

## Factsheet: Building Capacities: From Financial Literacy to Financial Capability

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- In 2011, there were only 26 countries with national strategies for Financial Education
- As of 2013, 45 countries are designing national strategies for Financial Education

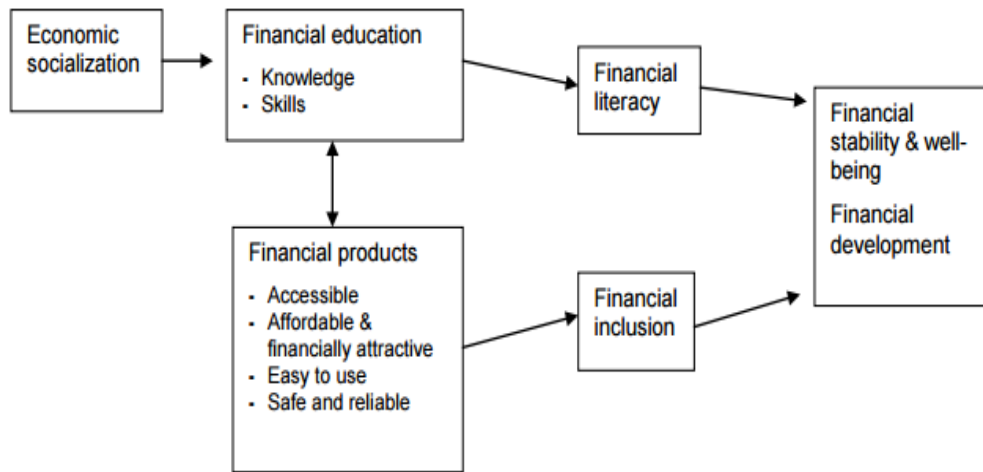
The World Bank defines Finance Capability as “the internal capacity to act in one’s best financial interest, given socioeconomic environmental conditions. It therefore encompasses the knowledge, attitudes, skills, and behaviors of consumers with regard to managing their resources and understanding, selecting, and making use of financial services that fit their needs.”

Financial Capability Concepts			
Knowledge	Skills	Attitudes	Behaviors
<ul style="list-style-type: none"> <li>■ Knowledge of financial concepts (inflation, compound interest etc.)</li> <li>■ Awareness of financial products and services</li> <li>■ Practical Know-how (how to make payments, how to open a bank account etc.)</li> </ul>	<ul style="list-style-type: none"> <li>■ Numeracy Skills</li> <li>■ Literacy Skills</li> </ul>	<ul style="list-style-type: none"> <li>■ Reasons for or for not saving, borrowing, investing, etc.</li> <li>■ Attitudes Towards the future</li> <li>■ Confidence in own plans for old age</li> <li>■ Proclivity towards budgeting, saving, lending etc.</li> </ul>	<ul style="list-style-type: none"> <li>■ Money management (managing day-to-day finances).</li> <li>■ Long-term planning (preparing for emergencies and retirement)</li> <li>■ Financial decision-making (ability to choose appropriate financial products)</li> <li>■ Seeking financial advice.</li> </ul>

Source: Financial Capability Surveys Around the World, Why Financial Capability is important and how surveys can help. World Bank, August 2013.

### The Context

Financial capability as defined above, is an end result of a number of factors and processes. As illustrated in the chart, financial knowledge comes from economic socialization and financial education, and generates improved financial literacy. At the same time, new adapted financial services lead to financial inclusion. Together financial literacy and financial inclusion build financial capability in low-income households. Increases in financial capability lead to greater financial well-being, and more opportunities for financial development.



Source: Margaret Sherrard Sherraden, 2010, Financial Capability: What is It, and How Can It Be Created?

## The Indian Experience

Key stakeholders (governments, central banks, NGOs and financial services providers) in India across the world are increasingly experimenting with a range of approaches on financial literacy and capability in recent years. India's draft National Strategy for Financial Education stresses on the need for a tiered approach to financial education, keeping in mind the country's sheer diversity. One point of consensus among regulators and policymakers is that there is no one-size-fits-all model for the development of a national strategy and this should be tailored to the needs and local contexts across different regions.

- The Reserve Bank of India's "Project Financial Literacy" disseminates information regarding the central bank and general banking concepts to various target groups, including, school and college going children, women, rural and urban poor, defence personnel and senior citizens.
- SEBI has a dedicated website for investor education wherein study materials are available for dissemination. SEBI also publishes study materials in English and vernacular languages.
- IRDA publishes 'Policyholder Handbooks' as well as a comic book series on insurance.
- A nationwide baseline survey i.e. NCFE-Financial Literacy and Inclusion Survey (NCFE-FLIS) for assessing the state of financial literacy and financial inclusion is being conducted by the National Centre for Financial Education.

While the above initiatives are welcome developments in the area of financial education in India, a rigorous evaluation of their outreach and impact is currently missing. As the initiatives scale up, it is essential to undertake rigorous evaluation that seeks to answer the following critical questions:

- What works? What does it cost?
- What should be the content?
- What are the right approaches?
- Who should deliver it?
- What is the impact on clients?
- How do we measure this impact?

## Learning from Evidence

***Financial Literacy and Rules of Thumb***<sup>1</sup>: Researchers found that a simple "rule of thumb" training (e.g. writing down every transaction) for micro-entrepreneurs in the Dominican Republic increased the likelihood that they kept accounting records and calculated monthly revenues, as compared to a control group that received a more complex accounting-based training.

***Tablet-Based Financial Education***: Lista Initiative is a tablet-based financial education program designed to help poor women living in rural areas gain access to information and training (including how to navigate formal financial services via an ATM simulator). As a result of the human-centered design approach and distribution of tablets to community leaders in order to make them available to more women in the community, take-up of the technology improved.

***Teaching the Practice of Saving to Ugandan Youth***<sup>2</sup>: In Uganda, researchers evaluated whether offering financial education or group savings accounts to church-based youth groups increased savings. They found that total savings and income increased among youth offered financial education, group savings accounts, or both education and group accounts.

As large-scale supply-side interventions in India's financial inclusion drive gather pace, building financial literacy and capability through rigorously designed and tailored programmes, will play a vital role in easing bottlenecks on the demand side.

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<sup>1</sup> Keeping it Simple: Financial Literacy and Rules of Thumb (September 2010)

<sup>2</sup> <http://www.poverty-action.org/study/starting-lifetime-saving-teaching-practice-saving-ugandan-youth>