various levels.
- ✓ Focus on what is possible in the short- and medium-terms with available resources.
- ✓ Regulatory capacity and interest to implement consumer protection can vary widely. Maintain a flexible program design in order to support activities that are responsive and appropriate to the partners' needs.
- ✓ Get industry association buy-in from an early stage, whenever possible.

C) Consumer Awareness and Financial Literacy

1) Consumer Awareness Campaign

As recommended in the initial assessment report, FHI 360 spearheaded a national financial literacy media campaign, carried out in partnership with the PMA, PCMA, PIF, and ABP. FHI 360 hired a consultant to develop a strategy for the campaign in coordination with partners. ESAF also contracted two local media companies to help with content development and placement.

Building on the findings from the two financial capabilities surveys described above, ESAF and its partners defined the campaign's overarching key messages as follows:

- *Investing through the regulated industry offers greater benefits than investing informally or not at all.*
- *There are financial products and services in the marketplace that offer long range protection and financial growth through the regulated insurance and banking sectors.*
- *Regulatory agencies PCMA and PMA, and their industry association counterparts PIF and ABP engage with the insurance and banking industry respectively, and each has a role in assisting and protecting consumers.*
- *Established complaint processes are in place in each industry for resolving disputes between financial institutions and consumers.*

The campaign, whose slogan translates as “Figure it Out and Improve Your Life,” employed a wide variety of vehicles including billboards, radio spots, newspaper advertisements (see figure 1 below), popular TV and radio talk shows, a campaign website (www.amwaly.ps), and informational brochures placed at financial institutions throughout the West Bank and Gaza. A midpoint assessment, carried out through a representative random household survey in the West Bank in January 2011, found that 40% of the public had been exposed to the campaign and over 70% had a positive view of its messages. The results helped inform ESAF and partner media companies about the specific newspapers, radio stations, and other sources that were having the greatest impact, in order to better target subsequent phases.

In order to gauge the campaign's effects, ESAF also carried out two post-assessment nationally representative household surveys of consumers following the campaign, following the same methodology as the baseline financial capabilities surveys and repeating the questions in order to ensure comparability of results. The post-surveys showed that the campaign was most effective in communicating its core message about the presence and role of industry regulators. The percentage of

respondents who had heard of the PCMA nearly tripled, rising from 10% to 27%. With a population of around four million in the West Bank and Gaza, that translates to 680,000 people learning about the PCMA as a result of the campaign. The percentage of people who had heard of the PMA rose less dramatically, but still substantially, from 56% to 64%. Despite the progress, the numbers show that there is still much work to be done in raising public awareness on such issues.

In terms of behavior change, few effects were observed overall in the post-survey. That is not surprising given that the media campaign lasted around six months and the survey occurred immediately afterwards, while one would expect to see these changes take root over a longer period. The largest change observed by the survey related to the practices of banking customers. The percentage using ATMs increased from 39% to 51%, while those using phone banking increased from 15% to 28%, and electronic banking from 1.6% to 6%. While the campaign likely contributed to this change, the results are also reflective of broader technological and market shifts during the same period.

ESAF chose to design and implement the campaign in close collaboration with the partners. The decision added complexity to the organization of the campaign, as it was challenging to get timely input and achieve consensus on many issues that arose, requiring intensive facilitation from FHI 360 at many points. However, the process increased partner buy-in and built their capacity to manage media campaigns, essential for the follow-on efforts in this area that are clearly needed.

The PMA in particular continues to play an active role in promoting consumer awareness by participating in call-in radio shows and presenting at schools, for example. The PIF also has a well-established public relations function, which was enhanced through collaboration with ESAF.

➤ **Lessons Learned:**

- ✓ Rigorous research is a crucial prerequisite to inform public awareness efforts.
- ✓ Fully involving multiple partners in design and implementation is time consuming, but ultimately enhances sustainability and impact.



Figure 1: A newspaper cartoon from ESAF's national consumer awareness campaign warns against the risks of saving money with informal providers (such as money changers), rather than regulated banks.

2) Financial Literacy in Public Schools:

Financial literacy content in Palestinian public school curricula is generally weak or altogether lacking. At the request of the PMA and in collaboration with the **Ministry of Education and Higher Education (MoEHE)**, FHI 360, with technical support from experts at **Making Cents International** introduced the first dedicated financial literacy content into the Palestinian public school curriculum by designing a highly participatory companion curriculum on financial literacy for the 11th Grade Management and Economics course.

Following an initial assessment, Making Cents recommended that the most sustainable approach would be to develop a companion curriculum that would be integrated into existing coursework, rather than developing standalone materials, and the 11th grade Management and Economics Course, which is required for public school students from most academic streams, was judged most appropriate.

Following a review of the existing course curriculum, Making Cents developed a series of two complementary lessons and ten supplemental activities on financial literacy topics (planning, decision making, information gathering, asking for help, savings and credit). The lessons were designed to be facilitated using a highly interactive methodology focused on learning by doing. The materials were piloted and tested with 16 teachers and 2,000 students in 2010 and, following strong evaluation results with high ratings from both teachers and students, ESAF worked with MoEHE to prepare over 800 teachers at all schools to use the materials, applying a cascading training model. The curriculum was rolled out to all public schools in the fall of 2011, potentially reaching an estimated 48,000 students per year.

➤ **Lessons Learned:**

- ✓ Maintain sufficient flexibility so as to be responsive to interim needs and unexpected opportunities.
- ✓ Focus on end result and design the intervention around the entry point at which a small change could yield the greatest impact.
- ✓ Start small by piloting, then evaluate and adjust before taking to scale.

3) Home Buyer Education

The housing market is growing rapidly in several West Bank urban areas, yet households' understanding of the home buying process, including financing options, is very limited. To address the gap, one component of ESAF's Mortgage Market Development Program—implemented by **CHF International**—focused on educating potential home buyers in the requirements, responsibilities, risks, and benefits of borrowing for a home purchase or for home improvement. As part of the Home Buyer Education Pilot, CHF developed a customized training curriculum tailored to the specific realities and practices in Palestine, which included an Arabic-language home buyer education manual that is the first



Figure 2: Hadeel (left) and Saalem (right) were characters created by the curriculum development team from Making Cents, based on composites of young people interviewed in the West Bank. Their stories were woven throughout the financial literacy curriculum developed by ESAF.

of its kind in the Arab World.⁹ CHF then tested and refined the materials through a series of home buyer education workshops, reaching 257 participants.

The manual consists of three booklets covering various home buying subjects (deciding to buy a home, responsibilities of home ownership and financing a home), as well as a series one-pagers that allow participants to practice personal budgeting techniques, to compare the details of bank mortgage offers (fees, rates, etc.), and to become familiar with the concept of amortization. The book also includes easy reference cards for home buyers to use when calculating how much home they can afford and a checklist of items to consider when completing a home inspection.



Figure 3: As part of the Home Buyer Education Pilot, CHF developed Arabic-language resources, including five animated educational videos, available on YouTube.

Recognizing that the Palestinian mortgage market is still nascent and many homes are purchased through informal financing mechanisms such as purchasing directly from developers, the focus of the manual is not limited to the process of purchasing a home with a mortgage. It also helps consumers to make better decisions about their financial capacity to become homeowners, and the actions needed to protect themselves in home purchase transactions. The materials combined elements of financial literacy (budgeting, saving), consumer protection (purchase contract clauses, disclosures), borrower education (mortgage loan and Sharia-compliant financing), and real estate law (purchasing a property with title vs. an irrevocable power of attorney).

Training materials were based on extensive legal reviews as well as market research with prospective home buyers. A series of ten focus groups revealed that although consumers were quite knowledgeable about the process of buying a home, they lacked knowledge about different financing options and how to protect themselves in the sales process.

Additionally, participants tended to be:

- Unfamiliar with basic concepts around personal/household budgeting (consistent with the findings of the financial capabilities surveys);
- Conservative toward credit (“Do not extend your feet greater than the length of your bed”);
- Aware that they could lose their home as a consequence of not paying the mortgage; and
- Cognizant that the interest charged on a mortgage loan makes it far more expensive than buying outright with cash, but lacking the understanding of the cost of money and how mortgage loans can make home purchasing a much more affordable option than renting over the longer term.

CHF learned many valuable lessons in rolling out and piloting the trainings, and has since obtained funding from another donor to scale up the home buyer education work over the coming two years.

➤ **Lessons Learned:**

- ✓ Close collaboration with industry stakeholders (regulators, industry associations, developers) is essential to ensure product quality and support effective dissemination.
- ✓ When promoting home buyer education in an underdeveloped mortgage market, it can be challenging to find trainers and other specialists with adequate knowledge about the home buying process and mortgage financing.

- ✓ Encouraging the public to attend home buyer education sessions, which aim to address gaps in knowledge of which participants were not previously aware, requires creative targeting and planning.

Conclusion

Based on in-depth research on the state of consumer protection and financial literacy in Palestine, ESAF was able to design and implement a set of interventions to empower consumers through greater knowledge of financial services, while at the same time improving regulatory frameworks and capacity. As a result, Palestinian institutions—including the main financial sector stakeholders and the public education system—are now better equipped to fulfill their role in supporting a vibrant and efficient financial sector.

For the first time, banking and insurance customers have the option to raise complaints directly to a regulator or industry association, if a service provider does not respond. An improved credit registry, with the participation of microfinance institutions, is helping financial institutions extend access to credit to new customers, while also better managing credit risk. The majority of public school graduates will now graduate with some exposure to practical financial education, and prospective home buyers have access to a comprehensive resource to help them better plan for the future, manage their finances, and evaluate financing options.

Future initiatives can build on these achievements by following through on several fronts. New consumer protection challenges and opportunities will continue to arise in the near future as the banking industry continues to experience rapid technological change and innovation, as the microfinance industry comes under PMA supervision, and as a revised legal framework for the insurance industry takes shape. Consumer financial capabilities should continually be monitored to understand where additional financial education efforts should be targeted. ESAF's experience demonstrates that effective collaboration by multiple stakeholders can ensure that, where impact is concerned, the whole far exceeds the sum of its parts.

¹ Rutledge, Susan, "Consumer Protection and Financial Literacy: Lessons from Nine Country Studies," World Bank, June 2010.

² Schicks, Jessica and Richard Rosenberg, "Too Much Microcredit? A Survey of the Evidence on Over-Indebtedness," CGAP, Occasional Paper 19, Sept. 2011. Article notes that over-indebtedness was not alone in causing the crisis; strategic default by borrowers due to ineffective credit monitoring systems was also a factor.

³ The full ESAF Report can be accessed via USAID Microlinks at <http://microlinks.kdid.org/node/2983>

⁴ Rutledge, Susan, Nagavalli Annamalai, Rodney Lester, and Richard Symons, "Good Practices for Consumer Protection and Financial Literacy in Europe and Central Asia: A Diagnostic Tool," World Bank, August 2010.

⁵ The PMA's Fair Lending Circular, enacted in 2009, is a comprehensive set of rules designed to ensure banks provide consumers with sufficient information to make good decisions, help them determine which products will work for them, provide them with a way to complain if they feel they are not being well served, and ensure their transactions are confidential.

⁶ This activity is supported by technical assistance from the World Bank.

⁷ International Monetary Fund, "Recent Experience and Prospects of the Economy of the West Bank and Gaza," Staff report prepared for the meeting of the Ad Hoc Liaison Committee, New York, September 18, 2011, p. 10.

⁸ CGAP and IFC, "Credit Reporting at the Base of the Pyramid: Key Issues and Success Factors," 2011.

⁹ The manual and other materials are available to the public in hard copy through the PMA's Consumer Relations Hall, and can be downloaded from the Amwaly financial consumer education website developed under ESAF, at <http://amwaly.ps/buyhome.html>. Five animated educational videos are available on YouTube at www.youtube.com/user/PalestineHomebuyer