## **Module 2:**

# Wealth Building Concepts, Principles, Practices and Applications (The "Why" of Financial Education)

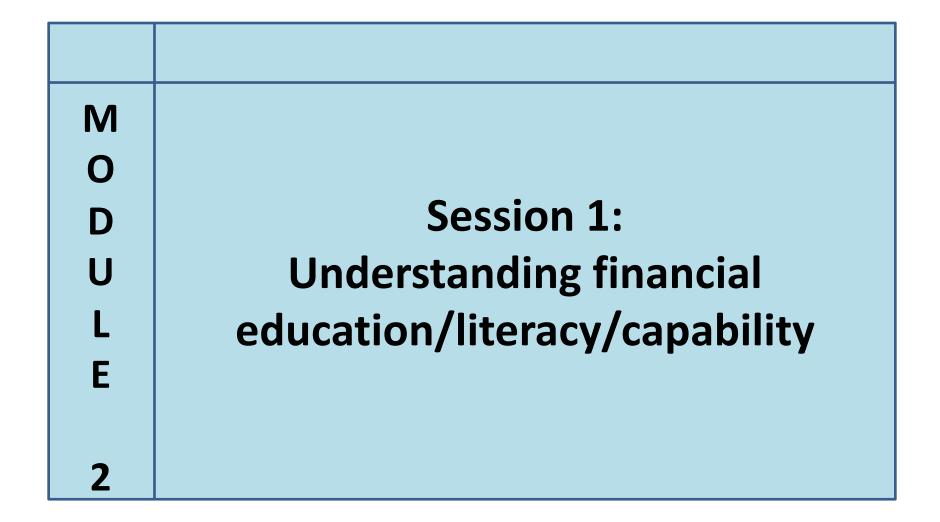




## **Module Objective**

 Gain clear understanding and appreciation on the importance of financial literacy, education and capability to vulnerable and low-income families, smallholders and microentrepreneurs;





## Structured Learning Exercise: Introduction to Financial Literacy (video clip)\*

Duration: 10-15 minutes

#### **Instruction:**

- Participants will be asked to watch a short video clip entitled "Little Green Bags: Financial Literacy: Making better financial decisions" (6 mins)
- 2. After watching the video, they will be asked on the following question:
  - What is your understanding on financial literacy, financial education?
  - Why do you think financial literacy & financial education is important, especially for low income and poor small hold farmers and microentrepreneurs and those helping them?

Debriefing: It is important that participant will be able to understanding basic terminologies used in financial literacy and its relationship with financial education and financial capability, its important to one's life and to the institution like ARDB.

<sup>\*</sup> Source: https://www.youtube.com/watch?v=fQfmkdrw\_HY&ab\_channel=HSGUniStGallen

## **Understand Key Terminologies**

Financial Literacy?

ability to understand financial principles and use knowledge and skills to make informed **financial decisions** in managing their **personal finances** effectively for a lifetime of **financial well-being** 

It represents the level of aptitude in understanding personal finance.

It refers to awareness and knowledge of key financial concepts required for managing personal finances.



## **Understand Key Terminologies**

# Financial Education?

a tool for improving financial literacy among individuals

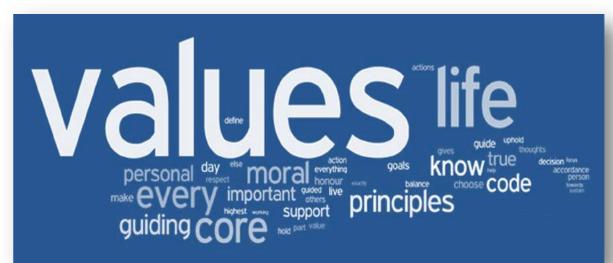
#### It is a process to:

- improve understanding of financial products and concepts and, through information, instruction and objective advice,
- develop skills and confidence to become more aware of financial risks and opportunities to make informed choices, know where to go for help,
- and take other effective actions to improve their financial well-being.\*



\* Definition by OECD

## Financial Education is...



# ... a VALUES FORMATION

intervention

... involves LEARNING process



#### Some Pictures During FE Training – FORWARD CMF, Nepal, IFAD-ACCESS Project









9

### **Understand Key Terminologies**

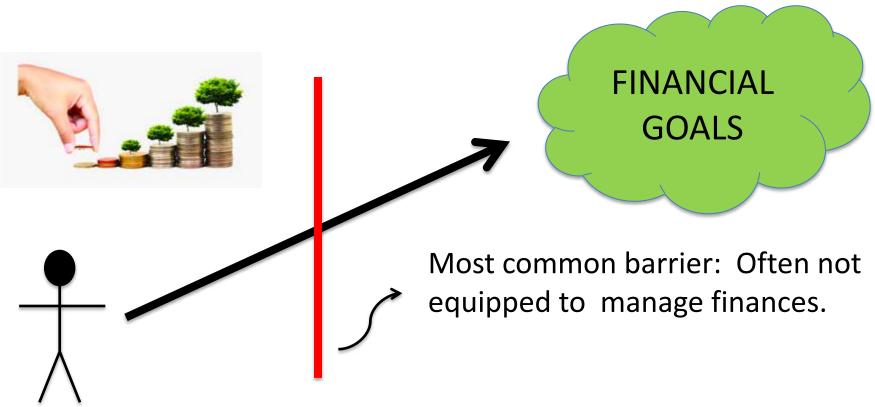
# Financial Capability?

ability of individuals to use the acquired financial literacy to make better informed decisions about managing their finances

- internal capacity to act in one's best financial interest, given socioeconomic and environmental conditions.
- encompasses the knowledge (literacy), attitudes, skills, and behaviors of consumers regarding understanding, selecting, & using financial services and the ability to access financial services that fit their needs.\*



# The Need to Understand Financial Education to improve financial capability to meet Financial Goals



- 1. To improve financial health and reach financial success you need to be financially literate.
- 2. Engineers study engineering to become engineer; doctors study medicine; teachers study education; accountants study accounting
- 3. So to become successful financially we must study financial education.
- 4. We have to upgrade ourselves to become bigger than the barrier or to crash through the barrier.

11

## Financial Education to Financial Capability

## **Three Considerations for Financial Capability**

- ➤ How information is presented matters as much as what information is presented.
- Individual clients need to practice financial skills to be able to apply them in real life.
- Financial capability should focus on cleints' observed behaviors and action, not just on their financial knowledge.



## **Financial Education to Financial Capability**

#### Traditional financial education model

- Generally is classroom or workshop-based.
- Focused on sharing information and educating consumers.
- Curriculum focuses on training consumers in accounting, budgeting, math, and product-specific information.

#### **Financial Capability model**

- Delivered via multiple channels and various touch points (edutainment, SMS, financial advisory services, workshops, etc.).
- Focused on financial behaviors, as well as increasing awareness, understanding, skills, and attitudes.
- Allows consumers to close the knowledgeaction gap by building strong financial behaviors.



## **Financial Education to Financial Capability**

Improving financial capability calls for broadening the concept of financial literacy needs—beyond financial understanding and knowledge, to include financial skills and competences, attitudes, and behavior.

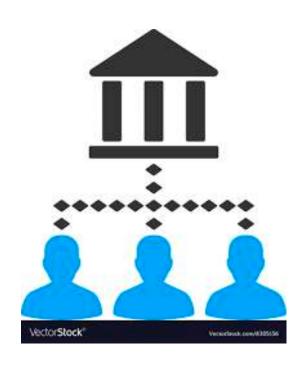
"Ultimately, financial capability supports financial empowerment and financial health, and must be measured based on whether or not the customer is better off."



Source: 'Financial Capability Module5' CGAP

## Why is financial education important?

Individuals







- Financial institution
  - NGOs
- Programs helping the poor

## Importance of Financial Education to individuals/Clients?

- Individuals can equip with the knowledge and skills to manage their finances well.
  - "Wealth-building" concept (futuristic mentality; consumerism attitude)
  - ability to track their financial record, to plan ahead, to understand and mitigate risks, to stay informed about various financial services.
- Lead to financial freedom



## Importance of Financial Education to individuals/Clients?

Financial freedom = having enough residual income to cover your living expenses;

 not about being rich but having enough to cover your expenses so that you can spend your precious time doing what you like rather than doing things just to earn money.



- Become debt-free
- Start investing early with a goal-based approach



Prepare for life's uncertainties
 (Build contingency fund, buy life insurance etc.)

## Importance of Financial Education to individuals/Clients?

#### **Financial Freedom:**

#### Example:

- For young adults: to control expenses & debts
- For families: to save primarily for house financial stability & children's education
- For older workers: to ensure comfortable retirement
- For low income groups: to make most of their savings to financial empowerment





## Importance of Financial Education to Financial Institutions?

- Nurture financial discipline of clients thereby increasing opportunities and profitability, and mitigate risks of financial institutions
- Contribute clients' product uptake and improved product use
- Build clients trust
- Contribute to protection of clients by building awareness
- Develop reliable loan clients thereby investment in enterprises, productive assets and rural economy is increased.



## **Financial Education Impact**



## Financial Literacy

**Improved** 

#### **Other Factors**

E.g.) Regulatory Environment
Social conditions
Financial access, practice
→confidence and attitude
upgraded

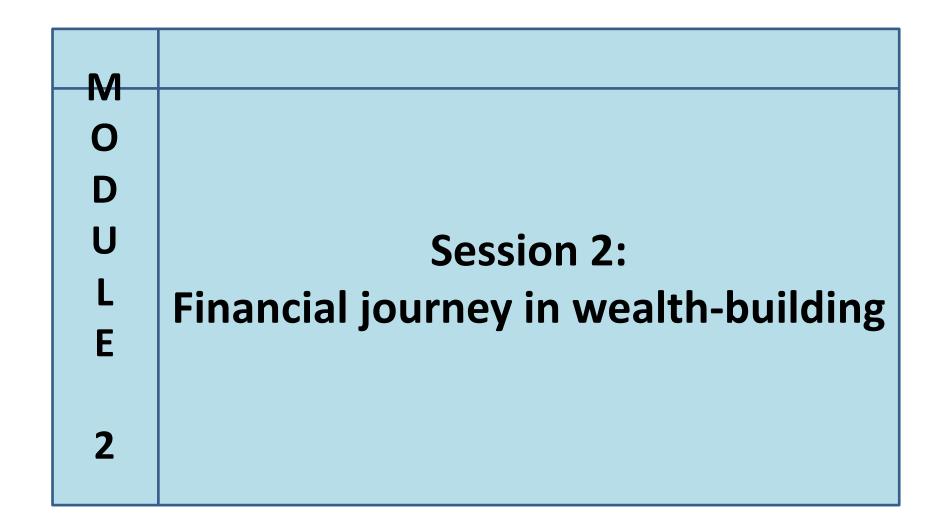


**Financial Capability** 

**Improved** 

#### **Financial Inclusion**

Expanded



# Key Aspects of FinLit/FinEd Delivery

## **Key Aspects of FinLit/FinEd Delivery**

### **Content**

What key messages do we need to deliver

## **Process / Approach**

 How these key messages are to be delivered (communicated/shared) to participants

## **Logistics**

How to make things happen







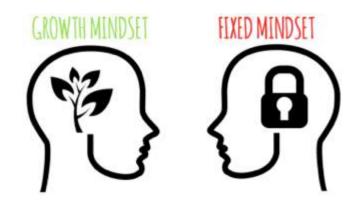


## 4 Key Messages of FINLIT/FINED

**Content** 

## **Key Messages**

- 1. The significant role of people's mindset
- 2. The essence of dreams and dreaming well
- 3. The relationship of health and wealth
- 4. The challenge of personal financial planning









## **Experience-Based Learning**

Process / Approach in Delivery

# Delivery of Financial Education Contents

- There is no easy answer regarding how best to deliver financial education information;
- One-size-fits-all approach may suit certain segments of the population but is likely to be inadequate for many others with widely diverse needs and preferences.
- Delivery method must be customized to the target groups

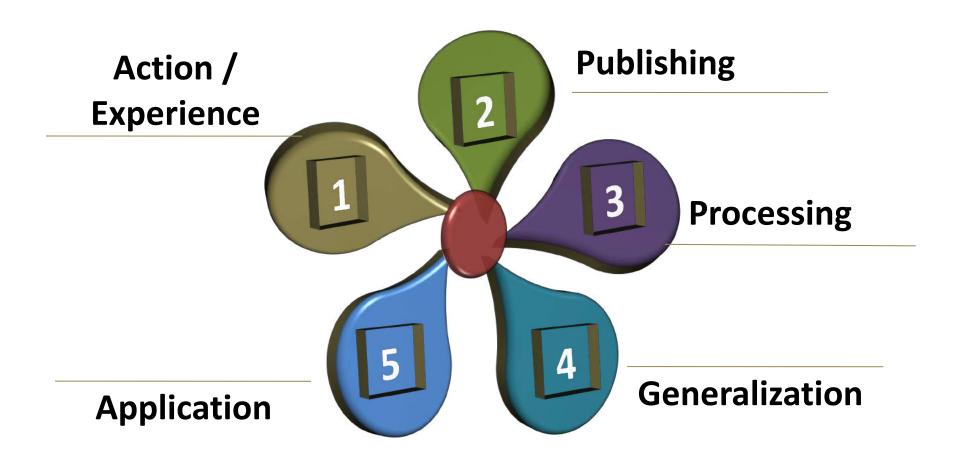




### Delivery thru Experiential-based learning (EBL): A process of learning based on experience



## Stages of the Experiential-based Learning Cycle



# Various Ways to Deliver Financial Education Contents

Mass Marketing Model	• Mass media/ TV, Radio, You tube Usually delivered by the Government or Central bank
Group-Based Model	<ul> <li>Training/Classroom, On-line Caravan, Event, Meeting It is most traditionally and commonly conducted by many Microfinance institutions.</li> </ul>
Individual Model	<ul> <li>Pre-membership orientation – can be a topic when customer wants to become a member and open an account</li> <li>Counselling – one on one</li> <li>Sending key messages through SMS, flyers, leaflet, SNS</li> </ul>







## Various Ways to Deliver Financial Education Contents; Mass Marketing Model

#### "Edutainment" in South Africa and Pakistan

It brings learning content to consumers, where and when they need it. For example in South Africa and Pakistan, financial lessons were embedded into a soap opera aired by TV. The storyline focused on gambling, avoiding debt, getting out of debt, and practicing sound financial management.

Consumers who watch the program:

- Were more likely to borrow from formal sources.
- Were able to retain what they learned.





## Various Ways to Deliver Financial Education Contents; Individual Model

### "Digital channels" in Tanzania Large impact from Small Messages

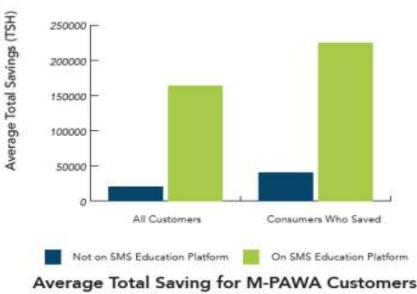
Farmers in Tanzania who used the M-Pawa mobile savings and credit product were invited to access free SMS learning content.

 Consumers were randomly assigned to different learning methods: fact-based, narrative, social norms,

and single learner.

#### <RESULT Summary>

- Increased savings balances by Tsh 4,447.
- Made first loan payments that were Tsh 1,730 larger.
- ➤ Took out loans that were Tsh 1,666 larger, yet repaid these loans 5.5 days earlier.



Source: 'Financial 2 apability Module5' CGAP

# Various Ways to Deliver Financial Education Contents; Group/Individual Model

# Mix approach in Serbia By Opportunity Bank

- Savings Hopscotch: Teaching low income clients how to prudentially manage their budgets and save in 7 practical steps through online platform, video guide & print brochure.
- My own boss: Online education service for entrepreneurs (part of EaSI loans).
   Webinars, e-bulletins, short videos and personalized assistance at request.
   Delivered through web & email, social media. Reminders sent by sms.
- Seminars for agri clients (rural smallholders) delivered via classroom style.
- Counseling by loan officers



# Preparatory Work for Effective Delivery

Logistics/Administration

## Requirements in preparations

- A prepared session guide (detailed content, process, time, materials to use, etc.)
- A pre-assessed class (number, background, needs, etc.)
- An appropriate venue (size, ambiance, seating arrangement, equipment, safety, etc.)
- A prepared self (personal grooming, pleasant happy face and expression,

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L	The Significant Role of People's
E	Mindset
	(Key Message # 1)
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## Message 1: The significant role of people's mindset

- Negative thoughts impossibilities
- Limiting beliefs limiting potential
- Poor or poverty
   mentality victim
   syndrome, complaining,
   blaming, justifying





#### **Understand Money Mindset:**

# Money mindset starts when you were young

What did you hear when you were young?

Did you ever hear phrases like:

- o money is the root of all evil
- o save your money for a rainy day
- rich people are greedy
- you have to work hard to make money
- o money doesn't grow on trees

- money doesn't buy happiness
- money talks
- the rich gets richer and the poor gets poorer
- o that's not for people like us
- o not everyone can be rich
- there's never enough?

All the statements you may have heard about money when you were young remain in your subconscious mind as part of your mindset and blueprint that is running your financial life.

## Understand Money Mindset: 1<sup>st</sup> step in improving financial literacy

Money is a result, wealth is a result, health is a result, illness is a result, weight is a result.

Health

Illness

Wealth

Weight

T

We live in a world of cause & effect.

We live in a world of cause and effect.

Your money mindset consists of a combination of your thoughts, feelings (cause), and actions (effect) in the area of finances.

Change your money mindset, you improve your financial capability & health

# oligates me

## mples of Limiting Beliefs

It takes too long to save



I am too poor to save



Love of money is the root of all evil



If I invest in a business and I lose, I will be a failure



There are too many risks. I don't like to take chances



People like me shouldn't think too big.

I do not need to work singe(someone else in

## Structured Learning Exercise: Limiting Beliefs

Duration: 10-15 minutes

#### **Instruction:**

- 1. Participants will be asked to individually complete **Worksheet # 1** on limiting beliefs.
- 2. They will share their outputs in the plenary.

Debriefing: Addressing limiting beliefs about money is key in financial education. Most people are constrained to establish their financial goals due to biases and misconception on money matters.

# The significant role of people's mindset (further reading)

Refer to Handout # 8

 4 Money Beliefs That Limit Your Wealth Inside and Out w/ Kate Northrup

https://www.youtube.com/watch?v=vMBsvvWxttE

 The 3 Most Common Limiting Beliefs Around Money <u>https://www.youtube.com/watch?v=f35HxQepH1U</u> M **Session 4:** The essence of dreams and dreaming well (Key Message # 2)

## Message 2: The essence of dreams and dreaming well

- What are the person's <u>dreams</u> (life aspirations and motivations)
- How are people's dreams?
  - unrealistic
  - very little / simple
  - no dreams at all
  - no more / stoppeddreaming



## Message 2: The essence of dreams and dreaming well

- Dream board/Collage
- Translating dreams into financial goals



## Message 2: The essence of dreams and dreaming well



## **Setting up Family Goals**

## Family goals are usually centered on the following

- a. Education
- b. Housing
- c. Health
- d. Retirement











## **Setting a Time Frame for Each Goal**

## Start by answering the following questions:

- Education when will all the children/siblings finish high school or college?
- Housing when can you buy your own home or at least make the down payment for a new home?
- Retirement –at what age do you plan to retire?







## **Setting a Time Frame for Each Goal**

# Start by answering the following questions:

 Health and Protection – Do all the children have the required vaccinations? Do all adults have family health plans?





 SAVINGS & INVESTMENT – How much & until when should you save? Where and how much to invest?

## Structured Learning Exercise: Dream Board Collage

Duration: 10-15 minutes

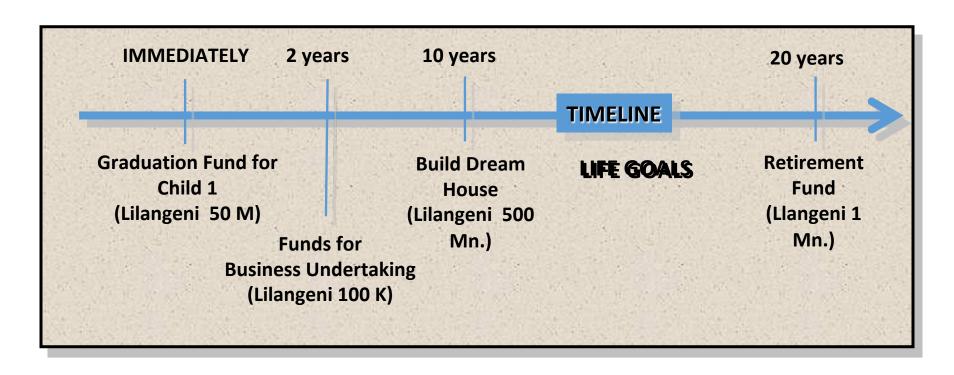
#### **Instruction:**

- Participants will be asked individually to list down all their life dreams using Worksheet # 2;
- Once they listed their dreams, they create an individual dream board by collecting different pictures that represent their dreams and desires for the next 5 – 10 years.
- 3. They will share their outputs in the plenary.

Debriefing: Visualizing dreams is the first step in setting financial goals. These goals will be their guide as they apply and use the tools on financial education to help them achieve them.



## **Your Financial Plan**



- Create a timeline on when you want it to happen
- Specify amount needed

## Structured Learning Exercise: Translating Dreams into Financial Goals

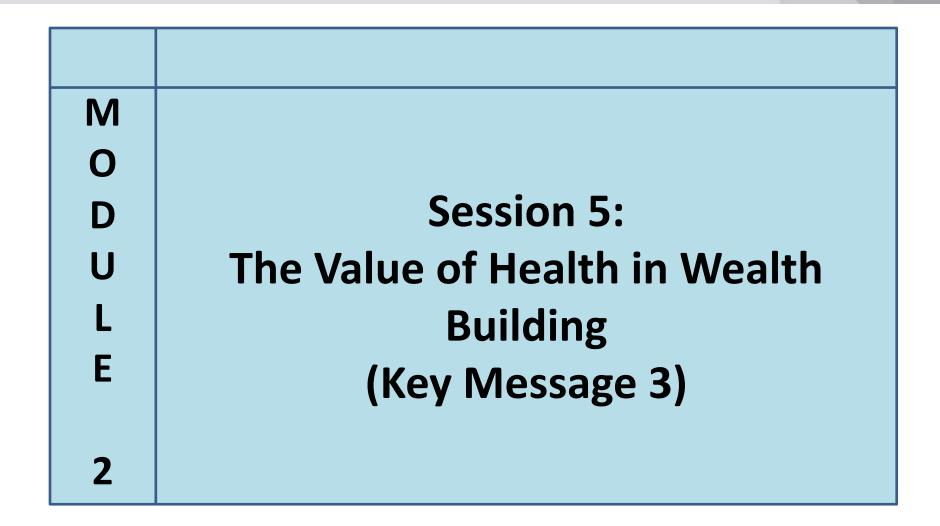
**Duration: 15 minutes** 

#### **Instruction:**



- Participants will be asked to translate their dreams' list into financial goals, specifying the amount needed for each goal using Worksheet # 3a;
- 2. Once they completed the worksheet, they will plot the amount for each year using **Worksheet # 3b.**
- 3. They will share their outputs in the plenary.

Debriefing: Translating dreams into financial goals will give them an overview of how much amount they will raise or save to achieve their dreams



## Message 3: The value of health in wealth-building

- Health is wealth. Good health brings wealth.
- Health is important to accumulate wealth.
- Wealth is important to protect your health.
- Learning to invest in your health is like any other investments for the future.





## **Structured Learning Exercise: Relationship of Health & Wealth**

**Duration: 15 minutes** 

#### **Instruction:**



- 1. Participants will be divided into 4 groups and provided a copy of Case Study on "Lost savings, downsizing and debt: The hidden costs of critical illness"
- 2. Each group will discuss the case and list down at least <u>3</u>

  thoughts or insights mentioned in the case that you think are important to emphasize in financial education training sessions on the relationship of health and wealth.
- 3. Present the result of the discussion in the plenary.

Debriefing: The importance of health should not be taken for granted since in the event of sickness, it is enough to drain whatever financial resources or savings that one accumulates.

## The value of health in building wealth



- Health is wealth.
- Good health brings wealth.







## The value of health in building wealth



## **Physical Health**

- Refers to the state of the body.
- Someone who is physically healthy takes care of themselves through exercise, proper nutrition, and sleep.
- They are able-bodied and free of illness and disease.





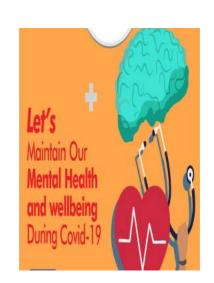
## **Mental Health**

 Mental health is more than just a lack of mental disorder. It includes the ability to concentrate, think, and reason.



 The <u>World Health Organization</u> defines it like this:

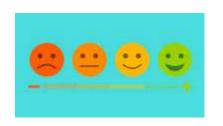
"A state of well-being in which the individual realizes his or her own abilities, can cope with the normal stresses of life, can work productively and fruitfully, and is able to make a contribution to his or her community."

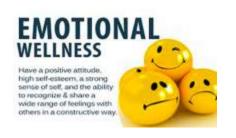


#### **Emotional health**

### To be emotionally healthy does not mean

- You are always happy, but that you are aware of your emotions, whether positive or negative.
- You are and able to deal with and manage your emotions, and cope with everyday situations and stress.







## **Social Health**

- your ability to form meaningful relationships, and involves your interactions with other people one-onone or in a group.
- We all have a need for social interaction







## Spiritual health

- While spiritual health includes your religious beliefs, it is more than that.
- To be spiritually healthy also includes having a sense of purpose, hope, and value to the world.







## Why Health Is More Important Than Wealth



- your most important asset is YOU and more specifically your health.
- Your health is the foundation from which you can build any other aspect of your life, including wealth.
- all that you accumulate means nothing when your health fails and you can't enjoy what you've built. 63

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E	planning
	(Key Message # 4)
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## Message 4: The challenge of personal financial planning

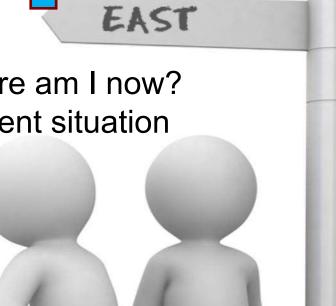
- Why plan?
- How do I plan?



Where do I want to go? (goals, 5 years)



Where am I now? (current situation





How do I get there? (strategy)



How do I know that I get where I want to go & ensure arrival? (monitor/control)?

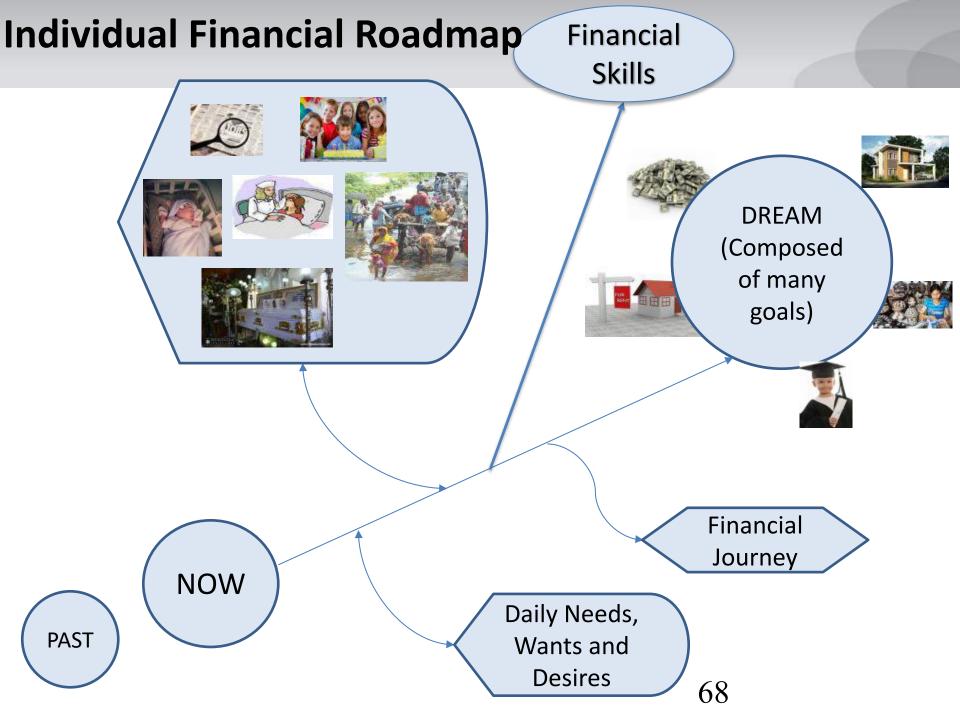
**Key Questions in Planning** 

## 4 Personal Questions in Personal Financial Planning

- Q1: Where am I today? (which examines one's worth and attitude towards money today)
- Q2: Where do I want to go? (which focuses on one's financial journey, on how fast one can arrive on where he/she wants to go)
- Q3: How do I get there? (to emphasize the importance of strategy & plan
- Q4: How do I know I am getting there? (to emphasize the need for regular monitoring)







## Structured Learning Exercise: Where am I now: Computing Current Networth

**Duration: 15 minutes** 

#### **Instruction:**

- Participants will be asked to estimate and compute their current net worth individually using Worksheet # 4;
- 2. Once they completed the worksheet, they will compare with the total amount of their financial goals (in Worksheet # 3a/b) to determine the gap.
- 3. Using **Worksheet # 5,** they will determine which among the identified priorities are of importance to them.
- 4. They will share their outputs in the plenary.

Debriefing: Determining the current net worth will help the participants realize how much they need to earn and save in order to achieve their financial goals.