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# FINANCIAL EDUCATION: STRATEGIES AND PROGRAMS

FINANCIAL SECTOR PROGRAM IN ANGOLA

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# **FINANCIAL EDUCATION: STRATEGIES AND PROGRAMS**

## **FINANCIAL SECTOR PROGRAM IN ANGOLA**

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The number and variety of financial education providers has grown in recent years, responding to important changes that affect providers and clients alike. New technologies have led to new products and new, more targeted marketing approaches. If consumers are to take advantage of these advances, their understanding of finance needs also to advance. The migration, in the U.S. at least, toward more employee-directed retirement plans, the increase in personal debt and the drop in savings rates, and fierce competition that puts credit cards and cell phone contracts in the hands of ever younger consumers, have all increased the level of responsibility on consumers' shoulders. On the darker side of things, there has been an increase in questionable lending practices; consumer protection, it turns out, goes hand in hand with effective financial education.

As the diversity of providers has increased, the programs they offer are designed for a correspondingly wide array of audiences and purposes, "some offering comprehensive information on savings, credit, and similar topics for a broad audience and others tailored to a specific group, such as youth or military personnel, or focused on a specific goal, such as home ownership or savings."<sup>1</sup>

Given such a range of approaches, it might be worthwhile to start with working definitions of "financial literacy" and "financial education."

The Federal Reserve review cited above defines "financial literacy" as a "working knowledge of financial concepts" and a set of tools people can use "to make decisions most advantageous to their economic well-being."<sup>2</sup> According to the Global Financial Literacy Project, financial literacy "can be defined as knowledge of basic financial concepts and the skills and attitudes to translate this knowledge into behaviors that improve financial outcomes." GFLP goes on to say that "improved financial knowledge, skills and attitudes should contribute to changes in financial *behavior*" and that changes "in financial behavior should, in turn, lead to improved financial outcomes."<sup>3</sup> Knowledge is not enough; it must be combined with skills to turn knowledge into new action and the attitudes that support new behaviors. Improved financial well-being can come from knowing how to open a bank account and from having enough confidence to actually go to the bank and open one.

Having new information will not, however, set this chain of causation and action in motion. The U.S. Federal Reserve says, "Although research shows that the acquisition of additional information can result in improved behavior in financial matters, studies also make clear that increased information does not automatically result in such improvement. While the overarching objective of financial literacy training is to impart knowledge that will, ultimately, improve financial behaviors, the assumption that the presence of more information will lead to improved behavior is faulty."<sup>4</sup> Especially in the case of low-income people, information alone can be useless: "In the world of the poor, where information asymmetries are the rule... unless the poor have the knowledge and skills to interpret this information and are motivated to change behaviors, the value of promotional information is limited."<sup>5</sup>

People acquire these tools and attitudes through a process of education. The educational strategy changes depending on both the specific goals of the exercise and the learning style of the target audience. "Programs to teach about financial topics are based on the assumption that money management is a

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<sup>1</sup> Sandra Braunstein and Carolyn Welch, *Financial Literacy: An Overview of Practice, Research, and Policy*. Federal Reserve Bulletin, November, 2002; p. 445

<sup>2</sup> *Ibid.*, p. 445

<sup>3</sup> The Global Financial Literacy Project is a partnership among Microfinance Opportunities, Freedom from Hunger and the Citigroup Foundation. Citation from J. Sebstad, M. Cohen, K. Stack, *Assessing the Outcomes of Financial Education*. Washington DC: Global Financial Literacy Project, 2006.

<sup>4</sup> Braunstein and Welch, *op. cit.* p. 453.

<sup>5</sup> M. Cohen, E. McGuinness, J. Sebstad, K. Stack, *Market Research for Financial Education*. Washington DC: Global Financial Literacy Project, 2007; p. 2.



learned skill (Meeks, 1998). Although one's understanding of economic concepts is developmental (Meeks, 1998), learning is cumulative. Basic concepts are within the reach of young children, and no matter what the age group, teaching strategies must take developmental appropriateness into account (Martin & Oliva, 2001; Varcoe, Peterson, Garrett, Martin, Rene, & Costello, 2001)."<sup>6</sup>

One such strategy is simulation. Ferrari found, in her review of the literature, that financial education programs that stressed simulations of real world experience produced significant results. As an approach, simulation, "based on the idea of learning through experience...is an educational technique that involves immersion in an authentic, realistic situation in a way that approximates a real-life situation as much as is feasible. Simulation is a guided experience that 'evokes or replicates substantial aspects of the real world in a fully interactive manner' (Society for Simulation in Healthcare, 2006). It is experienced prior to performing the actual task or situation, as a way to teach and practice performance-based practices or skills."<sup>7</sup>

In general, those charged with creating financial education programs will want to consider these variables in designing both the content and the delivery method of the program:

- *Who* is the targeted audience and what are the group's information needs?
- *What* does the audience need to know to understand personal financial circumstances, identify future goals, and implement behaviors consistent with attainment of those goals?
- *When* is the appropriate time to expose individuals to both general and specific information about financial issues and options?
- *Where* should financial literacy education be provided to reach the broadest audience?
- *How* can financial literacy education be effectively delivered, both at specific points in time and over time, to assist households in adjusting their financial plan to suit their circumstances?
- *How* can the effectiveness and impact of financial literacy programs be measured?<sup>8</sup>

### Three Examples

*Using Mass Communications in Uganda:* Faced with survey information showing that forty percent of microcredit providers in Uganda routinely failed to advise customers of their options and the full terms of their loans, and that nearly three-quarters of all clients were unaware of the interest rates and fees on their loans, three local NGOs sought funding from DFID and used mass communication media to change this particular information asymmetry.

Their report,<sup>9</sup> presented in 2007 at the Third African Microfinance Conference, details how they first conducted research to make sure of their facts. Then they designed and piloted an informational campaign using a full array of print media as well as radio to provide basic information to consumers about their rights and available product options. During a six-month trial period, "financial extension workers" fanned out across two districts of the country with pamphlets, flipcharts and leaflets to hold community trainings that drove home the information provided via radio and newspaper.

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<sup>6</sup> T. M. Ferrari, *Review of the Literature in Support of Real World, Real Money Statewide Evaluation*. Columbus, OH: Ohio State University Extension, 2007; p. 5.

<sup>7</sup> *Ibid.*, p. 5.

<sup>8</sup> Sandra Braunstein and Carolyn Welch, *op. cit.*, p. 456.

<sup>9</sup> Daniel Muhumuza and Basil Tushabe, *Uganda's Experience in Mass Market Consumer Education*. Kampala, 2007. Accessed May 28, 2009 at <http://www.amfiu.org.ug/images/docs/conference/Day1/Subtheme2-ClientCostsandRisks/Uganda'sexperienceinmassmarketconsumereducation2withPRcomments-Final.pdf>



Surveys at the end of the pilot phase showed increased awareness of consumer rights and product offerings, a greater number of people “asking lots of questions before taking a loan” as well as a better percentage of lenders providing information, and an uptick in the numbers of new enrollees in community savings programs. Building on these results, the program was rolled out nationwide and branded as the “Transparency—Negotiation—Trust” Campaign.

Among the wise things organizers of this program did was to have live talk shows on radio. These call-in venues allowed people to engage representatives of government, of the banks and of microlenders directly about their concerns. Successful users of microcredit products were also interviewed; telling their stories was a powerful, peer-to-peer method for illustrating desired behaviors and outcomes. Organizers also took care to use personal interactions, at places and times convenient to their target audiences, to reinforce the general informational stream through the media.

The main difficulty with the program was its sustainability: the presenters’ concluding remarks suggest the DFID contract was ending and, while other donors had expressed interest in funding later stages, no commitments had been secured.

*“Real Money/Real World” for Youth in Ohio:* Cognizant of a growing sense of the need, and of growing political pressure, to improve teenagers’ financial literacy as a foundation for a more secure economic future, Ohio State University’s Extension Department created a program entitled “Real Money/Real World” (“RM/RW”). Carried out through 4-H youth agricultural clubs, the program involves a series of simulations designed to give young people an opportunity to think about how their lifestyle and career choices affect their economic prospects; how banking and credit services work; and what are the major expense categories—taxes, child care, home and auto purchase and maintenance, clothing and medical care, etc.—that figure in the life of a typical family. Materials developed by the program designers include worksheets, lesson plans, teachers’ manuals, evaluation questionnaires and forms, and patterns for posters and displays that turn a gymnasium or community center into a small town with various entities along the way that will take participants’ money.

One important factor in the RM/RW process is the inclusion of various community organizations. Banks and credit unions, for instance, are asked to provide checks and check registers; car dealers provide versions of their sales contracts; and so on, making the process more real for participants while simultaneously building support within the larger community. The Ohio State Treasurer’s Office has created its own complementary materials, based on OSU’s patterns, and makes them available to other groups and institutions across their state, thus institutionalizing the process.

*Going Global:* The Global Financial Literacy Project (GFLP), mentioned above, has worked with Al Amana (Morocco), CARD Bank (Philippines), Equity Building Society (Kenya), the Microfinance Centre (Poland), Pro Mujer (Bolivia), SEWA Bank (India), and Teba Bank (South Africa) to research and design a financial literacy program for adults based on the needs and concerns identified in this constellation of different settings. The result is a series of modules that deepen participants’ understanding and increase their capacity for:

- Cash flow management and budgeting: moving from a reactive to an active approach to meeting financial and developmental needs;
- Managing savings: creating savings plans that increase the odds of voluntarily accumulating wealth, and gaining familiarity with available alternatives to “mattress accounts”;
- Debt management: addressing proper uses of debt and avoiding the risks of over indebtedness;
- Interfacing with banks: learning to use the many products at clients’ disposal, understanding how banks work and what their costs and charges are; and
- Improving financial negotiation skills: assessing the lack of transparency among banks and the lack of skills among clients for evaluating different financial options.



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GFLP have developed materials in several languages that include the theoretical basis for their program, curricula, teacher training materials, methodologies for evaluating both client progress and teacher skills, and guidance for adapting the basic curriculum to particular educational needs and goals in cross-cultural settings.

These three examples, from a much larger universe of programs, give some small idea of the diversity of approaches available worldwide. The common threads that unite them, however, are:

- A foundation in research in order to determine the most important needs and issues, and to understand and select the target audience;
- Pilot testing before a more expansive deployment;
- Particular attention to the needs and characteristics of the learners so that content is delivered in ways that are appropriate, convenient and meaningful;
- At least some opportunity to practice new skills and use new concepts before real world interactions are attempted;
- An effort to put the financial education task into a larger community context; and
- Emphasis on continued learning and program modification.