Habitat for Humanity®

The Center for Innovation in Shelter & Finance, Asia-Pacific

The Role of Financial Education in IMPROVED HOUSING

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All errors and omissions are the responsibility of the authors.

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Introduction: Financial Education in The Asia-Pacific Region

As Habitat for Humanity's work has grown and expanded in the Asia-Pacific region, reaching more families with housing finance products through four core models of delivery, there is an increasing awareness of the potential risk posed for inexperienced, low-income families that access financing for home improvements.

Without appropriate financial education, there is a danger that the financial obligations arising from housing loan products will be misunderstood. Families using these products could suffer as a result. Because Habitat for Humanity seeks to help populations that are vulnerable to economic shocks and unequal power relationships, offering financial education in association with housing finance partnerships can build financial literacy. Such literacy can ensure that families Habitat for Humanity serves can continue to help themselves.

The OECD states that financial education is important because it helps to improve "skills and confidence to become aware of financial risks and opportunities, to make informed choices and to know where to go for help."[1]

This definition encompasses both knowledge and behavior change to impact how consumers make financial decisions. Financial education reinforces behaviors such as budgeting, saving, shopping around for financial services, complaining of unfair treatment and paying debts or loans on time. These behaviors empower low-income

1 The OECD Project on Financial Education 2009 Margaret Miller, Nicholas Godfrey, Bruno Levesque, and Evelyn Stark. "The Case for Financial Literacy in Developing Countries Promoting Access to Finance by Empowering Consumers', February 2009. <www.oecd.org/dataoecd/35/32/43245359.pdf>

FINANCIAL EDUCATION

"… the process by which financial consumers/investors improve their understanding of financial products and concepts and develop the skills and confidence to become aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being and protection"

OECD, 2009

families to make well-informed decisions that reduce risk of falling prey to unwise and unscrupulous lending. Programs delivered in community-adapted settings are essential to reaching people where they are and empowering them with the tools to drive their financial futures.

The global financial crisis and specifically the role of predatory lending therein, has led to renewed attention on protecting consumers in both industrialized and emerging markets. As the financial crisis spread, it became clear that many consumer financial products, such as retail loans, credit cards and sub-prime mortgages, were contributing to the problem. Calls for increased protection and education became more urgent because low- and middle-income families were disproportionately affected by these products, In the aftermath of the crisis, consumers need to understand the implications of the changed market environment for their personal and business finance decisions. Tighter credit will put pressure on both savings and loan products. Consumers will need to re-focus on building personal savings, understanding terms and conditions, and shopping for the best product or service to access the market and avoid risk. These are precisely the behaviors that financial education programs have had success in improving.

The objective for this paper is to present and analyze information needed by Habitat for Humanity to develop its housing finance strategy for the Asia-Pacific region. The paper attempts to draw on information from the region as much as possible, noting where influenced by broader global trends. Where important ideas emerging from other regions have not yet been adapted in the Asia-Pacific region, they are also presented as potential areas for engagement.

The paper first presents the background of Habitat for Humanity's housing finance experience in the region. Next, the background of financial education as it pertains to housing finance is explored. The third section presents an overview of the research that has been conducted in financial education, focusing especially as it pertains to low-income housing finance. The fourth section focuses on trends in the financial education sector and how they may impact housing finance. Fifth, metrics are presented that could be used to benchmark financial education in a low income housing context. Finally, two case studies are presented of promising examples of the use of financial education in housing finance for low-income populations in developing country contexts.

Habitat for Humanity's Journey in the Asia-Pacific Region

Habitat for Humanity is a global Christian housing ministry dedicated to eliminating substandard housing conditions or "poverty housing", and homelessness. Founded in the U.S.A. in 1976, Habitat works with people all backgrounds, races and religions to build safe and decent houses with families in need. Habitat for Humanity operates in dozens of countries around the world. As of mid-2010, the organization had built, rehabilitated, repaired or improved over 400,000 houses, providing some two million people around the world with a place they can call home.

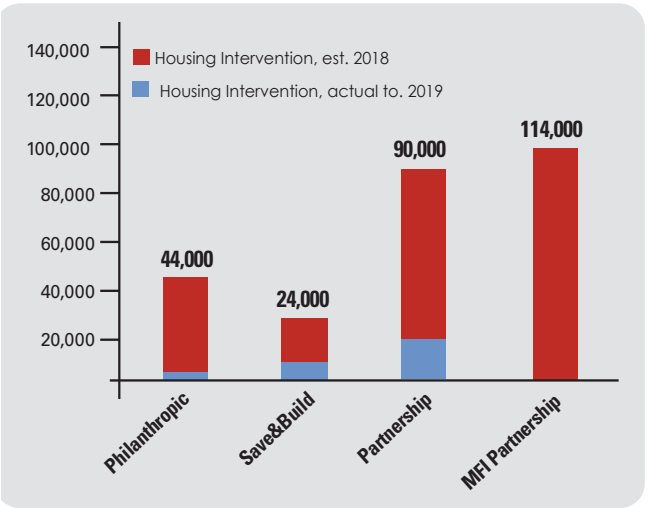
Habitat for Humanity began working in the Asia-Pacific region in 1983 with a pilot program in Khammam, in the Indian state of Andhra Pradesh. Potential home partners were asked to contribute a down payment and provide hundreds of hours of their own labor (often referred to as "sweat equity") towards the building of their homes.

Home partners were also asked to repay an interest-free loan in small, affordable installments. The responsibility of repaying a loan was another manifestation of Habitat for Humanity's belief in providing a helping hand, not a hand out. Repayments replenished a fund that was used to help additional families build their own homes thereby creating in a virtuous cycle. In order to reduce the cost of construction, overseas and local volunteers were invited to take part in the building of the homes. A local Habitat affiliate was established to manage the implementation of the program and to provide both off-site and on-site assistance to home partners to ensure the homes were decent, safe and affordable.

The pilot project in Khamman demonstrated that villagers were willing to contribute to building their own homes. Offering an interest-free loan with flexible terms can be described as a Philanthropic Lending model. The Philanthropic Lending model remains, albeit in a modified, form, a mainstay of much of Habitat's work around the world.

Over time Habitat for Humanity has developed or adopted three other principal financing models to improve housing for low-income families in the Asia-Pacific region. In 2000, Habitat developed "Save & Build", by forming community savings groups. In 2005, Habitat extended this model lending to existing organizations that offered their members loans for shelter improvements in what can be termed a Partnership Model. More recently, Habitat has begun leveraging its assets to fund more formal financial institutions with the potential to reach many more home partners. This is called the MFI (Microfinance Institution) Model.

Table 1: Families served by different delivery models within the Asia-Pacific region



Source: Habitat for Humanity International

Note: This graph represents the number of families served within the Asia-Pacific region. The blue color represents projections until mid-2009. In 2009, HFH entities had few partnerships with MFIs. However as HFHI adjusts its strategy, HFHI anticipates exponential growth in the MFI and partnerships model over the next five years.

Development of the four models

I. Philanthropic model

The Philanthropic model creates a revolving fund, often called a "Fund for Humanity", to address the housing needs of a particular community or population. The model:

- Is suitable for low-income working families, with a family's eligibility based on house hold income and capacity to repay which can be evaluated either in terms of their existing rental payment or an analysis of the family income and expenses;
- Is suitable for low-income working families able to make a cash and/or in-kind deposit toward the cost of the house, in keeping with Habitat's philosophy of providing a helping hand, not a hand out;
- Requires families to undergo training and orientation which generally include home construction and maintenance skills, saving and budgeting, and other family and life skills such as hygene and nutrition;
- Offers flexible lending terms and conditions such as low interest rates and long loan terms to keep payment amount affordable for even very low income families.

Most Habitat for Humanity national offices use the Philanthropic model in some form. It is commonly used when financing the building of complete houses. One weakness of the early revolving "Funds for Humanity" was that they took no account of inflation, which could be quite high in some environments. Since 1986 national offices have been allowed to charge a fixed inflation-adjustment on individual loans in order maintain the value of their Funds for Humanity. Even with the inflation adjustment, loan repayments are maintained at levels that are affordable to home partner families. Administration costs are subsidized with charitable contributions raised by the national Habitat office.

II. Save & Build model

Habitat for Humanity's Save & Build model was developed to help families who could not afford to join a regular Habitat program. Habitat for Humanity Sri Lanka originated the program after discovering that many families could neither afford a complete house nor could they save a sufficient amount for a down payment. However, such families did have the capacity to save small amounts of money. HFH Sri Lanka formed savings groups for the purpose of housing. This model:

- Requires home partners to be a member of a community savings group;
- Is suitable for lower-income working families such as seasonal workers, with a family's eligibility based on household income, capacity to repay and credit history with a saving group;
- Requires each group member to save before, during and after the house is built;
- Encourages economies of scale and cost effectiveness by using local materials and resources when ever possible; and
- May lead to partnering with other organizations to address health, education and other community needs.

Savings groups are made up of about a dozen families who save money and materials together. When a group has sufficient savings to build one house, Habitat lends the group funds to build two more, and construction on the three houses commences. Construction and saving continues until all the families are housed. A cycle normally takes about two years. Groups elect their own leaders – often women – to manage and monitor members' savings, decide which families are housed in which order, and provide "sweat equity" for construction. The model is flexible enough for local variations. In some communities, families and groups choose to save for cycles of repairs rather than for building complete houses.

When Save & Build was localized in Nepal, rather than create new groups, Habitat partnered with existing saving groups that wanted to offer housing loans as an additional service to their members. This was more sustainable for Habitat and reduced administrative burdens, costs and risks.

III. Partnership model

The Partnership model represents a way for Habitat for Humanity to work through existing institutions such as NGOs or associations that wish to help low income families improve their homes. Habitat makes a bulk or wholesale loan to the partner who then services the loan and repays it. Habitat builds the capacity of the organization to manage the program. This model:

- Is suitable for organizations that want to borrow money from a housing revolving fund to offer their members housing related loans;
- Allows member families to pay a subsidized interest on the funds borrowed;
- Requires groups to have a capacity to repay the loan based on the cash flow of the group members;
- Requires groups to provide a guarantee for the loans borrowed by their members; and
- Allows Habitat to focus on providing construction and technical assistance to the groups.

Habitat for Humanity Vietnam was the first Habitat entity to use the Partnership model. It provided interest-free institutional loans to the Women's Union, a large quasi-

government saving and credit organization with thousands of individual savings groups. Habitat's relationship started in 2005 in four districts in the southern province of Kien Giang. This initiative, with the help of the provincial authorities, extended existing microfinance networks so families could save and access credit for cycles of home improvements such as new roofs, floors, walls, and water and sanitation facilities. The approach proved a speedy way to help hundreds of families.

IV. MFI model

The Microfinance Institution model grew out of Habitat for Humanity's work in Nepal and Vietnam and involves more formal partnerships with microfinance institutions that have large networks of "client" families with housing needs. The model is more sustainable and scalable because MFIs can supplement Habitat funds with additional funding sources. This model:

- Is suitable for microfinance institutions wanting to add a shelter element to their portfolio of services;
- Requires home partners to contribute a down payment, materials and/or labor;
- Involves Habitat and the partner co-financing the initial investment in the housing loan portfolio, mobilizing additional capital from the MFI;
- Uses the lending infrastructure of the microfinance institution and keeps the lending risk with the MFI, which is responsible for managing all aspects of the lending cycle;
- Finances the operational costs of housing through interest charged on the loans;
- Allows Habitat for Humanity to focus on providing construction and technical assistance to the partner; and
- Has the potential to mobilize more scalable and sustainable sources of capital.

Habitat for Humanity began pilot projects with MFI partners in 2007. A project was launched in Mongolia with the MFI VisionFund financing the construction of 25 homes. The following year, Habitat again teamed up with VisionFund and another MFI, SEEDS, in Sri Lanka, together funding about 500 home loans. The pilots showed significantly higher loan repayment rates than the Philanthropic model, and offer the potential for much greater scale.

New models allow new housing solutions

Each housing finance model has a purpose and a place in Habitat's work. Each successive model has allowed Habitat for Humanity to reach increasingly larger numbers of families and frequently those living on lower incomes. With each new model, Habitat has been able to widen the range of housing solutions on offer such as providing core structures, repairs and rehabilitations as well as complete houses. Habitat for Humanity sees the MFI model in particular as offering the greatest potential to operate at scale and therefore have a greater impact by reaching ever greater numbers of families in need across the Asia-Pacific region. However, Habitat realizes that while these models allow lower income families to improve their shelter, they are also being exposed to more sophisticated financial mechanisms. Many Habitat families are poor and have little experience with financial mechanisms. They may not fully understand the risks, rights and choices inherent in these products, increasing risk for these vulnerable families. Financial education is being introduced in the region as a way to maximize the benefits of scalable, sustainable housing finance while minimizing risk to the homeowner.

Background of Financial Education

"People with low financial literacy standards are often unable to take their ideas and create assets out of them."
- Robert Kiyosak

Low-income families are vulnerable in many ways, including their financial position. They have fewer reserves to fall back on than wealthier families, and because of their weaker position, financial crises strike the have-nots more often than the haves.[2] Nevertheless, these families represent a growing segment of the financial services industry. The World Bank estimates that before the financial crisis of 2007-2009, 150 million new consumers of financial services were being added to the world economy each year, most of them in developing countries.[3] Long vulnerable to abuses of informal money lenders, there is hope that these vulnerable families will gain a measure of protection through access to formal financial service providers such as banks and microfinance institutions. However, history shows that formal financial institutions do not always provide such protections. And while from the USA to Uganda low-income families have greater access to credit, savings and insurance than ever before, many people do not fully understand their rights, responsibilities, risks and choices in the financial marketplace. The results can be sobering: in the USA, some borrowers that took advantage of low down-payment mortgages lost their homes because they did not understand that their monthly payments could increase dramatically. In Uganda, unscrupulous microfinance institutions encouraged customers to deposit their savings with promises of future loans. But when the savings goals were met, customers found

[2] Collins, Daryl et al, Portfolios of the Poor; How the World's Poor Live on $2 a Day, Princeton University Press, 2009. pp. 67-68
[3] Rutledge, Sue, Policy Research Working Paper 5326, Consumer Protection and Financial Literacy; Lessons From Nine Country Studies, World Bank, DC, 2009. p.6

the owners had fled with their savings.[4]

Because formal status does not guarantee scrupulous behavior, a movement began to ensure low income customers have sufficient protection against those who would, wittingly or unwittingly, take advantage of their weak position in the market. These protections fall generally in the category of "consumer protection". Many countries have consumer protection laws, but rarely do they cover financial services, and often they are weakly enforced. In the Asia-Pacific region, 85% of countries have laws protecting financial consumers, yet in less than half of these is there oversight by a financial regulator.[5] This is beginning to change as central banks and government ministries realize that more and more vulnerable people are entering the financial system, but in most countries protections are still minimal or hard to access for low-income populations.

Organizations promoting financial inclusion have led the call for increased protection, with some success. As the number of financial institutions serving low-income populations has grown this decade, there has been increased attention paid to consumer protection and financial education:

- 2003: Small Education Exchange and Promotion (SEEP) Network publishes a paper arguing for more protection of low-income financial services customers;
- 2004: Citigroup launches its annual Financial Education Summit;
- 2005: The OECD publishes its first guide on financial education;

- 2006: Microfinance Opportunities launches the Global Financial Education Program to teach low income customers in developing countries how to save more, spend less, borrow prudently, and manage their debt with discipline;[6]
- 2007: The World Bank begins its Consumer Protection Diagnostics systematically identifying risks to low income consumers from financial services providers; and
- 2008: Microfinance investors led by Deutche Bank sign the Pocantico Declaration acknowledging that over-indebtedness and government reaction to consumer abuse was a significant threat. ACCION International launches the Center for Financial Inclusion which houses the SMART campaign, a Microfinance industry effort to promote better practices.

The objective of financial education is sometimes referred to as financial literacy. Financially literate consumers can use the range of financial services available to them to prepare for, and mitigate the effect of, financial crises. They are also better equipped to take advantage of opportunities that arise. Improving financial literacy requires providing inexperienced con-

[4] 'Angry Customers Mob Front Page Micro Finance', AllAfrica.com, 4 December 2007
[5] CGAP, Financial Access 2010, World Bank Group, DC, 2010
[6] Psychologists have long understood that people's behaviors can be influenced in predictably wrong ways, even in the face of the correct information. See, for example, Thaler, Richard and Cass Sunstein, Nudge: Improving Decisions about Health, Wealth and Happiness, Penguin, London, 2009

sumers with education on topics such as budgeting, debt management, savings and bank services. Lessons focus on teaching skills, changing attitudes and creating behaviors that are necessary to make informed financial choices. However, simply providing information may not be sufficient to affect behavior.[7] The most effective financial education initiatives do not only deliver information but empower recipients to make financial decisions on their own.

There are a number of channels to teach financial literacy. These include employers, schools, governments, MFIs, banks, NGOs or CBOs. Financial education programs for marginalized groups need to take into account literacy levels. In many developing countries, disparities exist between levels of male and female literacy, including financial literacy. In these contexts, financial education is particularly relevant as a way of addressing these gender inequalities and providing women with the skills, knowledge and information to access financial services. To reflect the variance in literacy and numeracy levels a variety of implementation techniques and curricula have been developed in formats such as public awareness campaigns, workshops, various media, and brochures.

Research shows that low-income populations are good at mobilizing small amounts of money to meet life's needs and mitigating risk as best they can with what little income they have.

Improved channels of delivery of financial information and skills are necessary to reach consumers at "teachable moments". A teachable moment is an event where an inexperienced financial consumer is thinking about financial choices. It could be a marriage, a new baby, an illness or death, or a desire to invest in a home improvement or a business. Teachable moments help illuminate the lessons of financial education. Additionally, delivering impartial financial education in tandem with financial services and products has been shown to be an effective method to both increase skills and knowledge and usage of these financial services and products. The increase in understanding and awareness of the types of services offered in the market and how they can be uniquely advantageous to their beneficiaries is likely to result in uptake of formal financial services to meet their financial needs.

The argument that education will decrease the vulnerability of low-income populations engaging in financial transactions is persuasive (see Research Review). Research shows that low-income populations are good at mobilizing small amounts of money to meet life's needs and mitigating risk as best they can with what little income they have. For example, they often employ social pressure to encourage saving and purchase less liquid assets to avoid the temptation to spend. They may borrow instead of drawing down savings to preserve funds for an emergency. On the other hand they can be encouraged to over-borrow, unwisely risk assets or mismanage household cash flows. Financial education can reinforce good practices while providing strategies to recognize and avoid bad practices.

Despite the advantages, like many public education topics, those who can benefit often do not have the time or see the need to seek out the information. In fact, evidence

[7] Psychologists have long understood that people's behaviors can be influenced in predictably wrong ways, even in the face of the correct information. See, for example, Thaler, Richard and Cass Sunstein, Nudge: Improving Decisions about Health, Wealth and Happiness, Penguin, London, 2009

Teachable moments

El Salvador is the fifth largest remittance receiving country in Latin America. Almost 30 percent of the population of seven million people receives remittances from relatives living abroad. Though 84 percent of Salvadorans use this money for household necessities, organizations such as the Inter-American Development Bank encourage investing in small businesses, infrastructure, education and housing.[i]

There is an estimated need for at least 570,000 houses for low-income families. Federation of Savings and Credit Cooperatives of El Salvador (FEDECACES) and Habitat for Humanity's Latin America & Caribbean area office are using the teachable moment of money transfers to help families use a portion of the $3.3 billion in annual remittances to invest wisely in improved housing.[ii]

With the assistance of Microfinance Opportunities, FEDECACES and Habitat for Humanity developed a specific financial education program to give families the tools they need to manage remittances and savings. Since 2009, FEDECACES has expanded the program to 21 of the 50 cooperatives in its network. It has certified 15 of its own staff members as trainers and has trained 63 officers in partner cooperatives. This partnership has resulted in FEDECACES developing home improvement loans that have served 400 clients to date, enabling them to make critical repairs to their homes partially financed by on their remittance income.

[i] Inter-American Development Bank, http://www.iadb.org/mif/remittances/lac/remesas_es.cfm
[ii] "Accesso al suelo: condición imperante para la reducción del déficit habitacional en El Salvador." Fundación Salvadoreña de Desarrollo y Vivienda Mínima. July 2007. http://www.fundasal.org.sv/documentos/cartas_urbanas/carta_urbana_146.pdf

shows that those who express the least interest in financial education may benefit the most.[8] Thus, financial education requires delivery channels that do not require participants to 'opt in', but rather can be delivered in a host of different ways including print brochures, news media, bank statements, billboards, advertising, instructional manuals as well as, radio programs, TV, classroom based workshops or text message through mobile phone technology, internet.[9] A recent study by Visa/Wells Fargo demonstrates this point: college cardholders were given a brief online tutorial in basic financial literacy upon signing up for their new credit cards. Their findings demonstrate that this mandatory financial education tutorial correlates with positive financial behavior change.[10]

[8] Karlan and Vadirya, 2006
[9] Cohen, Monique and Danielle Hopkins and Julie Lee (2008). Financial Education: A Bridge between Branchless Banking and Low-Income Clients Working Paper No. 4. http://www.globalfinancialed.org/documents/Branchless%20Banking.pdf
[10] Participants did significantly better than a control group in reducing past due events by 55.9%, late fee instances by 43% and incurring over-limit charges by 42.6%. Jason Alderman, Turning Football Fever into Financial Fitness, Citi-FT Financial Educaiton Summit 2010, Sydney, Australia

Research Review: Financial Education and Low-income Housing Finance[11]

For the purposes of this review of research, the OECD definition of financial education has been broadened to include any intervention or effort aimed at increasing levels of financial literacy in ways that may be relevant for low-income people to make decisions about housing investments. There appear to be no published research on financial education interventions in Asia relating to low-income housing finance. However, low-income housing finance providers in developed countries frequently provide counseling or trainings to their clients, and there is one large study conducted by the US's Freddie Mac that found positive results from such trainings, in the form of lower delinquency rates.[12] Otherwise, what is presented in the following review are results from around the world on financial education interventions overall, which may be useful in considering the design and likely effectiveness of education programs oriented toward low-income housing in the Asia-Pacific region.

[11] This section was prepared for Habitat for Humanity International by the IFMR Research.
[12] Hirad, Abdighani and Peter M. Zorn, "A Little Bit of Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-purchase Homeownership Counseling" (Freddie Mac, May 2001).

The state of financial literacy

Though there is little systematic evidence on the level of financial literacy in developing countries, a compelling body of evidence exists-- especially for the United States--that confirms surprisingly low levels of financial literacy in the industrialized world. A survey of Washington State residents, commissioned by the State Department of Financial Institutions to gauge the role of financial literacy in determining consumer experiences, revealed that only 31 percent of the state's general population could correctly answer questions about concepts, which are crucial to making mortgage loan decisions. Further, respondents' lack of understanding of compound interest was found to be most "troubling" given that "compound interest as a financial factor is fundamental to understanding how, when interest rates change, money saved or invested is impacted and how it can generate wealth" (Moore 2003).

The JumpStart Coalition for Personal Financial Literacy has surveyed American high school students for the past 13 years - over 22,000 students have participated in the six rounds of surveys that have been conducted since 1997. Each survey consists of a set of 31 multiple-choice questions that test students on financial terminology, concepts and decision-making. The study results have been consistent across various rounds with students scoring 50 percent on average, irrespective of whether or not they took a course in personal financial management – indicating that merely providing a course may not improve understanding, let alone affect behaviors (Mandell 2008).

While these studies tested respondents on concepts that they may not use until later in life, Olivia Mitchell's 1988 study looks at workers' understandings of pension provision and finds that employees were "unable to identify key features of their company retirement schemes, including early/normal retirement ages and how much their benefits would rise if they delayed retirement" (Mitchell 1988).

(M)erely providing a course may not improve understanding, let alone affect behaviors

Critics have suggested that the difficulty of the test questions used leads to relatively low literacy scores since they test respondents on 'sophisticated' and 'not very generic financial literacy concepts,'. Annamaria Lusardi's work is particularly illuminating in this regard because she, unlike Moore and Mandell, tests respondents on very basic and fundamental financial concepts. As part of the 2004 Health and Retirement Study, a nationally-representative survey of Americans ages 50 and above, Lusardi and

Mitchell (2006) devised a special module on financial literacy. The module aimed at testing respondents on their understanding of interest rates, inflation, and concept of risk diversification through the following three questions:

- "Imagine that the interest rate on your savings account was one percent per year and inflation was two percent per year. After one year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?"
- "Suppose you had $100 in a savings account and the interest rate was two percent per year. After five years, how much do you think you would have in the account if you left the money to grow?"
- "Do you think that the following state or false? Buying a single company tock usually provides a safer return than a stock mutual fund." (all from Lusardi and Mitchell 2006)

An analysis of the results showed that while one-third of the respondents answered all three questions correctly, only half could answer questions on compound interest and inflation correctly. These findings are notable because they reveal high levels of financial illiteracy among older people who have most likely made important financial decisions during their lifetime.

Impact of financial education

Though financial education may help consumers make better financial decisions, demand for this type of intervention remains surprisingly low. A vital component of client-protection measures, financial education has always been a push product, promoted by the governments and NGOs, and rarely demanded by the poor.

A number of methodological issues plague existing impact studies of financial education interventions. Skepticism about the efficacy of financial education interventions also stems from the inability of researchers to isolate their impact (O'Connell, 2007). For example, while there is ample evidence to suggest strong correlation between financial education training and financial behavior, it is tough to establish causality between the two since "only the most motivated individuals from a particular target population are likely to participate" in such programs (Jayaratne et al 2006). This methodological issue is known as "self-selection bias."[13]

To compound the problem, there is little consensus among financial education providers on what outcome measures should

[13] "Selection bias" and "self-selection bias" present researchers with similar challenges--both tend to make causation tough to establish between two phenomena. This bias occurs when people with certain observable and non observable characteristics either self select themselves to be part of a group or are targeted by a study to participate in a program causing the study sample to be biased and study results to be an inaccurate representation of the reality. Randomization, either from the general population or within those who self select themselves into the program, is one of the ways in which research studies take care of the issue of bias.

be used to assess the impact of such programs (Lyons 2005; Lyons et al. 2003). Programs have been assessed on a variety of measures ranging from 'program output' indicators such as the level of participation achieved to changes in knowledge and behavior, making it difficult to compare impact across programs.

Educating people on financial concepts seems like a logical solution to the problem of low financial literacy. However, some argue that "there is little in the way of robust evidence to show the overall effect of financial training" (Akinson 2008).

Braunstein and Welch argue that, "the assumption that the presence of more information will lead to improved behavior is faulty" (Braunstein and Welch 2002). Robert Holzmann notes:

- "While good school-type financial education may be effective to increase financial knowledge and linked with hands-on training actually improve financial skills, there may be no impact on attitude even less on behavior. Attitude issues may be predominantly linked to lacking trust in financial institutions (in some countries) or encrusted cultural norms that may need interventions outside financial education to be addressed. And even if attitude issues can be overcome by financial education, and a desire to, say, plan their finances is instilled in consumers, there may be powerful other impediments to change behavior to follow through with the saving plan. The literature of behavioral finance provides many examples of cognitive biases with regard to attitude as well behavior such as procrastination, regret and loss aversion, mental accounting, status quo and [information] overload" (Holzmann 2010).

Despite these problems, we find that there is growing body of evidence which shows some positive effects associated with financial education.

The Credit with Education program is an initiative developed by the non-profit organization Freedom from Hunger and offered by microfinance organizations globally. In an impact assessment of Freedom from Hunger's business training module delivered in collaboration with FINCA-Peru, Dean Karlan and Martin Valdivia (2006) found that those with training:

- "Demonstrated greater business knowledge, answering more questions correctly (10 percentage points, which is 0.07 standard deviations). The greater knowledge translated into better business practices, though only in limited areas. The training increased the likelihood that individuals reinvested profits in their business by four percentage points (0.08 standard deviations), maintained sales records for their business by between three percentage points (0.07 standard deviations), and maintained withdrawal records from their business by seven percentage points (0.17 standard deviations). Lastly, individuals were asked to name changes or innovations they have made to their businesses over the prior year, and those in the treatment group were five percentage points more likely to report having done so.

- Reported higher business revenues, especially during bad sales months. "When looking at the variation in sales, we find the largest effect for sales in a bad month, which is 28 percent higher among treatment groups compared to control groups. We infer from this latter result that the training has helped clients identify strategies to reduce the fluctua-

tions in their sales. For instance, they could have diversified the goods and services they offer or have identified clients with a different seasonality in their purchases. The improved cash flow also may have reduced their seasonal demand for credit helping to explain the lack of impact of the training on loan size.

(T)he positive effects of the training were strongest amongst those who expressed the least interest in the training

- "Repayment is three percentage points higher than among control groups (and) treatment group clients were four to five percentage points less likely to dropout. While in net the business training is good for client retention, the program can expect to lose some clients due to lengthier meetings. Making the training voluntary would reduce in principle this tension, but (researchers found) improvement in dropout rates (to be) slightly higher for the mandatory treatment than the voluntary treatment groups. Lastly, improvement in repayment rates and client retention are strongest for clients with larger businesses" (from Karlan and Valdivia 2006).

Importantly, the positive effects of the training were strongest amongst those who expressed the least interest in the training in the baseline survey – indicating that providing training only to those who would self-select to attend may miss those who would benefit most. The training, however, found "no detectable changes at the house hold level in terms of decision-making, keeping the client's personal money separate from her husband's money or decision-making on the use of the loan" (Karlan and Valdivia 2006).

Target low-income groups

Cole et al (2009) conducted a randomized control trial study in Indonesia to assess whether financial education could increase household savings. The study provided financial education training in groups at the village level and offered a randomly selected group of villagers financial incentives to open bank accounts. The training consisted of a two-hour long module on how banks work and the benefits of opening a savings bank account. The study found that the program was more effective for participants with lower prior levels of general and financial literacy, but that financial incentives were more effective for households to open accounts and increase savings, and more feasible for the institution to implement, than their financial education efforts. (Cole et al 2009).

Also participants who prior to the workshop had expressed the 'intention but inability to save' and had 'low levels of mathematical and computing skills' reported benefiting more at the end of the program

The above findings echo findings from other studies. MoneyMinded, Australia's first comprehensive adult financial education program, designed to 'assist those with lower levels of financial literacy make better judgments and decisions about the use and management of their money' has trained over 22,000 people. Comprising six topics delivered through 17 workshops, MoneyMinded trained participants on the following:

- Planning and saving;
- Easy payments;
- Understanding paperwork;
- Living with debt;

- Everyday banking and financial products; and
- Rights and responsibilities.

In a post-training survey, participants with lower incomes, those receiving government benefits, and those who were employed on a part-time basis reported the highest overall levels of satisfaction with the program. Also participants who prior to the workshop had expressed the 'intention but inability to save' and had 'low levels of mathematical and computing skills' reported benefiting more at the end of the program (Brooks et al 2005). However, an important caveat to this evaluation is that its outcome measure focused on 'satisfaction' and does not track the actual change in the participant's financial behavior.

Financial incentives

Another Australian program, called Saver Plus, was initiated in 2003 to help low-income families improve their financial knowledge and build long-term savings habits, specifically for the purpose of saving for their child's education. The program had two components: matched savings at a ratio of one dollar for every dollar saved and financial education.

The program was conducted in two rounds and all participants from the first savings period (July 2003-December 2004) and second savings period (October 2004-December 2005) were surveyed in 2006 to gather information about their current saving practices. The survey revealed very encouraging results. Of the 265 participants who responded: 75 percent reported saving the same amount or more after Saver Plus, 38 percent reported an increase in their level of savings and 34 percent reported a decrease in overall debt. Notably, over 95 percent of the participants from both saving periods reported 'improvement in their ability to plan and manage money' and expressed 'willingness to continue savings' beyond the program duration (Brooks et al 2007).

(I)ndividual counseling was found to be the most effective in reducing delinquency by as high as 34 percent, while telephone counseling was found to have no impact.

The results from Saver Plus reinforce the findings of the study by Cole et al who found financial incentives to be important in changing financial behavior. The results of the study, however, may be exaggerated: participants self-selected into the program and the eligibility criteria required that participants demonstrate their ability to save. In other words, it may simply be the case that those who chose to participate in the program had a higher pre-existing dispensation to save than those who did not choose to participate. One study found positive results on mortgage repayment among low-income housing loan recipients who had received counseling before purchasing their homes. Freddie Mac's study of close to 40,000 mortgages originated under Affordable Gold, an affordable housing loan program, found the 90-day delinquency rate was 19 percent

lower among borrowers who had received pre-purchase counseling. Among the various counseling strategies employed, individual counseling was found to be the most effective in reducing delinquency by as high as 34 percent, while telephone counseling was found to have no impact. The finding could indicate that investing in a counseling or training before offering a low-income housing loan could be in the financial interest of both credit providers and loan recipients.

Discrete objectives

The Saver Plus program required participants to enroll their children in government secondary schools and "save towards a goal related to education costs" (Brooks et al 2007). In the follow-up survey as many as 59 percent of the respondents indicated that they were saving for their child's education. While it is unclear as to how the respondents would have fared in the absence of the program, the researchers found most respondents were complying with the requirements of the programs.

Examining the effects of financial education at the workplace, Bayer, Bernheim and Scholz (1996) found that retirement seminars increased participation in and contributions to voluntary savings. Once again, the effect was greater for lower-wage employees. Further Bayer et al argue that "the seminars' effectiveness was likely the result of combining financial education with a direct institutional outlet for applying it." Bernheim and Garret (2000) found a similar effect in their study using cross-sectional survey of US households which investigated the impact of employer-based programs on general and retirement savings.

Training programs having discrete objectives beget better results than more generic programs

While Braunstein and Welch (2002) find financial education programs which have discrete objectives - such as maintaining a mortgage, increasing savings, or participating in employer-sponsored benefit plans - to be more successful, but it is possible that the success of these programs hinged on their ability to categorically "identify a few salient outcomes" (Jayaratne et al 2006).

Poor effects

In a study using data from the 1999 Freddie Mac Consumer Credit Survey of over 12,000 respondents in the age group of 20 to 40 and with a household income of less than $75,000, Bradley at al found that falling into financial difficulty was the most common source of learning about financial management.

This finding, however, is only partially borne out by a study conducted by Wiener et al in the United States which attempted to assess the impact of financial education by comparing debtors who received training in financial literacy to debtors and non-debtors who had not received training. Wiener et al noted some interesting findings.

Source and timing of information is an import factor in improving financial knowledge

- "First, with regard to the knowledge about wise and unwise spending, saving, and credit neither the untrained debtors nor the non-debtors gained from the pretest to the posttest, but the debtors completing the training course did show significant increases in their knowledge scores." (Wiener et al 2004)

- "After controlling pretest differences, the trained debtors showed more negative attitudes toward unnecessary spending relative to the other two groups and less intention to buy than the non-debtors (the untrained debtors were not significantly different from the non-debtors)." (Wiener et al 2004)

- "Finally, with regard to self-reported behavioral outcomes due to the financial literacy course, pretest to posttest changes showed that compared to the untrained debtors and the non-debtors, the trained debtors increased in the percent of respondents who failed to report unpaid bills and in thepercent that put together household budgets." (Wiener et al 2004)

In a study to assess the impact of business training to microfinance clients in Ahmedabad (India), Field and Pande (2007) attempted to ascertain role of peers in changing participants' savings and borrowing behavior. Some women were invited to attend the training alone, while others were invited to bring a friend with them to the training. Overall, the study found minimal changes in behavior due to the training, but did find increased household savings for those who were trained together with a friend, relative to those trained alone. Hilgert, Hogarth and Beverly (2003) findings support the idea that one learns about financial matters together with one's peers. Using data from the University of Michigan's monthly survey of consumers and survey of consumer finances, they found learning about "financial matters from family, friends and personal experience (to be) highly correlated with positive improvements in financial behaviors" (Hilgert, Hogarth and Beverly 2003).

Planning is the cornerstone of financial education training and needs to begin at an early age, if returns to financial education training are to be high. Bernheim, Garret and Maki (2001) examine the relationship between high school financial education mandates and behavioral patterns later in life. Researchers found that financial education in high school was related to higher saving behaviors and greater net worth.

- "Savings rates were approximately 1.5 percent higher for students entering a high school grade five years after the imposition of a financial education mandate than for students not present when this mandate was instituted. Compared to the overall population, the rate of saving out of income for students exposed to the mandate was 4.75 percent higher in the population distribution than for those who were not. Net worth, albeit much more difficult to measure, increased by roughly one year's worth of earnings for students exposed to the mandate, whose net-worth-to-earnings ratio was also 9 percent higher than students who were not exposed." (Bernheim et al 2001).

Lusardi and Mitchell (2007) compared wealth holding across two cohorts of the Health and Retirement Study: the early baby boomers in 2004 were compared to individuals in the same age group in 1992. Researchers found that planners, people who had planned for retirement and saved for old age, in both cohorts "arrive close to retirement with much higher wealth levels and display higher financial literacy than non-planners" (Lusardi and Mitchell 2007).

Who needs financial literacy?

Using data from five rounds of the Survey of Consumer Finances (Federal Reserve Board) (1989, 1992, 1995, 1998 & 2001), Hogarth et al (2005) compare the unbanked and the banked on various characteristics including income and education and find differences between the two groups to be statistically significant on both the counts, with as high as 36.7 percent of the people in the bottom income decile and low levels of education being unbanked in 2001. In summary, Hogarth et al. (2005) found that: "Income, net worth, employment status, education, age, region, race/ethnicity, gender and marital status (were) predictors of account ownership." Jerry Buckland and Wayne Simpson (2008) draw correlations between the various indicators of financial exclusion like zero balance account, refused credit card and used pawnshop to borrow money, and demographic information like age, wealth, education, family size and composition, home ownership and region of residence. Buckland and Simpson's findings reveal the close connection between education and financial exclusion since those with less than high school level education were 45 to 60 percent more likely to display indicators of financial exclusion compared to their university counterparts.

Stango and Zinman (2008) show that low financial literacy levels worsen the situation of those in poverty. Specifically, the results showed that those unable to correctly calculate interest rates borrow more and accumulate less wealth. In the study, they look at the role of exponential growth bias in adversely influencing household financial decisions. They define exponential growth bias as the "pervasive tendency to linearize exponential functions when assessing them

intuitively" (Stango and Zinman, 2008). This tendency they find, leads people to underestimate the interest they pay on a loan, especially a short term loan given that principal balance on those loans decline faster than long-term loans and also underestimate the returns in interest on a long term investment, causing them to borrow more and save/ accumulate less. Stango and Zinman try to ascertain this in two ways. Using data from the 1977 and 1983 "Surveys of Consumer Finances," they measure payment/ interest bias by studying responses to two hypothetical questions on credit and the respondent's estimation of the interest rate on the loans they actually hold. In their analysis, they find 98 percent of the respondents underestimated the actual interest rate and did so by a huge margin on short-term loans that they actually hold. "For the shortest-maturity loans actual rates average 30 percent while the perceived rates average 13 percent" (Stango and Zinman, 2008). This bias however progressively falls with the increasing term of the loan and was found to be "close to zero for the longest-maturity installment loans and mortgage loans (which themselves tend to have a 15-30 year maturities).

Research conclusions

Evidence about the efficacy of financial education programs worldwide is mixed, with many studies finding little discernible impacts on training recipients, and others finding notable positive changes in knowledge and behavior. The studies not only look at the impacts but also delve in detail about impacts "for whom" and "in what conditions." In summary, financial education studies found impact to be greater in the following cases:

- The targeted clientele belonged to a low-income group;
- Financial incentives accompanied the training program;
- The financial education program had discrete objectives; and
- It incorporated peer-effects and worked with younger people, giving participants the benefit of a longer time-frame to plan their finances around their life cycle needs.

Though the review of literature points to credible evidence on the efficacy of financial education programs, there are many questions raised by recent findings – for example we do not know whether financial education alone can trigger behavior change or whether it is the single most important factor for achieving changes in financial behavior. Financial education initiatives are in pilot stage and there is no time-tested methodology in the field that will ensure maximal returns on investment. Future research can play a crucial role in informing the design of new financial education initiatives, by answering some of the following hitherto unanswered questions:

- **Cost effectiveness of conducting such programs and scalability:** One of the biggest challenges for education programs, and more so for housing microfinance, would be to find a critical mass of interested participants. Unless the housing microfinance sector matures and reaches scale, literacy programs will be an extremely costly and human resource-intensive intervention. Trainings are inherently resource-intensive it is worth understanding if similar or better results can be achieved through less costly interventions. This would entail experimenting with delivery models that are cost-effective and would require the creation of a quantifiable index of household wellbeing which would universally accepted as a desirable return on money invested in financial education.
  Further, from a practitioner's viewpoint, it would be interesting to see if encouraging results from such a study can pave way for a self–financing model for financial education rather than a grant-driven one, the dominant model for most current financial education programs.

- **Segment of population to be targeted:** Given that housing loans require long term planning, experimentation and research on the value of targeting young people to plan household finances to meet life-cycle goals is needed. For example, we know that younger participants are more likely to be literate which makes it easier for them to maintain a household budget.

These recommendations do not suggest that a prototype of financial education program is either desirable or even achievable. Instead, research in some of the above areas can give useful insight to practitioners about into the likely impact of an intervention if it is targeted or structured in a particular way. New research into financial education will provide greater knowledge as to the ideal structure for a financial education as well as the sensibility of creating or supporting such a program in the first place.

Trends in Financial Education & Housing

Although financial education is not a demand-driven product, there is increasing attention and investment in financial literacy programs universally. The global financial crisis highlights more than ever the critical role of financial literacy in wise decision-making, protecting wealth and achieving financial well-being, especially for disadvantaged and low-income groups. With the number of governments, providers and NGOs focusing increased resources and attention toward financial education, understanding the changing role and trends can help refine the future direction of financial education to increase the effectiveness of financial literacy programs targeted at the poor.

Government priorities

Teaching financial literacy has deep roots in many countries around the world. In the early 20th century, the standard school curriculum for US students in grades two through eight included simple financial concepts such as earning money, paying bills, establishing cash and savings accounts, paying taxes, purchasing insurance and understanding the federal budget.[14] However,

[14]National Endowment for Financial Education, Financial Literacy in America: Individual Choices, National Consequences, 2002.p.7

over the years, these topics vanished from school curricula. Not surprisingly, studies reveal a corresponding drop in children's comprehension of basic financial concepts.[15] In response to the recent financial crisis, the United States government set up the President's Advisory Council on Financial Literacy in January 2008. The Council is charged with promoting programs that improve financial education at all levels of the economy and helping increase access to financial services.[16] One of its outputs is a new curriculum for financial literacy in schools titled MoneyMath Lessons for Life.[17]

A number of emerging economies have also increased their attention to financial education driven by the financial inclusion agenda that resulted in many low income and inexperienced consumers entering the financial services market for credit, savings and insurance. Singapore has been by far the most active country in promoting financial literacy. Singapore's national financial education program, MoneySENSE partners with government and industry and is disseminated in a three-tier structure via a variety of channels. These channels include consumer guides, media reports, seminars and and workshops, and are designed to appeal to various target groups, such as working adults, low-income families and school children. The Indonesian government declared 2008 "the year of financial education," with a stated goal of improving access to, and use of financial services, by increasing financial literacy. The Reserve Bank of India launched an initiative in 2007 to establish Financial Literacy and Credit Counseling Centers throughout the country which would offer free financial education and counseling to urban and rural populations.

Impacts of the financial crisis have only served to heighten the awareness of the need for consumer education more broadly and these government-led programs point to the diverse effects to reach those underserved. Since we know that financial education is particularly effective amongst low-income populations, this is a salient issue amongst emerging economies where many of the recipients will be poor. Establishing a consumer protection mindset and providing guidance to clients as they enter into the market for the first time is of paramount importance to prevent negative financial behaviors.

Lifecycle targeting

Population segmentation for financial education delivery and content is particularly salient in emerging economies where challenges include low rates of literacy and low access to formal or even semi-formal banking products. Evidence suggests that

[15]Hamilton's Essentials of Mathematics, 1917 and 1920, Presented by Lois Vitt at The State of Financial Literacy in America: Evolutions and Revolutions, Oct. 10, 2002.
[16]http://www.treasury.gov/offices/domestic-finance/financial-institution/fin-education/council/index.shtml [accessed February 11, 2009] at http://www.hbs.edu/research/pdf/09-117.pdf. As an indication of the United States government's resolve to improve financial literacy, it named April 2008 Financial Literacy Month.
[17]MoneyMath Lessons for Life, MyMoney.gov

programs targeted at children will ultimately benefit the entire family unit with children bringing this knowledge into the home and sharing it with parents.[18] Governments, NGOs and financial services providers are attempting to decrease the financial literacy gap by presenting financial education information early in life, delivering information through teachable moments in schools and universities to promote a foundation for positive financial behavior development.

One such example is the Afflatoun's experienced-based program that teaches children financial education through savings-based programs in schools. Their Personal Savings Bank program with BRAC in Bangladesh encourages children to contribute to their 'bank' box on a regular basis. The savings is accompanied by a financial education curriculum covering relevant topics such as prioritizing needs, negotiating, and helping your parents save.[19] Youth-based approaches recognize that economic socialization is important for children to develop positive financial behavior.

Diversified delivery

Finally, understanding generational changes in financial behavior, and anticipating changes in need, will be paramount, particularly as innovation in technology such as branchless banking products emerge and become more widely accessible. Younger consumers have a high propensity to adapt to innovation in technology and therefore will both be consumers of mobile banking products as well as helping older generations with uptake.[20] Understanding financial behaviors of youth will lead to more successful delivery of financial education beyond a simple workshop-based delivery method in an increasingly technology-based environment.

[18] Cohen et.al. (2008) found that in Binti Pamoja, an NGO operating in Nairobi, Kenya, financial education for adolescents and young people in their 20s is frequently transferred to parents and relatives (Austrian 2007). http://www.globalfinancialed.org/documents/Branchless%20Banking.pdf

[19] Aflatoun Secretariat, Children & Change 2010: Children and Savings http://aflatoun.org/downloads/children-and-change-2010.pdf

[20] Pickens, Mark, David Porteous, and Sarah Rotma (2009) Scenarios for Branchless Banking in 2020. No. 57 http://www.cgap.org/gm/document-1.9.40599/FN57.pdf

Furthermore, with the increased focus on consumer protection and financial literacy, there is a growing conversation on methodology and behavior change. Despite the global focus, there is little consensus on the effectiveness of different methodologies or even definitions of impact. To help move toward such a consensus, the OECD and World Bank focus primarily on improved design and effective program strategies. The OECD put forth its first guide to financial literacy in 2005 and since then it has developed an international methodology and guide for systematic and comparable evaluation of financial education projects. The World Bank has recently approved a $15 million Trust Fund on Financial Literacy to support consumer protection and financial education initiatives in six countries. This is a very promising trend, one that will help practitioners understand what methodologies are successful and hopefully bring projects to scale.

Financial education & housing

Despite these broad trends, only a limited number of housing finance providers have taken the opportunity to deliver financial education along with housing products. In industrialized economies, mortgage assistance or foreclosure advice is packaged with one-on-one counseling or web-based information guides, calculators or tutorials. For example, the US Department of Housing and Urban Development now provides housing counseling to give advice on rental, purchase and foreclosures via their website. Neighborworks America, a congressionally appointed organization that provides pro-consumer financial support, assistance and training for community-based housing efforts, holds trainings on curriculum development for programs to promote successful homeownership. Both examples speak to the dissemination of best practices and standards of delivery amongst practitioners and an outcome to ensure clarity of information presented.

In cases of housing microfinance in emerging economies, examples of consumer education remain limited. Habitat for Humanity Guatemala ties housing finance loans to a required family financial education curriculum with the primary goal to empower families with financial knowledge to improve their shelter in practical ways such as saving for a new roof, making a household budget, and understanding how interest rates and repayment schedules affect their situation when they borrow (see case study below). Additionally, SEWA bank in India began providing financial education for all of its home loan customers, enabling them to make informed decisions about personal financial management and planning through better understanding of the implications of various financial choices they make. In both cases financial education was part of the loan application process, directly linking low-income homeowners with financial tools to mitigate future risk and maximize the returns on their investments.

These two examples show that financial education can be successfully paired with housing microfinance to low-income populations. However, they are exceptions in the field of housing in emerging economies. One challenge that financial service providers face is the delivery mechanism. Counseling is both a high touch product and a push product so delivery costs remain high. However, from a consumer protection perspective, it is both highly important for upward mobility and most effective amongst low-income populations. Successful delivery of financial education with housing improvement will likely follow the trend

of most financial services for low income communities. As financial service providers develop and explore new technologies, such as branchless banking, financial education providers will have to look toward new and innovative delivery methods beyond the standard workshop module perspective.

There are many lessons to draw from these trends that can shape delivery of financial education, specifically for homeowners:

- First, governments play a role at a national level to provide consumer protection. Government entities increasingly feel the responsibility to protect consumers with information and create more financially capable citizens. Simultaneously, most governments support shelter improvement. Inter-governmental coordination would improve the availability of financial education for homeowners. With weak demand for financial education, governments should ensure provision as a public good.
- Second, programs that target specific financial events in a person's life have a better chance of success and can reinforce positive financial behavior, contributing to a more stable financial future. Home Improvement events are logical points of entry.
- Third, with consensus that financial education is important for low-income populations, attention to metrics is helping to understand success and shape an emerging agenda that is focused on outcomes.
- Fourth, the financial education paired with housing microfinance must explore delivery methods to increase the financial stability and mitigate risks of loan recipients.

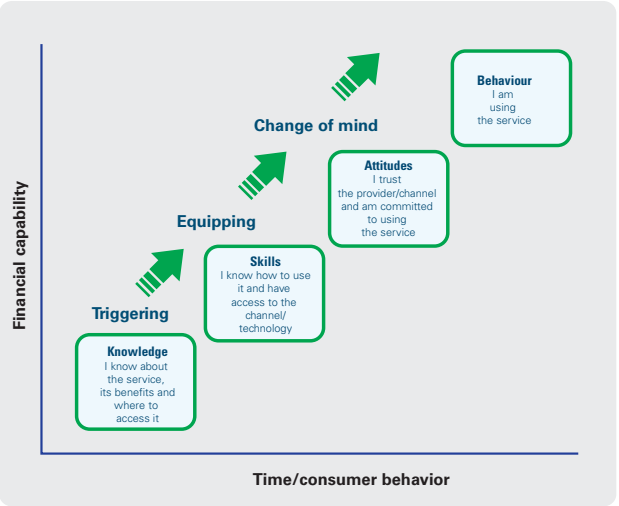
Metrics & Indicators

As financial literacy plays an increasingly important role in the context of more inclusive financial systems, a strong set of metrics is needed to assess outcomes and ensure financial literacy initiatives result in positive behavior change. Research shows that financial education programs that are outcomes based are most effective in demonstrating change in behavior and increase in knowledge.

However, capturing financial behaviors is challenging. Even in countries with long histories of financial education, there is little consensus on the metrics that work to assess the outcomes of financial education.[21] Microfinance Opportunities and Freedom for Hunger have examined financial education metrics of MFIs in 6 countries and developed indicators based on the four dimensions of financial education established by the Financial Education Fund: knowledge, skills, attitudes and behavior.

These indicators could be useful for examining financial education in the context of housing finance.

Figure 2: The components and growth of financial capability over time



Source: Financial Education Fund (2010)[22]

[22] http://www.financialeducationfund.org/storage/file/M&E%20-%20Ability%20to%20assess%20impact%20Round%202.pdf

Knowledge, skills and attitudes

Helping a person with limited financial literacy to become a financially literate individual with the capacity to manage every day financial decisions is a gradual process.

It has proven most successful when individuals are equipped with a new set of practical skills that can be easily employed. As part of outcome assessments on financial education, Sri Lanka's SEEDs program found that the recognizable behavior change was demonstrated by a considerable decrease in unnecessary spending and awareness about ways in which to use a budget. SEEDs identified specific behaviors that demonstrated the knowledge which the participants gained had mobilized specific skills and resulted in behavior changes.

"After participating in financial education training, respondents said to decrease expenses they do everything from calling from their landlines after 9 pm to pay less, to checking their electricity meters weekly to ensure they only spend the amount they have budgeted for the month"[23]

The SEEDs clients also demonstrate a change in attitude about spending, indicating motivation and commitment to follow a budget. Attitude change (an acknowledgement that the knowledge and skills presented are good for those involved) is essential to absorption of knowledge.

In one study, Microfinance Opportunities found that Pro Mujer clients felt a motivation to restructure their spending habits, but "when income and expenses are (often) unpredictable, feeling confident to save with discipline is difficult; however, the education encourages a less haphazard approach to saving and assists clients in identifying ways to save more systematically."[24] The confidence of the Pro Mujer clients was paired with an actionable skill leading to a savings strategy.

[23] Financial Education Update – Winter 2008 http://www.globalfinancialed.org/documents/Fin%20Ed%20Update%20vol%202%20issue%202.pdf

[24] B. Gray, J. Sebstad, M. Cohen, K. Stack Can financial education change behavior? Lessons from Bolivia and Sri Lanka, Working-Paper #4, December 2009, http://www.microfinanceopportunities.org/docs/Can_FE_Change_Behavior_GFEP.pdf

Financial behavior change

Measuring success of financial education adoption will require tracking behavior change. However financial behaviors often present themselves at times when measurement is difficult, at a crisis or a sudden change in situation, for example mobilizing an emergency fund in tough times. Other financial behavior changes manifest themselves over an extended period of time. For example, the existence of a budget can be monitored at the initial stage while adopting and utilizing the budget requires long-term tracking. A robust set of indicators would need to focus beyond behavior change to understanding the factors that makes financial education effective.

The indicators include[25]:

- Quality and frequency of education;
- Relevance to the target population;
- Opportunity for uptake;
- Context in which people can exercise their new financial skills; and
- Appropriateness of the products offered.

The conceptual framework of the metrics developed by Microfinance Opportunities (see figure 3), can be used to measure housing finance education. Various techniques of assessment are needed, for example knowledge can be measured through various question and answer techniques whereas skills are best tested by demonstration of usage (i.e. showing a budget or savings book). Attitude must be measured over time to understand whether the person was motivated and committed to change behavior and identify external challenges that may have emerged. Widespread adoption of these metrics could establish a benchmark for best practice in providing financial education to low-income populations. Additionally, these metrics are careful to identify the level of poverty of the individuals, helping to identify those who likely have had less exposure to education and financial markets.

[25] Illustrative Indicators of Financial Behaviors, Assessing the Outcomes of Financial Education Working Paper #3 page 14 2005 http://www.globalfinancialed.org/documents/WP3_AssessOutcomes.pdf

Figure 3: Metrics and indicators to track financial education outcomes[26]

	Outcomes Assessment	Indicators of Financial Well-Being	Expected Financial Outcomes
Budgeting	What is your household income?	Level of poverty	
	How does your family manage its income and expenses? Does your family keep a budget? Does your family track expenses by item or importance?	Has written a budget, keeps lists of expenses and income, keeps a list of debts Follows a spending plan & incorporates long-term planning for the future	Reducing financial stress at household level Financial stability amongst the household unit- perception that there has been improvement
	How does your family save?	Realistic savings plan developed	Achievement of financial goals
Savings	Do you and your family have any money left over after paying the family bills?	Spends less than income	Motivation to plan ahead to meet goals
	What do you do with surplus money each month/week?	Puts aside savings as soon as money comes in, establishes an emergency fund or researches different ways to save, saves regularly	Changed spending behaviors to build savings.
	Do you have a savings goal? Have you met your savings goals?	Owns a savings account, has a plan and is implementing the plan. Can also include non-financial savings.	Motivated to meet goals, sets realistic goals for current situation
	Have you set aside emergency or rainy day funds that would cover your expenses for 3 months, in case of sickness, job loss, economic downturn, or other emergencies?	Has an emergency fund, saves regularly	Increasing savings
Debt management	Do you and your family currently hold any loan with a lender or institution?	Borrows with full understanding of terms	Empowered to make independent financial decisions
	What is the status of the loan?	Makes loan payments on time	Reducing debt, reducing financial stress
	Have you set aside emergency or rainy day funds that would cover your expenses for 3 months in case of sickness, job loss, seasonal changes or emergencies?	Maintains an emergency savings account	
	Where do you get the money to pay your loan installment weekly/biweekly/monthly?	Makes a plan to reduce debt, Avoids excessive debt	Utilizing a budget
	How do you keep your debts under control?	Maintains a balanced debt-to-income ratio	Successful planning of debt management

Sources: Assessing the Outcomes of Financial Education Working Paper #3 2005, Adapted from Illustrative Indicators of Financial Outcomes

As the number of financial products for home improvement grows, it will be important to use these standardized metrics to determine the effect of financial education on housing for the poor. Ultimately, this will help financial institutions understand the relationship between financial education and housing investment decisions that drive consumer demand for their products, and help to shape delivery channels.

[26] Illustrative Indicators of Financial Behaviors, Assessing the Outcomes of Financial Education Working Paper #3 page 14 2005 http://www.globalfinancialed.org/documents/WP3_AssessOutcomes.pdf

Conclusion

"The importance of financial education is given weight by citing what can happen in its absence."[27]

This review of the role of financial education in improved housing has attempted to present all the relevant information on the topic. Perhaps the most surprising finding is the lack of systematic evaluation of financial education programs for homeowners. The ability of low income families to save and borrow is critical to ensure they have decent, safe and affordable shelter. Until more is known about how to improve their knowledge, skills, attitudes, and ultimately behavior, programs hoping to build financial literacy risk repeating past mistakes.

Nevertheless, financial education is expanding. From the relatively small amount of research and evaluation that has occurred, financial education programs seem most successful when:

- The targeted clientele belongs to a low-income community;
- Financial or peer incentives accompany the training program;
- The financial education program has discrete objectives; and
- Participants have the benefit of a longer time frame to plan their finances around their life cycle needs.

It is also clear that financial education is not a demand-driven product. It can be bundled with demand-driven products such as housing, but fees for service are probably not realistic. Practitioners will need to experiment with delivery mechanisms to achieve scale or sustainability.

Finally, two priority areas have been identified for moving forward to improve the delivery of financial education and housing finance in emerging economies. First, diversification of financial education delivery methods in emerging economy contexts will aid in the accessibility of such programs. Currently, the trends point to delivery of mortgage counseling and workshop based curricula, but recognize the fact that most of these examples come from programs in developed countries.

More research is needed into what delivery options are available and work in emerging economies. At the industry level, adherence to a common set of indicators such as those developed by Microfinance Opportunities will help build a common understanding of program delivery mechanisms and their effectiveness. Industry engagement will help ensure that financial education is reinforced each time the homeowner accesses a financial product or service.

[27] Financial Education and Economic Development, Jeanne M. Hogarth, Federal Reserve Board, U.S.A. Paper prepared for Improving Financial Literacy International Conference hosted by the Russian G8 Presidency in Cooperation with the OECD 29-30 November 2006

Annex 1: Habitat for Humanity Guatemala Case Study

"We did not have hope before. Before we were renting. Now we know how to make a budget and start changing our future for our own benefit."

Introduction

Habitat for Humanity Guatemala first introduced financial education to every housing finance recipient in 2006, educating and accompanying families in the planning and administration of their home economy. To-date this program has trained 6000 people.

The goal of Habitat Guatemala's initiative is to empower families with financial knowledge to improve their shelter in practical ways such as saving for a new roof, making a household budget, and understanding how interest rates and repayment schedules affect their situation when they borrow. The manuals and methodology employed are the result of a project designed by Habitat for Humanity International and financed by Citi Foundation designed by experts and consultants from area office in Costa Rica, with technical assistance from Microfinance Opportunities. After a series of workshops, families have:

- Administered their income and prioritized expenses;
- Created a family budget;
- Developed a savings plan to pay for housing improvements;
- Discussed risks and advantages of taking out;
- housing loans with Habitat for Humanity or other organizations;
- Discussed management of credit; and
- Discussed building a home in stages or progressively.

Background

Habitat for Humanity Guatemala was established in 1979 with the purpose of improving the lives of low-income families through the construction of adequate, affordable housing. Since the construction of its first home in Aguacatán, Huehuetenango over 30 years ago, HFH Guatemala has served more than 32,218 families and has extended its work to each of the country's 22 states.

HFH Guatemala has a housing deficit of 1.2 million homes. Many families live in poorly constructed, informal housing or in overcrowded rented rooms. One of the most significant problems is land tenure; many low-income families have no legal proof that they own the land they inhabit. In other cases, informal settlements are located on property belonging to the state or private enterprise, and the families living there face daily risk of eviction. In addition, these properties rarely have basic utilities and are often in high-risk areas, mostly in urban zones.

HFH Guatemala decided to mainstream a financial education component of pre-loan orientation in 2006 after a pilot project funded by Citi Foundation found that the program showed increased financial literacy in about the 50% of attendees who completed the course and pursued a housing application. Due to such findings, HFH Guatemala sought to develop a complimentary financial education curriculum that would help improve financial literacy and make housing microfinance accessible for poor families who want to improve their housing. HFH Guatemala employed the expertise of Microfinance Opportunities, with its proficiency in designing financial education via microfinance services.

Financial education is delivered to all HFH Guatemala housing loan applicants. In this way, HFH Guatemala strives to ensure families are prepared to manage money effectively, cope with emergencies or take advantage of unexpected opportunities that arise. Since the rate of approval for home loans is about 80%, the remaining 20% of financial education trainees do not opt to borrow from HFH Guatemala after completing the financial education curriculum. To offset this cost and ensure that the program is sustainable, HFH Guatemala began to recover costs for financial education by including these amounts into the cost of the loan. To date the program recovers about 20% of the total cost of training.

Overview of the curriculum modules

The financial education workshop takes between 5 to 8 hours to complete, generally over a weekend or two sessions during the week. The modules include:

Learning Sessions	Objectives
Prudently borrow for home improvement	Identified risks and responsibilities of borrowing * Calculating your own ability to pay based on income and expenditures
Budget for home improvement	* Developed a budget for home improvement. * Identified and planned for unforeseen expenses. * Defined its budget for home improvement.
Prudently borrow for home improvement	* Identified risks and responsibilities of borrowing. * Calculated their ability to pay based on income and expenditures.
Find the best loan and pay off your home improvement	Identified the terms of the loan for home improvement * Identify and compare the costs of borrowing for home improvement * Identify and compare the financing options for home improvements * Determined how pay the loan, taking into account financing options
Saving for housing improvement (optional according to product offered)	* Identified barriers to save and how to overcome * Identified the benefits of saving for unexpected expenses of home improvements
Use of remittances in housing (optional according to product offered)	* Identified the use of remittances in the three stages and at what stage are identified * Discussed the benefits of using remittances to improve housing
Choosing the best manufacturer and supplier of building materials	* Defined characteristics of a right builder and supplier of construction materials * Identified the steps to find and choose a builder and for the purchase of construction materials. * Revised model contract execution (construction) stage

Methodology

The objective of the financial education program is for families to better administer their resources and save for the future. The financial education program combines a participatory approach with relevant and challenging financial management content that allows learners to discover ways to make their limited financial resources stretch farther and help them to move into improved housing sooner.

Sessions are designed using a Dialogue Education™ approach, a structured process for designing and facilitating processes that listen to participants, rather than talk at them. The process recognizes that adults are used to being decision-makers in most aspects of their lives, and that they bring considerable knowledge and skill with them to any training program. The flexible, structured approach to design allows trainers to design learning tasks—the building blocks of this approach—that leverage what learners already know, add new content, and invite them to work with that content to learn it, and to decide what they will apply.

A network of trained community-level volunteers and staff are a key factor to the delivery of the financial education curriculum. Fifty people have been trained in the financial concepts and in the principles and practices of Dialogue Education so that they can facilitate sessions in their own communities and five of these trainers have now been certified to train other trainers.

Because many HFH Guatemala home loan applicants are illiterate, the training uses pictures and other learning aids to convey messages. Training activities engage participants to develop their knowledge, skills, attitudes and behaviors with regard to the housing finance products of Habitat Guatemala. Participants use their own expenses in the exercises and prioritize among them, selecting necessary and unnecessary expenses. This practical application allows them to determine how the will reduce expenses (necessary and unnecessary) to put aside money to use for housing. They plan to use part of their savings for emergencies and part for investing in home improvements in a progressive way.

Metrics and tracking

In order to track the impact of the program, each family completes a questionnaire before the training and 6 to 9 months after completing the training.

Results from this tracking program in 2009 showed that among families who received the training:

- 56% of respondents were more likely to have a budget;
- 54% were more likely to store extra income in a savings account in a bank or cooperative; and
- 83% were more likely to be current on their home loan payments (for those who have active housing credit).

In addition to participant surveys, feedback from the trainers has identified key learning that has shaped delivery of the programs, including:

- The importance of considering culture. In Guatemala it is not customary to practice saving therefore creating knowledge, skills and attitudes around savings has been challenging.
- Low literacy rates amongst participants require unique strategies. Ensuring participants understand the messages of financial education is particularly challenging when they cannot read or write. Sessions must be planned accordingly.
- The curriculum requires continuous reinforcement. After disbursement of a home improvement loan, there is a need to reinforce the positive behavior or families may become delinquent with payments.
- Monitoring is a critical component. Adequate time needs to be planned for monitoring. The questionnaire can take significant staff time, especially where participants have low levels of literacy.

In addition to the benefits of helping people improve saving, budgeting, and financial management, the financial education project has provided a rich source of information about the people that HFH Guatemala seeks to serve. Habitat has used this information to contribute to its own strategy. This feedback loop is enriched by the financial education program's methodology, which emphasizes dialogue with participants. Understanding homeowners' personal situations allows HFH Guatemala to improve not just its loans, but its overall service delivery.

Annex 2: SEWA Bank Case Study

In June 2002, Shri Mahila Sewa Sahakari Bank (SEWA Bank) introduced "Project Tomorrow", a financial education program for its members to gain skills in personal financial planning.[28] The goal of Project Tomorrow is to build the capacity of SEWA members in urban and rural areas to be better financial planners.

By the end of the program members will have:

- Stated the importance of financial planning;
- Analyzed their money management practices;
- Recognized life cycle financial needs and managed future risks;
- Analyzed trade-offs between various financial options;
- Recognized how SEWA Bank and other financial products can help them to improve their financial situation; and
- Made a financial plan for their household.

The intended outcome of the Program is for SEWA Bank members to be able to make informed decisions about personal financial management and planning through better understanding of the implications of the various financial choices they can make. SEWA Bank wants to ensure that members use its services and products to maximize financial return and protect against future risks. Through better planning and investing women will be able to achieve financial security for themselves and their families.

[28] Financial Education for SEWA Bank members – a Facilitator's Guide, www.sewabank.com

Financial education toolkit

SEWA Bank, Freedom from Hunger and the Coady International Institute established a three-way partnership to produce a financial education toolkit and training methodology. Freedom from Hunger, with its expertise in microfinance, health education and adult learning led the initial stages to examine the interest and needs of members, define the content and methods for the toolkit and train SEWA Bank staff in the topics of financial counseling and adult learning. The Coady International Institute, also experienced in adult education, microfinance and training manual production, developed and refined the toolkit, coordinated field testing, continued to train SEWA Bank staff and leaders in adult learning. They also oversaw the editing and final production of the educational materials with SEWA Bank and Freedom from Hunger.

Overview of learning sessions

Learning Sessions	Objectives
1. Introduction to Financial Planning	• Discussed the purpose and approach of SEWA and SEWA Bank and the financial education service.
2. Daily Money Management	• Distinguished between good and poor daily money management practices • Analyzed their own daily money management practices and identified ways to improve them
3. Planning for future events	• Described their goals and dreams and what they need to achieve • Defined planning and stated the importance of long-term planning • Prioritized future events that require financial education • Identified various financial options and the factors that influence those options • Stated trade-offs between different financial options
4. Savings and Investments	• Stated the importance of saving and the difference between saving and investing • Described the match between different types of saving services and life cycle uses of savings • Analyzed the trade-offs between various savings and investment alternatives • Analyzed current savings options
5. Borrowing and loan management	• Stated the difference between good and poor loan management • Matched life cycle needs with loan services • Analyzed trade-offs between different options for borrowing • Identified ways to improve personal loan managemen
6. Insurance and Risk Management	• Stated the importance of insurance and risk management • Matched life cycle risks with different insurance products • Indentified the types of insurance product that suit
7. Making a Financial Plan	• Stated the aspects of good financial plan • Practiced preparing a good budget • Stated whether or not they feel better prepared to meet their dreams • Decided how to share their financial education with their family

Methodology

Some sessions have separate examples or activities for urban and rural audiences. Exercises corresponding to each learning session are contained in a workbook designed for the particular audience.

Members engage in a number of activities to learn how to financially plan, broadly matching their life cycle needs with the various types of products SEWA Bank and other formal and informal local financial services providers offer. Given the high rate of illiteracy with members, the toolkit draws heavily on story-telling, posters and metaphors, such as animal behavior, with which members can easily relate. Each session relates to a particular animal.

Training process

The training processes in the urban and rural settings are slightly different to reflect the differences in service delivery. In both settings participation in the training program is voluntary.

In the urban setting, financial services are provided to individuals. Many urban women come directly to SEWA Bank or its neighborhood facilities for payment and receipt of funds. Therefore, the training takes place either at the bank or in the neighborhood at a home or facility provided by SEWA member neighborhood leaders or the SEWA Bank urban training unit. In urban areas, training takes place once per week through a training team of two with approximately 20-30 members per training 'class'. Each week, one training session is held until all of the learning sessions have been completed. Generally, one session will be covered each week; therefore, in seven weeks all sessions can be completed. This time period might vary depending on how quickly the group is able to understand the concepts.

Rural members live in more sparsely populated areas and use self-help groups for service delivery. SEWA Bank is currently piloting a second-tier of delivery through district associations. Leaders, known as spearhead leaders, are selected from self-help groups to give groups representation at the association level. In the rural areas, the training will take place on a monthly basis through the self-help groups. One to two trainers train spearhead team leaders who, in turn, work with the self-help groups. Since approximately two training sessions will be covered each month, it would take approximately three months to complete the training in rural areas for each self-help group.

SEWA financial education on housing related issues

- **Establishing property rights of women:** SEWA has made some effort to encourage the inclusion of the name of the women in the title to the property. SEWA's workers are actively involved in helping and educating the women with the technical and legal aspects of this endeavour. SEWA's approach has been to seek 'joint titles' for the women in the property of her husband, or parent in case of unmarried women.

- **Legalizing ownership:** In one city (Ahmedabad), many poor people have purchased houses from the Slum Clearance Board (SCB) but most of them do not have the legal documents to prove their ownership. As a result they are not able to access housing loans from financial

institutions. Most of them are not aware of the long and cumbersome procedure of the SCB to legalize their ownership. SEWA has provided counseling and guidance to these people to restart the process required to get the legal documents of their house. SEWA has also motivated people to pay the installments along with the penalty amount to SCB, so that they can ask for the documents regarding their ownership of the house. Many rightful owners of the house have succeeded, with the assistance of SEWA, in getting the legal documents.

SEWA also provides information to its members on the availability of low income housing with government agencies and housing plots specifically for low-income people.

- **Legalizing electricity connections:** A majority of the households from poor areas and slums of the cities lack documents of land tenure, without which they are not able to access electricity from the Electricity Boards in their area. SEWA initiated a program called Ujala Yojna wherein Ahmedabad Electricity Company (AEC) delinked the land tenure requirement for getting electricity connection and substituted it with an indemnity bond. This bond requires slum dwellers to sign an agreement stating that they would not pursue any legal proceeding with AEC if they were evicted or relocated from their homes in future. These arrangements helped over 100,000 homes in the slums of Ahmedabad have access to legal electricity connections.

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