MFC Spotlight Note 15

Towards Sustainable Future

Financial Education for Low-Income People in Poland

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"Money gets spent on this and that if it is kept at home"
"We live from hand to mouth"
"People typically do not plan ahead because they have no money to do so"
"What's the use of setting goals if there is always one thing or another that goes wrong"
"You don't economize when you are ill; you spend your own money, you spend what you borrow and you don't care if you can pay it back or not"
"It's so easy to get into debt and so hard to get out"
"They make you sit down with all that paperwork and you feel thick as a brick. One needs a lawyer to manage it all"

Half of the people in Poland struggle with similar problems every day. Of these, over 9 million are low income adults who actively seek to improve their lives. However, they rarely save because they *"have no money to put aside"*. They *"live from hand to mouth"* because they do not believe in their capacity to attain any of their goals in the future. On the other hand, they often borrow money either to respond to emergencies or to buy durable goods on a hire-purchase loan without considering financial consequences of these commitments. Their savings and debt management practices are not driven by any plan or strategy. Rather than by design, this social group has evolved financial practices and strategies by trial and error. Given the scarce assets they have, the high price they often pay for their errors reduces their chances for improving their standard of living. Are those less wealthy condemned to financial instability simply because their income is too low? Can adequate education make a difference?

"[financial education] can help to inculcate individuals with the financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions. Such financial planning can help families meet near term obligations and maximize their longer term well being and is especially valuable for populations that have traditionally been underserved by our financial system."
(Alan Greenspan, 2002)

Financial education stands for:

- Teaching the knowledge, skills and attitudes required to adopt good money management practices for earning, spending, saving, borrowing and investing, while keeping the future economic goals in mind.
- Combining economic education contents with the promotion of entrepreneurial attitudes, which involves also the raising of awareness of the benefits derived from financial planning.
- Increased financial stability for low-income people.
- An access to good money management practices and banking services for adults and adolescents.
- Macroeconomic stabilization achieved through an increase of savings by the public from their currently low level.

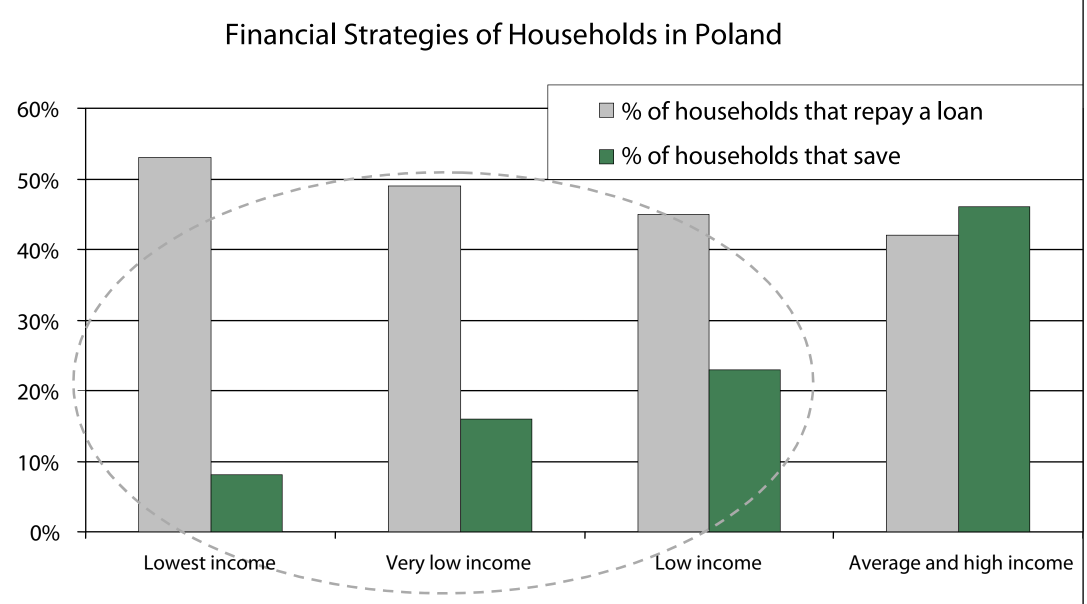
(Adapted from Jennefer Sebstad and Monique Cohen (2003) Financial Education for the Poor, Working Paper No 1, Microfinance Opportunities.)

The financial education of low-income people is a topic that has received little attention in Poland to date. Indeed, this area suffers from considerable neglect. In this paper, we would like to present findings of the action-research project run in Poland by MFC within an international project "Financial Education for the Poor" managed by Microfinance Opportunities and supported by Citigroup Foundation. The project has shown a large potential for the impact of financial education on improving money management practices of low-income families in Poland. Finally, we would also like to share our ideas on how to distribute financial education in Poland. These ideas have evolved as a result of market research, discussions among members of an expert working group and the pilot testing of financial education tools. We strongly believe that some of the lessons learnt are relevant for the transitional countries of Eastern Europe and Central Asia.

Diagnosis of financial education needs in Poland[2]

Around half of the thirty eight million people in Poland live in poverty or are vulnerable to poverty. This means that their income is so low that, if there is a series of unexpected expenses, their living standards fall dramatically. Of these, over nine million are low income adults who actively seek to improve their lives. This translates into around five million households. Considering that a typical family in this category has serious gaps in financial education, it should be concluded that the target group is significant.

The graph below illustrates well the fact that low-income families manage their scarce assets in a very reactive manner which is not conducive to securing their future. Over half of these households are in debt and less than one-fifth admit to saving.



Groups defined in relation to a poverty line corresponding to the net income of PLN 563 per person (1 USD = 3.3 PLN). The first group are households with income lower than 50% of the poverty line, the second between 50% and 100%, the third between 100% and 150%, and the fourth above 150%. Source: own calculations based on Czapiński and Panek (2003) Social Diagnosis.

Research has demonstrated that the following financial education topics are the most important for Polish households: long-term household financial planning; systematic saving; crisis management and rational borrowing; financial institutions and their services.

Long-term household financial planning

There is a widespread reluctance towards financial planning and the time horizon adopted for managing resources is typically very short. Nearly 30% of the adult participants of the Financial Education Workshops (FEWs), which were pilot tested under the project, live day-by-day without any planning while as few as 9% plan ahead beyond the next month. The lack of long-term planning stems from the belief that it is not possible to plan finances when resources are scarce. In this way, money disappears on trivial purchases, resulting in the situation where many families are unable to cope on their own with emergency or life-cycle expenses.

Systematic saving

A vast majority of poor households believe that they cannot build up savings because their earnings are too small. Meanwhile, the lion's share of their budget goes towards repaying debt. The main reason underlying such a negative attitude is their past failure to meet savings targets and the lack of proper savings tools. Failed attempts to save money increase the aversion to saving.

Crisis management and rational borrowing

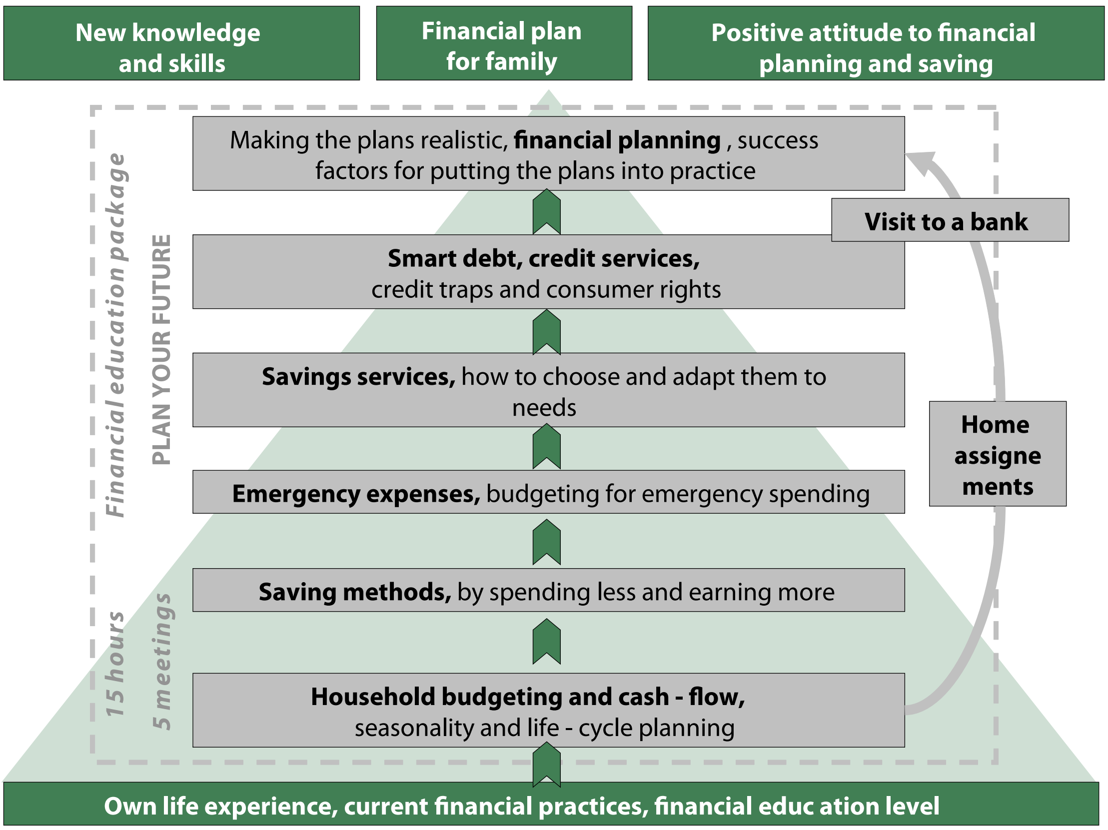
A sense of acceptance that nothing can be done to anticipate emergency expenses persists among low-income people. It is demonstrated by the very low number of the FEW participants who budget for emergency spending. The lack of control over household finances leads to the situation where low-income households frequently borrow from informal sources on an ad hoc basis without any genuine analysis of repayment risks. This leads to many adverse effects over long term.

Financial institutions and their services

Low-income people have a piecemeal knowledge of the variety of financial services available. A bank is often associated with credit alone. 44% of the FEW participants do not have confidence in formal financial institutions. The confidence is significantly higher in participants who have higher income and are more frequent clients of financial services. The limited confidence among low income households in banks and other financial institutions is attributable to the scarce use of formal financial services and the lack of understanding about how financial institutions operate.

Addressing the needs – the "Plan Your Future" educational package

The "Plan Your Future" educational package addresses the basic financial education needs of low-income people. It is intended for financial education providers and contains materials to run financial education workshops (FEWs).[3] The package has been designed and tested in interaction with target group representatives.[4] FEWs are intended to familiarize low-income people with practical aspects of financial education and to persuade the workshop participants of the necessity of household financial planning and regular saving. The final output of the workshops are financial plans developed by the participants for their families that incorporate all of the components shown on the graph below.



Instruction is provided in a workshop format using adult learning principles. Each workshop group comprises a maximum of 20 participants. Conditions are thereby created for effectively communicating and changing attitudes among both adult and adolescent participants. The participants develop their own case study, which they use to go through material, and they benefit by learning from their peers. To test their newly acquired knowledge and skills in real life, they complete homework assignments using auxiliary materials. A study visit is also organized to a local financial institution to provide the participants with a hands-on experience in choosing formal financial services and to overcome their mistrust and negative stereotypes.

"Plan Your Future" in practice

FEWs were enthusiastically received by those participating in them. The 82% retention rate is all the more remarkable because FEWs were organized for a group of people, who generally display a very negative attitude to learning. The clear satisfaction with and high perceived value of FEWs is reflected in the following arguments of the participants:

- A useful and interesting agenda which addressed needs that they did not realize they had – "*During classes we studied things that we normally do not think about in daily life. Now I will know better*";
- The practical aspect of FEWs linked to the fact that the participants themselves worked out solutions – "*It was kind of an open offer where everybody takes what they need* ";
- Well-chosen individual topics that combined to make a coherent whole – "*Overall, it made you think*";
- The workshops format, which provided an opportunity to meet other people and learn from peers – "*There was something going on, there was a chance to go out, stop thinking dark thoughts and meet other people coping with similar problems*".

An initial analysis of progress in acquiring knowledge and skills and, most importantly, in changing attitudes among FEW participants has yielded very promising results. These demonstrate the following:

- **Financial education at a basic level achieves considerable changes in how low-income people perceive their own finances and the opportunities they provide.** This has a potential to have an impact on stabilizing their financial situation, thus contributing to increased opportunities for improving their living standards.
- **FEWs stimulate people to take things into their own hands and play an important role in building civic society.** Financial education makes people aware how much they can help themselves on their way towards sustainable future.
- **Basic financial education stimulates interest in financial services as well as strengthening consumer awareness.** It also brings to light the necessity to tailor financial services to the needs and expectations of low-income people. Low-income people came to recognize that they can very effectively use some of the services available in the market as tools to manage their finances.

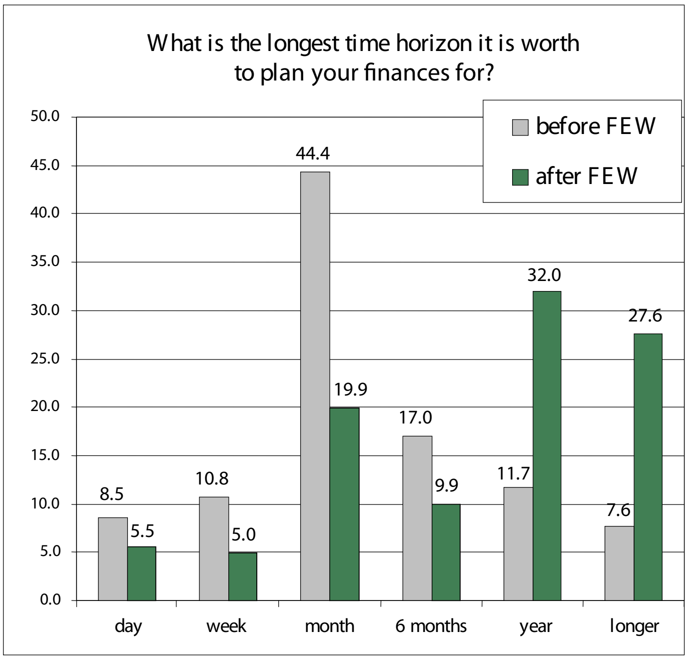
Long-term household financial planning

- The participants began to believe that long-term financial planning was a viable option even for households with limited resources (see the graph on the next page).
- *"I realized all the mistakes I was making before the workshops".* Existing knowledge and skills were complemented by new contents and put together in a coherent plan.
- The participants learned how to create a financial plan based on their current household budgets, anticipated cash flows and major financial targets.

Research

Systematic saving

- *"I was amazed: I realized I could save money on trivial things. I always thought that this was not worth it".* A 180-degree change happened in thinking about savings. A majority of the participants ended the workshops convinced that they were capable of saving and that small amounts would grow into a useful sum in the future.
- The participants improved their saving skills by learning how to further rationalize spending. Some of the new practices were adopted in everyday life (restricting the use of electricity, using a piggy bank to save on daily cash expenses, etc.) and specific decisions were made by the participants to improve their savings practices.



Crisis management and rational borrowing

- *"A safety cushion allows you to deal with sudden expenses in a stress-free way, giving you the psychological comfort which is so important these days".* The simple way presented during FEWs on how to manage emergency expenses (consisting of setting aside small sums every month for emergency fund, known as "safety cushion") met with great interest from the participants. They realized that they were unable to meet their financial goals unless they stabilized their household budgets by eliminating the leakage of funds due to emergency expenses.
- There was an overall increase in declared savings for purposes such as rainy days or old age, and this was underpinned by a decrease in the attractiveness of borrowing money to make ends meet (on both an ongoing and seasonal basis) or to spend on special occasions (e.g. holidays), as well as by an increase of interest in long-term investments (e.g. education of children and family members, own business, apartment/house).

Financial institutions and their services

- A visit to a bank, organized as part of FEWs, is effective in addressing barriers and persuading less wealthy people to look at financial services available in the market from a perspective of how the services may suit their needs.
- It came as a surprise to the participants that the bank is not about credit alone. The participants came to realize that financial services were within their reach. Some of them declared their intention to start using these services in the near future.
- FEWs participants increased their knowledge of financial services, particularly savings.
- *"I've realized how little I know about my rights and about banks".* It was a complete novelty for FEWs participants to learn about their rights as consumers of financial services. With some expansion of its consumer rights contents, FEWs could be even more effective in contributing to consumer protection and higher transparency of the financial market.

The pilot project was helpful in improving the final package, mostly by placing more emphasis on how to implement financial plans and encouraging people to plan their household budgets together with their spouses. Considerable changes also were made in the pedagogy, which now features expanded teaching techniques and improved materials for trainers and participants.

Youth and financial education

The FEW pilot project has demonstrated that an audience as young as 14 and 15 year olds are receptive to the financial education agenda. The FEW program produced better results in adolescents than with adults, even though it was only marginally modified compared with the version prepared for adult participants. This is important in view of findings from pre-workshop evaluation, which showed that, despite the introduction of some elements of economic education to the secondary school curriculum, students had very limited financial literacy levels (regardless of how rich or poor the family). Adolescents showed no interest in household budgeting. A majority of youth associated saving with occasionally setting aside unspent money (residual savings). In addition, students displayed a high propensity for risky credit behaviors due to their perception of loans as a source of money for quick achievement of their financial goals. Last but not least, they were totally unaware of the need to save for old age.

Delivery models for financial education

Within the project, we focused primarily on designing financial education content and adapting teaching techniques accordingly. We tested one of the possible financial education delivery models, under which an organization working for the local community is responsible for organizing financial education workshops on a standalone and one-off basis.

Undoubtedly, there is a wide choice of potential financial education providers. They include:

- non-governmental organizations for local development,
- local government bodies (local authorities, employment offices, welfare centers),
- financial institutions (banks, microfinance organizations, credit unions, insurance companies),
- primary and secondary schools,
- consumer organizations,
- Church and religious groups,
- local consumer advocates,
- traditional media and the internet,
- local volunteer organizations (fire service, farmers' clubs, village homemakers' clubs), and
- local authority figures (teachers, village heads, priests).

While all of these actors exhibit strengths that make them potential promoters of financial education. It is important that they collaborate. None will achieve much success when acting on its own.

It is also important to ensure that the provision of financial education integrates various approaches to reaching the target group and is long-term in nature. A standalone delivery model does not address the important challenge of how to support FEW participants in putting into practice their financial plans after completion of the workshops. A considerable number of the participants need a further incentive or guidance to go ahead with changing their financial practices. Yet it is very rare for the actors distributing financial education on a standalone basis to have a long-term motivation and resources to provide follow-up education services. In such situation, it is advisable to look for win-win solutions where the person provided with education brings additional benefits to a financial education provider or its partners. An example is the interest of welfare centers in educating some of their beneficiaries so that financial support can be redirected from the most active of their beneficiaries to those in most need. Another example is provided by increased profit opportunities that financial institutions gain from the fact that their potential clients are better informed (see the box on the next page).

Financial institutions and financial education

Demand for financial services is as high among low-income households as it is in society at large. What is different is the nature of these services as they must be adapted to behavior patterns, preferences and lower transaction scale typical for this client group. The financial education of financial services consumers who have so far been underserved by the market will bring benefits to financial institutions, in particular those that will be the first to join efforts to promote financial education:

- *Acquiring new clients* – the better informed the public is about financial services and products, the higher is the number of potential clients.
- *Developing the approach of young people to financial services* – getting young people interested in financial services and developing attitudes conducive to the use of financial services.
- *Increasing client loyalty* – the institutions that act for the benefit of the public by promoting financial education build stronger relations with their clients.
- *Gaining a competitive edge* – by applying an innovative approach to market expansion through financial education.

Below are presented the three most popular models for the involvement of financial institutions in promoting financial education as part of their market strategy or corporate social responsibility agenda:

- *Unified model* – financial education features as an integral part of the responsibilities of bank staff. This model provides conditions for building lasting client relations, for accurately identifying client needs and for flexibly adapting the offering as expectations change.
- *Parallel model* – a dedicated unit with responsibility for financial education is established within a bank.
- *Linked model* – financial education services are provided by a dedicated third-party organization, e.g. a local non-governmental organization.

Road to sustainable future

The financial education of low-income people is a topic that has received little attention in Poland to date and hence there are enormous needs to be addressed. These needs are shared by 9 million economically-active low-income adults.

Financial education should be targeted at adults and adolescents. More enthusiastic and faster learners, adolescents are an attractive audience, and working with them offers more long-term prospects. On the other hand, an approach to finances is learned at home. If people who are 25 to 45 years old are left uneducated, new generations will continue to acquire negative attitudes from their parents.

Basic financial education workshops provide a good basis on which to build more complex knowledge and skills. Once they are encouraged to learn, the low-income people show an interest in further education. Research shows that it should be focused in Poland on identifying income raising strategies as a more proactive way of saving. The second opportunity is to develop a follow up module on matching credit, insurance and savings services to particular household needs.

To be effectively promoted, financial education should be delivered in an integrated way. Solutions such as social campaigns or individual counseling services should also be taken into consideration as arrangements that may be useful in supporting financial education workshops in Poland.

A high demand for innovation exists in the area of self-sufficient delivery models for financial education in Poland. In view of the size of the target group, action must be taken to achieve scale. Financial education is not a one-time need. A majority of the target group will need ongoing support and guidance. The next step should, therefore, consist of designing self-sufficient delivery models for financial education that will motivate financial education providers to deliver services on a long-term basis and to innovate and improve their offering. This certainly involves the need for close collaboration among non-governmental organizations, public institutions and private enterprises, in particular financial institutions. The coming together of various institutions to combine the best each has to offer is a sure recipe for success. All these institutions appear to have an interest in promoting financial education as part of their mission, market strategy or corporate social responsibility agendas.

Endnotes

[1] Michal Matul (michal@mfc.org.pl) works as researcher and Katarzyna Pawlak (kasia@mfc.org.pl) is research manager and deputy director at Microfinance Centre (MFC) for CEE and the NIS. Authors are very grateful for comments on the first draft to Monique Cohen, Grzegorz Galusek, Anna Kosidło, Krzysztof Kacuga, Joanna Salbert, Paulina Szczygieł and Michał Zdziarski.

[2] This chapter is based on the qualitative study of financial education needs of low-income people in Poland that was conducted by MFC in the summer of 2004 in the Kujawsko-Pomorskie Province. The study comprised 11 focus group interviews and 23 in-depth individual interviews with low-income people. The findings of the qualitative study were supported by a quantitative analysis of secondary data. The detailed study report is available at www.mfc.org.pl/finedu.

[3] This is why, in addition to learning activity scenarios and guides on how to prepare FEWs and facilitators, it contains a financial education compendium, basic information on the theory and practice of adult learning, guidelines on how to adapt the basic module to the needs of different client groups, and materials for workshops evaluation. The "Plan Your Future" package draws heavily from the resources developed by the international project "Financial Education for the Poor" managed by Microfinance Opportunities.

[4] Financial education workshops developed under the project were pilot tested with target group participants from March to June 2005. The pilot project had an important role in improving the "Plan Your Future" package. A total of 262 participants from 6 provinces (voivodeships), divided into 28 groups, completed the pilot workshops. 92% of the participants who completed the workshops declared a net family income of less than PLN 2,000 a month (47% declared an income of less than PLN 1,000). USD 1 = PLN 3.2. A majority of FEWs were organized in small towns and in rural areas. The pilot project was intended for adults as well as for in-school adolescents and college students. Of the 550 individuals invited to participate in FEWs, 321 attended the first session and 262 completed the workshops. A variety of evaluation methods were used during the pilot project to accurately diagnose participants' needs, analyze satisfaction levels and, most importantly, evaluate the impact of FEWs on how people approach their finances and what financial practices they use. The detailed evaluation report on the pilot project is available at www.mfc.org.pl/finedu.