

approach — running actual training and counseling sessions so loan officers get to grips with the content and facilitation techniques. Trainers take turns to deliver sessions while their peers role-play clients, bringing their own issues of interest and concern to the discussion. Afterwards, the MFC Master Trainer provides detailed feedback that helps trainers improve their delivery skills.

Ongoing implementation

Of the 24 trainers trained, 19 continue to deliver training on a monthly basis, and all 24 deliver counseling on a daily basis. VAKS tracks financial education delivery at the network-wide level, and in the first three quarters of 2013 reports the following results:

- 53 trainings delivered
- 1,104 clients trained
- 611 counseling sessions delivered

VAKS members have also delivered financial education to 50 children, with the aim of preparing them to be wise financial consumers in future.

Partners report that counseling is also a useful follow-up for clients when rejected for loans, because they often can't afford the loan they've requested, or they don't demonstrate adequate

money management skills. In this way, training helps build their skills and prepares them to be successful clients in future.

BOX 3: RESOURCES NEEDED TO DELIVER FINANCIAL EDUCATION

Training of trainers:

Preparation: 4 days (logistics and materials)
 Delivery: 4-5 days, depending on the level of experience of the organization
 Scope: Training up to 20 trainers

Client training workshops:

Preparation: 1 day
 Delivery: 5 hours in total (in one or several sessions)
 Scope: Groups of 20 clients
 Cost: 200 UAH per client, including materials and refreshments.

Individual client counseling:

Preparation: 10 minutes per session (printing, planning)
 Delivery: 15-30 minutes per client on average
 Cost: Staff time, printing exercise sheets

ADVICE FOR OTHER ORGANISATIONS

Project partners reflect that while financial education is right for everyone, the choice of topic depends on the client's situation. For example, a client with too much debt will need guidance on debt consolidation, rather than how to compare loan terms. The loan officer's role is to understand each client's needs and respond appropriately.

Speaking from the network perspective, Oleksij Volotovski notes: "Networks shouldn't make it compulsory for their members to deliver financial education. If one member doesn't want to do it now, that's fine. They may see the benefits their neighbor gets from it, and decide they want it later. Everyone will be ready in their own time."

Learn more about the work of project partners:

Microfinance Centre: www.mfc.org.pl
 All-Ukrainian Network of Credit Unions (VAKS): www.vaks.org.ua



MAKING CENTS WITH FINANCIAL EDUCATION IN THE UKRAINE

Microfinance Centre

www.mfc.org.pl

November 2013

INTRODUCTION

In early January 2012, the Microfinance Centre¹, in collaboration with the All-Ukrainian Network of Credit Unions (VAKS), launched a six-month project to improve the financial capability of low-income households in the Ukraine. This project was designed to build on the groundwork laid in 2007 when MFC trained VAKS staff to deliver the "Plan Your Future" module.

The need for financial education in the Ukraine is acute. The collapse of the Soviet centrally-planned economy left the country with wide-spread financial illiteracy, at the same time that the national financial market increased in complexity. Historically too, Ukrainian credit unions were unregulated, leaving clients exposed to the risk of loss (e.g. in the economic crisis of 2008). While both regulation (and self-regulation) are increasingly coming into force, it is essential for individuals to understand their rights and responsibilities vis-à-vis their financial institutions.

Within this context, the Citi Foundation-funded "Financial Education Project" was designed to equip local credit unions with the capacity to train low-income clients to take charge of their financial lives. The program was based on two of MFC's core training curricula:²

- **Debt management:** Helps low-income clients understand the benefits and risks of borrowing, how to use credit responsibly, and to prevent/manage over-indebtedness.

- **Financial counseling (AMELA):** Equips MFI staff to deliver individual counseling to clients to help them build knowledge and skills around personal money management and financial service use.

At the outset, VAKS invited its 152 members (credit unions across the country) to participate. 24 people attended the training of trainers (TOT) event — 23 credit officers from 20 credit unions, and 1 VAKS network representative. Over the course of the 5-day TOT, participants learned how to deliver financial education training and individual counseling. Each committed to reaching 15 clients within one month, and following up with clients within 3-4 months' time to understand the impact of financial education. VAKS asked partners to cover the cost of the TOT to demonstrate their commitment to the project. See Table 1 for project targets and results.

Table 1: Project targets and results

AREA	TARGET	RESULT
Trainers	20	24
Client outreach	300	569

This brief has been written for other regional institutions (financial and other) interested in offering financial education services. It highlights key benefits, and describes the institutional requirements for getting a financial education program off the ground.

WHAT IS FINANCIAL EDUCATION?

Financial education allows development organizations to build clients' knowledge and across a range of themes, including smart borrowing, household budgeting, avoiding delinquency and the importance of

¹ The Microfinance Centre is a regional network for Europe and Central Asia with headquarters in Poland. For more information, visit www.mfc.org.pl. If you are an NGO or financial institution and would like to offer financial education to potential or current clients, please contact us: microfinance@mfc.org.pl
² Since 2004, the MFC has delivered financial education campaigns and capacity building across the Europe and Central Asia region, using a series of training modules on savings and budgeting, debt management, and remittances. These modules have been delivered to a total of 200 000 low-income clients in 19 countries across the region. For more information on the financial education program and available financial education toolkits please see www.mfc.org.pl/en/content/modules

savings. These themes can be delivered through training workshops (long events, or a series of shorter ones), or through one-on-one client counselling sessions, depending on the institution's needs and capacity. The key skill sets are listed in Box 1.

Target clients: who did we reach and how?

MFC's financial education approach is designed to benefit low-income clients and potential clients

The project effectively reached its target audience, and in greater numbers than anticipated: 569 low-income individuals in total, (a third of whom were non-clients). 411 people received training, and 158 received counseling. Key outreach demographics are as follows:

- Average per capita income: 1,013 UAH (slightly below the national minimum wage of 1,094 UAH)

BOX 1: FINANCIAL EDUCATION THEMES

Loans: Definitions, good borrowing reasons and rules, loan types, indirect and direct costs, loan comparison

Budgeting: Loan repayment capacity calculation and calendar, setting short- and long-term financial goals

Delinquency: Danger of delinquency, over-indebtedness and default, consequences, role of credit bureau

Savings: Importance of savings, creating an "emergency fund", different savings options, creating savings goals.

- 86% of participants were in low-paid permanent jobs, 20% were involved in agriculture, and 15% were micro-entrepreneurs
- 51% of participants frequently or occasionally experienced cash-flow shortages to cover basic expenses
- 66% of participants were women, and the average age was 38 years

of our members, and compliance with state regulations. The success of credit unions depends on having financially literate members, which can only be achieved through education and counseling."

Financial education also delivers a number of tangible benefits to finance and development organizations, as follows:

- **Building trust:** It helps to build an important level of trust by demonstrating genuine concern for the financial success and well-being of its clients.
- **Delivering additional value:** Integrating financial education as a non-financial service to deliver additional value to clients enhances an organization's reputation — a valuable asset as market competition increases and growth slows.
- **Building relationships:** Helping loan officers to understand clients' underlying needs also improves the staff-client relationship. Offering financial education to non-clients enables institutions to build solid relationships that can potentially convert into new client intake.
- **Managing risk:** Improved financial capacity makes clients less likely to default, reducing an institution's risk exposure when working with vulnerable client groups.

- **Aligning with best practice:** Offering financial education is increasingly seen as "good business practice", especially as client protection regulations and international standards³ increasingly come into play.

Key results for clients

Prior to the training or counseling session, loan officers surveyed clients on their current habits, attitudes and financial capabilities. Clients generally started out with good calculation skills, and appropriate attitudes towards saving and borrowing. However, actual habits were often weaker:

- 75% did not track family income and expenses in written form
- 69% did not plan their household expenses
- While 74% of clients had savings, only 58% had enough to cover a month of lost income
- 67% of participants had active loans, and usually spent 10-20% of income to pay down debt
- 10% felt over-indebted, usually those with more than 2 loans and who spent more than 30% of monthly income on debt.

The follow-up survey revealed that the biggest change was around calculating loan repayment capacity. At the start, 70% of clients stated that they calculated their repayment capacity in the past. Once clients learned how to complete a

Table 2: Changes in financial attitudes and practice

TRAINING AREA	BEFORE	AFTER
Calculating repayment capacity before taking a loan	26%	92%
Using a repayment calendar	12%	91%
Effectively comparing credit offers	67%	97%
Keeping an "emergency fund"	58%	97%

detailed assessment in the training, that figure dropped to 26%, suggesting that clients had relied on approximate "rules of thumb" instead. In follow-up interviews, 92% of clients stated that they had already applied this new skill, or that they were planning to do so when taking a new loan.

Overall, 90% of clients applied their new financial management skills. Skills around calculating repayment capacity and creating repayment calendars were perceived as most useful. A full 100% responded that they had already compared credit offers as they had learned, or intended to in future. Clients also indicated they would like to learn more about savings products and investment opportunities, which provides VAKS with information on potential topics to be offered by members in future.

BENEFITS OF FINANCIAL EDUCATION

Benefits for clients

MFC's financial education training and counseling is designed to benefit clients in a number of important ways. Firstly, it helps them *before* they take on new debt — understanding "smart" use of debt to achieve their personal financial goals, understanding loan terms and conditions, and

"Without a responsible attitude to money, we create a lot of problems. Credit is useful, but it can also be dangerous."

– O. Volkovski, Financial Education trainer (VAKS)

how much debt they can absorb. Secondly, it helps clients to *manage existing debt* effectively — by preparing and managing repayment calendars, and by building up a savings "safety cushion" in case of emergency. Finally, MFC's approach considers *what happens when things go wrong* — building awareness of the dangers of over-indebtedness, and teaching them how to access help when needed.

Benefits for institutions

From the network perspective, Oleksij Volkovski (VAKS' financial education trainer), sees that financial education helps "the financial stability

WHAT DOES IT TAKE TO IMPLEMENT FINANCIAL EDUCATION?

Preparation

MFC's tested methodology is both flexible and scalable. It allows the institution to educate clients through its on-going customer service (e.g. when clients are waiting in line, or during routine staff-client interaction). Institutions can also organize trainings to deliver key messages and tools to groups of clients.

VAKS adapted the training case studies to ensure they resonated with the context of local credit unions; changes focused on changing names, references to currency and adjusting relative prices. The entire manual was translated from Russian into Ukrainian.

In total, VAKS spent 2 weeks preparing for the TOT workshop. However, over half of this time should be seen as the one-off "investment cost" of localizing the materials, such that future TOT delivery (by VAKS or others) could be achieved in half the time.

³ See www.smartcampaign.org and USSPM (ADD LINK)

BOX 2: TRAINING OF TRAINER WORKSHOP AGENDA

- Day one:** Adult learning principles, context for financial education
- Day two:** Smart borrowing, loan types, interest rates, debt capacity, delinquency
- Day three:** Default, effective debt management, reviewing the "Debt Management" module
- Day four:** Individual counseling (using the AMELA model)
- Day five:** Project monitoring and evaluation, marketing financial education services

Training of trainers

The TOT event equipped loan officers with the knowledge and skills to immediately start training and counseling clients on financial education issues (See Box 2 for an agenda overview).

Importantly, MFC's TOT uses a "learning by doing"