Presentation Outline

1. What is financial capability?
2. Why and how should financial capability be measured?
3. How should the impact of financial capability programs be assessed?
What is Financial Capability?
A World Bank definition:

Financial capability is the **internal capacity** to act in one’s best financial interest, given socio-economic environmental conditions. It encompasses the **knowledge** (literacy), **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.

The terms **financial literacy** and **financial capability** are often used interchangeably. The term financial literacy (also financial knowledge) is a narrower term that represents the level of aptitude in understanding personal finance, and often refers to awareness and knowledge of key financial concepts.
Why Financial Capability matters?

1. Financial capability is an essential component of financial inclusion strategies.

2. It is seen as enhancing financial inclusion, financial stability and the effective functioning of financial markets.

3. Financial capability is increasingly a priority for high income and emerging economies. At least 36 countries are working on a national strategy for financial inclusion.

4. Increasingly Central Banks and Market Conduct Supervisors are designing and implementing Financial Capability / Strategies.
Why should financial capability be measured?

Around 80% of countries working on a national financial capability strategy have a survey to help in the policy design process.

In general, surveys of financial capability seek to achieve the following objectives:

- Create a baseline assessment of weak areas of capability and identify target populations.
- Understand the relationship between financial knowledge / literacy and behavior.
- Identify potential channels for delivering information and financial education.
- Understand individual behavior with respect to personal or household finances.
Measuring Financial Capability
Reviewing existing financial capability instruments

- Review identifies and compares existing measurement approaches in the area of financial capability (FC), and in the related areas of financial inclusion (FI) and financial consumer protection (FCP).

- The purpose is to guide policymakers on these existing measurement instruments.

- Focus is on instruments that are demand-side, innovative, well established, and well documented.

>> responsiblefinance.worldbank.org
Surveys reviewed
20 instruments implemented in 152 countries

How can financial capability be measured?

Financial capability encompasses the knowledge, attitudes, skills, and behaviors of individuals with regard to managing their finances:

<table>
<thead>
<tr>
<th>Knowledge</th>
<th>Skills</th>
<th>Attitudes</th>
<th>Behaviors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Knowledge of financial concepts such as inflation or compound interest</td>
<td>• Numeracy skills</td>
<td>• Reasons for or for not saving, borrowing, investing, etc.</td>
<td>• Day-to-day money management</td>
</tr>
<tr>
<td>• Awareness of financial products and services</td>
<td>• Literacy skills</td>
<td>• Attitudes towards the future</td>
<td>• Long-term planning (preparing for emergencies and retirement)</td>
</tr>
<tr>
<td>• Practical Know-how (e.g. how to make payments, how to open a bank account)</td>
<td></td>
<td>• Confidence in own plans for old age</td>
<td>• Financial decision-making (ability to choose appropriate financial products)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Proclivity towards budgeting, saving, lending, etc.</td>
<td>• Seeking financial advice</td>
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</tbody>
</table>
How can financial capability be measured: Knowledge

Studies assessing people’s financial knowledge generally look at key economic concepts deemed important for navigating the formal economy.

For example, the 2004 US Health and Retirement Study asks respondents:

Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the same money in this account?

1. More than today
2. Exactly the same
3. Less than today
4. Do not know / Refuse to answer
How can financial capability be measured: Skills

Evaluating people’s cognitive skills, such as basic numeracy and literacy skills, can also support the measurement of financial capability.

Knowledge  Skills  Attitudes  Behaviors

For example, the Kenya FinAccess survey includes questions on numeracy skills such as:

You have a lot of mangoes on your farm and your neighbor has lots of tomatoes. You make a bargain and he says he will give you three tomatoes for every mango you give him.

If you give him fourteen mangoes, how many tomatoes do you expect him to give back to you?
How can financial capability be measured: Attitudes

Attitudes can be measured by assessing people’s proclivity toward certain types of behavior and tendencies.

Knowledge  Skills  Attitudes  Behaviors

For example, a financial capability study conducted in Fiji asks respondents questions regarding impulse purchases, saving vs. spending, etc.:

I will now read out a number of statements. I would like you to tell me how much you agree or disagree with the following statements:

- “I do not worry about the future and let tomorrow take care of itself”
- “It is hard for me to pass up a bargain”
- “I find it more satisfying to spend money than to save it for the long term”
How can financial capability be measured: Behaviors

In surveys that measure financial behavior, the objective is to identify weak areas of behavior and the least capable population subgroups.

Knowledge  Skills  Attitudes  Behaviors

For example, the UK’s “Measuring Financial Capability” study asks about general behaviors regarding making a budget, planning ahead, or dealing with unexpected expenses:

When you receive money, do you plan how it will be used?

1. Yes
2. No
How can financial capability be measured: External factors

Socioeconomic and environmental conditions can play an important role in constraining or facilitating individual financial capability.

In Papua New Guinea, for example, the *wantok* system is an unwritten social contract that serves as a safety net, in which people of the same village / town are obligated to help those who are in poor financial condition.
How can the data be measured?
Developing meaningful indicators that can inform policy

A good starting point for developing indicators is to report frequencies and proportions of people who answer questions in a specific way.

The advantage of this approach is that no specific statistical knowledge is needed to analyze the data and understand the results.

In addition to single questions, it is necessary to develop composite scores or indices, which are useful due to the multifaceted aspect of FC.

The following slide provides a sample of indicators by the World Bank and OECD/INFE that can be used and tailored by individual countries.
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>DESCRIPTION</th>
<th>SURVEY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FINANCIAL KNOWLEDGE AND SKILLS</strong></td>
<td>1. <strong>Financial knowledge score</strong> (based on knowledge of basic financial concepts such as inflation, simple interest, compound interest, money illusion, risk diversification, and main purpose of insurance policies)</td>
<td>WB FCCP, OECD/INFE Financial Literacy Survey</td>
</tr>
<tr>
<td><strong>FINANCIAL BEHAVIOR</strong></td>
<td>1. <strong>Budgeting score</strong> (based on whether adults plan how to use money they receive, in terms of frequency, accuracy and regularity with which they stick to the plan)</td>
<td>WB FCCP, WB/Russia Trust Fund survey</td>
</tr>
<tr>
<td></td>
<td>2. <strong>Not overspending score</strong> (based on spending money on unnecessary things before buying food and essentials, and spending on non-essentials adults cannot afford)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. <strong>Living within means score</strong> (based on whether adults run short of money after buying essentials and why, their level of borrowing, and if they borrow to buy food and other essentials)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. <strong>Monitoring expenses score</strong> (based on whether adults know how much money they spent in the last week, and how much they have available to spend)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. <strong>Savings score</strong> (based on whether adults try to save for the future, try to save for emergencies, and try to save even if a small amount)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6. <strong>Planning for old age expenses score</strong> (based on whether adults have strategies in place which allow to cover expenses in old age)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7. <strong>Planning for unexpected expenses score</strong> (based on whether adults could cover an unexpected expense equivalent to a month’s income, and if not whether they worry about it)</td>
<td></td>
</tr>
<tr>
<td><strong>ATTITUDES</strong></td>
<td>1. <strong>Attitudes towards the future score</strong> (based on agreement with statements about living more for the present day than for tomorrow, the future will take care of itself, focus on the short term)</td>
<td>WB FCCP, WB/Russia Trust Fund survey</td>
</tr>
<tr>
<td></td>
<td>2. <strong>Non-impulsiveness score</strong> (based on agreement with statements about being impulsive, saying things without giving them too much thought, doing things without thinking them through)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. <strong>Achievement orientation score</strong> (based on agreement with statements about having inspirations, working hard to be the best, always looking for opportunities to improve one’s own situation)</td>
<td></td>
</tr>
</tbody>
</table>
How can the data be measured?
Developing meaningful indicators that can inform policy:

Examples from a Mozambican survey

Average financial capability scores

- Choosing Financial Products: 34
- Planning for one's own Future: 40
- Farsightedness: 40
- Saving: 42
- Planning for unexpected Expenses: 45
- Using Information and Advice: 56
- Monitoring Expenses: 61
- Not Overspending: 63
- Living within Means: 64
- Controlled Budgeting: 74

8 aspects related to financial behaviors and 2 aspects related to financial attitudes were assessed.

Surveyed adults show strengths in day-to-day money management, including high performance on budgeting, living within means and monitoring expenses.

Financial attitudes and behaviors, which relate to thinking about the future and putting money aside, seem to be a major challenge.

The lowest score in the area of choosing financial products indicates consumers’ limited ability to take advantage of available financial services.
How can the data be measured?

Identifying potential target groups

The simplest way to identify vulnerable groups of the population is to use cross-tabulations, in which indicators are calculated by key demographic variables (such as age, gender, education, employment status, and income).

In this Tajikistan example, this chart shows that income matters, as low income groups struggle more with saving than those with higher incomes.

Regression and cluster analysis are more sophisticated tools that can also be used.
Survey design and data quality
The issues to be considered

1. **Who should be interviewed?**
The most common approach is to use a randomly selected individual in a household as the unit of analysis.

2. **How to ensure comparability across countries?**
The survey could be a joint one (ideally) or simply replicate what other countries have done (but need to ensure questions have same meaning across countries and that there is a consistent sampling methodology).

3. **And comparability over time?**
The survey could be repeated with a new, or the same, random sample.

4. **How can data quality be ensured?**
This is critical. Focus on the development of a valid and reliable questionnaire, a sound sampling design and the most appropriate mode of interview.
Program & Impact Evaluation
# Evaluating financial capability programs

The World Bank and the Russia Trust Fund conducted several impact evaluations on financial capability programs. These are the key findings:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FOCUS</th>
<th>TARGET GROUP(S)</th>
<th>TYPE</th>
<th>IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia and New Zealand</td>
<td>Remittances, credit, financial product selection</td>
<td>Migrant workers</td>
<td>Seminar</td>
<td>Mixed results</td>
</tr>
<tr>
<td>Brazil</td>
<td>Budgeting, savings, general financial management</td>
<td>High school students</td>
<td>Classroom training</td>
<td>Yes</td>
</tr>
<tr>
<td>Brazil</td>
<td>Stock market investment</td>
<td>Stock market users</td>
<td>Online stock market simulator</td>
<td>(ongoing)</td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Financial management</td>
<td>CCT beneficiaries</td>
<td>CCTs and seminars</td>
<td>(ongoing)</td>
</tr>
<tr>
<td>India</td>
<td>Budgeting, savings, financial management</td>
<td>Low-income households</td>
<td>Seminar</td>
<td>Mixed results</td>
</tr>
<tr>
<td>India</td>
<td>Savings, budgeting, financial product selection</td>
<td>Low-income households</td>
<td>Seminar, counseling, SMS reminders</td>
<td>(ongoing)</td>
</tr>
<tr>
<td>India and Kenya</td>
<td>Long-term planning, weather insurance</td>
<td>Rural small-scale farmers</td>
<td>Comic books</td>
<td>Mixed results</td>
</tr>
<tr>
<td>Kenya</td>
<td>Financial management, savings</td>
<td>School children</td>
<td>Classroom training, Comic books, Radio shows</td>
<td>No</td>
</tr>
<tr>
<td>Malawi</td>
<td>Financial management, savings</td>
<td>Agricultural wage earners and farmers</td>
<td>Labeled banking account, Behavioral economics</td>
<td>(ongoing)</td>
</tr>
<tr>
<td>Mexico</td>
<td>Savings, retirement, use of credit</td>
<td>Credit card customers</td>
<td>Seminar</td>
<td>Mixed results</td>
</tr>
<tr>
<td>Mexico</td>
<td>Savings, credit</td>
<td>Low-income credit customers</td>
<td>Disclosure formats, SMS and phone counseling</td>
<td>Yes</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Savings, use of banking services</td>
<td>Existing and new bank users</td>
<td>Marketing campaign</td>
<td>Mixed results</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Savings, credit</td>
<td>Low-income households, Small business owners</td>
<td>Movie</td>
<td>Mixed results</td>
</tr>
<tr>
<td>South Africa</td>
<td>Savings, remittances, budgeting, choice</td>
<td>Members of burial societies, Women's groups</td>
<td>Seminar</td>
<td>Yes</td>
</tr>
<tr>
<td>South Africa</td>
<td>Debt management</td>
<td>Low-income households</td>
<td>Soap Opera</td>
<td>Yes</td>
</tr>
<tr>
<td>Uganda</td>
<td>General financial education</td>
<td>Low-income households</td>
<td>Seminars</td>
<td>Mixed results</td>
</tr>
<tr>
<td>Uganda</td>
<td>Vocational and business training</td>
<td>Small business owners</td>
<td>Seminars</td>
<td>Mixed results</td>
</tr>
</tbody>
</table>
The Impact of Financial Literacy Training for Migrants: Evidence from Australia and New Zealand

- **Pathways to change**: Group-based financial literacy seminar
- **Thematic focus**: Remittances, credit and financial product selection
- **Target groups**: Migrant workers
- **Evaluation method**: Randomized controlled trial design
- **Data collection**: Face-to-face surveys
- **Results**: Impact on increasing knowledge and information-seeking behavior and reducing the risk of switching to costlier remittance products. No impact on changing frequency or levels of remittances.
Evaluating financial capability programs
High School Program in Brazil

Financial Education and Behavior Formation: Large-Scale Experimental Evidence from Brazil

- **Pathways to change:** Classroom financial education
- **Thematic focus:** Budgeting, savings, and general financial management
- **Target groups:** High school students
- **Evaluation method:** Randomized controlled trial design
- **Data collection:** Self-administered questionnaires
- **Results:** Impact on improving knowledge, attitudes, and behavior
Evaluating financial capability programs
A movie screening in Nigeria

The Nollywood Nudge: An entertaining approach to saving

- **Pathways to change:** Entertainment media (movie screening)
- **Thematic focus:** Savings, responsible borrowing
- **Target groups:** Micro-entrepreneurs
- **Evaluation method:** Randomized control trial
- **Data collection:** face-to-face surveys and qualitative focus groups
- **Results:** Increased up-take of savings accounts; in the longer run, only moderate changes in attitudes and savings behavior
Evaluating financial capability programs

The Conclusions

1. Different interventions may be effective (e.g. mass media and social marketing tools).

2. Quality of content matters: need relevance, the right audience and teachable moments.

3. Financial behavior can improve even when financial literacy (knowledge) is not there.

4. Impacts from one time interventions fade over time: repetition helps behavior change.
Cost Analysis
Assessing achievements against costs incurred

Evaluators and other stakeholders (such as funders) need to assess the delivery and achievements of a program against the costs incurred in providing those, relative to other alternatives. There are three types of cost analyses:

1. **Cost-benefit analysis**
   Weighs the total costs incurred by a financial capability program against the total benefits (outcomes), measured in monetary terms, to come up with the net benefit of undertaking the program.

2. **Cost-effectiveness analysis**
   Measures the cost per output or outcome in a financial capability program and usually compares this cost with other similar programs or other ways of achieving the same outcome.

3. **Cost-consequences analysis**
   Enumerates and characterizes all the relevant costs and benefits for a financial capability program, using quantitative (monetary) costs and benefits where possible and qualitative descriptions otherwise.
Financial capability is the internal capacity to act in one’s best financial interest.

Financial capability can be measured by assessing people’s knowledge, skills, attitudes, and behaviors.

Financial capability programs should be monitored and evaluated based on their impact and costs.
Resources

**Making Sense of Financial Capability Surveys around the World**

**Why Financial Capability is important and how surveys can help**

**A Toolkit for the evaluation of financial capability programs in low- and middle-income countries**

**Evaluation studies of programs to enhance financial capability in low- and middle-income countries**

All these publications are available on our Responsible Finance website: [responsiblefinance.worldbank.org](http://responsiblefinance.worldbank.org)
Thank you!

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