

Remittances and development: financial literacy in an international perspective¹

Introduction

This paper presents an analysis and the results of fieldwork in the area of financial education as a tool to convert remittance clients into bank clients. The paper analyses the financial characteristics of remittance recipient clients who receive financial counseling and the extent to which they modify some of their attitudes and practices on budgeting and saving in particular. The analysis is based on data collected on the evaluation of over 35,000 clients receiving financial advising in four countries, and who withdraw their remittances from twelve financial institutions.

This research and the current financial education work is the result of previous empirical research and fieldwork on remittance recipients worldwide. Among the findings identified from this work are the following issues:

Nearly two-thirds of people who received financial counseling said they did not have a budget to manage their earnings. A higher percentage of people who send remittances have budgets than people who receive remittances. With 70 percent of remittance recipients not tracking and managing these valuable flows, there is a clear opportunity to provide financial counseling to enable them to better manage these flows for asset building. In most countries, budgeting prevalence is lower in rural areas than urban areas, and lower among people who don't have a steady stream of income, such as agricultural workers, housewives, the unemployed, and students. People who budget tend to have higher income than those who do not.

Despite the relatively low prevalence of budgeting among remittance recipients, many people are saving money. However, most savers are keeping their money informally; less than half of people who received financial counseling have a financial product, and only half of those with products have a savings product. A small group (15 percent) budgets and saves formally.

The most common reason people cited for not using the formal financial system was their lack of familiarity with banking products. This raises an important policy issue and market failure in providing information about the formal financial system to remittance recipients. Financial education has shown to be one way to reach out to this group of people to form and inform them about these issues.

In the countries studied, after receiving education more than 90 percent of people indicated that they would engage in some sort of follow-up behavior as a response, and more than 15 percent soon after acquired a financial product at the institution where they received counseling. The results indicate that people who were previously saving were more likely to open an account, but also those who said they were not budgeting were more likely to assume the practice of managing their money and open an account.

As the results of this project show, financial advising leads to increased knowledge and conversion into depository clients. In that light and considering the findings, a range of recommendations are made in reference to deepening areas for policy intervention, particularly to women, people in the rural sector, informal savers, people who do not budget. Moreover, in cases with groups where education has worked it is important to continue efforts in financial education, particularly among formal savers and the elderly.

¹ Manuel Orozco, Elisabeth Burgess, Nancy Castillo and Landen Romei. Inter-American Dialogue, Washington DC. Paper presented at the Inter-American Development Bank's Multilateral Investment Fund's "Remesamericas 2010, Remittances for the Future," in Mexico City, May 6, 2010.

A. Remittances and finances as intersecting features of development

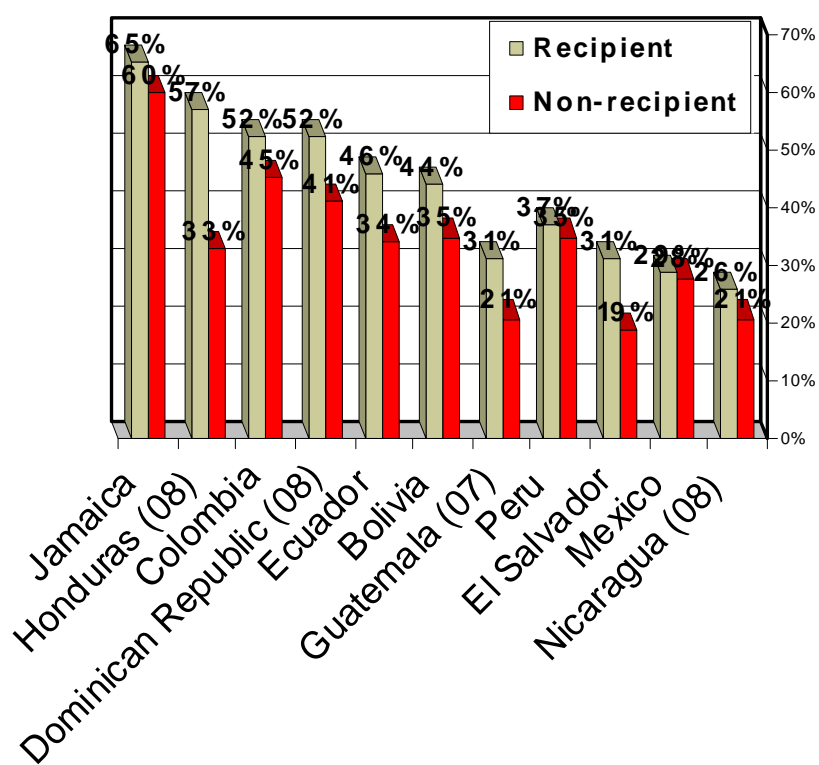
Research and policy practice worldwide have shown that remittance recipients have a higher propensity to own bank accounts or save than non-recipients, a situation partly resulting from the fact that remittances increase the amount of disposable income available to them.² For example, in Latin America, remittance recipients tend to own more bank accounts than non recipients (see Figure 1). Moreover, at least fifty percent of people who receive remittances save, and depending on the country, their stock of accumulated savings resulting from the inflow of migrant remittances amounts to at least US\$1,000.

Remittance flows fulfill the function of contributing to building assets, both liquid and fixed. More importantly, this pattern is not exclusive to urban households, but also occurs in rural communities worldwide. Take the case of Africa (Table 1), for example, where remittance recipients in rural Africa exhibit a higher savings ratio than non recipients. On average, they save nearly twice as much as non-recipients. A similar reality is found in Latin America and the Caribbean, Central Asia and the Caucasus and other Asian countries like Philippines, Indonesia, or Bangladesh.

Table 1: Ratio of remittance recipients and non recipients of stock of savings

	Ratio
Nigeria	3.2
Zambia	2.4
Kenya	2.1
Ethiopia	2.1
Senegal	2.0
Zimbabwe	1.9
Tanzania	1.9
Benin	1.8
Somalia	1.8
Cameroon	1.7
Uganda	1.5
Egypt	1.2
Chad	1.2
Burundi	1.1
Morocco	1.0
Burkina Faso	1.0
Rwanda	0.9
Somaliland	0.9

Figure 1: Latin America: People with bank accounts among recipients and non recipients of remittances



Source: Orozco, Manuel. Sending Money Home, 2009. IFAD.

Although this pattern is found elsewhere in developing countries, one major challenge is that most of these savings are informal. In Latin America, for example, the percentage of remittance recipients who save in a deposit account is less than 20 percent.

² For a review of empirical research on remittances and financial access visit: www.thedialogue.org/page.cfm?pageID=80

Table 2: Most saving practices among remittance recipients are informal. . . (%)

	Cuba	D.R.	Nic.	Hon.
Average amount saved (US\$)	500	1,400	900	1,300
Cash investment in a business	34	17	15	13
Medical insurance	0	13	0	6
Savings account in bank, MFI, cooperative	12	15	18	16
Mutual fund	0	1	30	6
Purchase of goods (house, car)	28	3	2	4
Purchase of animals	6	0	2	2

Source: household surveys carried out by the author in each country in 2008.

From a policy standpoint is important to ensure that assets can be formed and maintained. A successful development tool to enhance financial access and personal financial independence is financial literacy.

B. Financial literacy as strategy for financial access among remittance recipients

Education is an important factor toward determining asset building. The lack of financial education is common worldwide, and results in limited decision making capabilities, such as the preference to invest the sum of one's savings into a property instead of searching for financing and continuing to capitalize on one's savings; or to borrow above existing payable means. The economic crisis that currently affects the global economy has affected immigrants and their ability to remit as well as remittance recipients and their ability to save. Giving both groups the tools to manage their money, motivating them to protect their savings to extend their durability and identifying the ways to deal with their debt are critical strategies of business and development.

For example, immigrants or their families may have an interest in investing, but their demand for financing is limited, partly due to the lack of experience in the management of their finances.³ The most common practice is to set money aside and keep it at home (to keep cash "under their pillow"), instead of depositing it in a financial institution.

Financial education is a way to form and inform people about concepts whose use has been limited. Financial education programs generally promoted by industrialized countries have led to good results in improving financial access and helping people realize their economic independence,⁴ but few have focused on the education of migrants and remittance recipients to expand their knowledge of financial instruments. Additionally, the few experiences that exist in offering financial education to recipients and remitters on savings and investment have been successful and beneficial.

One successful strategy has been carried out by the Inter-American Dialogue with both remittance recipients in the Caucasus and Latin America, and with remitters in the United States. The strategy consists of education and counseling. The counseling is carried out with financial institutions that offer

³ Orozco, Manuel. "Asegurando futuros: el interés de inversión y estrategia de comercialización para los salvadoreños en el exterior" May 7, 2009.

⁴ See the experience in Ireland, the United State or Canada, among others, and the experience reported by IADI, International Association of Deposit Insurers.

useful products for recipients and remitters like savings accounts and credit options. The result is the conversion from remittance client to bank client through the cross-sales of financial products.

This work has evolved from empirical research and fieldwork practice with remittance senders and recipients. In turn, five main theses have informed our financial education methodology:

- Thesis 1: A persons' daily life is informed by how they balance their income and expenses;
- Thesis 2: An adequate balance between income and expenditure ensures financial independence;
- Thesis 3: Any person makes use of four instruments to ensure their independence: budgeting, savings, credit, and insurance.
- Thesis 4: Counseling on how to use these instruments depends on a method that builds a relationship between financial institutions and people.
- Thesis 5: This counseling, also called financial literacy, consists of a proper definition of its attributes, their explanation, illustration and implication.

The model implicitly includes the sales of financial products while an educator or financial promoter offers a client basic information about finances. In interviews, people of all socioeconomic backgrounds express the importance of first having a good orientation and explanation of products and how to obtain them. Similarly, financial education in the format of counseling helps remittance recipients understand the benefits of maintaining a balance between their income and expenses and valuing a) financing for their family member abroad and b) their own financing at home (sometimes with indirect help from their relative abroad). Thus, whether they have resources to save or not, they can learn to budget.

The results of this model show that about 20% of those educated also take on a financial activity with the participating entity. In 2008, a pilot project was undertaken in Moldova for six months with the collaboration of the International Organization for Migration and four banks. Of the 7,000 recipients that were educated, 80% expressed interest in obtaining financial services. Additionally, we found a correlation between those who obtained a savings account and those who had knowledge of financial topics.⁵

Another example is the cooperative FEDECACES project in which the institution provides credit to improve housing for remittance recipients in El Salvador. The institution gives seminars on financial education to promote the product. The seminars are breakfasts or cooperative coffee events and are more attractive than simply giving a pamphlet to a recipient to take home. The clients that receive education invite other clients to participate. Additionally, other financial institutions are learning that it is necessary to take an intermediate step between the demands for products and having all the knowledge and will to take on a product; and that step could be financial education.

⁵ Orozco, Manuel. "Planting the seeds of financial inclusion: financial literacy for remittance recipients in Moldova." Budapest: Interational Labour Organisation, June 2008.

C. Lessons learned and results from financial literacy and access in four countries.

In this section, we look closely at data from 35,089 people in Latin America (Guatemala and Paraguay) and the South Caucasus (Azerbaijan and Georgia) who have received financial counseling in the past year. In all four countries, staff at financial institutions were hired to work as educators and trained to use the Inter-American Dialogue's financial education methodology discussed above. The educational exercise was extremely successful as it offered an opportunity for clients to better grasp the relevance of budgeting and finances. The table below describes the characteristics of the different cases studied here through these projects.

Table 3: Overview of 4 financial education projects and remittance recipients

	Georgia	Azerbaijan	Paraguay	Guatemala	All
Number of clients educated	18,862	7,426	6,374	2,427	35,089
Duration of project (months)	6.5	4	4.5	2	17
Institutions involved	5 banks and 1 MFI	4 banks	1 MFI	1 bank	12
Rural clients (%)	15	12	66	75	30
Female (%)	65	45	56	75	60
Has relatives abroad (%)	55	69	73	99	64
Receives remittances (%)	50	53	88	99	61
Sends remittances (%)	0	6	2	0	2
Does not receive remittances (%)	50	41	10	1	38

Source: financial education project, 2010

The overall group educated was more rural in Latin America and more urban in the Caucasus, but in Georgia, like in Paraguay, there was a high concentration of remittance recipients in rural areas (85 percent of those who received education in rural areas in Georgia receive remittances, compared to 48 percent in urban areas). Moreover, income dependence on remittances is higher in rural areas. But in all four countries, remittance recipients in rural areas receive lower average transfer amounts than recipients in urban areas.

Table 4: Remittance receivers and rural – urban differences

	Georgia		Azerbaijan		Paraguay		Guatemala	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Receives remittances (%)	85	43	4	48	89	85	99	99
Remittances (US\$ / transfer)	200	212	300	300	108	108	150	150
Remittance frequency (number of transfers per year)	6	12	6	12	10	12	12	12
Annual remittances (US\$)	1,600	2,225	1,920	2,400	688	860	1,798	2,023
Number of years receiving	3	3	2	2	1	1	3	3

Source: financial education project, 2010

As in other countries around the world, of those who receive remittances in the four countries studied, 60 percent are women. Women receive the same median amount per year as men in Azerbaijan (US\$2,400) and Guatemala (US\$1,798), but in Georgia and Paraguay, women receive more than men each year.

Table 5: Remittance amounts, gender differences

	Georgia		Azerbaijan		Paraguay		Guatemala	
	Female	Male	Female	Male	Female	Male	Female	Male
How much per transfer (US\$)	200	213	250	300	108	108	150	187
How many times per year	12	12	12	6	11	10	12	12
How much per year (US\$)	2,000	1,939	2,400	2,400	774	753	1,798	1,798

Source: financial education project, 2010

D. Budgeting and savings: understanding practices among remittance recipients

Financial literacy typically focuses on five key features of finances: payments or transactions, budgeting, saving, credit and risk mitigation or insurance. Central to personal finances is budgeting and saving and they are also factors that can contribute substantially to improve a person or household's financial independence and wealth. This section looks at two main issues, first, what is the financial profile and characteristics of remittance recipients, particularly as related to budgeting, saving and owning financial products. Second, this section looks at how people respond to the stimuli from financial literacy training (that is, how do they react to being formed, informed and offered financial products). The data presented and analyzed was part of an intake and evaluation form utilized to track the profile of clients and their regular practices and beliefs on finances.

Practices on budgeting and saving

Our previous research and fieldwork on remittance recipients and their understanding of finances has shown that there are separate categories of people who budget and save. In the first case are people who do and do not budget, the former being people who budget and follow some basic method to account for their spending and saving needs. In the second case, we find three groups of people in the savings category, those who do not save, those who do so informally, and those who use to the financial system.

When looking at the population that received financial education, we find that few people budget but many save, though they do so informally, and a small percent (15) budgets and save formally.

Table 6: Budgeting and saving characteristics of remittance recipient people (%)

People who...	People who...		
	Don't save	Save informally	Save formally (have an account)
Don't budget	34	22	20
Budget	0	15	15

Source: financial education project, 2010

We find that less than half of remittance recipients who received financial counseling have a financial product, and only half of those with products have a savings product.⁶ Guatemala was an exception; where over 60 percent of this bank's remittance clients said they have a financial product.⁷ Yet, less than half of Guatemalans with financial products have savings products, comparable to low levels of savings account ownership in other countries.

The most common reasons people gave for not having a savings product was that they are not familiar with banking products. Thus, from a financial access perspective, this group constitutes a key target for financial literacy interventions and product offering, and is a group that benefited from the financial counseling in the four countries studied.

Table 7: Product ownership among remittance recipients (%)

	Georgia	Azerbaijan	Paraguay	Guatemala
Has a financial product*	45	43	36	62
Has a savings product**	37	18	14	25

* Includes credit, savings, insurance, and other financial products; ** Includes savings accounts, checking accounts, debit cards, and certificates of deposit

Source: financial education project, 2010

⁶ Here, savings products include savings accounts, checking accounts, debit cards, and certificates of deposit

⁷ This bank with operations in rural areas has aggressively pursued a strategy of getting people into their institution.

i) Budgeting

Budgeting is not a common practice among most people, and these results confirm that fact. We also show differences across countries, where for the most part the majority of people are not accustomed to use some systematic form of managing their earnings and assets. As shown above, budgeting practices are classified into three categories: those who do not budget, those who have a rudimentary budget (that is, they do it occasionally or accidentally), and those who have budget while saving.

Throughout all four countries, 65 percent of those educated do not budget, 5 percent budget rudimentarily, and 30 percent have a sophisticated budget that enables them to save. Practices differ among countries. Guatemala is the clear outlier in one direction in that only 5.5 percent of those educated have a sophisticated budget, while in Azerbaijan 49 percent of those educated have a sophisticated budget. In practical terms, we find two main categories, people who budget and those who don't.

The most prominent differences are found among the rural/urban divide, age, a few key occupations, income, remittances practices, and savings practices.

Table 8: Characteristics between people who budget and do not (% unless otherwise indicated)

Variables	People who	
	Do not budget	Budget
Total	65	30
Rural	76	21
Urban	62	32
Female	65	29
Male	66	30
Age (mean)	38	40
Age (median)	35	38
Business	59	37
Employee	58	37
Agriculture	73	23
Construction	40	58
Teacher	47	48
Retired	60	34
Housewife	76	20
Unemployed	78	18
Professional	52	42
Student	78	19
Annual personal income (mean) (US\$)	2,834	5,241
Annual personal income (median) (US\$)	1,455	3,226
Annual household income (mean) (US\$)	6,834	9,748
Annual household income (median) (US\$)	5,091	7,000
Does not receive remittances	59	36
Receives remittances	70	26
Sends remittances	51	46
How much per year (mean) (US\$)	4,113	4,654
How much per year (median) (US\$)	1,560	1,591
Guate - Amount saved (mean) (US\$)	354	167
Doesn't save	82	0
Saves informally (no account)	61	40
Saves formally (has account)	57	43

Source: financial education project, 2010

More people budget in urban areas than rural areas. Only in Azerbaijan do more than half of those who received financial education budget. One potential reason for Azerbaijan's high budgeting prevalence could be because people who live in rural areas there are more likely to have a budget (62 percent) than those in rural areas in the other countries (averaging at 20 percent).

Men and women show similar budgeting practices, though in Paraguay, men rather than women are more likely to have more budgeting skills and in Georgia, the reverse is true. Age plays a role in budgeting, as the median age is lowest for those who do not budget. This may indicate that budgeting should be taught at a younger age.

One's occupation provides a salary and therefore tends to determine one's financial practices. In this sample, occupations that involve uncertainty in one's income have the lowest levels of budgeting: agriculture, housewives, unemployed, and students. Yet, these are the people who most need to budget, so as to prepare for the uncertainty of the future. Occupations with the highest index of budgeting are construction workers, teachers, and professionals, who arguably have higher levels of certainty in their expected salaries.

Similarly, budgeting helps people track their income and expenses as well as incorporate their goals into their financial plan. These methods tend to help people save money. In all four countries, those who have a budget have higher annual personal income than those who do not budget. In Guatemala, those who do not budget earn just over a quarter that of those who do budget, while in Georgia, they earn nearly 60 percent, and in Azerbaijan and Paraguay, they earn over 70 percent that of those who have a budget. Guatemala has low indices of both budgeting and income.

For remittance senders and remittance recipients, budgeting is especially beneficial. Remittances form part of one's budget, either as a source of income, in the case of recipients, or as an expense, in the case of senders. A higher percentage of senders said they have a budget than recipients. This indicates that senders carefully consider how to include a remittance in their monthly expenses, while recipients may not consider how the remittances they receive fit into their monthly income stream. Further financial education for recipients could improve the index of budgeting among recipients, and therefore help better leverage remittances toward economic development and savings accumulation in recipient countries.

Why do people not have a budget?

The most commonly cited reason for not having a budget is a lack of knowledge of the concept (38 percent). Others, despite a stated understanding of the idea of budgeting, do not put it into practice for the following reasons: someone else manages the finances in their household (19 percent), they do not have time (14 percent) or they know their income and expenses without having a written budget (4 percent). Only 15 percent do not budget because they do not believe it is a useful exercise for them, personally.

Financial education targets those without the knowledge of the concept by providing a basic explanation of the process and those who believe it is not useful by explaining the benefits of budgeting and the implication in an individual's life. Financial independence is gained through an understanding and control of ones' personal finances.

ii) Savings and financial products among recipients

Savings practices differ among groups that can be labeled as those who do not save, those who save informally, and those who save formally in a financial institution. In looking at the total people who received financial education, 31 percent do not save, 43 percent save informally, and only 26 percent save formally, indicating the presence of savings but limitation in financial access.

Table 9: Saving profiles of remittance recipients (%)

	Does not save	Saves informally (no account)	Saves formally (has account)
Georgia	33	30	37
Azerbaijan	17	64	18
Paraguay	33	53	14
Guatemala	42	33	25
Total	31	43	26

Source: financial education project, 2010

In comparing countries, Guatemala exhibits the highest proportion of people who do not save at all, while Georgia has the highest rate of formal savings. Azerbaijan and Paraguay have the least amount of formal savings. Overall, the most prominent differences among these three groups are found in their relation to geographic location (rural or urban), occupation, how much they receive in remittances and income. For the case of Guatemala, we can see these differences in the amount they save.

Table 10: Characteristics of people who save (% unless otherwise indicated)

Variables	Does not save	Saves informally (no account)	Saves formally (has account)
Rural	38	46	15
Urban	27	38	35
Business	22	39	39
Employee	27	49	24
Agriculture	34	50	16
Construction	38	49	13
Teacher	17	38	45
Retired	31	43	26
Housewife	35	47	18
Unemployed	45	35	21
Professional	16	34	50
Student	37	42	21
Other	24	46	29
How much per year (median) (US\$)	1,498	1,458	2,000
Annual personal income (median) (US\$)	545	1,505	2,247
Annual household income (median) (US\$)	3,636	4,731	6,061
Amount saved - Guatemala only (US\$)	315	224	425

Source: financial education project, 2010

Being from rural areas is still a factor that may determine a person's ability to save. Most people living in rural areas either save informally (46 percent) or do not save at all (38 percent). Only 15 percent save at a financial institution. This is a stark contrast to those that live in urban areas, where 35 percent save at a financial institution. The issue may have to do with the varying physical presence of financial institutions in these environments. Even still, more people save informally than formally in urban areas.

Table 11: Regional and Country Trends (%)

		Does not save	Saves informally (no account)	Saves formally (has account)
Georgia	Rural	36	44	19
	Urban	33	23	44
Azerbaijan	Rural	24	65	11
	Urban	16	62	22
Paraguay	Rural	40	51	9
	Urban	19	57	25
Guatemala	Rural	41	34	25
	Urban	44	31	25

Source: financial education project, 2010

Georgia is the only place where in urban areas, more people save in a financial institution than informally, though the most notable difference in trends is found in Guatemala, where people who live in urban areas have practically the same levels of savings. In this country, 41 percent and 44 percent of those living in rural and urban areas, respectively, do not save at all and only one quarter of each group saves at a financial institution.

As with budgeting, people's occupations influence their level of savings. Among those without savings are people who are unemployed, work in construction, students, or housewives, making these groups most vulnerable among downturns in the economy and emergencies. Notably, over one third of people within all occupations save informally, ranging from 34 percent of professionals to 50 percent of people who work in agriculture, signaling an overarching lack of financial outreach and access. Teachers, business owners, and professionals have the highest rate of savings at financial institutions.

Guatemala has the lowest level of savings among the countries, over one-third of business owners do not save, the same rate as employees. In this country, retired people are the most vulnerable group. Azerbaijan and Paraguay have the highest rates of informal savings across all occupation groups: for most occupations, over one half and sometimes over two thirds of those groups save informally. Among all countries, teachers in Georgia have the highest rate of savings at a financial institution compared to any other occupation group at 69 percent.

Savings, Remittances and Income in the four countries

Savings behaviors are also closely related to the amounts of money people have available to them, which can be examined through looking at the amounts of remittances they receive per year and their levels of personal and household income.

In all these categories, people who save informally receive and have higher average values of remittances and income than those who do not save, and those who save formally have even higher amounts of these categories. Median amounts also follow the same trend more or less. In the case of Guatemala, for which the data is available, people who save formally are able to save in higher quantities than those who save informally or not save at all.

In Georgia, there is no difference in amounts received in remittances between those who do not save or save informally, however, those who save formally receive on average more than double the amount that those in the other groups. In Paraguay, the average and median amount of remittances received in a year differs very little among the levels of savings.

Azerbaijan exhibits the most dramatic increase in the average and median amounts of personal and household income of those who save formally compared to those who save informally or not at all. Guatemala shows a departure from the overall trend in that personal income is highest for those who do not save and lower by half for those who save formally. The average household income does not show as a significant departure but those with the highest amount are those who save informally, followed by formal savers.

Table 12: Saving, income (US\$) and remittances

		Annual household income	Annual remittances	For how many years
Georgia	Does not save	4,000	1,939	3
	Saves informally (no account)	5,455	1,818	3
	Saves formally (has account)	6,255	2,182	3
Azerbaijan	Does not save	6,162	2,100	2
	Saves informally (no account)	6,250	2,400	2
	Saves formally (has account)	10,500	2,400	2
Paraguay	Does not save	3,441	774	1
	Saves informally (no account)	3,226	753	1
	Saves formally (has account)	6,451	886	1
Guatemala	Does not save	0	1,498	3
	Saves informally (no account)	125	1,798	3
	Saves formally (has account)	0	2,397	3
Total	Does not save	3,636	1,498	2
	Saves informally (no account)	4,731	1,458	2
	Saves formally (has account)	6,061	2,000	3

Source: financial education project, 2010

Financial Products

Less than half (44 percent) of the people who received financial education have a financial product. This number varies among countries where Guatemala has the highest share with a financial product at 62 percent of those who received financial education.

Table 13: People who own a financial product (%)

Georgia	Azerbaijan	Paraguay	Guatemala
45	43	36	62

Source: financial education project, 2010

Of those who have a financial product, 52 percent have only one product, another 27 percent have two products, and 12 percent have three products, signaling little diversity and spread of products. Guatemala exhibited this most with 77 percent of those who have a product owning only one product (savings account). Paraguay and Georgia showed the most diversity in number of products owned.

The products available encompass savings, credit, cards, and insurance, some of which target remittance recipients exclusively. Among the most used financial products are checking accounts (45 percent own this product), consumer loans (24 percent), and savings accounts (22 percent). Less than 20 percent have a credit card and 15 percent have a debit card. Moreover, insurance products are hardly owned: 15 percent have health insurance and only 4 percent have life insurance.

For those who do not have an account (checking, savings, CD), there are various reasons for not owning such an account. Evaluating the reasons based on percentage of responses out of all responses for reasons, one-third of all reasons, the largest amount for a given reason, indicated that not knowing the concept of an account is a main motive, followed by not needing an account with 19 percent share of responses and not trusting banks with 12 percent share. Some of these reasons were more pronounced in some countries than in others.

Not knowing the concept of an account and not needing one was most seen in Georgia with 35 percent of people indicating this option for each motive. Eighteen percent of Paraguayans indicated that they do not have an account because they keep money at home compared to lower percentages in other countries. Mistrust of banks was seen highest in Guatemala with 27 percent of people indicating that as a reason, thereby providing an opportunity to gain the trust of these clients.

Overall, over half of men and half of women have at least one financial product. This is found across all countries except for in Paraguay where only 37 percent of women and 44 percent of men have a financial product.

People who live in urban areas have a higher likelihood of having a financial product (61 percent) compared to those in rural areas (42 percent). In Georgia this difference is most pronounced, where 65% of people in urban areas have a financial product compared to only 29 percent of those in rural areas.

There exists a positive relationship between income level or remittance received and having a financial product: the average and median amounts of personal or household income and remittances received per year is higher for those who own a product compared to those who do not.

In examining financial education issues, it is notable that just as with savings, 60 percent of those who budget have a financial product, compared to only 47 percent of those who do not. This trend is seen in all countries, but is most notable in Paraguay and Guatemala where 50 percent and 78 percent of those who save or invest in some way have a financial product compared to only 16 percent and 40 percent of those who do not, respectively. Also, a higher percent of those who save or invest have a financial product than those who do not save or invest. Of those who indicated saving or investing by keeping money at home, 46 percent do not have a financial product compared to 53 percent that do have a product, indicating an opportunity to bring more people into the formal financial sector. This opportunity can be seen in the key role that financial education plays in acquiring products: 43 percent of those that acquired a product did not have a financial product already.

E) Remittance recipients and conversion through financial literacy

Clients receiving education benefited from a strategy that sought to form, inform and sell financial products that met their needs. The content of the education included a motivation toward the achievement of new financial goals, such as learning to budget or acquiring financial products. Throughout the trainings, remittance clients were encouraged to better manage their resources by adopting the acquired knowledge and making material changes, such as bringing deposits. Here we analyze the results of how clients responded to the training.

i) Clients' next steps after financial education: beliefs and practical change

At the end of the end of the financial education session, more than 90 percent of remittance clients in all countries said they planned to do something as follow-up. The “next steps” they identified varied from knowledge-building steps—such as gathering more information, talking with friends and family about what they learned, or reviewing the pamphlet educators used to explain budgeting and other practices—to concrete financial practices such as using a budget, setting aside savings, or opening a bank account or loan.

Most people identified more than a single course of action to take after receiving financial counseling, with Paraguayans identifying the most steps they planned to take (98 percent of Paraguayans identified four distinct steps on average).

Table 14: Intentions to change financial practice or attitudes after receiving financial education (%)

	Georgia	Azerbaijan	Paraguay	Guatemala
Identified a "next step"	94	91	98	90
Knowledge-building steps				
Will tell friends and family	63	62	90	95
Will look over pamphlet	21	16	57	79
Will investigate my options	65	65	66	29
New savings and budgeting behavior				
Will budget including savings	55	47	64	48
Will use savings methods	58	52	71	52
Will save at home	1	1	17	1
Use of formal financial services				
Will open bank account	46	35	39	48
Will take out loan	9	10	20	2
Acquired a product	13	19	21	4

Source: financial education project, 2010

Regardless of a person’s previous budgeting behavior, most people who received financial education found the counseling session to be meaningful enough that they would tell their friends and family about what they learned, investigate their options, and implement the new budgeting and savings methods they learned. However, the ways that people responded to financial education session varied by country, gender, occupation and especially by the combination of occupation and previous financial access as a proxy of education level.

Previous financial beliefs and practices

Previous financial behavior and account ownership is an important indicator of the next steps people identified. Three in ten people who did not previously budget said they would look over the pamphlet they received, which contained a budget worksheet that their financial counselor used to help them create a detailed personal or household budget.

About two in three clients said they would investigate their options, which is an important component of financial literacy. The financial education methodology used aims to equip clients with tools to make informed decisions about their finances, with special emphasis on learning about the multiple financial services options available and evaluating product offerings on the basis of cost, convenience, reputation and value-added services. Those who budgeted said they would investigate their options more than people who did not budget or only had rudimentary budgets, suggesting a link between planning habits and information gathering.

Table 15: Financial options (%)

	Does not budget	Budgets
Will tell friends and family	69	71
Will use savings methods	59	57
Will investigate my options	61	68
Will look over pamphlet	34	26
Will budget including savings	54	56
Will open bank account	42	42
Will take out loan	9	15
Will save at home	5	2
Nothing	6	7
Acquired a product	15	17

Source: financial education project, 2010

Forty percent of all people said they would open a bank account, and 15.3 percent acquired a product on the spot, at the moment of the educational process. During the course of the training an additional 5 percent may have opened accounts.

Another important set of findings among those receiving the financial education relates to differences between occupation, location, gender and owning financial products. First, more people in rural areas than in urban areas said they would talk to their friends and family about their financial counseling session (84 percent compared to 64 percent among those who did not previously have financial products, and 82 percent compared to 68 percent among those who did have financial products). Similarly, about twice the percentage of people in rural areas as urban areas said they would look over the pamphlet. The opposite is true for investigating options: a higher percentage of people in urban areas than in rural areas said they would investigate their options. For example, 66 percent of people in urban areas who did not have a financial product said they would investigate options compared to just 53 percent in rural areas.

Teachers, professionals and students had the highest response rates, whereas unemployed and retired people had average response rates for information-gathering behavior, but the lowest response rates in identifying concrete next steps such as setting aside savings or opening a savings account. The group with the highest response rate for planning a concrete course of action to save money was employees,

while small business owners and students had the highest response rate for saying they would open a bank account.

There are also interesting differences based on previous account ownership. In all countries, more people who had a savings account prior to receiving financial education said they would talk to friends and family about what they learned. In the Caucasus, more people who did not have a savings account said they would open an account than people who already had one, while in Latin America the opposite was true: more people with accounts said they would open another one than those who already had one. In Paraguay, far more people who already had accounts than those who did not have an account reported that they would engage in knowledge-building steps and new savings and budgeting behavior. Similarly, in Guatemala, Georgia and Azerbaijan, a higher percentage of those with accounts than without accounts said they would talk to friends and family and start budgeting, but more people without accounts said they would look over the pamphlet, investigate their options, and use new savings methods.

There were also differences between men and women when it comes to intentions to change behavior. Georgia, Azerbaijan and Guatemala displayed important differences. In all three countries, the percent of women who said they would tell their friends and family about what they learned was higher than among men. In the Caucasus, more men than women said they would plan follow-up steps, while in Guatemala it was women who planned to change their behavior.

Paraguay and Azerbaijan displayed the clearest differences in behavioral change intentions among urban and rural areas. In Paraguay, the percent of people in urban areas that planned all types of next steps, including knowledge-building, savings and budgeting behavior, and the use of financial services was higher than in rural areas. For example, 82 percent of Paraguayans in urban areas said they would budget, compared to only 54 percent in rural areas. Likewise, in Azerbaijan, more people in urban areas than in rural areas planned follow-up steps in all areas studied except reviewing the pamphlet that was used during the education session. In most cases, educators used the pamphlet as a didactic tool and a worksheet to create or revise the client's budget. More urban Guatemalans reported follow-up steps after receiving education than in those in rural areas, but with less notable differences. Georgia was an exception, where the percent of people in rural areas that said they would talk to friends and family, investigate their options, and open accounts was higher than in urban areas. However, similar to other countries, more Georgians in urban areas said they would create budgets to build savings than in rural areas.

There is also a relationship between income and follow-up behavior. In all countries except Guatemala, the people who identified next steps had higher income than those who did not identify next steps. For example, people who identified next steps in Azerbaijan had average annual personal income of US\$6,413, compared to US\$4,678 for those who did not identify next steps. In looking at specific next steps, in all countries people who said they would talk to friends and family, investigate their options, budget, and open a bank account had higher annual household income than those who said they would not do these things.

New product acquisition

After the financial counseling session, 15.3 percent of people decided to open or purchase a financial product at the institution where they received education. In the Caucasus, where several banks and were involved in the project in each country, 13 percent of Georgians and 19 percent of Azeris acquired a new product after receiving financial education. In Latin America, where a single institution implemented the project in each country, 21 percent of Paraguayans and 4 percent of Guatemalans acquired a product.

In Georgia at least US\$5 million were deposited by remittance recipient clients, and in Azerbaijan, where the program lasted less time, the number was half that amount. The average amounts saved were different and likely reflected differences in the cost of living in the two countries. The low rate of product acquisition in Guatemala is partly due to the high level of previous bankarization, where 62 percent to Guatemalans who received education already had a financial product, compared to just 40 percent of Paraguayans, 57 percent of Azeris, and 59 percent of Georgians, as discussed above. Thus, the strategy consisted rather to encourage clients to increase their deposits. In fact, amounts rose by 300%, from US\$90,000 to US\$300,000, within two months initiating the financial education project.

Some important indicators of product acquisition were occupation, previous financial behavior, and previous account ownership. In all countries, people who were unemployed exhibited a lower percentage of purchasing a new product, while teachers and small business owners, had a higher percentage. In both Georgia and Azerbaijan, only 10 percent of unemployed people acquired a new product, while 18 percent and 26 percent of teachers in those countries, respectively, acquired products. In Paraguay, 12 percent of the unemployed acquired new products, compared to 31 percent of teachers, 26 percent of business owners, and 29 percent of professionals. In Guatemala, seven percent of business owners acquired a new product (7 percent), while no teachers or retired people acquired a product.

One important finding showed that people who owned a financial product prior to the training were also among those who would acquire new ones. For example, in Azerbaijan and Paraguay, 36 percent of those who already had 3 or more products acquired an additional product. Similarly, in those countries, only 17 percent of people who were previously unbankarized acquired a new product, while Georgia and Guatemala demonstrated similar trends, to a lesser degree.

Table 16: New product acquisition (%) by previous product ownership

Number of products owned	Georgia	Azerbaijan	Paraguay	Guatemala
0	13	17	17	4
1	14	17	19	5
2	12	26	31	0
3 or more	15	36	36	0

Source: financial education project, 2010

Table 17: Product acquisition by occupation and previous financial product ownership (%)

	Previous financial product	Georgia	Azerbaijan	Paraguay	Guatemala
Business	No	19	14	20	6
	Yes	15	21	31	8
Agriculture	No	10	14	21	4
	Yes	9	24	24	6
Teacher	No	18	22	9	0
	Yes	18	28	43	0
Retired	No	10	11	4	0
	Yes	14	18	17	0
Housewife	No	13	14	18	4
	Yes	13	20	24	4
Unemployed	No	10	8	8	0
	Yes	10	15	19	14
Professional	No	16	25	21	N/A
	Yes	13	21	34	N/A
Student	No	17	26	22	N/A
	Yes	14	16	9	N/A

Source: financial education project, 2010

Preliminary Statistical Determinants of conversion

These figures above offer clues about what particular factors may influence conversion, or which cluster of people respond more effectively to the education. A regression model was run to capture some of the features and characteristics highlighted above. The results show that being rural decreases the probability of conversion. Those who saved were more likely to accept financial advice by opening accounts than those who did not save. However, those who did not budget were also more likely to take on the advice to change their material practices by opening accounts. Similarly, those who only recently started receiving remittances correlated with opening an account.

These findings suggest that financial education is most effective among urban people who are only recently receiving remittances, who are not budgeting yet, but who are saving. The correlates of the regression do not show statistically important differences in age or gender.

Table 18: Regression results on conversion determinants

	B	S.E.	Wald	df	Sig.	Exp(B)
Rural area	-.411	.049	69.333	1	.000	.663
People who save	.257	.049	28.058	1	.000	1.294
Budgeting	-.061	.034	3.283	1	.070	.941
Amount received	.000	.000	1.300	1	.254	1.000
Years receiving money	-.018	.009	4.382	1	.036	.982
Income	.000	.000	16.664	1	.000	1.000
Age	-.003	.002	1.525	1	.217	.997
Gender	-.072	.058	1.515	1	.218	.931
Constant	-1.422	.112	162.479	1	.000	.241

Source: financial education project, 2010

Preliminary conclusions: furthering efforts on financial advising and inclusion among recipients of remittances

Financial literacy has proven to be a key tool to increase access to financial institutions. Some relevant factors that enable conversion vary from not budgeting to saving, from years receiving remittances to urban residence. Other indicators differentiate between those who budget and those who do not. Rural areas have a lower incidence of budgeting, as do people with uncertain future income. Additionally, there is a higher percentage saving among urban dwellers, teachers, business owners, and professionals. Both those who budget and those who save tend to have higher incomes and receive more in remittances than those who do not budget or save.

Among remittance recipients, there is a low prevalence of budgeting and a high prevalence of saving, though most of those who save do so informally. The most commonly cited reasons for both not saving formally and not budgeting are a lack of knowledge of the concepts. This creates a space for further financial education, increasing knowledge and therefore breaching the barrier that most people mention as preventing them from participating in these key financial activities.

These findings indicate the types of clients that could benefit from further financial education in the future. Specifically, people who live in rural areas, those with uncertain or lower income, and those who do not already budget are among those with the lowest participation in important financial practices like budgeting and formal saving. As noted, over 90 percent of those educated plan on engaging in some sort of follow-up behavior as a result, including buying a product at the financial institution where they received financial education.

Along these lines and given the results and findings is important to continue financial literacy or advising as a policy strategy that focuses in two areas, one that deepens areas of attention and intervention, women, rural communities and recipients who don't budget. Second, to continuing efforts among those who are formal savers but benefit from better understanding and practice of budgeting and can

strengthen their financial savings. In the first case, financial literacy can expand greater efforts in rural area and target women with particular issues that focus on their financial and material needs. In the second case as the evidence from Guatemala suggest, stimuli to formal savers do gives greater support to focus on one's financial options.

Another key policy area, not fully explored in this document, refers to the key role in the private sector partnerships. The data analysis did not include differences across banks and branches that reflected the level of commitment to provide advising to these clients. Banks with a committed partnership to work with the project to achieve financial literacy were among those more successful in converting clients into bank deposit holders. Public partnerships would also contribute to strengthen this approach significantly.

There are many other lessons learned and areas to refine the strategy, but most important is to solidify a critical mass of policy interest along the lines of financial advising as a key tool that enables financial independence among remittance recipients.