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Making everyday financial decisions: Do we know what we need to know?

In Uganda, nearly half of surveyed adults were unable to correctly answer a question about interest rates according to a recent [Finscope study](#). When asked “If you were offered a loan with 5% monthly interest rate and a loan with 20% annual interest rate, which loan would offer better value?” 49% ended up choosing the more expensive loan option or were unsure of the right answer.

The [Bank of Uganda](#) in collaboration with the [German Development Agency \(GIZ\)](#) is hoping to address these types of gaps in financial literacy with targeted programming and outreach. Its [strategy for financial literacy](#) officially launched in August 2013 includes guidance on the following priority topics among others—loans, savings, personal financial management, insurance, and investments.

A recent piece published in the [Independent magazine](#) speaks more about this strategy and synthesizes some of the empirical experimental research on financial education and literacy programming in the context of financial inclusion in Uganda. The authors, [Annette Kuteesa](#) and [Corti Paul Lakuma](#) from Makerere University’s [Economic Policy Research Centre](#), highlight an [evaluation](#) conducted by IPA affiliates in the Dominican Republic that compares two types of financial education training for micro-entrepreneurs. It turns out that a simplified rule-of-thumb training is more effective than a standard accounting training when it comes to encouraging good business practices and business performance.

The authors comment that in general

[Financial education] programs that are simple in terms of content, short in terms of time commitment and specific, [i.e.,] targeting a particular behavior, can be successful.

The article concludes with a note advocating for the use of randomized evaluations in “testing better approaches to financial education and product design” with the objective of improving access to and usage of financial services and products:

These findings offer some mechanisms or at least point policymakers and planners to a starting point when it comes to considering the way in which financial education might be leveraged; whether they should just consider the timing of the intervention, or nuance of training and product design, or both—to promote financial inclusion in Uganda.

IPA has supported research studies on some of these key financial inclusion topics in [Uganda](#) and around the world. In fact, with the support of the Citi Foundation, the [Global Financial Inclusion Initiative](#) at IPA is currently co-sponsoring a second study on the rules-of-thumb training program for micro-entrepreneurs with [Ideas42](#), the [Small Enterprise Finance Center](#), and [Janalakshmi](#) in India to understand how the same approach affects outcomes among Indian micro-entrepreneurs. In this study, researchers are testing whether delivering a heuristics-based financial education program via mobile phone voice messages might offer a more scalable, sustainable, and cost-effective solution to deliver financial training.

If you are interested in learning more about these issues, check out some of our ongoing and completed studies on [financial education](#).

Amber Davis is an Initiative Coordinator with IPA's [Global Financial Inclusion Initiative](#).

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