Research Digest #2

BUILDING A BRIDGE BETWEEN FINANCIAL EDUCATION AND FINANCIAL HEALTH

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May 2023

EUROPEAN MICROFINANCE PLATFORM
ADVANCING FINANCIAL INCLUSION

AG on Research

From research to practice and back again

The e-MFP 'From Research to Practice and Back Again' Action Group aims to bring together researchers, university students and practitioners in order to promote the learning of microfinance and financial inclusion; identify research needs of practitioners; identify different sources of data to conduct research; and disseminate and increase the impact of research by translating research results into practical guidance and solutions.

The Action Group is led by Davide Castellani (University of Bergamo) and Max Niño-Zarazua (Independent Consultant) and members include Linda Szelest and Mathilde Bauwin (ADA), Patricia Richter (ILO), Lucia Spaggiari (MFR), Pascal Simon (Amarante Consulting), Anup Singh (MSC), and Natalia Realpe Carrillo (Independent Consultant).

The Research Digest publications aim to explore the top research needs of practitioners, compiling and translating research conducted in the sector into practitioner-friendly language. To the extent possible, the publications will privilege mixed methods approaches, integrating the analysis of both quantitative and qualitative data and including diverse sources of information.

ACKNOWLEDGMENTS

This study was conducted by the e-MFP 'From Research to Practice and Back Again' Action Group led by Davide Castellani and Max Niño-Zarazua with support from Patricia López Rodríguez and Waruguru Ituu who worked on the literature review, conducted the interviews, and drafted the report.

We would like to thank the following industry specialists who shared their views and provided valuable insights into financial inclusion, financial health and financial education through in-depth interviews, panel discussions and one-to-one interactions: Amrik Heyer, Financial Sector Deepening (FSD) Kenya; Rakhi Sahay, United Nations Capital Development Fund (UNCDF), Jaspreet Singh, UNCDF; Lydia Baffour Awuah, Opportunity International; Anup Singh, MicroSave Consulting (MSC); Chiara Monticone, Organisation for Economic Co-operation and Development (OECD); Gabriela Zapata, FinnSalud- Bankable Frontier Associates (BFA) Global; Ursula Heimann, SOLLIV; Evelyn Stark, Center for Financial Inclusion (CFI) at ACCION; and Adeeb Mahmud, Financial Health Network.

PHOTO CREDITS

Amarante Consulting pages 8, 13; MSC pages 3, 5, 10, 15.

INTRODUCTION

Financial capability - individual's financial knowledge, skills, attitudes, confidence, and psychological features within the context of their social, economic, and cultural environments (Bowman et al., 2017) - is crucial in today's global world which is dynamic and complex. While innovations in the financial sector offer households a wide range of financial options and a myriad of information, consumers may lack the cognitive capabilities to optimise their situation. Furthermore, consumer finance has become a do-it-yourself activity where individuals are expected to assume responsibility over their financial decisions and the risks therein (Campbell et al., 2011; Starcek & Trunk, 2013). In addition, numerous innovations in financial technology or the so-called FinTech do not fit into existing consumer protection[1] policies or legal frameworks and this may lead to moral hazards for naïve agents (Gerrans et al., 2021; Schneider, 2019). This underlines the need to continuously upgrade individuals' financial capabilities in this age of a fast-moving financial sector evolving from high touch to high-tech financial products and services.

In the context of microfinance, the initial challenge was the financial exclusion of the poor from formal financial services due to various barriers, limiting them to exploitative and subpar financial products. The primary goal of financial inclusion (FI) has been to provide access to and use of responsibly designed, appropriate and affordable financial products and services that meet an individual's needs. These include savings, credit, insurance, payments, money transfer and transactions (ADA, 2022; World Bank, 2022). Some argue that financial inclusion also includes non-financial services such as capacity building, advice, financial education, and decision support software (ADA, 2022).

1 Consumer protection are policies put in place to foster safe and fair practices by financial service providers. They safeguard individuals from risks and foster public trust in the financial system (World Bank, 2021)

International and national organisations such as the Alliance for Financial Inclusion (AFI), Financial Sector Deepening (FSD), UN Secretary General's Special Advocate (UNSGSA), United Nations Capital Development Fund (UNCDF), the World Bank, microfinance (MF) networks, and others have been working with governments of the Global South to promote initiatives and policies to increase financial inclusion. As a result, account ownership has increased from 51% to 76% between 2011 and 2021 for adults globally and to 71% for adults in developing countries (World Bank, 2021).

However, financial access might not completely translate to financially healthy individuals - individuals who are able to use financial tools and strategies to effectively meet their basic needs, remain resilient in the face of financial shocks, and cultivate financial and economic opportunities (Dalberg et al., 2018) - even despite developments in financial technology. For example, Kenya has achieved high formal financial inclusion (83% in 2021) from a baseline of 26.7% in 2006, yet the population's financial health (FH) has deteriorated from 39.4% in 2016 to 17.1% in 2021 (FinAccess, 2021). FI efforts such as easy access to digital credit have sometimes led to consequent over-indebtedness leading to detrimental effects on individual outcomes and increased financial and social vulnerabilities. Indeed, research shows that choice of debt is highly influenced by behavioural biases, preferences, and informal advice hence the type of debt chosen may be sub-optimal (FCA, 2014; FinAccess, 2021). Furthermore, while FI is largely seen as a direct consequence of the ease and cost of accessing (formal) financial services, FH can also largely depend on other micro and macro socio-economic factors such as consumption preferences, labour market opportunities or inflation. In addition, the COVID-19 pandemic also exposed financial vulnerabilities despite the high levels of FI (UNCDF, 2021; MSC, 2022). Such examples justify the need for evaluating consumer outcomes through financial health (FH) indicators.

FH is a complementary approach to FI. FH is more user centric as it provides information on the outcomes of FI while also considering other factors that affect people's financial lives such as individual characteristics, macroeconomic factors, socio-economic determinants, and public infrastructure (UNCDF, 2021, FinAccess, 2021). The FH approach is growing and is being used by various institutions in the FI space. Various organisations have identified the determinants and drivers of FH and developed FH indicators. They include UNCDF, Financial Health Institute (FHI), UNSGSA, Organisation for Economic Co-operation and Development (OECD), Consumer Financial Protection Bureau (CFPB), FSD Kenya, Centre for Financial Regulation and Inclusion (CENFRI) amongst others.

This research digest is concerned with how (and where) Financial Education (FE) - a process of development of knowledge and skills as well as changes in behaviours and attitudes that lead to informed financial decisions with an impact on financial well-being (OECD PISA, 2019) - fits in or relates to FH. Some questions that arise in this regard are: Is FE an input of FH? A driver? In what sense are FH and FE related?

From stakeholders' examples and literature review, a positive relationship is expected between FE and FH. Many organisations use (digital) FE with the objective of enhancing FH/wellbeing. However, whether or not FE achieves the desirable outcomes is a continuous debate for both academics and practitioners. During the interviews conducted within this study, there were differing views on the choice of terms with some stakeholders preferring financial capabilities to FE but still factoring in the same indicators. Industry stakeholders had differing opinions about the effectiveness of FE, with some being pro FE, others dismissing FE and opting for other approaches such as financial coaching. For instance, BFA Global and FHI do not focus on FE, instead they prefer financial coaching and ensuring consumer protection respectively. On the flip side, MSC, UNCDF and OECD concur that FE works - if the programs are well designed and implemented. Further, OECD and CFI representatives saw financial education and consumer protection as equally important and not substitutes. As such, the relationship between FE and FH needs further research and analysis.

STUDY BACKGROUND AND ACTIVITIES

In 2021, the e-MFP From Research to Practice and Back Again Action Group (AG) explored the top research needs of practitioners through a survey. This survey aimed to identify what areas and topics were the main priorities for FI actors in terms of knowledge and research, in order to create projects and activities tailored to meet specific needs. Based on the main findings of the survey, the AG decided to conduct an action-based study to have a better understanding of both FE and FH in terms of definitions, scope, measurement and indicators, as well as organisations using FE and FH and why. In addition, the study would explore any relationship between FE and FH in theoretical and empirical ways and propose suitable indicators for practitioners.

Based on the 2021 AG activities and the motivation of its members, the study team led by the AG co-Heads reinforced the AG's focus on using diverse sources of information and translating research results into practical guidance and solutions that can be used in the field.

The following methodologies and activities were used as part of the study:

- Desk review of literature (academic and non-academic) on FE and FH and their relationship in microfinance.
- Stakeholder interviews to map types of programmes, actors, data sources and indicators already collected, as well as to identify challenges in collecting and analysing data (UNCDF, Bankable Frontiers Associates [BFA], FSD, Center for Financial Inclusion [CFI], OECD, SOLLIV, Opportunity International [OI], MicroSave Consulting [MSC] and the Financial Health Institute [FHI]).
- Analysis of all information collected and proposal of initial set of indicators (or category of indicators).
- Webinar presenting the preliminary findings of the study on FE and FH indicators.
- Plenary session at the European Microfinance Week 2022 in Luxembourg.

DEFINITIONS

The study starting point was to review the array of definitions on Financial Health and Financial Education in the literature and collected during the stakeholders' interviews. A summary of the desk review conducted can be found here. More than 100 different sources of information were reviewed, including papers (both academic and non-academic), reports, white papers, websites, and other sources. In addition, interviews were conducted with representatives of key institutions working at the forefront of FE and FH, such as UNCDF, OECD, FSD Kenya, Opportunity International, MSC, CFI, amongst others (8 specialists) and information was gathered from a webinar poll, and learnings from specialists at the European Microfinance Week 2022.

Definitions of FH and FE are important to identify the potential channels that underlie any causal relationships between them and to select suitable indicators. In this study, both FH and FE definitions were deconstructed into their most relevant dimensions, and indicators already used by international organisations and other practitioners that best corresponded to each dimension were identified. The information collected shows that FE has been associated with concepts such as financial knowledge, financial literacy, financial capability, and even financial well-being. Whereas, FH has been linked with concepts like financial security, financial resilience, financial behaviour, and financial well-being.

Based on the stakeholders' interviews and authors like Atkinson & Messy (2013), AFI (2021), MaPS (2021), OECD (2021), and Huston (2010), the **working definition for Financial Education** proposed in this study is:

> **The process of providing and acquiring knowledge, skills, attitudes, and behaviours necessary to make informed decisions through unbiased information, instruction and objective advice.**

The aim was to develop a definition that focused also on literacy and attitudes and not just on knowledge or skills. The proposed FE definition indirectly considers the appropriateness of financial choices and decisions to respond to an individual's specific needs, that is, how individuals develop skills and confidence that allow them to recognise financial risks and opportunities, to know where to seek help, and, more broadly, to take effective actions to improve their financial well-being and live fully in a modern society.

Likewise, based on stakeholders' interviews and authors like Sing et al. (2021), CFPB (2017), FHN (2016), NCUF (2015), Muir et al. (2017), CBA-MI (2019), Kempson et al. (2017), Prawitz et al. (2006), and UNSGSA (2021), the **working definition for Financial Health** suggested by this study is:

> **A state in which a person is in control of her finances; can fully meet current and ongoing financial obligations; can feel secure to absorb financial shocks, in a way that enables her to be resilient; can feel secure in her financial future; has the freedom to make financial choices; and can pursue and take opportunities over time.**

This definition is consistent with the UNCDF's definition and takes into account the different financial needs of individuals.

DIMENSIONS

To understand the definitions of both Financial Education and Financial Health, it is important to identify the different dimensions in which FE and FH can be used for or applied in the FI context.

TABLE 1: FE AND FH DIMENSIONS

Financial Education	**Knowledge**	Knowledge of basic financial concepts and products.
	Behaviour	Manage expected and unexpected expenses; set long term goals and work towards achieving them.
	Attitudes	Long-term attitude to money and affinity towards saving.
Financial Health	**Control**	Confidence and control over one's finances.
	Resilience	Ability to cope with income needs, expense shocks and unexpected or adverse events.
	Freedom	Ability to meet long term financial goals and desires.
	Security	Ability to take preventive measures to meet ongoing financial obligations and avoid financial problems.

The dimensions of FE, mentioned in the definitions described above and presented in Table 1 were identified as knowledge, behaviours, and attitudes. According to the OECD (2020), these dimensions are key for financial literacy.

For Opportunity International, for example, financial knowledge is concerned with people's ability to make their finances work for them. Because knowledge empowers people to make informed decisions in accessing and using financial services for specific purposes. For example, a client in Ghana of Opportunity International mentioned: "Credit is like being given a gun – if you don't know how to use it, you could shoot yourself". However, FE is not only about knowledge, but also how it is applied into appropriate behaviours and attitudes. In other words, it can be said that financial behaviours and attitudes are the result of more sophisticated or advanced knowledge that allows individuals to make their financial choices.

As shown in Table 1, the key dimensions of FH are control, resilience, freedom, and security. These correspond to those considered by the UNCDF. Resilience and security might look similar, but they differ in the period in which they occur. Resilience refers to the ability to recover from negative shocks, whereas security is more concerned with preventing or mitigating risks. This distinction is important to allocate indicators to their most proper dimension.

INDICATORS

Indicators (and their targets) play a useful role in highlighting problems, identifying trends, and contributing to the process of priority-setting, policy formulation, and evaluation and monitoring of progress. They are markers of a project's achievement in a specific area. They describe a value that a project wants to achieve and tell outsiders something about the success or progress of the project. In order to be able to measure both the breadth and depth of the relationship between FH and FE, it is important to move from definitions and dimensions to indicators. Again, the main challenge is that both FH and FE are multi-faceted.

This study identified FH and FE indicators that already exist and are used by practitioners, and those that best fitted our dimensions were selected. Indicators consistent with the low-income population context were chosen, for example, 'putting money aside' is a more realistic indicator than saving regularly.

While not explicitly included as a (sub-) dimension of FH, 'consumer debt' was also considered. Our initial hypothesis is that if low-income individuals take on too much consumer debt, it can lead to a cycle of excessive debt and financial instability. High-interest rates and fees can make it difficult to pay back the debt, and missed payments or default can lead to further financial problems, such as damaged credit scores and wage garnishment. In a poll conducted during the webinar, 100% of the attendees believed that consumer debt can be particularly harmful to low-income individuals, and that the relative amount of consumer debt should be factored into the measurement of FH (Table 2 page 9).

Indicators that would require a larger investment in time and resources to obtain the information were not included (e.g., ability to cope with risk situations without a time horizon defined). This would imply observing households' behaviour in risk situations such as the death of the breadwinner, job loss or a natural disaster over time, not just in a particular situation as the COVID-19 pandemic.

Indicators at the individual or micro-level were chosen rather than those at the aggregate or macro-level, such as 'Percentage of adults (18+) able to raise 1/20 of GNI per capita in 30 days by country' (World Bank), so that they can be used in different organisational and geographical contexts. Nonetheless, we expect the data collected to be aggregated and analysed at the institution, segment, or market level.

The list of FH and FE indicator domains and sub-domains that were identified and selected is reported in Table 2 page 9.

TABLE 2: INDICATOR DOMAINS AND SUB-DOMAINS FOR FINANCIAL EDUCATION AND FINANCIAL HEALTH

	DOMAIN	SUB-DOMAIN
FINANCIAL EDUCATION	**Financial knowledge**	• Knowledge of basic financial concepts (simple and compound interest, inflation and time value of money) (OECD, 2020). • Knowledge of basic financial products (AFI, 2021) savings products, loans, insurance, investment options) and their use, benefits and consequences/implications (Lusardi et al., 2020). • Knowledge of procedure to file a complaint, comprehension of Terms. & Conditions and consumer rights before signing a contract (AFI, 2021; Atkinson & Messy, 2013). • Awareness on financial risks and how to manage them (MaPS, 2021; Atkinson & Messy, 2013; OECD, 2005).
	Financial behaviour	• Ability to manage expected and unexpected expenses (AFI, 2021). • Prudence in saving - long-term planning; sets long term goals and works towards achieving them (OECD, 2020; AFI, 2021; NCFE, 2020). • Looking for and evaluation of different products ('Shop around' and compare alternatives) (AFI, 2021; NCFE, 2020). • Responsible debt use and manages debt effectively (Atkinson & Messy, 2013; Taft et al., 2013).
	Financial attitudes	• Demonstrating long-term attitude to money (OECD, 2020). • Affinity towards saving (OECD, 2020).
FINANCIAL HEALTH	**Financial control**	• Paying bills on time and in full (FHN, 2019). • Reviewing loan report (CFSI, 2017). • Having a record keeping system (UNCDF, 2021). • Paying loan card balances in full each month (UNSGSA, 2021). • Tracking expenses (UNCDF, 2021). • Comparing offers before getting a financial service (UNSGSA, 2021). • Using spending plan or budget (UNSGSA, 2021). • Knowing current debt load and credit score (CFBP, 2017). • Smoothing consumption between income cycles (FinAccess, 2022). • Avoiding an unsustainable level of consumer debt (e.g. amount of consumer debt (or financial costs) to assets or to monthly income) (e-MFP 'From Research to Practice' AG, 2022).
	Financial resilience	• Capacity to absorb financial shocks (World Bank, Global Findex 2014, 2017 and 2021). • Ability to raise a lump sum during an emergency (World Bank, Global Findex 2014, 2017 and 2021).
	Financial freedom	• Having money in more than one type of investment (UNCDF, 2021). • Participating in employer's retirement plan (UNCDF, 2021). • Putting money into other retirement plan (UNCDF, 2021). • Using savings or credit to invest in productive assets (FinAccess, 2022).
	Financial security	• Having an emergency fund (UNSGSA, 2021). • Saving regularly (CFPB, 2017; BFA Global 2021). • Saving or investing money out of each paycheck (FHWG, 2020). • Saving for long-term goals such as education, home, business (UNSGSA, 2021). • Planning and setting goals for financial future (UNCDF, 2021). • Having a plan/budget for allocating income and expenses (FinAccess, 2022).

Several sub-domains for each domain of either FE or FH were proposed with two purposes: to offer diverse alternatives and to show their multi-faceted nature. In the design of the indicators, it is suggested to follow UNCDF and OECD's recommendations – that is indicators should:

- Be simple and reflect local realities.
- Reflect the context and conditions of an organisation/group/country's needs.
- Be practical, easy to collect, and consistent with the definition adopted.
- Be related to indicators already used.
- Reflect a person's financial behaviour and provide a score for it.
- Be focused on customer's outcomes.

RELATIONSHIP BETWEEN FINANCIAL EDUCATION AND FINANCIAL HEALTH

Whilst reviewing the literature and interviewing key informants, the authors of this study identified that there is indeed a potential relationship between FE and FH, in such a way that FE helps individuals and families keep or improve their level of FH. When people assimilate information, train to manage basic resources, plan resource purchases, make financial decisions in their daily lives, use financial products and services to improve their life, then they are actually improving their FH. When they acquire financial knowledge, they can manage their financial assets and have the financial capability to face unforeseen events and achieve their vital and future goals, and thus reach better FH (Nino-Zarazua and Copestake, 2009).

It seems that an inverse relationship between FH and FE is also possible, meaning that, FH can generate new FE needs. For example, when people achieve financial well-being and economic stability as a result of better FH, they will require more FE to reach higher financial goals, and they will need better abilities and skills to properly manage growing financial assets. Thus, people with better FH require more sophisticated financial knowledge and training to manage complex financial decisions and to plan their financial future, as well as consumer protection. Thus, more sophisticated FE needs from FH-to-FE relationship are expected, whereas the expected outcome of the relationship from-FE-to-FH is improved FH.

In the webinar organised by the AG, the participants were asked if they believed that there was a relationship between FE and FH: 85% responded that FE generates FH, and 82% answered that FH generates FE. This suggested that a relationship between both concepts - in one direction or the other - is possible. In Table 3, are some examples found in the literature suggesting this relationship.

TABLE 3: FINANCIAL EDUCATION AND FINANCIAL HEALTH RELATIONSHIPS

ORGANISATION	RELATIONSHIP	SOURCE
CENFRI	• Financial Education is what you know, Financial Health is what you achieve. • Financial education/literacy is an input while financial health is an output of financial inclusion.	CENFRI (2020)
CFPB	• The end goal of financial education is to support financial wellbeing. • Financial education indicators emerge as important drivers of financial health and are positively correlated.	CFPB (2017)
UNCDF	• Promoting financial literacy is listed as an easy way of creating consumer centric financial health solutions.	UNCDF (2022)
MaPs	• FE (offered in secondary schools in the UK) should respond to specific needs of young people and be tailored to their life stage focusing on the outcomes that are associated with good financial wellbeing. • Financial education is listed as one of the indicators of financial health stating that lack of financial education leads to poor financial health.	MaPs (2022)
OECD	• The goal of financial education is to boost financial literacy which enables individuals to enhance their financial wellbeing. • OECD/INFE toolkit recognises that financial wellbeing is the ultimate objective of financial literacy.	OECD (2020)

BSL (Australia)	• Financial literacy and other factors contribute to financial wellbeing. Other factors include consumer protection; fair and efficient markets; financial inclusion; and personal and contextual factors.	Bowman et al. (2017)
UNSGSA	• Higher financial capability levels are associated with greater financial wellbeing. • UNSGSA argues against traditional FE that just transferred information to consumers and assumed it would lead to better choices. It proposes using behavioural economic insights to design FE to ensure capacity building. • UNSGSA also proposes learning by doing which can be achieved by integrating FE into the process of using financial services.	UNSGSA (2021)
AFI	• FE is the implemented activity (input) and a tool to increase financial literacy (intermediate output of FE) with financial wellbeing being the long-term outcome of FE. • Behavioural change as a result of FE is slow and incremental hence it may take time before initiatives yield expected outcomes.	AFI (2021)
UNEP(fi)	• Strengthening financial skills is listed as one of the 3 main drivers of FH, along with increasing FI and better usage of financial services and increasing access to financial advisory services.	UNEP (2022)

Other FI professionals tested the relationship between FE and FH in the field. For example, Opportunity International's specialist shared during the plenary on the topic at EMW 2022 that there is a strong correlation between FE and FH. In 2021, they completed a programme with smallholder farmers in Ghana and the Democratic Republic of Congo where they found that access to finance was important, but also that the training that helped participants to take advantage of the money received was crucial to improve their financial management and their lives (food and education outcomes).

From the literature and the study interviews, this study identified some of the best practices expected to improve the impact of FE on FH. These include:

- Digitising FE and, in some cases, using a combination of digital and physical interventions (phygital), e.g., UNCDF's project in Tanzania where MSC worked with Arifu to train refugees (UNCDF, 2020).
- Using behavioural insights to design FE programmes that ensure capacity building (UNGSA).
- Plugging FE within the business (UNCDF) which involves a 'just-in-time learning' and a practical approach (CFI).
- Modernising the curriculum to suit contextual factors affecting the target population and emerging issues such as fraud, cost of digital products, and loan repayments. A field example here is a project led by MSC where they worked with Vistaar Finance, a SME finance firm. Vistaar faced a high default rate which, on analysis, showed that most loan arrears were a day-past-due. A simple animation video urged customers to avoid paying on the deadline day because the bank processed the payments at a certain cut-off time - this increased on-time repayment from 72% to 98%. This positive outcome was achieved by listening to customer complaints who said they paid on the deadline but were still charged late payment fees.

CONTEXT MATTERS

Based on our preliminary insights and specialists' opinions, it was found that FE and FH indicators must be defined considering the context since different environments will result in different outcomes. Both definitions and indicators need to be related to a particular organisation, group, or geographic context so these can assist practitioners and policymakers for decision-making activities.

Understanding the environment where FE and FH will be measured is relevant to choose the right dimensions and hence the indicators. For instance, the UNCDF specialist shared that in India, financial control and security are important because individuals have to control their finances not to be over-indebted, but in Nepal, resilience and security are more important because people are more vulnerable to shocks and unexpected events.

According to the UNCDF and Opportunity International, FE and FH are layered concepts. They are rooted in their determinants, and they span individual and environmental factors such as income, assets, financial habits, saving, spending, social capital, and socio-economic environment. These different factors influence FH and FE outcomes - for example, two individuals earning the same income and with the same amount of wealth may have different FE and FH outcomes due to their financial habits and the socio-economic environment they belong to.

The OECD specialist emphasised in her interview that indicators should be contextualised and customer-centric, and they should consider:

- Life stages of the target customers
- Geography or location
- Focus on vulnerable social groups
- Be sector-specific e.g., for students, farmers, or informal sector labourers

FINAL REMARKS

Considering the review of the literature and the interviews carried out during this study, a relationship between the concepts of Financial Education and Financial Health was found. According to UNCDF, FE is an input for FH related outcomes, with FE playing a central role in creating the right nudges and financially healthy habits and behaviours in the short term. This has positive consequences on financial control, freedom, resilience, and people's security. For example, UNCDF in an initiative aiming to improve the FH of gig-economy workers in Malaysia found that increasing the frequency of savings could lead to larger short-term savings.

Some specialists suggest that FE should be embedded within the product design and delivery to be more effective in generating the expected outcomes. UNICEF and CFI are embedding FE in financial products to make them goal-oriented.

> *"Ideally, FE should be so integrated in such a way that people don't even know that they are learning as they go about their lives. It should be built-in and not a class that they take."*
>
> **CFI, 2022**

> *"FE should be plugged into the business so that the person looking at it looks at it from a practical perspective."*
>
> **UNICEF, 2022**

An essential step when developing policies and programmes is measuring the FH and FE of the relevant population. Measuring provides a concrete basis for understanding FH and FE paths, as well as the relationships between them, and eventually identifying factors that can lead to better FH and FE.

In order to design relevant FE measures, it is important to first delve into who is the target population and what they are already acquainted with. As stated by a representative of MSC: "*People are not illiterate. They may be technologically illiterate, they may be financially illiterate, and numerically challenged but that does not mean that they are stupid. They have been conducting their business and managing. They understand how the currency works, how many notes are there and the colours of the notes. They are oral people"*.

The relationship between FE and FH requires adopting definitions and identifying their dimensions. Since FE and FH are multifaceted concepts, they could be interpreted differently. This study has attempted, based on literature and interviews with specialists, to define and break down these two concepts in order to identify relevant indicator domains and sub-domains that can be used by FSPs to collect information about their clients.

Regarding the dimensions, the financial inclusion sector stakeholders should not consider just one dimension to measure FH and FE, but rather choose all the relevant dimensions that express a person's FH or FE in different ways. As the sector moves away from the traditional mainly quantitative metrics, what matters to the intended population should be understood. A MSC representative pointed out in his interview that one should not assume that *"if people are able to transact and use digital financial products - that should be enough"*.

Measuring FH and FE requires starting with indicators in mind, and go with openness to understand FH and FE as suggested by the above mentioned MSC specialist: *"What is it that people* *know? What is it that people should know - from their perspective, not ours? What should be the right design of a programme that incorporates a suitable measurement? "*

In addition, FE and FH indicators should be chosen considering the group/programme/country's context. There are different kinds of FH and FE indicators that international organisations have used and tested in the field. But these indicators must be adapted to the characteristics of the context where they are used. Every market is different and hence measurement has to be structured in a different way from country (organisation) to country (organisation).

* The list of the acronyms and references included in the study can be found here.

About the European Microfinance Platform (e-MFP)

The European Microfinance Platform (e-MFP) is the leading network of organisations and individuals active in the financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers. Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der)banked by driving knowledge-sharing, partnership development and innovation. The Platform achieves this through its numerous year-round expert Action Groups, the annual European Microfinance Week which attracts over 400 top stakeholders representing dozens of countries from the sector, the prestigious annual European Microfinance Award and its many and regular publications.

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ISBN: 978-99987-949-4-8