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Financial literacy programmes targeting the poor: the possibilities of using financial literacy as a tool for financial inclusion

Abstract
The main aim of this study is to examine the nature of the term financial literacy and link it to opportunities for financial inclusion. The author uses experience of some Hungarian programmes. Financial literacy is the focus of some of them, while in other cases it is just a part of a more complex initiative.
After the literature review, the study offers answers for the following research questions:
- What are the main characteristics of existing financial literacy programmes in Hungary?
- How financial exclusion and the lack of financial literacy are connected in practice?
- What are the strengths (achievements) and weaknesses (pitfalls and disadvantages) of existing financial literacy programmes related to the financial inclusion of poor and marginalized social groups?

Data from semi-structured in-depth expert interviews, documents and former research papers were collected for identifying Hungarian financial literacy programmes and their existing, missing and potential connections to financial inclusion.
Originality of the Research
In the literature, there are few articles that connect financial literacy and financial inclusion. Similarly, in practice, financial literacy programmes rarely target the poor. In turn, financial awareness is a very strong prerequisite of financial inclusion, e.g. successful debt settlement for financially vulnerable groups. The findings from the study will enlighten policy-makers, managers of financial institutions and financial inclusion advocates on the importance of special context and complexity of financial literacy programmes provided for the poor.
Keywords: Financial Literacy; Financial Awareness; Financial Inclusion of Poor Communities; Hungary
JEL Classification: G20; G53
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1. Introduction

Financial inclusion acts as a base that helps the poor[1], financially vulnerable people to manage their activities, facilitates both asset accumulation and consumption, as well as financial decisions

[1] According to the OECD, people are classified as poor when their equivalised disposable household income is less than 50% of the median prevailing in each country. The use of a relative income threshold means that richer countries have the higher poverty thresholds. The poverty rate is the ratio of the number of people (in a given age group) whose income falls below the poverty line; taken as half the median household income of the total population (https://www.oecd.org/social/income-distribution-database.htm).
Based on the poverty definition of one of the interviewees: who is unable to provide basic needs for the family evenly until the end of the month (food, heating, electricity), which means that there is a difference in quality of life at the beginning and end of the month, which leads to debt.

surrounding loans. In our previous work on the subject (Győri & Benedek, 2021), we found that successful debt settlement is a form of financial inclusion of the poor. We found six sine-qua-non preconditions regarding such programmes that focus on the problems of the most financially marginalized.

1. More efficient programmes are related to utility bills with smaller amounts of debt, as debtors are more motivated by and interested in solving the utility debt trap, because it has a huge impact on the lives of the poor - e.g., through lack of services and the risk of imprisonment.
2. In most cases, partial debt cancellation and debt settlement are used together. This combination makes the problem foreseeable and solvable; debtors can feel that there is a chance to repay the debt in a few years.
3. The role of the state is controversial. There are successful programmes that function independent of the state, but for an effective and extensive programme, the state as a provider of financial resources (or at least legal opportunities) seems to be crucial.
   For our present topic, financial literacy, the latter three preconditions should be more emphasized.
4. Success is more likely if stakeholders cooperate for the resolution of the problem. In most cases, there is one more actor beside the debtor and the creditor, who can provide support through the whole process, mediate between the parties, organize training and financial planning programmes, and solve everyday problems and challenges of plan rollout.
5. The selection of appropriate clients is a crucial point of the process. Debt settlement requires some financial knowledge and awareness, so besides motivation, debtors should have experience in money saving, household financial management techniques.
6. Stakeholders need to understand that debt settlement is not enough on its own. For a real change in the long run, personal help, training, and mentoring are significant for empowering the debtors to take responsibility, as well as to develop financial and consumer awareness.

Per these six preconditions, the financial awareness of the debtors is a very strong prerequisite of successful debt settlement for the poor. In the case of the (at least partially) successful debt settlement programmes, there are elements for raising financial awareness, possibly linked to mentoring. Without the empowerment and financial self-sufficiency, debt settlement programmes cannot have a long-term, lasting effect.

As a result, the study proposes a theoretical framework of financial literacy programmes targeting the poor and establishes a research for scanning recent Hungarian financial literacy programmes and their existing or potential links to financial inclusion.

2. Brief literature review

Financial literacy and related terms

There are competing concepts related to capability for decision-making and financial choices. Financial literacy and financial awareness sometimes are differentiated (Mason & Wilson, 2000), but in most sources they are used as synonyms; in this article, we adopt the latter. «Financial literacy» refers to the knowledge, information, aptitude, and skills related to available financial instruments and services mainly from a consumer protection point of view, as well as to the development and training activities which aim to achieve this knowledge and these skills. «Financial literacy is an ability of individual to take considerable decisions in respect of the effective and efficient utilization of money» (Rai et al., 2019, p. 51). OECD (2018) defines financial literacy as «a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.» (OECD, 2018, p. 4).

«In order to become financially literate, the FSA (1999) believes learners need to be given the following opportunities:

- to develop numeracy, literacy and IT skills in the context of personal finance;
- to develop an understanding of the nature and use of money in its various forms, including credit and debt;
- to learn how to access, interpret, question and evaluate financial information and advice;
- to learn about the consequences of financial decisions and about consumer rights and responsibilities;
- to learn how to weigh up risks and benefits in order to choose appropriate solutions to particular financial needs.» (Mason & Wilson, 2000, p. 6).

Research on the concept of financial literacy is diverse; it covers not only financial knowledge, but also other variables such as financial awareness, financial attitude, financial skills, financial experience, and financial decisions (Dewi et al., 2020). Based on the conceptual framework of Dewi and his colleagues (2020), different related notions are associated in the order shown in Figure 1.

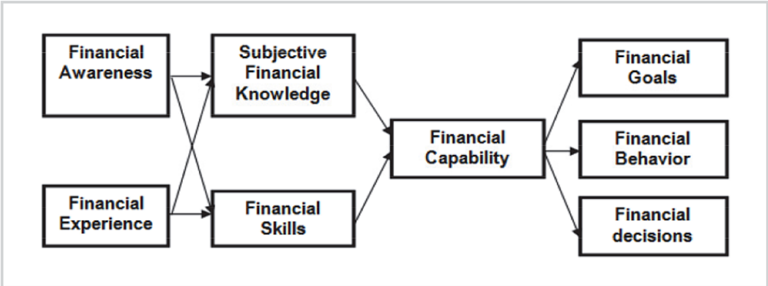

Figure 1:
Conceptual framework of financial literacy
Source: Dewi et al. (2020, p. 139)

Financial literacy and financial inclusion

In this study, financial literacy's connection to financial inclusion is investigated. Ozili (2020) states that financial literacy contributes to financial inclusion delivery as it provides information on available basic financial services, and enables financial stability and self-sufficiency without requiring much public or other funds. Indeed, financial literacy helps poor households by providing appropriate clues for alternative courses of action and behaviour, which determine their financial decisions and choices (OECD, 2008).

The problem is that financial literacy in practice addresses more the willingness instead of the capacity to participate in the formal financial sector (Ozili, 2020). Financial literacy programmes' practice does not consider that the simple transfer of tools and information is not enough; complex programmes are needed, taking into account other contextual factors. Financial training courses improve the population's financial skills in general, but they cannot provide appropriate solutions for lower-income households (Sági et al., 2020), e.g., these cannot account for the fluctuation and unpredictability of incomes and expenses, different cultural background and attitudes, and the lack of opportunities for formal solutions. Social and spatial segregation, financial exclusion manifesting in discrimination, negative attitudes, even exclusion from the formal financial institutions are general external barriers (Fuller & Mellor, 2008; Garg, 2018), while the lack of generally expected personal financial capability is an internal one. Vashisht and Wadhwa (2015) distinguish the non-voluntary (practically external) and voluntary (internal) reasons for financial exclusion, which refers to the decision-making power of excluded social groups. Bongomin and his colleagues (2018) stress that financial literacy materials rarely reflect the role of cognition in shaping financial decision-making, especially among the poor who are presumed illiterate. Therefore, policy-makers should be aware of existing cognitive frames that structure the usage of formal and informal financial products by the poor. Gosztonyi (2018) claims that informal financial systems play an important role in the financial decisions and money management strategies of the poor. In his study, he investigates a Hungarian Roma community, but there are other pieces of research without this intersectionality. Poor communities have their own system, schemes, and capability for financing themselves, e.g., they can make savings for non-essential or unexpected expenditures (Karlan et al., 2014), even if they are expensive, insecure, and inaccessible to some groups (Sebstad & Cohen, 2003). «...The poor are like hedge-fund managers - they live with huge amounts of risk. The only difference is in their levels of income» (Banerjee & Duflo, 2019, p. 250). The understanding of the behavioural conditions and ground realities of the poor, including the characteristics of these schemes, is a precondition for efficient financial awareness programmes for poor.

A broader concept: financial education

The term «financial education» is a broader conceptual framework, as it accounts for critiques of the formal financial system, the empowerment of people engaging with it as well as their ability to understand and analyse financial information and acts accordingly, perhaps even changing the financial system if it is needed.

Related to financial inclusion, Birochi and his colleagues (2016) stress that access to financial resources is necessary but insufficient without financial education. To clarify the concept, they differentiate instrumental and transformative approaches in financial education. The focus of the instrumental approach is knowledge acquisition for improving the financial system's performance, efficiency, and effectiveness. As it mainly considers the interests of the financial system and institutions, it aims for the minimization of financial problems and losses, transferring the responsibility for potential financial mismanagement for customers (Augsburg & Fouillet, 2010; Mayoux, 2010 in Birochi & Pozzebon, 2016; Aharonovich, 2019).

Conversely, transformative financial education focuses on moral, humanitarian, and social concerns, individual empowerment, social emancipation, and the pursuit of freedom (Cabraal, 2011 in Birochi & Pozzebon, 2016). Based on this perspective, transformative financial education is more concerned with raising financial awareness and the individual capabilities of the poor who are in marginalized situations because of the prevailing socioeconomic system. Sen (1993) defines capabilities as the promoters of individual positive freedom. An individual is restricted in their positive freedom if they do not have the capabilities that would allow them to achieve a certain goal or opportunity for performing it. As it is, financial education as capability development is a way of achieving the freedom of the poor. This type of financial education is not just about information on potentially available financial instruments, as is the case with the instrumental approach; rather, it provides critical financial and political capabilities for marginalized people. By this process, they will be empowered and able to effectively engage with the financial system. It is the real meaning of financial inclusion.

Raising financial and political capabilities in other terms means that advocates of financial literacy should consider the special context of poor communities and provide complex solutions to them. Without this consideration, financial literacy programmes remain biased, incorrect, and inefficient (Karlan et al., 2014).

3. Purpose, Research Method, Ethical Considerations and Research Questions

The current study employs mainly qualitative research methods to explore the stakeholders, strengths, weaknesses, and potential financial inclusion relations of financial literacy programmes in Hungary. As one tool for data collection, documents of and about recent Hungarian financial literacy programmes (e.g., Pénziránytű, Pénzügyi Navigátor, Pénz7, and using such sources as Németh et al., 2016b, 2020; MNB, 2019) were analysed as secondary data. As primary sources, five semi-structured in-depth expert interviews were conducted employing a broad set of questions around areas of financial literacy, poor economics, and financial inclusion of the poor. For providing a complex picture of the situation, experts were selected from different level financial literacy programmes, from the Hungarian Central Bank to local NGOs. Because of the COVID-19 situation, the interviews were held online.

It was very important to conduct the study in accordance with ethical standards of research. All respondents were initially contacted by e-mail or telephone to ascertain their interest in participating in the study and they were informed beforehand about the nature of and reason for the research. Respondents were acquainted with the purpose of the research, what the data would be used for and the potential risks (e.g. confidential treatment of data) of participation (Kvale, 2007).

Main research questions are:

- What are the main characteristics (goals, methods, tools, target groups and approach) of existing financial literacy programmes in Hungary?
- How financial exclusion and the lack of financial literacy are connected in practice?
- What are the strengths (achievements) and weaknesses (pitfalls and disadvantages) of existing financial literacy programmes related to the financial inclusion of poor and marginalized social groups?

4. Results

Experience of financial literacy programmes

In the long run, including financial awareness in primary and secondary school education programmes seems like one possible way to prevent an unhealthy debt burden, and to utilize and create financial reserves (Omar & Inaba, 2020; Opletalová, 2015; Schreurs et al., 2012). «It is never too early or too late to improve own financial literacy» (Dewi et al., 2020). At the same time, the problems of over indebted households cannot be solved by the education of future generations. Households that spend more than their income, blend into a debt spiral by trying to bridge the gap with ongoing loans (BAGázs Public Benefit Association, 2019). Indebtedness is a stressful situation affecting the whole family and mainly caused by and correlated with the lack of financial literacy (Sági & Lentner, 2019).

Financial inclusion and the access and use of financial instruments by the poor, financially vulnerable groups is a prerequisite for poverty reduction and social cohesion (Grohmann & Menkhoff, 2017; Vashisht & Wadhwa, 2015), but special, complex, tailor-made financial education programmes are also needed. Moreover, financial literacy programmes that do not consider the different financial logic and circumstances of the poor potentially risk further disadvantaging them (Hung et al., 2009).

Reviewing several programmes internationally, Karlan and his colleagues (2014) tried to isolate the learning points of financial literacy programmes targeting poor people. These include:

a) content should be matched to the recipients;
b) simpler, shorter, and more focused programmes have better results;
c) «just in time», just needed and appropriate information provision is more effective;
d) social learning with creditable role models and community development can potentially have a strong effect;
e) we should distinguish simple teaching from more complex, mentoring programmes which have better results.

Researchers draw attention to personal behavioural biases and also suggest dealing with social ties and constraints, like intra- and inter-household bargaining and sharing, which can have both positive and negative impacts on the financial capability development of the household and community (Karlan et al., 2014).

Financial awareness and financial literacy are highlighted topics in Hungary (Csorba, 2020; Kovács, 2015; Németh et al., 2016a, 2016b, 2020). However, if we consider the financial problems of the poor specifically, it may be interesting to see if there are, or could be, appropriate financial awareness programmes for them. We struggle to locate articles on the financial awareness of the poor in Hungarian sources, although the problem is addressed by many national financial literacy strategies (Jakovác & Németh, 2017), including the strategy of Hungarian Central Bank (2016). Currently available financial literacy programmes do not target and therefore do not reach the most marginalized people, so it is not expected that these programmes contribute in a measurable way at the societal level to the development of financial literacy (Németh et al., 2016a, 2016b, 2020). In addition, existing programmes do not acknowledge the mainly informal, but already existing, financial solutions available to poor communities (Gosztonyi, 2018) and the problematic situation of humanitarian workers, who would have the task to help the marginalized ones (Majoros, 2015).

Table 1 and Table 2 summarize the main characteristics of some relevant Hungarian financial literacy programmes.

The mission and goals of the programmes are very different. National programmes have larger coverage and more stable financial background. At the same time, smaller programmes, with a local perspective and knowledge, can be more complex and targeted for the life situation and problems of poor, financially vulnerable families.

Investigating financial and non-financial support related to the financial inclusion of poor and marginalized social groups, we can see that larger programmes are more related to the state's perspective and mainly serves for providing information and consumer protection for the sake of financial stability, that is why their approach is mainly instrumental. In the case of smaller, local programmes, a more complex, transformative approach is experienced, where personalized solutions and mentoring are the base of the practice.

The complex system of problems related to financial illiteracy and financial exclusion

Based on expert interviews and document analysis, financial exclusion and financial vulnerability are complex social and sociological problems.

First of all, financial illiteracy is not a stand-alone lack of competence, the lack is perceptible in terms of life management, planning, self-sufficiency and self-care in general and financial literacy specially. The relationship to money of poor people is not neutral, which means constant source of stress. This is financial vulnerability itself, which means thinking about life in different dimensions. This mindset difference causes prejudice, communication problems, e.g. between bank and debtor and unequal enforcement and bargaining power between authorities and marginalized ones. One of the main sources of poverty in the information society stems from the lack of access to information, knowledge and skills in the use of information. Thus, financial exclusion is connected to social exclusion.

Moreover, poverty, especially extreme poverty is a long-term situation, we can speak about generational poverty indeed. In Hungary, because of the socialist era and some faulty economic policy decisions (state-managed debt settlement programs in 1991 and in 2009, termination of private pension funds, bank scandals) self-care culture is generally underdeveloped, but it is even truer for poor people, where one can experience learned helplessness.

Carrying on the psychological problem, related to financial choices, the lack of postponing-assigning lifestyle can be seen. It results mindless spending if the financial vulnerable person gets money, «it is better to spend money today than leave it for tomorrow which is insecure» (citation from one of the interviewees).

Furthermore, there is a contradiction between consumer society's messages and marginalized people's income situation, and for diminishing this discrepancy, they take loans without proper financial awareness. At the other side of the transaction, bank is motivated for recruiting new clients, that is why the preconditions for taking a loan are too permissive. In turn, a specific group of financially disadvantaged consumers is the group of over-indebted debtors. Existing debts means a downward spiral, where «hiding» is a tactic for handling the problem. First, it is not worth working legally because debt is deducted from salary, second, the termination of the bank account means a recourse as well. In the resulted vulnerable, disordered situation, there is not trust in the solvability of the problem.

Table 1:
Characteristics of some Hungarian Financial Literacy Programmes

	Mission and goals	Scope of the programme	Main tools and methods
Financial Navigator Advisory Network - founded by Hungarian Central Bank	«The Financial Navigator Advisory Office Network was established by the Hungarian Central Banks with the aim of providing personal administration even if someone lives far from the capital and is unable to visit the Hungarian Central Bank's customer service.»[1]	Since 2013 (based on Act CXXXIX. On Hungarian Central Bank)	• Financial consumer protection • Information for well-established consumer choices via website and office network
Money Compass Foundation - founded by Hungarian Central Bank	«...with the aim of developing and implementing financial awareness programmes in cooperation with public authorities, NGOs and market participants. Our founders are the Student Loan Centre, the Hungarian Banking Association and the Hungarian National Bank. Our mission is to help individuals and families make responsible, informed financial decisions, and to improve public financial awareness as a result of our awareness-raising programmes.»[2]	Since September 2008, in 2019 1235 schools, 205,000 students	• Textbook development, content development • Advance studies training for teachers • High school network • Primary school network • Gamification • Pénz7 (Money-week) - thematic week for elementary and secondary schools
Hitel-S Programme	«In the course of our work, we provide an assistant-advisory service, in the framework of which debtors can develop a long-term sustainable solution by involving an external, professional assistant. The aim is to plan and develop liveable and sustainable household management based on the family's values and resources, taking into account the family's life situation.»[3]	Since February 2009, 4,500 inquiries, 2,200 cooperation with debtors, approx. HUF 10 billion «managed» debt in sum	• Website with topics like: everyday finance, family and housing, self-care, housekeeping tips, debt management (claim management, bailiff, private bankruptcy, utility debts) • Cooperation with the state in policy-making • Mentoring, consultancy
Real Pearl Foundation	«We believe that a community can break the circle of extreme poverty. Real Pearl Foundation is working toward eradicating poverty for future generations by helping the current one. And we know that there is always a way out.»[4]	Since September 1999, 27 villages, 1200 families	complex programme: • Real Pearl Primary Art School and art training - for children • Real Pearl as a social enterprise, work opportunity - for adults
BAGázs Public Benefit Association	«We are working for an inclusive and accepting society in which the Roma also have a chance to achieve their goals. We do not distribute a donation but provide an opportunity for change.»[5]	2015-2016 (Bag) 2018-2019 (Dány) debt of HUF 10 million in total, 9 families	complex, multi-level community approach: • family-based personal support • cooperation with local communities • awareness-raising in mass society

Source: Own finding based on document analysis and interviews

Table 2:
Form of support, target groups and approach of Hungarian Financial Literacy Programmes

	Financial support related to financial inclusion	Non-financial support related to financial inclusion	Target group and territorial focus	Main financial education approach (instrumental or transformative)
Money Compass Foundation - founded by Hungarian Central Bank	not relevant (the programme is financed by the Hungarian Central Bank)	Indirect impact - prevention of future financial exclusion via education of children and adolescents	especially for children and adolescent without narrower target group, national coverage	instrumental
Financial Navigator Advisory Network - founded by Hungarian Central Bank	not relevant (the programme is financed by the Hungarian Central Bank)	• contribution to regulation • website, mobile application and information bulletins with information for financial decisions, e.g. the comparative database • of qualified financial products, calculators for product selection • consulting office network with free consultancy service	among broader target groups, for financially vulnerable groups (but not as a main focus), national coverage	instrumental (and transformative)
Hitel-S Programme	• Microcredit scheme • Support for housing issues	• Debt settlement advice (credit unions, OTP, Eon) • Help in assessing the debtor's capabilities • Mediates between the financial institution and the debtor to reach a new agreement • Personalized assistance is always, e.g. re-planning the household budget	especially for people who have debt problems, national coverage	transformative (and instrumental)
Real Pearl Foundation	• Social enterprise • monthly allowance of HUF 5,000 for employees (only if one has repaid the previous one, for medicine, gas cylinder change, travel) • an annual advance of 2x10000 HUF can be added • Support for travel to school	• Material and educational support • Mentoring • Housing issues • Help with private bankruptcy • Administrative, fairness issues - instalment payment, help in arranging protected consumer status, debt management	marginalized families in small villages and regions local focus	transformative
BAGázs Public Benefit Association	• Appr. one third of the accumulated debt (for alleviating the amount of debt, from donations) • Besides volunteers there are paid workers as well - their salaries is financed from individual and corporate donations	• Mentoring programme and summer camp for young people and children • Financial and consumer awareness-raising group sessions for adults on a weekly basis • Utility debts settlement - partial debt cancelation and restructuring, prepaid electric cards meters for avoiding future debts	marginalized families in 2 small villages local focus	transformative

Source: Own finding, based on document analysis and interviews

That is why external help and motivation are needed from mentors and humanitarian workers with local knowledge, targeted access and complex, tailor-made recommendations and solutions. State should provide more financial, training and regulation support for NGOs and family support services for this crucial work. Currently, humanitarian workers do not have appropriate salary or training programmes, at the same time, from 2017, they have an obligation for reporting problems related to children, so even the trust that had existed until then have also disappeared. As another problem for the helpers who are near to the vulnerable groups and their problems, it is difficult to hold a mirror up to society.

Thus, they use self-censorship, do not speak out loud the problems for avoiding further exclusion.

5. Conclusion

To conclude the results of the study, all the investigated programmes have strengths and pitfalls related to financial inclusion.

Larger, state-led programmes have larger coverage and more financial and institutional resources, but they cannot handle the problem of marginalized groups as 1) they are far from the very problems, so they are not built on knowledge and life situation of poor people 2) their approach to financial education is mainly instrumental.

Providers of smaller, but more complex programmes lead a transformative approach, have more local knowledge and built trust in local stakeholders, that is why their long-term activity can be more effective, but 1) they do not have enough financial and human resources, 2) their success can be perceptible only in the long run, because of the complex, long-term nature of the problems.

For providing real financial inclusion via financial literacy programmes, the complex system of different elements is needed:

- financial education programmes for children are needed even if they have a perceptible positive impact in the long run,
- besides or within existing financial literacy programmes, new, more complex initiatives are needed, especially targeting the poor and their special problems, for complex competence development,
- the regulation of bank loans should be stricter for preventing debt spiral,
- consultancy provided by the state should cover the problems related to execution issues as well (Financial Navigator Advisory Network does not deal with still expired debts which are the bailiffs)
- humanitarian workers should be paid better and get economic and financial literacy trainings,
- grey and black labour and market should be pushed back in order to discontinue the possibility of illegal survival techniques and «hiding», voluntary financial exclusion: connection to formal and regulated product and labour market would result connection to financial market (financial inclusion) as well.

6. Limitations and Further Research Directions

As stated before, in the literature, there are few articles that connect financial literacy and financial inclusion. Similarly, in practice, financial literacy programmes rarely target the poor. In turn, financial awareness is a very strong prerequisite of financial inclusion, as the study pointed out. Based on this, there are more potential and promising research directions within the topic.

For providing more valuable and useful results and recommendations, foreign good practices of financial literacy programmes specially designed for the poor could be gathered.

The role of informal, but already existing, financial solutions available to poor communities in potentials of financial education also would be worth to be investigated, even the possibilities of embedding the characteristics of poor communities' financial systems (financial awareness, experience, subjective knowledge, skills and capability, based on Dewi et al., 2020).

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