Candace Nelson

Financial Education for All Ages

Innovations Case Discussion:
Aflatoun

While it is easy to argue that financial literacy is key to individual financial stability and societal financial inclusion of the poor, it is harder to identify who is responsible for achieving it. Traditionally, financial education has been the domain of the family, but as Aflatoun founder Jeroo Billimoria has stated, parents caught in a cycle of poverty and financial exclusion are less likely to help their children become good money managers. Parents cannot teach what they do not know themselves. That Aflatoun has embraced this challenge is a significant contribution to a growing movement to foster financial literacy around the world. Approaching this goal by starting with children is truly visionary; it acknowledges that achieving financial literacy will take at least a generation. Building the confidence and knowledge that will enable children to acquire good money habits prepares them to confront the many financial challenges ahead.

Because they reach millions of students who represent the future, schools are an obvious channel for generational change. However, convincing national education ministries to incorporate financial education into the core curriculum is a daunting challenge, particularly given the many competing demands on teachers' agendas, particularly in countries afflicted by the dire threats posed by HIV/AIDS, burgeoning numbers of orphans, and ethnic tensions, all of which potentially demand a response from the education system. That Aflatoun has succeeded in even one country, Egypt, is a significant achievement.

I comment on financial education as an active consultant for Microfinance Opportunities, a sister organization to Aflatoun. This Washington, D.C.–based

Candace Nelson has worked in nonformal education, microenterprise development, and microfinance for 30 years, with World Education, the SEEP Network, and the McKnight Foundation. With Microfinance Opportunities, she designs financial education curriculum for youth and adults, educates trainers, and advises on national financial education strategy. She also facilitates the savings-led financial services working group of the SEEP Network, a forum for the promotion of time-bound, distributing savings groups, and is a member of a research team sponsored by the Aga Khan Foundation to conduct case studies on these groups.

NGO has pioneered financial education curriculum for low-income adults in developing countries in tandem with Aflatoun's efforts on behalf of children.[1] I believe that raising levels of financial literacy is urgent for all ages, and financial education is an important tool to accomplish that goal. Because financial circumstances change over time, the need for financial education evolves throughout the lifecycle. The rationale for investing in financial education lies in its contributions at multiple levels of the economy. Its urgency today is linked to a financial institutional landscape that is changing rapidly and intersecting increasingly with low-income households throughout the developing world.

Financial education teaches the knowledge, skills, and attitudes that people can use to adopt good money management practices for earning, spending, saving, borrowing, and investing.

Microfinance Opportunities uses this definition of financial education to speak to the wide range of behaviors targets. Building knowledge, skills, and attitudes to change how people manage their money in interaction with a landscape of financial institutions, products, and opportunities increases financial literacy.[2] On an individual level, financial literacy helps households use scarce resources more effectively, choose the financial products that best meet their needs, and become proactive decision-makers. At the institutional level, informed consumers make better clients, lowering institutional risk and contributing to a stronger bottom line. At the market level, these consumers play a monitoring role, placing pressure on financial institutions for appropriately priced and transparent services.[3]

These are exciting times in financial services for the poor. Microfinance is offered by an increasingly diverse set of institutions, both formal and informal, including banks, finance companies, cooperatives, NGOs, and community savings groups. Savings, insurance, payment services, money transfers, and multiple types of loans are increasingly available to respond to the lifecycle and market pressures that low-income households face. Mainstream banks are moving downstream, making it easier for the poor to open accounts; in Kenya and Uganda, for example, Equity Bank has set an example that more traditional banks are beginning to follow. Perhaps most significant, technology is bringing electronic and mobile phone banking to developing countries at a rapid pace, which has the potential to create access to formal finance for the millions who now have a cell phone but have never had a bank account.

In light of this proliferation of options, I suggest that financial inclusion of the poor is not only an issue of access to financial services but also information about them. The expanding supply of products and services calls for financial education to help consumers navigate through the options—to effectively compare their features and make informed choices about the products that will best serve their needs. It is a mistake to assume that consumers who have successfully managed informal debt from moneylenders and the early sources of microcredit can also manage more, and more complicated, products without sufficient and appropriate information.

Furthermore, the rapid emergence of mobile banking is transforming who is able to bank and the way they bank. Soon, anyone with a cell phone will be able to have a bank account. Around the world, cell phones are replacing land lines; in some countries these amazing devices are substituting for brick-and-mortar bank branches. Yet older customers, intimidated by the technology, often give their children access to their accounts, which has led to theft and fraud. Younger people may handily master the technology's functionality but understand little about the management decisions the keypad contains. New access to incredibly convenient debit cards and ATMs presents challenges to those trying to control their spending.

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Although electronic cards and cell phone banking hold great potential, their introduction without the benefit of information, orientation, or education presupposes knowledge and experience that many low-income families do not have. Despite the rapid uptake of the new services, the level of bank transactions by the previously unbanked has not met expectations. Through its research of mobile banking in four countries, Microfinance Opportunities found the reasons for low use include mistrust of "faceless" banking, confusion over the PIN, and activity that is limited to money transfers and adding airtime. Financial education can bridge the gap between product marketing and effective product use.[4]

Finally, financial education is a corollary to the call around the globe for consumer protection. In today's climate of economic uncertainty, timely concerns about predatory lending and profiting from the poor lend some urgency to the need to embrace ethical treatment of clients. Microfinance institutions are committing to transparent pricing, appropriate collections practices, ethical staff behavior, client privacy, and mechanisms to redress grievances (e.g., Center for Financial Inclusion, ACCION International). And yet, as the other half of the consumer protection equation, clients' greatest priority is respect. They want to preserve their dignity in the process of conducting business with a financial institution, and they want to borrow without fear or humiliation. The consumer protection principles that financial institutions are adopting do not specify clients' right to ask questions, to ask for help understanding products without fear, or to shield themselves from aggressive marketing.[5] Financial education can empower consumers to do these things, especially to fully understand the products they choose and the contracts they sign. As one Kenyan trainer proclaimed, "There is no consumer protection without financial education."

Although timeless in its relevance, financial education has been the overlooked component of global efforts to empower the poor through financial services. Now Aflatoun is challenging myths about children's ability to grasp financial concepts and save money that pertain to people of all ages. It reminds me of the early days of the microcredit movement, when many of us working for grant-making NGOs initially questioned the ability of the poor to borrow money and repay with interest. We soon discovered that low-income households are not too poor to learn to save or to budget, negotiate prices, manage their remittances, and make effective use of their growing choices of financial products and services. Promoting changes in behavior that improve how people manage money is the goal of financial education. Careful spending, wise borrowing, and regular saving go a long way to ensuring financial stability for young and old alike.

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1. Microfinance Opportunities' financial curriculum covers nine topics: saving, budgeting, managing debt, bank services, financial negotiation, insurance, remittances, youth, and consumer protection. It has trained close to 400 trainers in 46 countries and delivered financial education to over 21 million consumers through combined efforts in training and mass media. For more information, go to www.microfinanceopportunities.org.
2. The term "financial capabilities" is beginning to appear in place of financial literacy. The two can be used interchangeably. Financial education is a tool to raise people's level of financial literacy.
3. Nelson and Wambugu, "Financial Education in Kenya: Scoping Exercise Report," Financial Sector Deepening Kenya, Nairobi, August 2008.
4. Cohen, Hopkins, and Lee, "Financial Education: A Bridge between Branchless Banking and Low-Income Clients," 2008.
5. Microfinance Opportunities, "Consumer Protection: A Client Perspective" Brief, 2009.