# MEASURING AND EVALUATING FINANCIAL LITERACY


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# Surveys and evaluations

1. Financial literacy surveys – to measure levels of financial literacy in a population. If the survey is repeated in the future, this enables an assessment to be made of progress over time.

2. Evaluations of financial literacy programmes – to determine which are cost-effective and should be continued, which should be modified and which should be discontinued. Can form the basis for good practice guides. Can also help funders to decide where to direct future investment:

   – is the programme improving people's financial capability;

   – how many people have been reached;

   – are there improvements which can be made;

   – is it cost-effective?

It can also be very helpful to undertake pilot studies and/or focus groups before rolling out a financial literacy programme.

# Challenges

- No general agreement on what is meant by being financially literate. NB: some programmes are intended to achieve relatively narrow, immediate objectives – such as to promote the take-up of bank accounts; others are broader in scope and intended to help equip people to manage their personal finances well – not just in the immediate future, but also in years to come.
- Can be very difficult to obtain impartial information about people's behaviours – self-reports not necessarily reliable.
- Measuring behaviours can be particularly challenging in the case of young people, particularly schoolchildren, since they have fewer opportunities to manage money.

# Challenges (continued)

- Difficult to disentangle the impact of any particular intervention from the impact of other influences on behaviour and to establish causal effects.
- Cost – the methodology which is adopted should be proportionate to the value to be gained by the lessons learned (for example, is their potential for large-scale roll-out; can the lessons be applied to a range of programmes)
- Can be difficult to identify researchers with the necessary skills to evaluate financial literacy programmes.
- What are the lessons for future programmes which can be learned from an evaluation of a current programme?

# Good practices

- For objectivity and credibility, evaluations should be carried out by independent evaluators
- Build in evaluation from the outset – or there may be gaps in the data which is needed
- If practicable, measure behaviour – as well as knowledge, understanding and attitudes
- Seek information from those who deliver the programme, as well as recipients
- Ideally, should encompass a control group

# What is meant by being financially literate?

- At its core it means: having the knowledge, understanding, skills, motivation and confidence to make financial decisions which are appropriate to one's personal circumstances.
- The UK's Financial Services Authority distinguished five components of financial capability:
  - making ends meet
  - keeping track of your finances
  - planning ahead
  - choosing financial products, and
  - staying informed about financial matters.
- Best judged by actual behaviour, not merely knowledge.

# Depends to some extent on personal circumstances

- What it means to be financially literate depends to some extent on a person's financial circumstances. For example:
  - someone with little money needs to know accurately how much s/he has available, because consequences of running out could be severe. But may not need to know about investing.
  - a wealthy person only needs to know in general terms how much money s/he has available – but may well need to know about investing.

# Cost-effectiveness

- Also important to evaluate cost-effectiveness, which is dependent on:
  - the number of people which the initiative will reach
  - the impact which the initiative has on people's behaviours
  - the extent to which an initiative can leverage other resources (including in-kind resources)
  - the extent to which the initiative is sustainable, replicable and scalable – especially after any initial funding is no longer available.

# Why undertake a national financial literacy survey?

- To gain a better understanding of current levels of financial literacy – and where the biggest gaps are (groups within society and skills/knowledge) – to help stakeholders to determine priorities for the future
- To provide a baseline against which changes can be measured if the survey is repeated in the future
- Difficult to assess the effectiveness of a national programme to improve financial literacy without “before and after” surveys

# Designing a national financial literacy survey – lessons learned from UK experience

- Appoint experts to design and analyse the survey; and appoint a reputable social research agency to undertake the fieldwork
- Those who designed the UK survey ran a number of focus groups – to find out, among other things, what participants thought were financially capable behaviours
- They then piloted the questions – in order to ensure that they would be clearly understood in the way that was intended

# Lessons from UK experience - deciding on the sample

- Around 5,300 people were interviewed. This included over-sampling of some sub-populations to ensure that there would be statistically significant results for each of these
- A random location sampling method was used (which is a relatively sophisticated form of quota sampling)
- In order to subject the research methods and findings to independent external scrutiny, a panel of experts was established, made up of individuals from key research organisations

# Lessons from UK experience - challenges after the survey was completed?

- Analysing the data to establish relevant correlations
- Working out – from the mass of data – what were the key findings
- Presenting these findings clearly to stakeholders and the media

# Key findings from UK national survey

- People were generally:
  - Good at making ends meet and keeping track of their finances.
  - Poor at planning ahead and choosing products
  - Mixed results for staying informed
- Only a small proportion of the population was experiencing problems with debt, but they were often very severely affected
- The under-40s were <u>less</u> financially literate, on average, than their elders. Those tending to be <u>more</u> financially literate included those in employment, those with higher levels of education and home-owners.

# International initiatives to measure effectiveness of financial education programmes

- World Bank programme, funded by Russia Trust Fund, to develop:
  - a toolkit to enable Low/Middle Income Countries to implement national capability surveys that deliver results which are comparable across time and space.
  - a monitoring and evaluation toolkit for financial education and related interventions.
- UK's DFID Financial Education Fund - a challenge fund that supports innovative projects in sub-Saharan Africa which aim to improve financial literacy and capability. A key element of each project for which funding is awarded is an assessment of its impact and of the lessons learnt.

# Thank you

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