



August 2017 – Financial Education

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Redesigning financial education to engage and entertain audiences can deliver results

In 2013 the World Bank Group and over 30 partners pledged to achieve universal financial access by 2020. But without the tools to make good financial decisions, poor households will not achieve the full benefits of expanding financial access. In a recent talk, [Bilal Zia](#), an economist within the research department, gave an overview of a decade's worth of research on what works and what doesn't in boosting households' financial capabilities. According to Zia, generic classroom-based training for adults has repeatedly failed to enable households to make better financial decisions. More recent research shows engaging, entertaining, and experiential approaches to financial education are more effective at equipping people with the tools to make better use of financial services and products.

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TRADITIONAL PROGRAMS

A free financial literacy class in Mexico City attracted few attendees

A free financial literacy course offered by a financial institution to its clients drew little interest. Even among a sample of those screened for interest in attending the training, most did not attend. Experiments to increase participation suggest this lack of participation is driven by individuals' belief that the benefits of attendance are low. Even though monetary incentives led to more attendance, a follow-up survey suggests the increased financial knowledge did not change outcomes. Even among those who reported increases in savings, the effect dissipated quickly, and the training did not change credit card usage or borrowing behavior. This particular course offered in **Mexico City** has served over 300,000 people and has been offered

throughout Latin America. The interventions for this course apply only to people offered incentives to attend that would not attend otherwise. The impacts for those who elect not to attend a program may differ from the impacts for those who choose to participate of their own accord, and likewise might be higher (or lower) for other financial literacy courses around the world. However, this study suggests the benefits of encouraging more people to participate in this training course are likely to be small.

[The minimal impact of a large-scale financial education program in Mexico City](#), Miriam Bruhn, Gabriel Lara Ibarra, and David McKenzie, *Journal of Development Economics* 108: 184–89, 2014. ([online appendix](#)).

Incentives rather than knowledge created demand for formal financial services

Financial development is critical for growth. Given the compelling evidence that financial literacy is a good predictor of financial behavior in emerging market countries, governments, nonprofits, and firms have been promoting financial literacy to create demand for formal financial services. In this experiment in **Indonesia** and **India**, demand for financial education was high: 69 percent of those invited chose to attend the course, but it was not a cost-effective way to promote the use of bank accounts. The education program had modest effects and stimulated demand for bank accounts among uneducated and less financially literate households, but a second intervention that offered small subsidies demonstrates that, given sufficient incentives, many individuals would open accounts *without* financial literacy training. This study clearly demonstrates that individuals who open bank accounts in response to financial incentives tend to keep them open for the long term. A follow-up study two years later shows that those who were originally offered a higher level of subsidy are significantly more likely to have used bank accounts in the past year to deposit, withdraw, send, or receive funds.

[Prices or Knowledge? What Drives Demand for Financial Services in Emerging Markets?](#) Shawn Cole, Thomas Sampson, Bilal Zia, *Journal of Finance* 66 (Issue 6): 1933–1967, December 2011.

Financial education programs work better when supported by complementary programs

A large-scale field experiment in **India** studied attitudinal, behavioral, and cognitive constraints and their effect on the link between financial education and financial outcomes by complementing financial education with the following: (i) financial incentives on a financial literacy test to affect participant motivation, (ii) financial goal setting to provide a psychological nudge, and (iii) personalized financial counseling to enhance the intensity of treatment. The analysis finds no impact of financial incentives on learning but significant effects of both goal setting and counseling on real financial outcomes. Complements to financial education like these can bridge the gap between financial knowledge and behavior change.

[Prices or Knowledge? What Drives Demand for Financial Services in Emerging Markets?](#) Shawn Cole, Thomas Sampson, Bilal Zia, *Journal of Finance* 66 (Issue 6): 1933–1967, December 2011.

Financial products are often too complex for low-income clients to evaluate

This study examines the *quality* of information provided by financial institutions to low-income prospective customers and asks whether financial institutions *offer the product that best meets customer needs* as it relates to cost and intended usage. The study took place in **Ghana, Mexico and Peru**, countries with similar levels of financial inclusion, but with different transparency requirements. Local residents were recruited and trained as credit auditors. The trained auditors visited multiple financial institutions seeking credit and savings products. The staff provided enough information to allow the auditors to apply for a loan or to open a savings account, but very little voluntary information about the costs of the product. When asked about cost, the financial staff disclosed less than one-third of the total cost. In fact, the cost voluntarily disclosed did not correlate with the high cost of the product. These “clients” were also rarely offered the cheapest product. These results suggest low-

income clients do not receive enough information to compare products, and that disclosure and transparency policies may be ineffective because they undermine the commercial interest of financial institutions.

[Financial \(Dis-\)Information: Evidence from a Multi-Country Audit Study](#), [Xavier Giné](#) and Rafael Keenan Mazer, World Bank Policy Research Working Paper 7750, July 2016.

NEW APPROACHES

Students save more after a high school financial education program in Brazil

A high school financial education program was delivered to high school students in **Brazil** through a randomized control trial, aiming to build financial management skills early on. The analysis combines administrative data on test scores and class graduation rates with multiple survey questions to measure financial outcomes. The trial was successful on many fronts but there is also cause for concern. On the positive side, financial proficiency increased and grade-level passing rates increased. Short-term changes in financial behaviors show mixed results. While students' savings and budgeting improved, and brought positive spillovers to parents, students also used credit cards and installment plans to make consumer purchases, with some evidence on late repayments.

[The Impact of High School Financial Education: Evidence from a Large-Scale Evaluation in Brazil](#), [Miriam Bruhn](#), Luciana de Souza Leão, [Arianna Legovini](#), Rogelio Marchetti, and [Bilal Zia](#), *American Economic Journal: Applied Economic* 8(4): 256–95, 2016.

Migrant households save more when payers and receivers receive financial training together

Who are the best targets for financial literacy programs in migrant households? Migrants, remittance-receiving households, or both? A randomized experiment in **Indonesia** assigned female migrants and their families to a control group, a migrant-only training group, a family member-only training group, and a training group in which both the migrant and a family member were trained. Three follow-up surveys measured impacts on financial knowledge, behaviors, and remittance and savings outcomes. Training both the migrant and family member together has large and significant impacts on knowledge, behaviors, and savings. Training the family member alone has some positive, but smaller effects, while training only the migrant leads to no impacts on the remaining family members. Financial literacy training is most effective when senders and receivers participate together.

[Who You Train Matters: Identifying Combined Effects of Financial Education on Migrant Households](#), Yoko Doi, [David McKenzie](#), and [Bilal Zia](#), *Journal of Development Economics* 109: 39–55, July 2014 | [online appendix](#), [replication files](#) | [2-pager](#)

A soap opera in South Africa helped people in debt learn to budget

This research shows that entertainment media can reach millions of viewers with financial education messages that resonate. The script for a popular television soap opera in **South Africa** included episodes where the lead character deals with gambling and debt. The viewers who watched these episodes score significantly higher on financial knowledge, are more likely to borrow from formal sources and for productive purposes, and are less likely to use retail credit or gamble. Quantitative and qualitative analyses of mechanisms show strong recall of messages conveyed by the lead character, which supports theories of psychological and emotional influences on decision-making.

[Harnessing Emotional Connections to Improve Financial Decisions: Evaluating the Impact of Financial Education in Mainstream Media](#), Gunhild Berg and [Bilal Zia](#). *Forthcoming, Journal of the European Economic Association*.

UPCOMING EVENTS

September 8, 2017: [4th Urbanization and Poverty Conference: Building Cities for Growth](#).

This conference will bring together researchers and policy makers to discuss how cities in developing countries can improve their land and housing sector. Pre-register [here](#).

[All upcoming events](#)

ANNOUNCEMENTS

New Book

Innovative Experiences in Access to Finance: Market-Friendly Roles for the Visible Hand? Augusto de la Torre, Juan Carlos Gozzi, and [Sergio L. Schmukler](#). Latin American Development Forum. Washington, DC: World Bank, 2017.

Evidence suggests that lack of access to credit prevents many households and firms from financing high-return investment projects, which has an adverse effect on growth and poverty alleviation. Despite the increasing awareness of the importance of access to finance among both researchers and policymakers, there are still some major gaps in our understanding of the main drivers of access, as well as about the impact of different policies in this area. This book discusses recent innovative experiences in broadening access to credit in Latin America.

[Download](#)

Enhancing the Quality of Public Service Delivery: Insights from Recent Research

[Michael Woolcock](#), July 2017

The brief argues that good policies are necessary but insufficient for delivering high quality public services. Building organizations capable of implementing increasingly complex policies at scale is crucial. But most developing countries lack such organizations and — alarmingly — most are not improving. Effective reforms in China, Singapore, and Vietnam and from unlikely service delivery successes elsewhere, suggest that three key factors are essential to building implementation capability: beginning with problems nominated and prioritized by local staff; promoting iterative experimentation to identify a range of plausible alternatives; and sharing emerging solutions through a frontline community of practice. These factors also suggest there is much to be gained from embedding researchers into delivery systems themselves to better understand the context, map and explain variation, and facilitate real-time decision making in response to changing realities.

Read the [brief](#) | [Download the book](#)

A cross-country database of fiscal space

The availability of fiscal space has been at the center of recent debates on the deployment of fiscal policy to support growth. Fiscal space is a complex concept, as evident from the multiple definitions and measures used in these debates. A new [working paper](#) introduces a [database](#) that includes 28 indicators of fiscal space for 200 countries over the period 1990–2016 and illustrates how the database can be used to analyze developments in fiscal space across different time periods.

MEDIA AND BLOGS

Better information to improve service delivery: New evidence

Let's Talk Development blog, 3 August 2017

Countries around the world have experimented with “school report cards”: providing parents with information about the quality of their school so that they can demand higher quality service for their children. The results have been mixed. Andrabi, Das, and Khwaja bring a significant contribution to that literature in last month’s *American Economic Review* with their article using data from Pakistan, “[Report Cards: The Impact of Providing School and Child Test Scores on Educational Markets.](#)”

Read the [blog](#) by [David Evans](#).

Supporting data for development: applications open for a new innovation fund

The Data Blog, 1 August 2017

Applications are now open for the second round of a new data innovation fund which [was announced last month at the UN's High Level Political Forum](#). The fund will invest up to \$2.5 million in *Collaborative Data Innovations for Sustainable Development* - ideas to improve the production, management and use of data in poor countries. This year the fund’s thematic areas are “Leave No One Behind” and the environment.

Details on eligibility, criteria and how to apply are here: bit.ly/wb-gpsdd-innovationfund-2017 The initiative is supported by the World Bank’s Trust Fund for Statistical Capacity Building (TFSCB) with financing from the United Kingdom’s Department for International Development (DFID), the Government of Korea and the Department of Foreign Affairs and Trade of Ireland. DFID is the largest contributor to the TFSCB.

Read the [blog](#) by [Haishan Fu](#).

A new answer to why developing country firms are so small, and how cellphones solve this problem

Development Impact blog, 24 July 2017

Much of my research over the past decade or so has tried to help answer the question of why there are so many small firms in developing countries that don’t ever grow to the point of adding many workers. We’ve tried giving firms grants, loans, business training, formalization assistance, and wage subsidies, and found that, while these can increase sales and profits, none of them get many firms to grow.

Read the [blog](#) by [David McKenzie](#).

Teachers’ salaries: Too many bucks for the bang?

Future Development blog, 21 July 2017

Despite an influential view that countries should increase teachers’ wages sufficiently to be able to attract top college graduates to the profession, the available evidence from the U.S. suggests that that’s the wrong advice. Key research studies show that this is wrong for low-income countries as well. If anything, when it comes to teachers in developing countries, there are already too many bucks for the bang.

Read the [blog](#) by [Jishnu Das](#).

Spending on bling: What explains the demand for status goods?

Let's Talk Development blog, 19 July 2017

When people spend money, their decisions are often influenced by the desire to signal wealth and attain social status. This insight is not entirely new — even Adam Smith, in the *Wealth of Nations*, complains that his contemporaries spend too much on “status goods” that are not a necessity of life, and which they most likely can’t afford.

Social signaling motives in consumption seem to be present in many different economic settings, and may in fact be so widespread that they can be linked to larger economic phenomena, such as inequality and persistent poverty. [Studies using household surveys](#) show, for example, that the poor around the world spend a strikingly large share of their income on visible expenditures, which may have negative implications for asset accumulation, household indebtedness, and investments in education. The same pattern has been shown to hold for ethnic minorities in the United States — so much so, that [a recent study](#) argues that differences in conspicuous consumption may account for as much as one third of the wealth gap between Whites and African Americans.

So, where does the demand for social status, expressed through consumption choices, come from? In a [recent study](#), we conducted a series of field experiments to explore the psychological factors that explain status signaling behavior in consumption.

Read the [blog](#) by [Martin Kanz](#).

Rejuvenating regionalism

Let's Talk Development blog, 17 July 2017

Regionalism can have three dimensions: trade integration, regulatory cooperation and infrastructural coordination. In a thought provoking [blog](#), [Shanta Devarajan](#) argues for a drastic shift in focus, away from trade and towards infrastructure.

Regional trade agreements do sometimes divert not just trade but attention from other beneficial forms of cooperation. And what type of integration makes economic and political sense, in what sequence, differs across regions. But it would be wrong to exclude trade, to focus only on one dimension, and to ignore important new constraints and old questions.

Read the [blog](#) by [Aaditya Mattoo](#).

Water Get Enemy: A graphic novel on governance

Governance for Development blog, 13 July 2017

This blog post is part of a series for the 'Bureaucracy Lab', a World Bank initiative to better understand the world's public officials.

“Why? Why do we always fail the people of this country?” So reflects the public official who plays the hero in my graphic novel on governance in the developing world. The story, set in fictional Zanzarim, follows the struggles of the ‘Director’ up to that point, as he labours to implement policy that will help his fellow citizens. His exhausting — and frequently unsuccessful —

attempts to succeed mirror the many such struggles I have witnessed in the governments of developing countries across the world.

Read the [blog](#) by [Daniel Rogger](#).

The power of information in improving school performance

VoxEU blog, 26 July 2017

Giving parents information on the performance of schools in Pakistan improved test scores and enrolment, and reduced the cost of private school tuition.

Providing information to citizens can improve services for the poor, swiftly and at relatively low cost. That, encouragingly, is the lesson emerging from recent experiments in Uganda (Björkman and Svensson 2009), India (Banerjee et al. 2011), and Indonesia (Banerjee et al. 2015) as well as observational research in the US (Hoxby 2000) in sectors as diverse as health, voting behaviour, access to subsidised food and education.

Buoyed by these positive results, we were interested in investigating the impact of information (specifically, school and child report cards) on education markets, but with a two-fold twist (Andrabi et al. 2013). First, we work in an environment where there are both public and private schools; the latter receive no subsidies and face little (if any) de facto regulation in terms of prices or standards setting. Second, we were interested in what would happen if we intervened in an entire market, rather than a subset of consumers within the market.

Read the [blog](#) by [Tahir Andrabi](#), [Jishnu Das](#), and [Asim Ijaz Khwaja](#).

[All World Bank blogs](#).

List of New Policy Research Working Papers

- 8146. [Measuring Ownership, Control, and Use of Assets](#) by Cheryl Doss, Caitlin Kieran, and Talip Kilic
- 8147. [Measuring Time Use in Development Settings](#) by Greg Seymour, Hazel Malapit, and Agnes Quisumbing
- 8148. [Measuring Women's Agency](#) by Aletheia Donald, Gayatri Koolwal, Jeannie Annan, Kathryn Falb, and Markus Goldstein
- 8149. [Regulating Water and Sanitation Network Services Accounting for Institutional and Informational Constraints](#) by Daniel Camos and Antonio Estache
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- 8156. [Through the Looking Glass: Can Classroom Observation and Coaching Improve Teacher Performance in Brazil](#) by Barbara Bruns, Leandro Costa, and Nina Cunha
- 8157. [A Cross-Country Database of Fiscal Space](#) by M. Ayhan Kose, Sergio Kurlat, Franziska Ohnsorge, and Naotaka Sugawara
- 8158. [Reducing Traffic Congestion in Beirut: An Empirical Analysis of Selected Policy Options](#) by Alex Anas, Sayan De Sarkar, Maya Abou Zeid, Govinda Timilsina, and Ziad Nakat
- 8159. [Understanding the Interactions between Emissions Trading Systems and Renewable Energy Standards Using a Multi-Regional CGE Model of China](#) by Ying Fan, Jie Wu, Govinda Timilsina, and Yan Xia
- 8160. [Online Exports and the Wage Gap](#) by Marcio Cruz, Emmanuel Milet and Marcelo Olarreaga
- 8161. [Does Financial Education Impact Financial Literacy and Financial Behavior, and If So, When?](#) by Tim Kaiser and Lukas Menkhoff

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